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How to Stop Paying Too Much in Property Taxes on an Investment Property

MACK Investments, one of the largest providers of single-family rental properties in the Chicago area, explains what determines a property tax bill, and when and how to file a dispute.

By MACK Companies | March 16, 2015

A recent report from New York University's Furman Center and Capital One Financial Corp., notes that rental demand continues to climb in the 11 largest cities in the nation - with renters outnumbering homeowners in nine of those cities. Investors nationwide are recognizing the earnings potential in owning an investment property, but not all are aware of the impact property taxes have on profits. As James McClelland, CEO of Tinley Park, Ill.-based MACK Investments, which owns and manages 1,500 single-family rental properties in the Chicago area, explains, investment property owners can dispute the assessed property value and potentially lower the property tax bill.

What determines the property tax amount?

The starting point in calculating every property tax bill is the home's assessed value. That amount is then multiplied by a percentage, called a 'multiplier,' which is determined by the county in which the property is located. The total is then multiplied by the local tax rate. "The multipliers and tax rates vary by area, but what doesn't vary, is that it's all based upon the property's assessed value," said McClelland. "That's why it's critical to make sure the assessed value is accurate before factoring in those other figures."

He added, "The formula for a profitable investment property is simple. The income has to be more than the expenses, and one of the largest expenses you'll incur is property taxes," said McClelland. While the frequency of a property tax assessment varies by area, property taxes are adjusted incrementally over time. Investors are advised to ensure the investment property is assessed at the appropriate amount every time. "Just imagine if you are paying too much this year. The next time your investment property is assessed, it will be on top of an already inflated amount, and it will continue to grow from there. And that growth can translate into a significant reduction in profits, when it was completely avoidable," said McClelland.

When to consider disputing a property tax bill

If an investment property's assessment is comparable to similar properties in the same area, the property tax bill is appropriate and should not be disputed. However, if the assessment is considerably higher than similar properties in the same area, the investor can request a reduction in the assessment and, therefore, the amount of the property tax bill.

Most often, information on the assessed value of comparable homes in the same area is available online through the local tax assessor office's website. Turn-key providers like MACK Investments, which deliver fully redeveloped, tenanted and managed single-family investment properties, conduct this research routinely. "Because we own more than 1,500 homes across a number of Chicago-area communities, we have a robust in-house database with information on the assessed values of thousands of properties. That makes it a smooth process for us to conduct this research," said McClelland.

How to dispute a property tax bill

The procedure in disputing a property tax bill varies by county, and instructions and forms can be obtained by contacting the local tax assessor's office. The process is usually easy, and many county offices will accept a property tax dispute application online.

"The key to winning a property tax dispute is to provide enough evidence that your property has been valued too high. If you've done your homework, it will most often result in a reduction," said McClelland. He advises that, if the reduction request is rejected or less than what the investor feels is appropriate, property owners should weigh the cost of pursuing the matter in court against the anticipated benefit of a reduction.

"Not only do we have dedicated staff whose job it is to ensure that our investors' property tax bills are appropriate, we have attorneys available to represent our clients if the matter goes to court," said McClelland. "Having a turn-key provider's assistance in a property tax bill dispute is particularly comforting for investors who reside out-of-state from the investment property. For them, a simple trip to the tax assessor's office or the courthouse isn't so simple," he said.

McClelland added, "While we believe everyone needs to pay their fair share, we certainly don't think investment property owners should overpay," said McClelland. "You may think disputing a tax bill is not worth the effort, but if you ignore an inflated assessment, you'll be paying too much over time and decreasing your revenue unnecessarily."

For information on turn-key single-family investment properties, please contact MACK Investments at (888) 449-0632.

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