



Tax Increment Financing: A Primer *Executive Summary*

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Tax Increment Financing, or TIF, is one of the most widely used—and often misunderstood—economic development tools in Illinois. With approximately 1,488 active TIF districts across 511 municipalities in Illinois as of 2025, TIF plays a significant role in shaping local investment, property tax dynamics, and public finance.

What is Tax Increment Financing?

TIF is an economic development tool used by local governments to fund redevelopment by capturing increases in property tax revenues generated within a designated redevelopment area and reinvesting those revenues back into that area. The central justification for TIF is that projects, particularly private investment, would not occur “but-for” public financing.

How TIF Works in Illinois

First, a municipality creates a TIF district. They establish a geographic area that must meet certain eligibility criteria that identify the area as blighted or at risk of blight. The municipality then prepares a redevelopment plan outlining the goals, projects, costs, and financing strategy.

At the time the TIF district is created, the taxable value of property within the TIF area (as measured by the equalized assessed valuation, or EAV) is frozen as a baseline. Property taxes continue to be collected by the municipality and other government entities based on this base value. As property values grow above the baseline, the taxes generated from the increase—the “tax increment”—are captured in a special TIF fund and used to pay for redevelopment costs within the TIF district. After the TIF district expires or is dissolved, the new taxable value of property within the TIF is returned to the regular tax base, meaning that all taxing bodies can collect taxes on the full value of the property, not just the baseline.

In Illinois, TIF districts are authorized for up to 23 years, with the possibility of renewal for an additional 12 years. Over the life of the TIF district, the incremental revenue generated by the TIF is used to pay for redevelopment costs through municipal bond financing, pay-as-you-go financing, or developer reimbursement agreements.

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How TIF Impacts Taxpayers and Overlying Governments

TIF reduces the taxable property base against which local governments levy their taxes, but does not restrict revenue. This can result in higher tax rates for taxpayers in order to make up for the fact that taxing bodies still need to generate the same amount of revenue based on a smaller tax base. As a result, property taxpayers might end up paying more while a TIF is in place to offset the limited taxable value of property.

TIF generally does not impact the amount of revenue that local governments overlapping the TIF district can collect. Home rule governments, such as the City of Chicago, Cook County, and many other municipalities, are not affected by TIF because they can adjust their property tax levies at will. Non-home-rule governments subject to tax caps, such as Chicago Public Schools, are entitled to certain property tax levy increases under Illinois' tax cap law, and are not limited by TIF. Non-home-rule governments in counties without tax caps, however, may lose revenue to TIF if they are already at or near their tax rate limits.

Controversy About TIF

TIF is controversial primarily because of disagreements over its effectiveness, fairness, accountability, and transparency. Compared with alternative development incentives—such as tax abatements, tax credits, or enterprise zones—TIF offers local governments greater flexibility, local control, and access to larger revenue streams. This makes it particularly attractive to municipalities seeking to finance infrastructure and redevelopment without drawing on general operating funds.

Supporters argue that TIF enables development in blighted areas that would not otherwise occur, and can expand the long-term tax base. Critics counter that TIF often shifts, rather than creates new growth within a region, especially within politically connected areas rather than in the most distressed communities. In addition, the lengthy lifespan of a TIF district and inconsistent financial reporting limit transparency and make it difficult to evaluate outcomes to ensure accountability.

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