Indiana’s Property Tax Reforms,  
2008-2010 and Beyond

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For more information
DeBoer’s Indiana Local Government Information Website:
www.agecon.purdue.edu/crd/Localgov
PROPERTY TAX REFORM, 2008-2010

• What happened in 2008?
  o Sales tax increase from 6% to 7%, on April 1.
  o Added homestead credits reduce homeowner taxes by about one-third.
  o Township trustees give up assessing duties to counties; most township assessor offices are eliminated, as of July 1.
  o Township assessors eliminated in 30 of 43 larger townships after voter referendum on November 4.
  o Capital projects become subject to referendum; as of June 2010 there have been 30 capital projects referenda; 11 have passed.
  o General Assembly passed first resolution to amend the property tax caps into the Indiana Constitution.

• What happened in 2009?
  o State took over school general fund and county welfare funds, eliminating those property tax levies.
  o State property tax replacement credits and most homestead credits were eliminated; small state homestead credit retained, to be phased out.
  o Homeowners received new 35% homestead deduction.
  o Tax caps begin phase in, at 1.5% of gross assessed value for homeowners, 2.5% for farm land and rental housing, and 3.5% for all other property; created local revenue losses.
  o General Assembly did not hold a second vote on amending the tax caps into the Indiana Constitution.

• What’s happening in 2010?
  o Tax caps tighten to permanent levels, at 1% of gross assessed value for homeowners, 2% for farm land and rental housing, and 3% for all other property; this creates greater tax savings and greater local revenue losses.
  o State homestead credits continue to phase out.
  o General Assembly passed the second resolution to amend the tax caps into the Indiana Constitution; Voters will see a referendum on November 2, 2010.
A Homeowner’s Tax Bill
Assessed Value and Deductions in 2010

<table>
<thead>
<tr>
<th>Gross Assessed Value</th>
<th>120,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homestead Standard Deduction</td>
<td>45,000</td>
</tr>
<tr>
<td>Remainder</td>
<td>75,000</td>
</tr>
<tr>
<td>35% Homestead Supplemental Deduction</td>
<td>26,250</td>
</tr>
<tr>
<td>Mortgage Deduction</td>
<td>3,000</td>
</tr>
<tr>
<td>Taxable Assessed Value</td>
<td>45,750</td>
</tr>
</tbody>
</table>

A Homeowner’s Tax Bill
Tax Rate, Homestead Credit, Tax Cap and Tax Bill

<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>3.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Tax Bill (rate x taxable AV)</td>
<td>1,373</td>
</tr>
<tr>
<td>State Homestead Credit (about 4% in 2010)</td>
<td>55</td>
</tr>
<tr>
<td>Tax Bill after Homestead Credit</td>
<td>1,318</td>
</tr>
<tr>
<td>Circuit Breaker Tax Cap (1% of gross AV)</td>
<td>1,200</td>
</tr>
<tr>
<td>Circuit Breaker Credit</td>
<td>118</td>
</tr>
<tr>
<td>Net Tax Bill</td>
<td>1,200</td>
</tr>
</tbody>
</table>

*If the tax rate is 2.00, not 3.00, the net tax bill before the circuit breaker credit is $878. That’s less than the circuit breaker limit, so the credit would be zero.*
Tax Cap Credits for Three Property Types

<table>
<thead>
<tr>
<th></th>
<th>Home</th>
<th>Apartment</th>
<th>Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross AV</td>
<td>120,000</td>
<td>120,000</td>
<td>120,000</td>
</tr>
<tr>
<td>Net AV</td>
<td>45,750</td>
<td>120,000</td>
<td>120,000</td>
</tr>
<tr>
<td>Tax Cap Rate</td>
<td>1%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Tax Cap Limit</td>
<td>1,200</td>
<td>2,400</td>
<td>3,600</td>
</tr>
<tr>
<td>At Tax Rate:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.00</td>
<td>878</td>
<td>2,400</td>
<td>2,400</td>
</tr>
<tr>
<td>2.50</td>
<td>1,098</td>
<td>3,000</td>
<td>3,000</td>
</tr>
<tr>
<td>3.00</td>
<td>1,318</td>
<td>3,600</td>
<td>3,600</td>
</tr>
</tbody>
</table>

*Rental Housing receives fewer deductions and credits than homesteads, has a lower circuit breaker limit than businesses, and is located in cities, which have higher tax rates.*
A Homeowner’s Tax Bill
Tax Collections and Tax Cap Losses for Local Governments

<table>
<thead>
<tr>
<th></th>
<th>Rate</th>
<th>Pct. of Rate</th>
<th>Tax Cap Loss</th>
<th>Tax Levied</th>
<th>Tax Collected</th>
</tr>
</thead>
<tbody>
<tr>
<td>County</td>
<td>0.75</td>
<td>25%</td>
<td>30</td>
<td>330</td>
<td>300</td>
</tr>
<tr>
<td>City</td>
<td>1.00</td>
<td>33%</td>
<td>39</td>
<td>439</td>
<td>400</td>
</tr>
<tr>
<td>School Corp.</td>
<td>0.75</td>
<td>25%</td>
<td>30</td>
<td>330</td>
<td>300</td>
</tr>
<tr>
<td>Other Units</td>
<td>0.50</td>
<td>17%</td>
<td>20</td>
<td>220</td>
<td>200</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3.00</td>
<td>100%</td>
<td>118</td>
<td>1,318</td>
<td>1,200</td>
</tr>
</tbody>
</table>
A JOINT RESOLUTION proposing an amendment to Article 10, Section 1 of the Constitution of the State of Indiana concerning taxation.

*Be it resolved by the General Assembly of the State of Indiana:*

**SOURCE:** (10)SJ0001.2.1. --> **SECTION 1.** The following proposed amendment to the Constitution of the State of Indiana, which was agreed to by the One Hundred Fifteenth General Assembly of the State of Indiana and referred to this General Assembly for reconsideration and agreement, is agreed to by this the One Hundred Sixteenth General Assembly of the State of Indiana.

**SOURCE:** CON 10; (10)SJ0001.2.2. --> **SECTION 2.** ARTICLE 10, SECTION 1 OF THE CONSTITUTION OF THE STATE OF INDIANA IS AMENDED TO READ AS FOLLOWS: Section 1. (a) **Subject to this section,** the General Assembly shall provide, by law, for a uniform and equal rate of property assessment and taxation and shall prescribe regulations to secure a just valuation for taxation of all property, both real and personal.

(b) A provision of this section permitting the General Assembly to exempt property from taxation also permits the General Assembly to exercise its legislative power to enact property tax deductions and credits for the property. The General Assembly may impose reasonable filing requirements for an exemption, deduction, or credit.

(c) The General Assembly may exempt from property taxation any property in any of the following classes:

(1) Property being used for municipal, educational, literary, scientific, religious, or charitable purposes.

(2) Tangible personal property other than property being held as an investment.

(3) Intangible personal property.

(4) Tangible real property, including curtilage, used as a principal place of residence by an:

(A) owner of the property;

(B) individual who is buying the tangible real property under a contract; or

(C) individual who has a beneficial interest in the owner of the tangible real property.

(d) The General Assembly may exempt any motor vehicles, mobile homes (not otherwise exempt under this section), airplanes, boats, trailers, or similar property, provided that an excise tax in lieu of the property tax is substituted therefor.

(e) This subsection applies to property taxes first due and payable in 2012 and thereafter. The following definitions apply to subsection (f):

(1) "Other residential property" means tangible property (other than tangible property described in subsection (c)(4)) that is used for residential purposes.

(2) "Agricultural land" means land devoted to agricultural use.

(3) "Other real property" means real property that is not tangible property described in subsection (c)(4), is not other residential property, and is not agricultural land.
(f) This subsection applies to property taxes first due and payable in 2012 and thereafter. The General Assembly shall, by law, limit a taxpayer's property tax liability as follows:

1. A taxpayer's property tax liability on tangible property described in subsection (c)(4) may not exceed one percent (1%) of the gross assessed value of the property that is the basis for the determination of property taxes.

2. A taxpayer's property tax liability on other residential property may not exceed two percent (2%) of the gross assessed value of the property that is the basis for the determination of property taxes.

3. A taxpayer's property tax liability on agricultural land may not exceed two percent (2%) of the gross assessed value of the land that is the basis for the determination of property taxes.

4. A taxpayer's property tax liability on other real property may not exceed three percent (3%) of the gross assessed value of the property that is the basis for the determination of property taxes.

5. A taxpayer's property tax liability on personal property (other than personal property that is tangible property described in subsection (c)(4) or personal property that is other residential property) within a particular taxing district may not exceed three percent (3%) of the gross assessed value of the taxpayer's personal property that is the basis for the determination of property taxes within the taxing district.

(g) This subsection applies to property taxes first due and payable in 2012 and thereafter. Property taxes imposed after being approved by the voters in a referendum shall not be considered for purposes of calculating the limits to property tax liability under subsection (f).

(h) As used in this subsection, "eligible county" means only a county for which the General Assembly determines in 2008 that limits to property tax liability as described in subsection (f) are expected to reduce in 2010 the aggregate property tax revenue that would otherwise be collected by all units of local government and school corporations in the county by at least twenty percent (20%). The General Assembly may, by law, provide that property taxes imposed in an eligible county to pay debt service or make lease payments for bonds or leases issued or entered into before July 1, 2008, shall not be considered for purposes of calculating the limits to property tax liability under subsection (f). Such a law may not apply after December 31, 2019.
HEA 1086 (2010); Public Law 113; SECTION 185. [EFFECTIVE UPON PASSAGE]

(a) If the amendment to Article 10, Section 1 of the Constitution of the State of Indiana agreed to by the One Hundred Fifteenth General Assembly (P.L.147-2008) is agreed to by the One Hundred Sixteenth General Assembly, the amendment shall be submitted to the electors of the state at the 2010 general election in the manner provided for the submission of constitutional amendments under IC 3.

(b) Under Article 16, Section 1 of the Constitution of the State of Indiana, which requires the general assembly to submit constitutional amendments to the electors at the next general election after the general assembly agrees to the amendment referred to it by the last previously elected general assembly, and in accordance with IC 3-10-3, the general assembly prescribes the form in which the public question concerning the ratification of this state constitutional amendment must appear on the 2010 general election ballot as follows:

"PUBLIC QUESTION #1

SHALL PROPERTY TAXES BE LIMITED FOR ALL CLASSES OF PROPERTY by amending the Constitution of the State of Indiana to do the following:

(1) Limit a taxpayer's annual property tax bill to the following percentages of gross assessed value:
   (A) 1% for an owner-occupied primary residence (homestead);
   (B) 2% for residential property, other than an owner-occupied primary residence, including apartments;
   (C) 2% for agricultural land;
   (D) 3% for other real property; and
   (E) 3% for personal property.

   The above percentages exclude any property taxes imposed after being approved by the voters in a referendum.

   (2) Specify that the General Assembly may grant a property tax exemption in the form of a deduction or credit and exempt a mobile home used as a primary residence to the same extent as real property?"
Some Observations about the November 2010 Tax Cap Constitutional Referendum

• The amendment will not provide additional property tax relief, since the provisions of the amendment are already in law, and are already restricting property tax bills.
  
  o The amendment will prevent Constitutional challenges to the differential caps (1% / 2% / 3% for different property types) based on the “uniform and equal rate of property assessment and taxation” phrase in Article 10, Section 1.
  
  o It will prevent future adjustments in property tax relief from raising property tax bills above the caps (e.g., a reduction in the homestead deductions can only raise homeowners taxes to 1% of gross assessed value).

• The amendment will make permanent the reduction in property tax revenues received by local governments. Here are three possible consequences:
  
  o Local governments will need to become more efficient, in order to deliver services at lower cost.
    ▪ Voters who think that government can/should become more efficient, and think that revenue reductions will force efficiencies, will vote yes; those who think that few efficiencies are available, or don’t like the means used to attain efficiencies (e.g. layoffs, consolidation) will vote no.
  
  o Indiana residents will have to accept a lower level of services, if there is not enough revenue to continue to deliver the services provided in the past.
    ▪ Voters who think that Indiana local government is too big, and provides services that are not demanded by residents, will vote yes; those who value the services that are likely to be cut, or think more should be provided, will vote no.
  
  o Other revenue sources may be used, such as local income taxes and charges/fees.
    ▪ Voters who dislike property taxes and favor other sources of revenue to support local government, will vote yes; those who prefer property taxes as a means to support local government will vote no.