Indiana Property Taxes in 2022 and Beyond

July 12, 2022

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Purdue University
Assessed Values, Levies, Rates and Credits
Indiana Property Tax

\[
\text{Levy, under Max Levy} = \text{Tax Rate}
\]

\[
\text{Net Assessed Value}
\]

\[
\text{Tax Rate} \times \text{Parcel Net AV} = \text{Tax Bill}
\]

Subject to Constitutional Tax Caps
Assessed Value Growth by Property Type, 2018-2022

- **Homesteads**: 6.0% growth (2018-21) and 7.7% growth (2021-22)
- **Non-HS Residential**: 4.3% growth (2018-21) and 4.1% growth (2021-22)
- **Farmland**: -11.2% growth (2018-21) and 0.4% growth (2021-22)
- **Bsns. Land/Buildings**: 3.4% growth (2018-21) and 3.6% growth (2021-22)
- **Bsns. Equipment**: 3.4% growth (2018-21) and 2.3% growth (2021-22)

**Total Gross Assessed Value**
- 2018-21 (ann avg): 4.2% growth
- 2021-22: 5.6% growth

**Total Net Assessed Value**
- 2018-21 (ann avg): 3.8% growth
- 2021-22: 5.6% growth
Indiana Home Building Permits

New Private Housing Units Authorized by Building Permits: 1-Unit Structures for Indiana

Shaded areas indicate U.S. recessions.

Source: U.S. Census Bureau

fred.stlouisfed.org
Indiana Home Price Index
(percent change from previous year)

18.1%
2022 Q1
## Calculation of the Base Rate for an Acre of Farmland

### Final

**Assessment Year 2022; Tax Year 2023**

<table>
<thead>
<tr>
<th>Year</th>
<th>CashRent</th>
<th>Operating</th>
<th>Cap. Rate</th>
<th>CashRent</th>
<th>Operating</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>173</td>
<td>75</td>
<td>8.00%</td>
<td>2,163</td>
<td>938</td>
<td>1,550</td>
</tr>
<tr>
<td>2017</td>
<td>175</td>
<td>30</td>
<td>8.00%</td>
<td>2,188</td>
<td>375</td>
<td>1,281</td>
</tr>
<tr>
<td>2018</td>
<td>181</td>
<td>51</td>
<td>8.00%</td>
<td>2,263</td>
<td>638</td>
<td>1,450</td>
</tr>
<tr>
<td>2019</td>
<td>181</td>
<td>6</td>
<td>8.00%</td>
<td>2,263</td>
<td>75</td>
<td>1,169</td>
</tr>
<tr>
<td>2020</td>
<td>192</td>
<td>135</td>
<td>8.00%</td>
<td>2,400</td>
<td>1,688</td>
<td>2,044</td>
</tr>
<tr>
<td>2021</td>
<td>206</td>
<td>288</td>
<td>8.00%</td>
<td>2,575</td>
<td>3,600</td>
<td>3,088</td>
</tr>
</tbody>
</table>

### Average Market Value in Use

- **Previous Year** $1,290
- **Percent Change** 16.3%

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Rent</th>
<th>Operating</th>
<th>Cap. Rate</th>
<th>Cash Rent</th>
<th>Operating</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>198</td>
<td>-39</td>
<td>8.00%</td>
<td>2,475</td>
<td>-488</td>
<td>994</td>
</tr>
</tbody>
</table>
Base Rate per Acre of Farmland for Property Taxation
Preliminary and Final, Pay 2007-23 and Forecasts to Pay 2028

6-year average with 2-year lag.
Pay 2023 base rate calculated with 2016-21 data.
Calculation of Property Tax Maximum Levy Growth Quotient
2002 - 2023

Growth Quotient:
Six-year Average Growth, 2-year lag

2-year lag:
2023 Quotient based on 2016-2021 income growth

Dropped for 2023
Added for 2023

Annual Growth Rates, Indiana Non-Farm Personal Income (Statewide)
51 of 92 Counties had average rate decreases.
Tax Cap Credits as Percent of Levy, 2022

- Business Real/Personal (3%)
- Residential/Farmland (2%)
- Homestead (1%)

District Tax Rates:
- $2 or Less: 0.1%
- $2 to $3: 7.6%
- More than $3
- City/Town: 15.7%
- Not City/Town: 1.6%
- Total Credits: 12.3%

Credits, Percent of Levy:
- District Tax Rates
- Business Real/Personal
- Residential/Farmland
- Homestead
Tax Cap Credits as Percent of Levy, 2021

- Business Real/Personal (3%)
- Residential/Farmland (2%)
- Homestead (1%)

District Tax Rates:
- Total Credits: 11.5%
- $2 or Less: 0.1%
- $2 to $3: 7.1%
- More than $3: 23.1%
- City/Town: 14.7%
- Not City/Town: 1.4%
### Tax Cap Credits as Percent of Levy by Property Type, 2018-2022

<table>
<thead>
<tr>
<th>Property Type</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homestead (1%)</td>
<td>3.1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential/Farmland (2%)</td>
<td></td>
<td>4.6%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Real/Personal (3%)</td>
<td>2.8%</td>
<td></td>
<td>3.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>12.3%</td>
</tr>
</tbody>
</table>

**Note:** The chart shows the tax cap credits as a percentage of the levy for different property types from 2018 to 2022. The total tax cap credit as a percentage increases from 10.7% in 2022 to 12.3% in 2022.
Gross Assessed Value and Net Tax Rate Required for Eligibility for Homestead Circuit Breaker Credit

Assumes that homesteads receive the $45,000 standard deduction up to 60% of assessed value, the supplemental homestead deduction of 35% of the remainder, and the $3,000 mortgage deduction. No other deductions are assumed.

Eligible for Homestead Circuit Breaker Credit at 1% of Gross A.V.

Not Eligible for Homestead Circuit Breaker Credit
## Property Tax Revenue and Circuit Breaker Credits

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credits, Percent of Levy</strong></td>
<td>10.7%</td>
<td>10.8%</td>
<td>11.5%</td>
<td>11.5%</td>
<td>12.3%</td>
</tr>
<tr>
<td><strong>Levy (Mil. $)</strong></td>
<td>7,557</td>
<td>7,943</td>
<td>8,264</td>
<td>8,706</td>
<td>9,168</td>
</tr>
<tr>
<td><strong>Credits (Mil. $)</strong></td>
<td>809</td>
<td>859</td>
<td>949</td>
<td>999</td>
<td>1,126</td>
</tr>
<tr>
<td><strong>Levy Less Credits (Mil. $)</strong></td>
<td>6,748</td>
<td>7,083</td>
<td>7,315</td>
<td>7,707</td>
<td>8,042</td>
</tr>
<tr>
<td><strong>Levy % Change</strong></td>
<td>5.1%</td>
<td>4.0%</td>
<td>5.4%</td>
<td>5.3%</td>
<td></td>
</tr>
<tr>
<td><strong>Credits % Change</strong></td>
<td>6.2%</td>
<td>10.5%</td>
<td>5.3%</td>
<td>12.7%</td>
<td></td>
</tr>
<tr>
<td><strong>Levy Less Credits % Chg.</strong></td>
<td>5.0%</td>
<td>3.3%</td>
<td>5.4%</td>
<td>4.4%</td>
<td></td>
</tr>
</tbody>
</table>
Property Tax Liabilities
Property Tax Liabilities (Tax Bills) by Property Class, Pay 2017 (Dollar amounts in millions)

- Residential: $2,881 (43%)
- Personal Property: $1,171 (17%)
- Industrial: $503 (7%)
- Commercial: $1,280 (19%)
- Agriculture: $581 (9%)
- Apartments: $293 (4%)
- All Other: $64 (1%)

Total: $6,332
Property Tax Liabilities (Tax Bills) by Property Class, Pay 2021 (Dollar amounts in millions)

- Residential: $3,685 (46%)
- Personal Property: $1,381 (17%)
- Commercial: $1,434 (18%)
- Industrial: $602 (7%)
- Agriculture: $529 (6%)
- Apartments: $389 (5%)
- All Other: $60 (1%)
Property Tax Liabilities (Tax Bills) by Property Class, Average Annual Percent Change, Pay 2017-21

- Total: 4.5%
- Residential: 6.3%
- Apartments: 7.3%
- Agriculture: -2.3%
- Commercial: 2.9%
- Industrial: 4.6%
- Personal Property: 4.2%
Property Tax Liabilities (Tax Bills) by Property Class, Avg Ann % Change, Pay 2017-21 and Projected 2021-26

2017-21: Left Patterned Bars
2021-26: Right Solid Bars

<table>
<thead>
<tr>
<th>Property Class</th>
<th>Avg Ann % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>4.5%</td>
</tr>
<tr>
<td>Residential</td>
<td>6.3%</td>
</tr>
<tr>
<td>Apartments</td>
<td>6.9%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>-2.3%</td>
</tr>
<tr>
<td>Commercial</td>
<td>2.9%</td>
</tr>
<tr>
<td>Industrial</td>
<td>4.6%</td>
</tr>
<tr>
<td>Personal Property</td>
<td>4.2%</td>
</tr>
<tr>
<td>2017-21: Left Patterned Bars</td>
<td></td>
</tr>
<tr>
<td>2021-26: Right Solid Bars</td>
<td></td>
</tr>
</tbody>
</table>

Policy Analytics LLC for AIC
Property Tax Liabilities (Tax Bills) by Property Class, Pay 2021 (Dollar amounts in millions)

- Residential: $3,685 (46%)
- Personal Property: $1,381 (17%)
- Commercial: $1,434 (18%)
- Industrial: $602 (7%)
- Agriculture: $529 (6%)
- Apartments: $389 (5%)
- All Other: $60 (1%)
Property Tax Liabilities (Tax Bills) by Property Class, Projected to Pay 2026 (Dollar amounts in millions)

- Residential: $5,149, 51%
- Personal Property: $1,436, 14%
- Industrial: $672, 7%
- Commercial: $1,543, 15%
- Agriculture: $727, 7%
- Apartments: $516, 5%
- All Other: $50, 1%

Policy Analytics LLC for AIC
Policy Options
Town of St. John decision, 1998

“In The
INDIANA SUPREME COURT

APPEAL FROM INDIANA TAX COURT
The Honorable Thomas G. Fisher, Judge
Cause No. 49T10-9309-TA-70

December 4, 1998

from the Indiana Tax Court’s judgment regarding the validity of the Indiana tax assessment

“. . . the cost schedules lack sufficient relation to objectively verifiable data to ensure uniformity and equality based on property wealth. . . .

Assessments must be based on objective measures of property wealth."
Shall Article 10, Section 1 of the Constitution of the State of Indiana be amended to allow the General Assembly to make certain property exempt from property taxes, including (1) a homeowner's primary residence; (2) personal property used to produce income; and (3) inventory?

The General Assembly may exempt from property taxation any property in any of the following classes: (4) Tangible real property, including curtilage, used as a principal place of residence.

“Exempt” means that the General Assembly may use deductions and credits to reduce homeowner property taxes (2010).
Impact of a New Homestead Deduction

Levy, under Max Levy
Net Assessed Value

= Tax Rate

New Homestead Deduction

Homestead Net AV
x Tax Rate
Tax Bill

Other Residential Net AV
x Tax Rate
Tax Bill

Farmland Net AV
x Tax Rate
Tax Bill

Business Land/Bldgs/PP
Net AV
x Tax Rate
Tax Bill

Tax Rate Rises
Policy Options for Homeowner Tax Relief

- Deductions
  - Tax liability shifts to non-homestead taxpayers
  - Local government revenues remain nearly the same, depending on distribution of tax cap credits
# Impact of a New Homestead Credit

<table>
<thead>
<tr>
<th></th>
<th>150,000</th>
<th>150,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Assessed Value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Homestead Standard Deduction</td>
<td>45,000</td>
<td>45,000</td>
</tr>
<tr>
<td>Remainder</td>
<td>105,000</td>
<td>105,000</td>
</tr>
<tr>
<td>35% Supplemental Deduction</td>
<td>36,750</td>
<td>36,750</td>
</tr>
<tr>
<td>Mortgage Deduction</td>
<td>3,000</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Taxable Assessed Value</strong></td>
<td>65,250</td>
<td>65,250</td>
</tr>
<tr>
<td><strong>District Tax Rate</strong></td>
<td>2.0000</td>
<td>2.0000</td>
</tr>
<tr>
<td><strong>Gross Tax Bill</strong></td>
<td>1,305</td>
<td>1,305</td>
</tr>
<tr>
<td>Homestead Tax Credit Rate</td>
<td>0%</td>
<td>10%</td>
</tr>
<tr>
<td>Homestead Credit</td>
<td>0</td>
<td>131</td>
</tr>
<tr>
<td><strong>Tax Bill after Credit</strong></td>
<td>1,305</td>
<td>1,175</td>
</tr>
<tr>
<td>Tax Cap (1% of GAV)</td>
<td>1,500</td>
<td>1,500</td>
</tr>
<tr>
<td>Tax Cap Credit</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Net Tax Bill</strong></td>
<td>1,305</td>
<td>1,175</td>
</tr>
</tbody>
</table>

*Revenue Loss for Local Gov’ts*
Policy Options for Homeowner Tax Relief

- **Deductions**
  - Tax liability shifts to non–homestead taxpayers
  - Local government revenues remain nearly the same, depending on distribution of tax cap credits

- **Credits**
  - No impact on non–homestead taxpayers
  - Unfunded: local governments lose revenue
  - Locally funded: local government must raise another tax
  - State funded: state revenue used to offset local revenue losses
Constitutional Amendment, 2010

PUBLIC QUESTION #1 (2010)
Shall property taxes be limited for all classes of property to (1) The following percentages of gross assessed value: 1% for homesteads; 2% for non-homestead residential; 2% for agricultural land; 3% for other real and personal property.

Property taxes may not exceed
• 1% of gross assessed value for homesteads
• 2% for non-homestead residential and farmland
• 3% for business real and personal.
• Taxes passed by referendum are exempt from these limits.

Circuit Breaker tax cap credits
## Impact of a New Homestead Credit

<table>
<thead>
<tr>
<th></th>
<th>Value 1</th>
<th>Value 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Assessed Value</strong></td>
<td>150,000</td>
<td>150,000</td>
</tr>
<tr>
<td>Homestead Standard Deduction</td>
<td>45,000</td>
<td>45,000</td>
</tr>
<tr>
<td>Remainder</td>
<td>105,000</td>
<td>105,000</td>
</tr>
<tr>
<td>35% Supplemental Deduction</td>
<td>36,750</td>
<td>36,750</td>
</tr>
<tr>
<td>Mortgage Deduction</td>
<td>3,000</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Taxable Assessed Value</strong></td>
<td>65,250</td>
<td>65,250</td>
</tr>
<tr>
<td><strong>District Tax Rate</strong></td>
<td>3.0000</td>
<td>3.0000</td>
</tr>
<tr>
<td><strong>Gross Tax Bill</strong></td>
<td>1,958</td>
<td>1,958</td>
</tr>
<tr>
<td>Homestead Tax Credit Rate</td>
<td>0%</td>
<td>10%</td>
</tr>
<tr>
<td>Homestead Credit</td>
<td>0</td>
<td>196</td>
</tr>
<tr>
<td><strong>Tax Bill after Credit</strong></td>
<td>1,958</td>
<td>1,762</td>
</tr>
<tr>
<td><strong>Tax Cap (1% of GAV)</strong></td>
<td>1,500</td>
<td>1,500</td>
</tr>
<tr>
<td><strong>Tax Cap Credit</strong></td>
<td>458</td>
<td>262</td>
</tr>
<tr>
<td><strong>Net Tax Bill</strong></td>
<td>1,500</td>
<td>1,500</td>
</tr>
</tbody>
</table>
# Impact of a New Homestead Credit

<table>
<thead>
<tr>
<th>Gross Assessed Value</th>
<th>400,000</th>
<th>400,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homestead Standard Deduction</td>
<td>45,000</td>
<td>45,000</td>
</tr>
<tr>
<td>Remainder</td>
<td>355,000</td>
<td>355,000</td>
</tr>
<tr>
<td>35% Supplemental Deduction</td>
<td>124,250</td>
<td>124,250</td>
</tr>
<tr>
<td>Mortgage Deduction</td>
<td>3,000</td>
<td>3,000</td>
</tr>
<tr>
<td>Taxable Assessed Value</td>
<td>227,750</td>
<td>227,750</td>
</tr>
<tr>
<td>District Tax Rate</td>
<td>2.0000</td>
<td>2.0000</td>
</tr>
<tr>
<td>Gross Tax Bill</td>
<td>4,555</td>
<td>4,555</td>
</tr>
<tr>
<td>Homestead Tax Credit Rate</td>
<td>0%</td>
<td>10%</td>
</tr>
<tr>
<td>Homestead Credit</td>
<td>0</td>
<td>456</td>
</tr>
<tr>
<td>Tax Bill after Credit</td>
<td>4,555</td>
<td>4,100</td>
</tr>
<tr>
<td>Tax Cap (1% of GAV)</td>
<td>4,000</td>
<td>4,000</td>
</tr>
<tr>
<td>Tax Cap Credit</td>
<td>555</td>
<td>100</td>
</tr>
<tr>
<td>Net Tax Bill</td>
<td>4,000</td>
<td>4,000</td>
</tr>
</tbody>
</table>
Circuit Breaker Tax Caps

- **Homeowners below their caps.** Any new deduction or credit will reduce tax bills.
- **Homeowners above their caps.** If new deductions and credits do not move tax bills below the cap, tax bill is unchanged. No tax relief.
- Tax relief goes to taxpayers where tax rates are lower, mostly rural areas outside of cities or towns.
- Tax relief goes to taxpayers with lower-valued homes, which are more likely to be below their caps.
- **Urban** homeowners and upper-income homeowners are less likely to see tax relief.
Policy Options for Homeowner Tax Relief

- **Deductions**
  - Tax liability shifts to non-homestead taxpayers
  - Local government revenues remain nearly the same, depending on distribution of tax cap credits

- **Credits**
  - No impact on non-homestead taxpayers
  - Unfunded: local governments lose revenue
  - Locally funded: local government must raise another tax
  - State funded: state revenue used to offset local revenue losses

- **Circuit Breaker Tax Caps**
  - Taxpayers with lower-valued homes, in rural areas, mostly likely to see tax relief
  - Post circuit breaker credits? Circuit breaker innovations?
Conclusions
The Property Tax in 2022 and Beyond

- **Assessed value** is growing faster than it has in years. AV likely will grow faster in pay–2023, due to homestead, farmland and utility AV growth.
- The **MLGQ** is higher than it’s been in years, but not as high as net AV growth. The MLGQ is 5% for 2023 budgets, still lower than AV growth. The MLGQ is likely to remain above 4% for several years.
- Average **tax rates** are stable or falling.
- **Circuit breaker credits** are rising as a share of the levy, because AV growth has been driven by homestead increases. Higher valued homesteads receive more CB credits. This will continue in pay–2023.
- **Tax liabilities** have been shifting towards homeowners. This will continue, and farmland liabilities will rise too.
- Will the **General Assembly** respond?
Indiana Property Taxes in 2022 and Beyond

July 12, 2022

Larry DeBoer
Emeritus Professor, Agricultural Economics
Purdue University