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# INCMA Legislative IMPACT Conference

## Indiana's 2008 Property Tax Changes *February 4, 2009*



# Property taxes

- Primary revenue source for local governments.
- Generated from a county-wide assessment of real and personal property.
- Real property assessments are based upon “market value” as determined annually by county assessor.
- Personal property includes business equipment, which is self assessed by the taxpayer.
- Property is assessed each March 1<sup>st</sup> for taxes payable in June and December of following year.

# Property taxes (cont'd)

- Property tax levies

- General Funds

- Limited to average annual growth in non-farm income over past six years

- Cumulative or Capital Development Funds

- Statutory limits on tax rate as neutralized by reassessment

- Debt Service Funds

- Limited to tax levy needed to repay debt obligation

# Property taxes (cont'd)

## ■ Property tax credits

- State homestead and general replacement credits ended in 2008
- Temporary state homestead credits will be phased out through 2010
- Local option income taxes provide both targeted and general property tax relief

## ■ Property tax rate limits

- Caps on total effective tax rates known as circuit breaker tax credits

# What are circuit breaker tax credits?

- Circuit breaker tax credits limit a taxpayer's total property tax liability to a fixed percentage of the assessed value of the taxable property, before any deductions.
  - For taxes payable in 2008, these credits are limited to residential homesteads with a cap of 2.0%.

# How are circuit breaker tax credits funded?

- Credits are funded by a reduction in property tax revenues of all Taxing Units in proportion to their levy.
- Property tax rates may not be increased to offset the shortfall.
- Funds may not be borrowed to offset the shortfall.

# How does HEA 1001 change these tax credits?

- Reduces the tax caps for residential homestead taxpayers:
  - 1.5% limit in 2009
  - 1.0% limit in 2010
  
- Expands the tax caps to all other residential, agricultural land and long-term care facilities:
  - 2.5% limit in 2009
  - 2.0% limit in 2010

# How does HEA 1001 change these tax credits?

- Expands the tax caps to all other property taxpayers to:
  - 3.5% limit in 2009
  - 3.0% limit in 2010
- Creates additional limits for certain taxpayers over age 65
- Debt service levies in St. Joseph and Lake Counties created before July 1, 2008, and those created by voter referendum in all counties are not subject to circuit breaker tax caps.



# Projecting Reductions in Property Tax Collections Needed to Fund Credits

- Must consider changes in all components of the property tax rate:
  - Levies
  - Assessed values
  - Tax credits

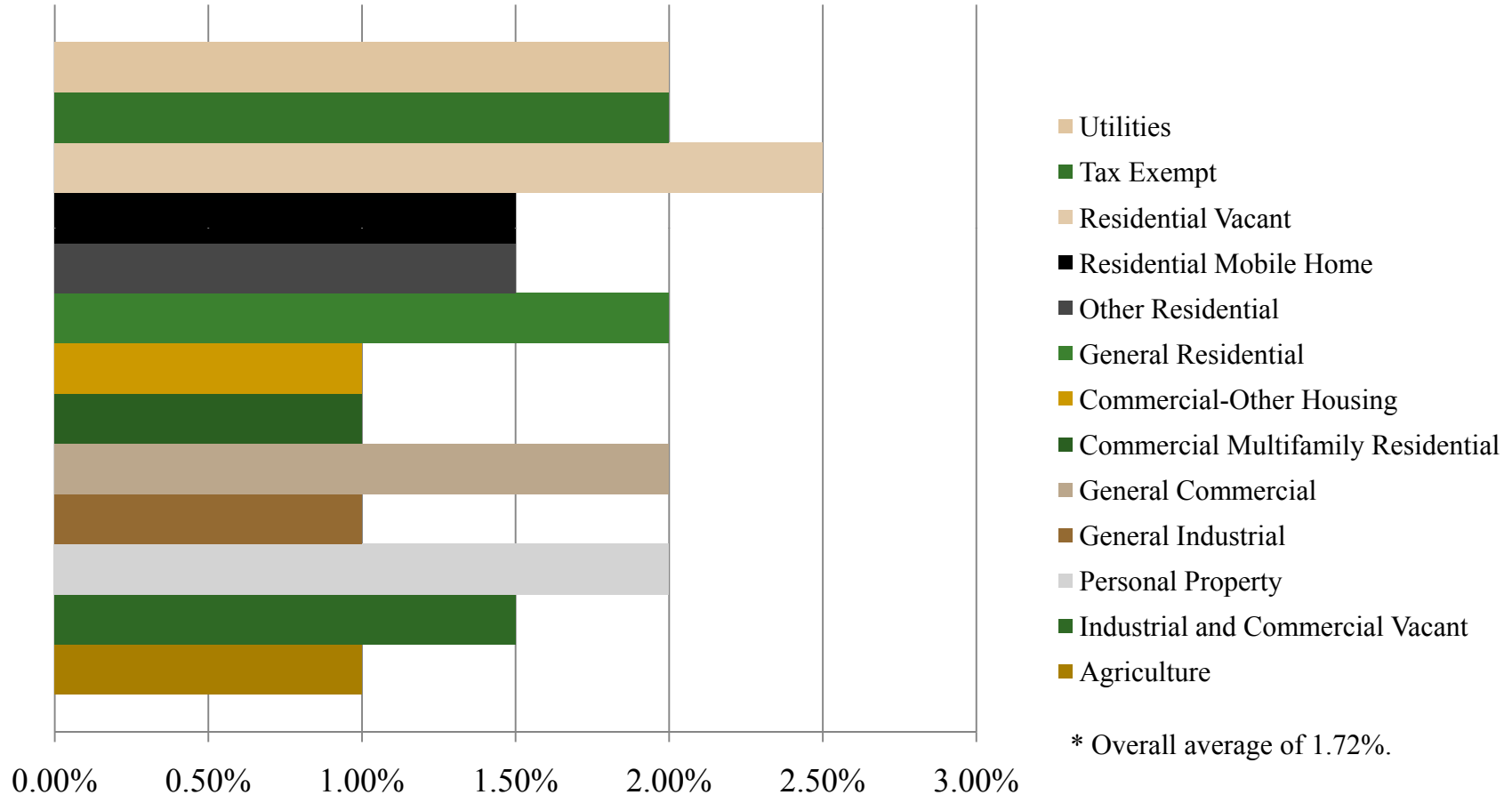
# Projecting Reductions in Property Tax Collections Needed to Fund Credits

- ❑ Assessed values are adjusted for:
  - Loss of net assessed value from expansion of the supplemental homestead deduction
  - Changes in gross assessments that may result from future trending adjustments to market value
  - Other significant changes in assessed value resulting from new investment or the loss of a major taxpayer

# Supplemental Homestead Deduction

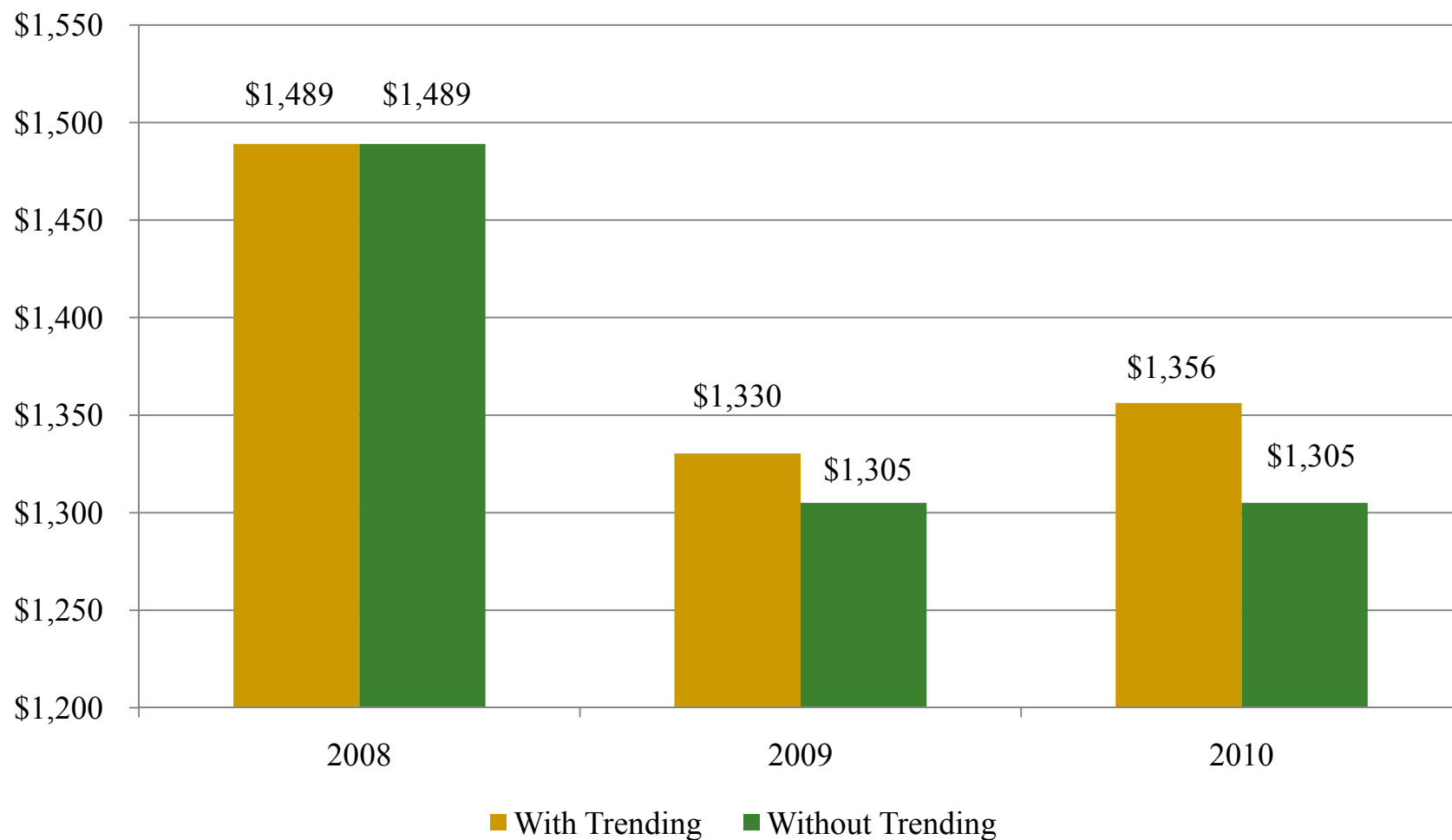
- Reduces assessed values used to compute property tax rates by creating new supplemental homestead exemption for homeowners beyond current deduction
  - 35% exemption for first \$600,000 remaining assessed value
  - 25% exemption for over \$600,000 remaining assessed value
- Begins with property taxes payable in 2009
- Reductions in assessed value increase property tax rates and circuit breaker tax credits. Reductions in assessed value can range from 10% to 20%.

# Expected Changes in Assessed Value Due to Trending and Reassessment



# Projected Net Assessed Values

*(In millions)*



# Projecting Reductions in Property Tax Collections Needed to Fund Credits

- Levies are adjusted for:
  - Assumption of certain property tax levies by State and elimination of State property tax credits in 2009.
  - Increases in maximum controlled levy limits.
  - Loss of cumulative fund revenues due to reduction in net assessed value from the supplemental homestead deduction.
  - Changes in debt service levies inside the tax caps.

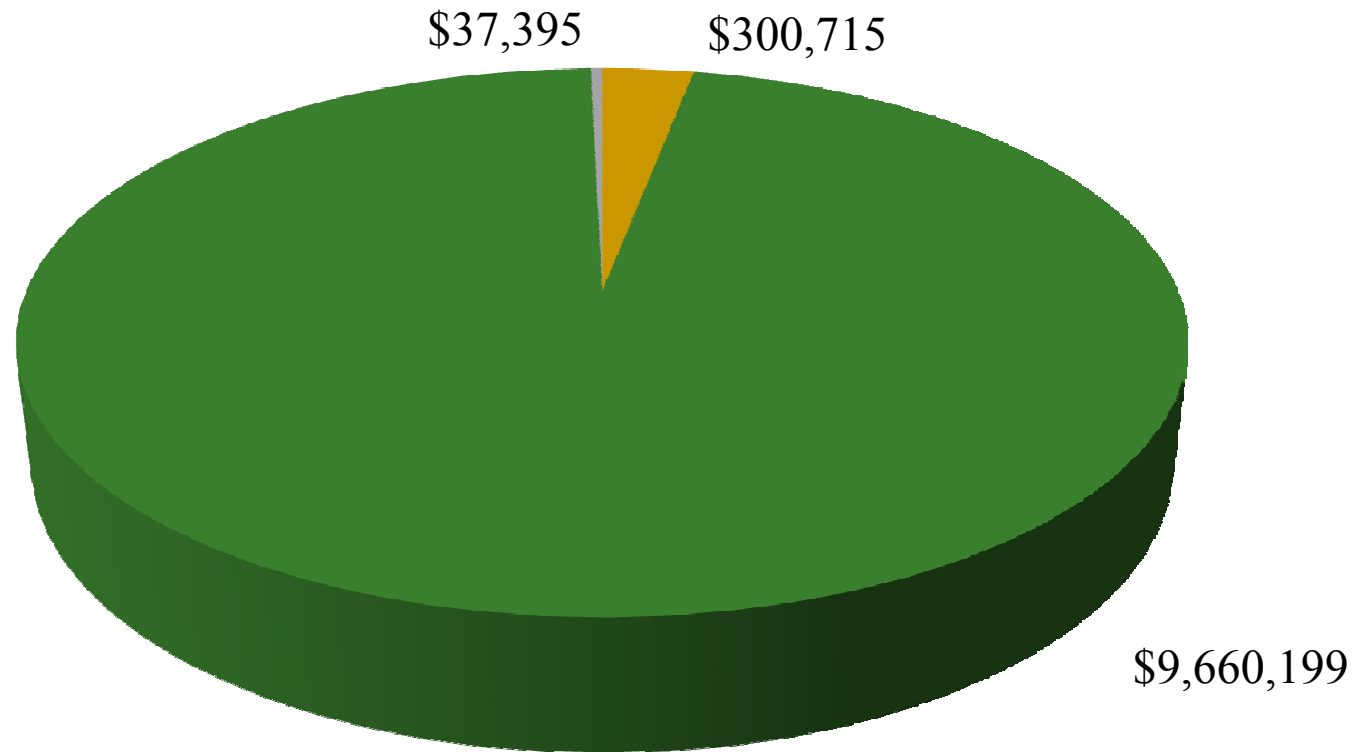
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# Elimination of Certain Property Tax Levies in 2009

- Pre-School and School General Fund
  - County Welfare Funds
  - Pre-1977 Police and Fire Pensions
  - State Fair Board and Forestry
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- Note: Reductions in levies reduce property tax rates and reduce circuit breaker tax credits.

# State Assumed Levies

## \$9,998,309



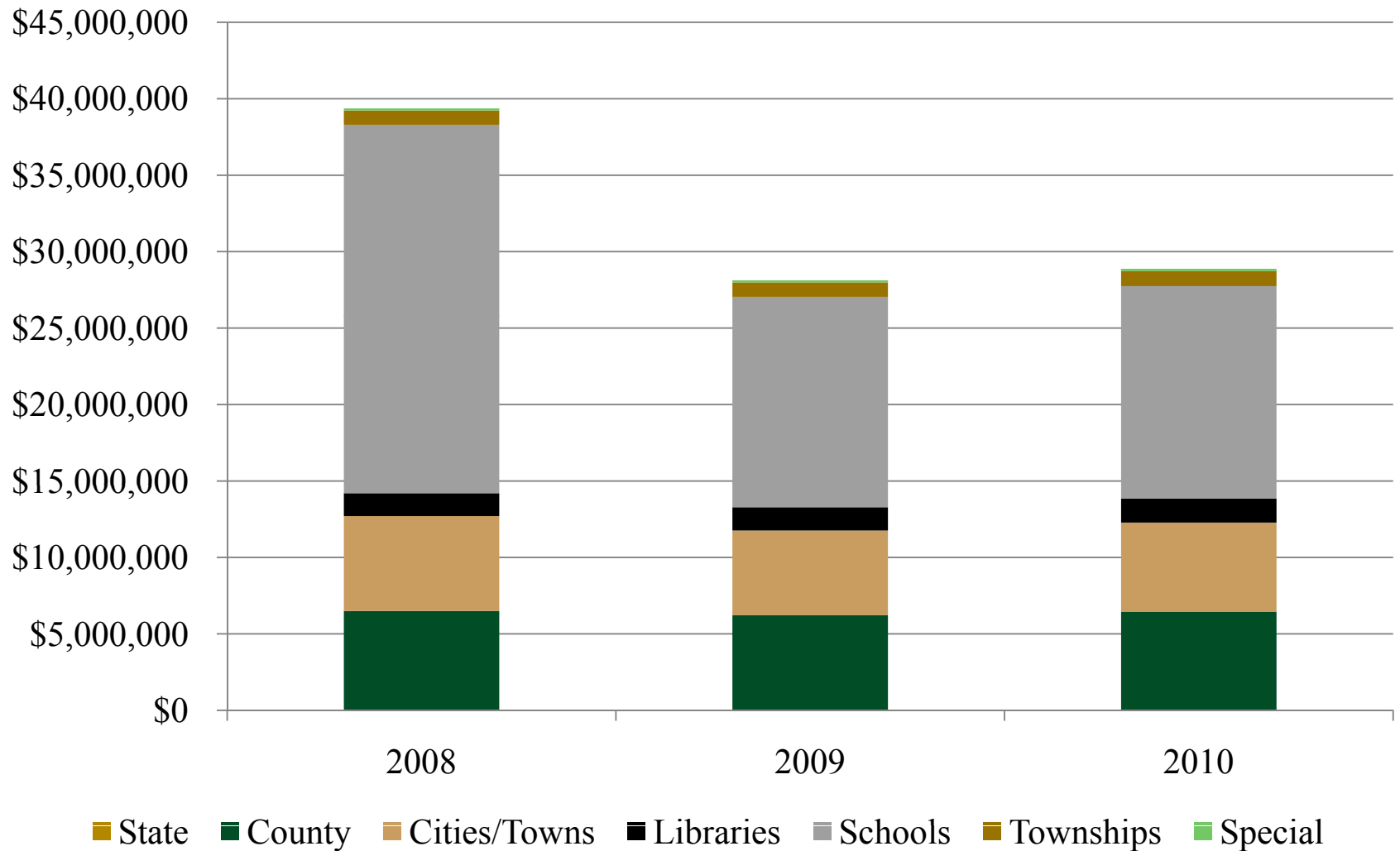
■ County Welfare    ■ School General/Pre-School    ■ State Funds



# Other Factors Affecting Future Levies

- Future Levy Growth
  - Controlled Levies
    - Assumes increase of 3.7% in 2008
    - Assumes increase of 4.0% in 2009
    - Assumes increase of 4.3% in 2010
  - Debt Service Levies
    - Expected changes as existing debt is retired and new debt is issued within the circuit breaker limits.
  - Cumulative Fund Levies
    - Reduced to reflect loss of net assessed value due to expansion of homestead deduction.

# Projected Property Tax Levies

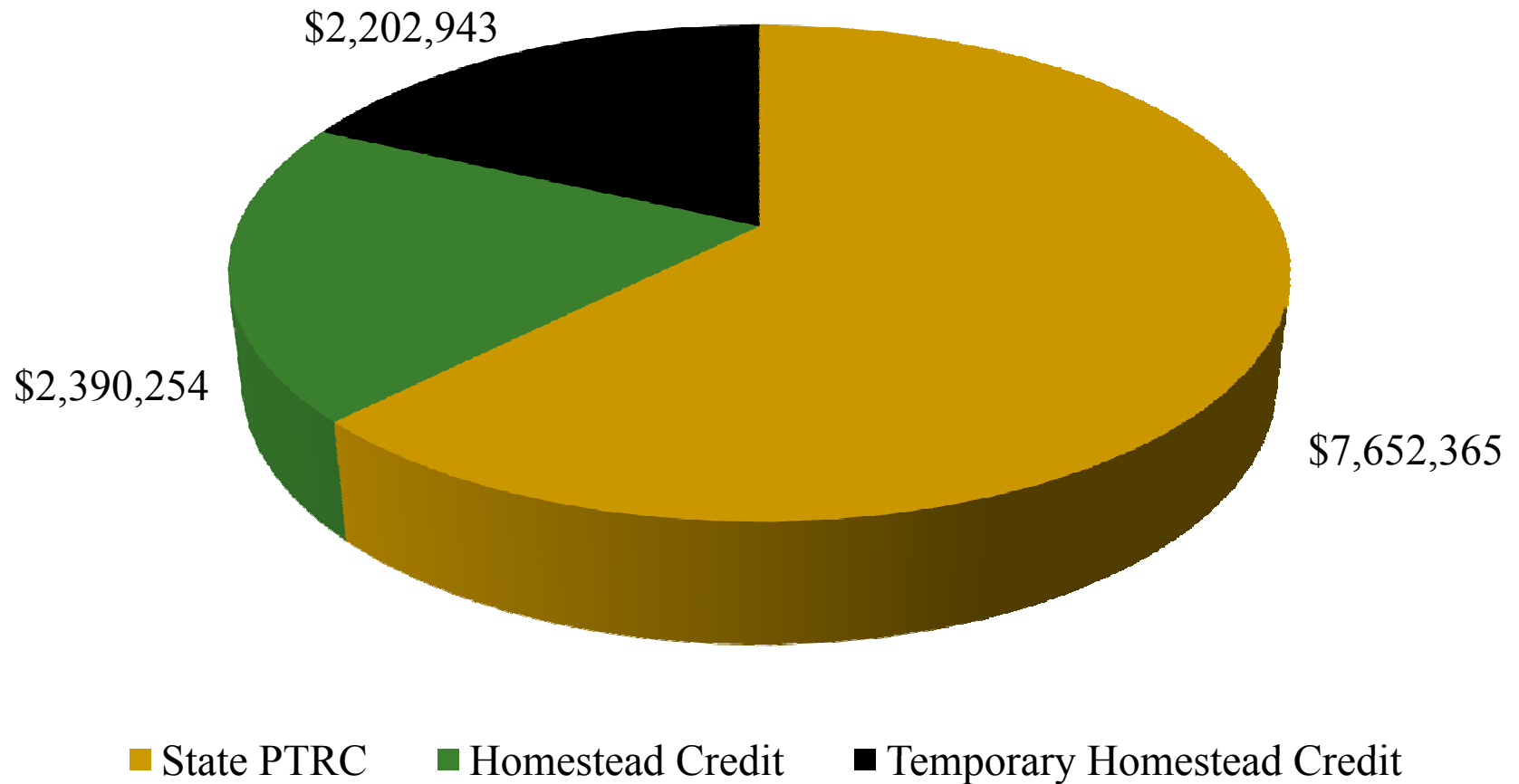


# Elimination of State Property Tax Replacement Funds beginning in 2009

- Phases out state funded property tax relief, including property tax replacement credits and state homestead credits in 2009. Temporary homestead credits are phased out through 2010.
- Note: Reductions in property tax credits increase effective tax rates and circuit breaker tax credits.

# State Property Tax Relief

## \$12,245,562



# Calculation of Effective Tax Rates (Homestead Property)

	2007 Certified	2008 Certified	2009 Estimated	2010 Estimated
Gross Tax Rate	\$3.5759	\$3.3603	\$3.1307	\$3.1690
Less: PTRC	<u>(0.7694)</u>	<u>(0.6845)</u>	<u>(0.0000)</u>	<u>(0.0000)</u>
Effective Tax Rate before HS Credits	<u>2.8065</u>	<u>2.6758</u>	<u>3.1307</u>	<u>3.1690</u>
Less: State and County HS Credits	<u>(0.7219)</u>	<u>(1.6484)</u>	<u>(0.7110)</u>	<u>(0.5817)</u>
<b>Effective Tax Rate</b>	<b><u>\$2.0846</u></b>	<b><u>\$1.0274</u></b>	<b><u>\$2.4197</u></b>	<b><u>\$2.5873</u></b>

# Calculation of Net Assessed Value (Homestead Property)

	2007	2008	2009	2010
Gross Assessed Value	\$76,600	\$76,600	\$76,600	\$76,600
Less: Standard Deduction	(38,300)	(38,300)	(45,000)	(45,000)
Less: Supplemental HS Deduction			(11,060)	(11,060)
Less: Mortgage Exemption	<u>(3,000)</u>	<u>(3,000)</u>	<u>(3,000)</u>	<u>(3,000)</u>
<b>Net Assessed Value</b>	<b><u>\$35,300</u></b>	<b><u>\$35,300</u></b>	<b><u>\$17,540</u></b>	<b><u>\$17,540</u></b>

# Calculation of Tax Bills (Homestead Property)

	2007 Certified	2008 Certified	2009 Estimated	2010 Estimated
Net Assessed Value	\$35,300	\$35,300	\$17,540	\$17,540
Apply Effective Tax Rate	<u>2.0846</u>	<u>1.0274</u>	<u>2.4197</u>	<u>2.5873</u>
Property Tax Due Before C/B	735.86	362.67	424.42	453.81
Less: C/B Tax Credit	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
<b>Property Tax Due with C/B</b>	<b><u>\$735.86</u></b>	<b><u>\$362.67</u></b>	<b><u>\$424.42</u></b>	<b><u>\$453.81</u></b>

# Calculation of Tax Bills (Industrial Real Property)

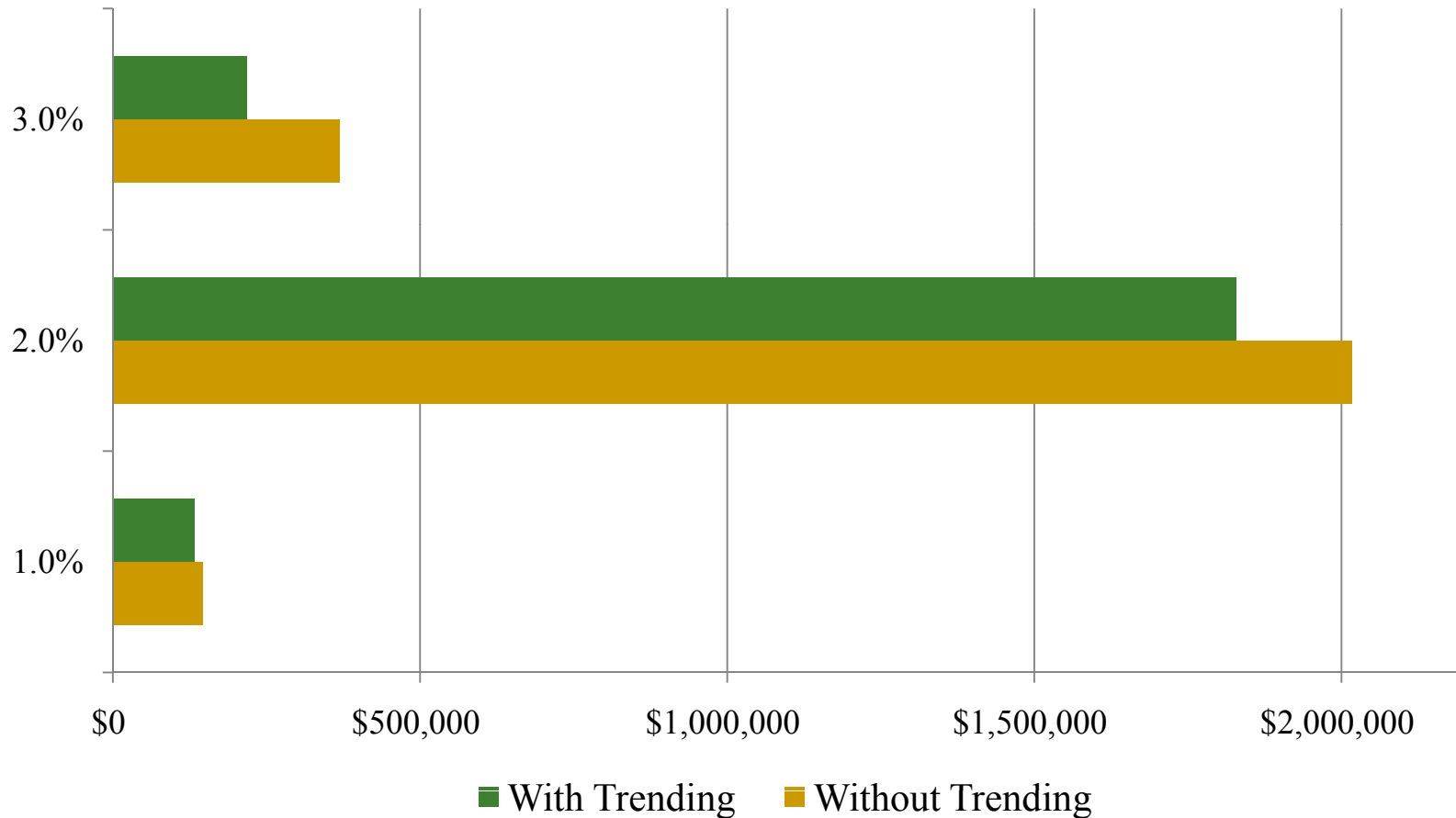
	2007 Certified	2008 Certified	2009 Estimated	2010 Estimated
Net Assessed Value	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Apply Effective Tax Rate	<u>2.8065</u>	<u>2.6758</u>	<u>3.1307</u>	<u>3.1690</u>
Property Tax Due Before C/B	28,065	26,758	31,307	31,690
Less: C/B Tax Credit	<u>0,000</u>	<u>0,000</u>	<u>0,000</u>	<u>(1,169)</u>
<b>Property Tax Due with C/B</b>	<b><u>\$28,065</u></b>	<b><u>\$26,758</u></b>	<b><u>\$31,307</u></b>	<b><u>\$30,000</u></b>



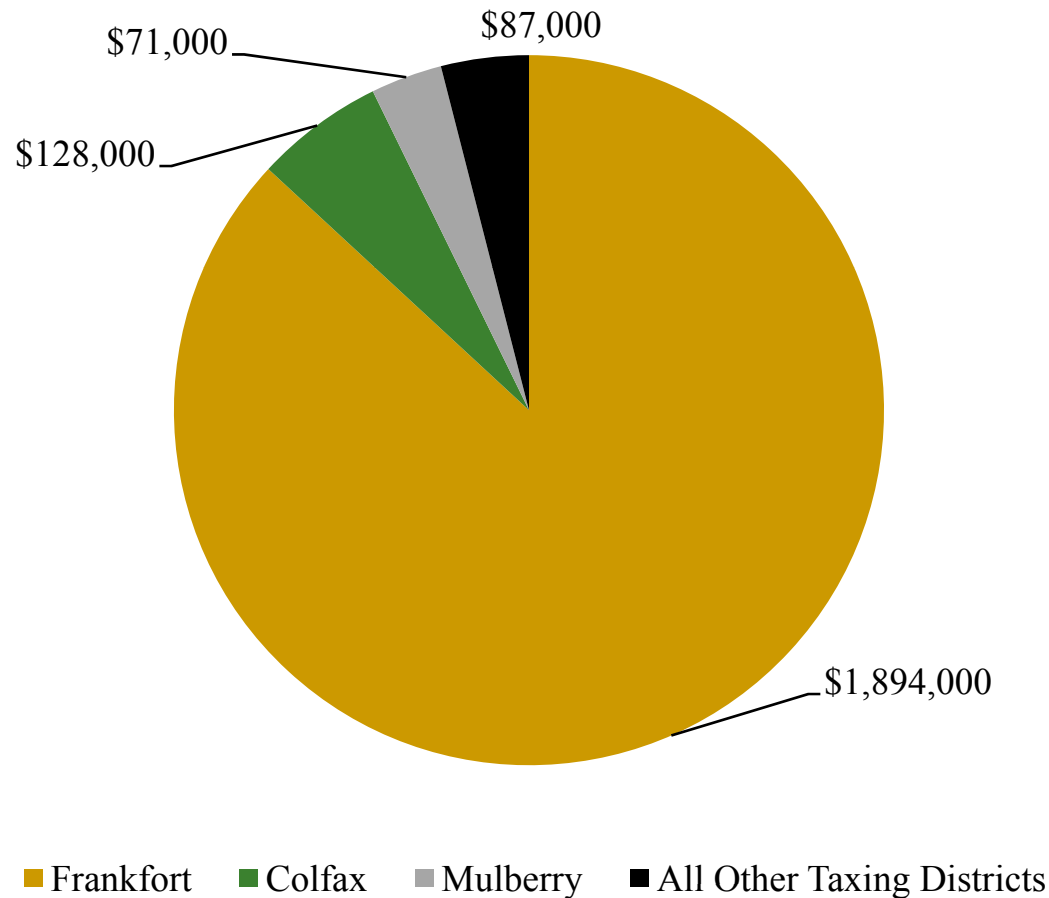
# 2010 Circuit Breaker Tax Credits

*Estimated at \$2,180,000 (With Trending)*

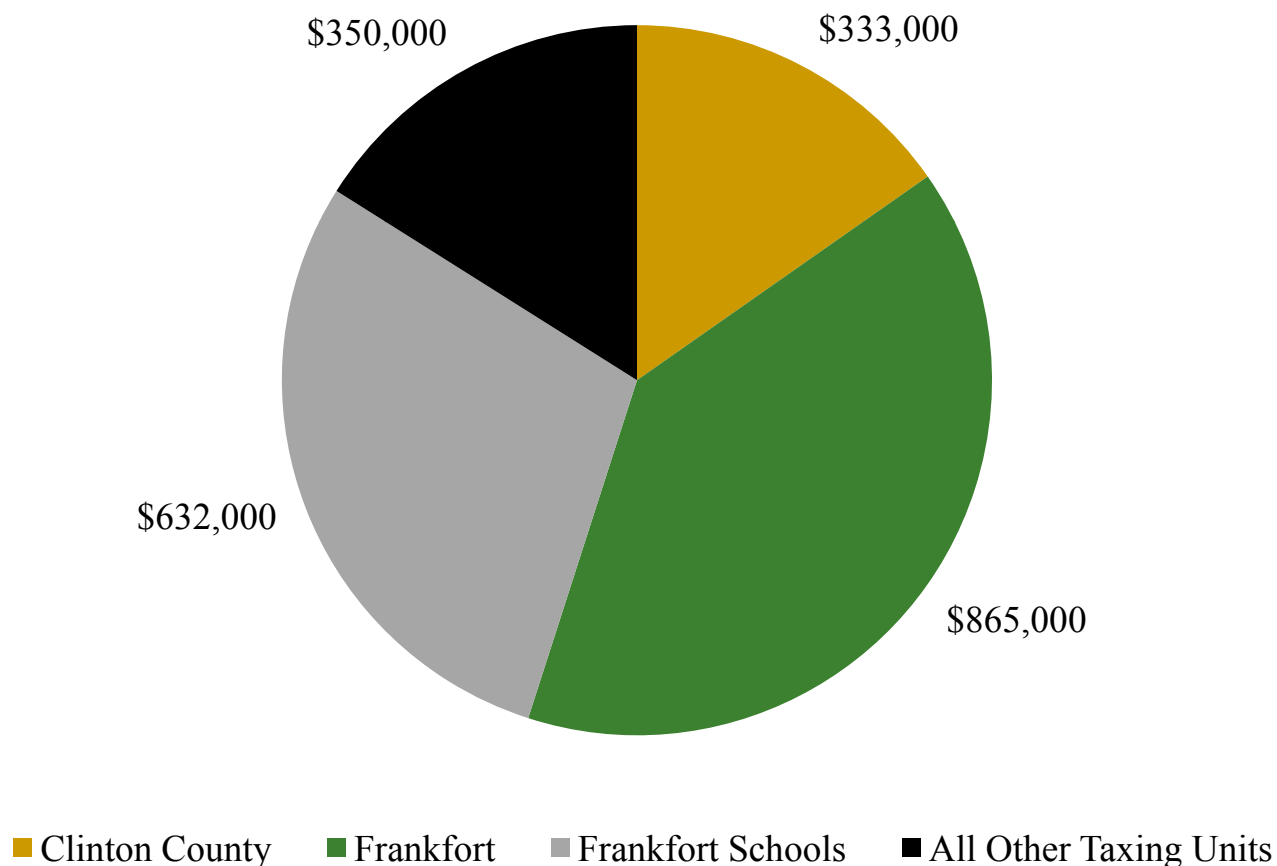
*Estimated at \$2,532,000 (Without Trending)*



# 2010 Circuit Breaker Credits by Taxing District



# 2010 Circuit Breaker Credits by Taxing Unit



# How will tax credits be funded?

- Reductions in local spending through increased efficiencies or reductions in services.
- Adoption of increased user fees, payments in lieu of taxes and other non-tax revenues.
- Expansion of tax base through annexation, consolidation, reductions in tax abatement or reductions in use of TIF.
- Adoption of local option income taxes
  - Provide replacement revenues
  - Reduce property tax levies and effective property tax rates.