

Property Tax Reassessment and Tax Restructuring in Indiana

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The Supreme Court's Decision

State Constitution Article 10, Section 1(a). "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."

Indiana Supreme Court decision, December 4, 1998. *The Tax Board's assessment regulations (cost schedules) are Unconstitutional:* ". . . the cost schedules lack sufficient relation to objectively verifiable data to ensure uniformity and equality based on property wealth. . . . We affirm the Tax Court's determination that the existing cost schedules, lacking meaningful reference to property wealth and resulting in significant deviations from substantial uniformity and equality, violate the Property Taxation Clause of the Indiana Constitution."

Tax Shifts Under Market Value

Market value assessment is consistent with the Court's decision, but by itself would create large shifts in property tax payments. Homeowner tax payments would rise substantially. This occurs because Indiana's current "true tax value" system under-assesses residential property relative to selling prices by more than it under-assesses business property.

Table 1. Estimated Change in Tax Payments under Market Value Assessment of Real Property, Farm Land at \$1,050 per Acre, No Other Changes.

	Agricultural	Residential	Commercial	Industrial	Utility
Average Taxpayer	3.4%	28.5%	-21.4%	-29.2%	-37.4%
Maximum County	31.6%	66.6%	-8.4%	-1.7%	0.7%
Minimum County	-8.3%	9.8%	-45.1%	-62.3%	-58.2%

Tax Restructuring

The special session of the Indiana General Assembly passed a tax restructuring bill on June 22, 2002. The effort had three purposes, to offset the reassessment shift to homeowners, to redesign business taxes to encourage development, and to help fill the state budget gap.

- State taxes will rise by about \$1.5 billion per year, mostly through an increase in the sales tax from 5% to 6%, an increase in the cigarette tax from 15.5 cents per pack to 55.5 cents per pack, and an expansion of riverboat gaming activity and taxes.
- About \$1 billion of this revenue will be returned in property tax relief. School general fund property taxes will be reduced by 60%, with the revenue replaced by added state aid. The homestead credit rate for homeowners will rise from 10% to 20%.
- The remaining \$500 million will be added to the state budget. This helps close the budget gap, but is not nearly enough to solve the problem.
- Restructuring and reassessment combined will shift about \$500 million in taxes from businesses to households. It is hoped that this business tax break will help encourage new investment in Indiana.

Tax Shifts Under Reassessment and Restructuring

The Department of Local Government Finance (DLGF, formerly the State Tax Board) has adopted a new assessment regulation that effectively makes Indiana a market value state. Tax restructuring offsets the tax shift to homeowners, mostly by reducing the total amount of revenue collected from the property tax. These changes do not include the usual annual increases in the tax levy, which increase tax bills each year.

Table 2. Estimated Change in Tax Payments under Reassessment and Restructuring

	Agricultural	Residential	Commercial	Industrial	Utility
Average Taxpayer	-13.2%	-12.8%	-21.4%	-26.3%	-28.8%
Maximum County	6.4%	16.3%	2.0%	-9.5%	-5.2%
Minimum County	-24.4%	-41.6%	-52.4%	-62.1%	-53.5%

The 17-Year Miscalculation of Homestead Credits

In February 2003 a General Assembly fiscal analyst discovered that homestead credits had been miscalculated since 1985. The state had paid too much to local governments, because homeowners were given credits that were too big. According to the Legislative Services Agency, if the law is followed, the state will pay \$280 million less in homestead credits in the coming biennium, and the reduction in the average homeowners tax bill will be closer to 7%, not 12.8%.

Reassessment Delays

A February 2003 survey by DLGF estimated almost all counties would not finish their reassessments on time to issue their May property tax bills. Almost half would not finish before Fall 2003. As of May, only four counties had set their tax rates. If property tax bills are not mailed in time, May property tax payments will not be made on time, and the revenue that usually arrives for local governments in June will be delayed. Local governments may have to issue tax anticipation warrants, which means they will borrow the money they need and repay it (plus interest) when the property tax revenue arrives. They may also borrow from their own non-operating funds.

HEA 1219

The 2003 General Assembly anticipated this problem, and passed House Enrolled Act 1219. This law allows Treasurers to issue provisional tax bills, based on the tax bills issued in November 2002. What each taxpayer actually owes will be known once assessments are completed and tax rates set. The November payment will be adjusted to reconcile the provisional payment with the total tax bill owed.

HEA 1714

The 2003 General Assembly also passed HEA 1714, which delays the *next* reassessment until 2009 pay 2010. Indiana will once again go seven years between reassessments. But the law also says that starting in 2005, assessments must be adjusted annually. This will require a change in pricing parameters or cost tables each year, to keep assessments consistent with changes in market values. Collection of new information on property characteristics will not be required until 2009, however.

For More Information

Department of Local Government Finance website:

<http://www.IN.gov/dlgf/>

Larry DeBoer's Local Government website:

<http://www.agecon.purdue.edu/crd/localgov/>