Indiana’s Constitutional Referendum
On Tax Caps, November 2, 2010

Larry DeBoer
Department of Agricultural Economics
Purdue University

October 27, 2010

For more information
DeBoer’s Indiana Local Government Information Website:
www.agecon.purdue.edu/crd/Localgov
The Tax Cap Constitutional referendum, on the ballot on November 2, 2010:

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?

The Tax Cap Constitutional Amendment, to Article 10, Section 1 of the Indiana Constitution

[Regular text shows the Constitution as it is now. Bold text is added, crossed-out text is eliminated]

Article 10, 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.

(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.
Property Tax Calculations for Four Taxpayers

<table>
<thead>
<tr>
<th></th>
<th>Lower Valued Homestead</th>
<th>Higher Valued Homestead</th>
<th>Rental Apartment</th>
<th>Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Assessed Value</td>
<td>90,000</td>
<td>250,000</td>
<td>250,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Deductions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Homestead Standard</td>
<td>45,000</td>
<td>45,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35% Supplemental</td>
<td>15,750</td>
<td>71,750</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mortgage</td>
<td>3,000</td>
<td>3,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Assessed Value</td>
<td>26,250</td>
<td>130,250</td>
<td>250,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Tax Rate per $100 AV</td>
<td>2.50</td>
<td>2.50</td>
<td>2.50</td>
<td>2.50</td>
</tr>
<tr>
<td>Tax Bill before Credit</td>
<td>656</td>
<td>3,256</td>
<td>6,250</td>
<td>6,250</td>
</tr>
<tr>
<td>Tax Cap Rate</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Tax Cap</td>
<td>900</td>
<td>2,500</td>
<td>5,000</td>
<td>7,500</td>
</tr>
<tr>
<td>Tax Cap Credit</td>
<td>-</td>
<td>756</td>
<td>1,250</td>
<td>-</td>
</tr>
<tr>
<td>Tax Bill after Credit</td>
<td>656</td>
<td>2,500</td>
<td>5,000</td>
<td>6,250</td>
</tr>
</tbody>
</table>

Tax Cap Credits with Alternate Tax Rates

<table>
<thead>
<tr>
<th>Tax Rate:</th>
<th>1.50</th>
<th>2.00</th>
<th>2.50</th>
<th>3.00</th>
<th>3.50</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td>756</td>
<td>1,408</td>
<td>2,059</td>
</tr>
<tr>
<td>-</td>
<td></td>
<td>105</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Assumes no local property tax credits. Assumes no tax rates passed by referendum, which are outside the tax caps. Debt service tax rates in Lake and St. Joseph Counties are outside the tax caps.

Implications of the Tax Caps

- Homesteads receive substantial tax relief from deductions, so they receive less from the tax cap credits
- Higher valued homes at higher tax rates receive more tax cap credits
- Rental apartments receive tax cap credits where tax rates are higher than $2 per $100 assessed value, so rentals receive substantial tax cap credits
- Although farmland is in the 2% tax cap category, most land is located where tax rates are less than $2, so farmland receives little in tax cap credits
- Commercial/industrial business property receives tax cap credits where tax rates are higher than $3 per $100 assessed value
- Local governments in taxing districts with tax rates under $2 will lose little revenue to tax cap credits; tax districts without cities or towns often have rates less than $2
- Local governments in taxing districts with tax rates over $3 will lose the most revenue to tax cap credits; tax districts that include cities or towns often have rates above $3
Percent Change in Property Tax Payments by Property Type
Indiana 2009-10 and 2007-10 (90 Counties)

Percent of Homesteads Eligible for Tax Cap Credits
by Gross Assessed Value and Net Tax Rate, 2010, Indiana (90 counties)

<table>
<thead>
<tr>
<th>Gross Assd. Value</th>
<th>Less than $2.00</th>
<th>$2 to $3.00</th>
<th>$3 or More</th>
<th>Total</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $110,000</td>
<td>0.2%</td>
<td>1.4%</td>
<td>13.4%</td>
<td>2.6%</td>
<td>813,364</td>
</tr>
<tr>
<td>$110,000 to $250,000</td>
<td>0.7%</td>
<td>44.1%</td>
<td>86.4%</td>
<td>18.8%</td>
<td>661,160</td>
</tr>
<tr>
<td>More than $250,000</td>
<td>13.9%</td>
<td>81.4%</td>
<td>94.8%</td>
<td>31.2%</td>
<td>119,643</td>
</tr>
<tr>
<td>Total</td>
<td>1.8%</td>
<td>22.4%</td>
<td>31.2%</td>
<td>11.5%</td>
<td>1,594,167</td>
</tr>
</tbody>
</table>
Credit Percent of Levy

Tax Cap Credits as a Percent of Total Levy, by City/Town Districts and Property Type, 2010, Indiana (90 Counties)

Districts with Cities/Towns
Districts without Cities/Towns
All Districts

Credit Percent of Levy

0% 1% 2% 3% 4% 5% 6% 7% 8% 9%

Business Real/Personal (3%)
Rentals/Farmland (2%)
Homesteads (1%)

Tax Cap Credits as a Percent of Total Levy, by Unit Type and Property Type, 2010, Indiana (90 Counties)

Credit Percent of Levy

0% 2% 4% 6% 8% 10% 12%

Business Real/Personal (3%)
Rentals/Farmland (2%)
Homesteads (1%)

Taxing Units

Counties
Townships
Cities / Towns
School Corporations
Libraries
Special Districts
TIF Districts
All Units
Some Effects of the 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.
  - 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 prevent Constitutional challenges to the tax caps.
  - Article 10, Section 1 of the Constitution says “the General Assembly shall provide, by law, for a uniform and equal rate of property assessment and taxation. . . .” The differential tax caps may not be consistent with uniformity, though the Constitution does allow differential tax breaks for homesteads.

- The amendment may spark a debate about Indiana local government, because of the limits placed on the property tax as a revenue source.
  - How much local government? Indiana residents may have to accept a lower level of services, if local governments have less revenue and efficiency cannot be improved enough. Indiana residents may have to decide what local services to reduce.
  - What kind of local government? Local governments may try to become more efficient, in order to deliver services at lower cost. Some of these efficiencies may involve changes in structure (consolidation of schools or libraries, even elimination of some levels of government such as townships).
  - How will we pay for local government? Local governments may turn to other revenue sources, such as local income taxes and charges/fees. Local governments may ask the legislature for more non-property tax options.
What We Know About the Property Tax Caps

On Election Day, Nov. 2, Indiana voters will decide whether or not to amend our property tax caps into the state's constitution. The tax caps limit property tax bills to fixed percentages of gross assessed value, which is assessed value before deductions. Homesteads have their tax bills limited to 1 percent of gross assessed value. Rental housing, second homes and farmland have a 2 percent limit and all other property has a 3 percent limit. Taxpayers whose bills exceed the caps receive tax cap credits. Tax cap credits are lost revenue for local governments.

The caps are already in law, and we used them to set property tax bills this year. We now know something about how they work, based on data for 90 counties (all but Lake and LaPorte). The Legislative Services Agency has published county reports on the Indiana General Assembly's website, at http://www.in.gov/legislative/publications/County_Report_2010.pdf.

The tax caps are just that—caps, or upper limits, on tax bills. Taxpayers with higher tax bills are more likely to benefit from the caps. Most homeowners are not in this category. The 2008 tax reform cut tax rates and increased homeowner deductions, which has reduced homeowner tax bills by about one-third since 2007. Most homeowners have tax bills under the 1 percent cap. Homesteads have received only about one-quarter of all the tax cap credits and only about 12 percent of homeowners qualified. Many were located in places with high tax rates. Others were owners of expensive homes, which tend to have higher tax bills because the fixed homestead deductions provide them with less tax relief.

Owners of rental housing tend to have higher tax bills. This is because rentals don't receive the big deductions that homesteads do. At 2 percent, rental housing has a tighter cap than other business property. It's no wonder, then, that about half of all tax cap credits statewide have gone to rental housing owners. Taxes on rentals have dropped by about 20 percent since 2007.

By Larry DeBoer
Professor of Agricultural Economics
Purdue University
Farmland also has a 2 percent tax cap, but few farmers have received credits. This is because farmland is located in rural areas where tax rates are usually less than $2 per $100 assessed value. Almost all farmland tax bills are too low to qualify for tax caps. Taxes on agricultural property have increased since 2007 because of rising farmland assessments.

The land, buildings and equipment of commercial and industrial businesses have a 3 percent tax cap. This means that the tax rate must be at least $3 per $100 assessed value for a business to qualify. There are plenty of counties that don't have any tax rates that high, so there are no businesses in those counties that receive credits. In a few counties, all or most tax rates are above $3. Businesses can receive substantial tax relief from the caps in those places. About a quarter of all tax cap credits have gone to businesses. But statewide, business property taxes are higher in 2010 than they were in 2007.

If a tax bill is higher than the cap, the taxpayer receives a credit. The credit represents part of the tax bill that is unpaid. Tax cap credits for taxpayers are revenue losses for local governments.

In total, local governments have lost about 6 percent of their property tax levies to the tax cap credits. Some governments in places where tax rates are high have lost much more. Others, where tax rates are low, have lost little or nothing.

Cities and towns have lost nearly 10 percent of their property tax revenue to the caps. More taxpayers qualify for credits in cities and towns, because they pay all the taxes that people in rural areas pay, plus the city or town rate. School corporations or library districts that share taxpayers with cities or towns lose more revenue than those in rural areas. More than 90 percent of the tax cap revenue losses are in places that include cities or towns.

The effects of the tax caps on taxpayers and governments will be pretty much permanent if voters put the tax caps into the constitution. Now that we've got the results for 2010, we've got some idea about what that would mean.

An archive of Capital Comments columns is available on the Agricultural Communications website, at www.ag.purdue.edu/agcomm/Pages/NewsCCArchive.aspx.