Indiana’s Constitutional Referendum
On Tax Caps, November 2010

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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?

Tax and Budget 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
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.
  
  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 prevent Constitutional challenges to the tax caps.
  
  o 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.
  
  o 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.

  o 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).

  o 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.