A Brief Overview of Property Tax Reform

Presented to:
Commission on Business Personal Property and Business Taxation

September 29, 2014

PolicyAnalytics, LLC
Outline

- Overview of Property Tax Related Legislative Changes
- Drivers of the Circuit Breaker Credit
- Revenue Inter-Dependency of Local Governmental Units
Property Tax Reform Timeline

- Transition to Market Value Assessment
- Property Tax Reform and Introduction of Circuit Breaker Credit
Benefits to Taxpayers

The circuit breaker caps were introduced in response to property tax increases experienced by taxpayers prior to, and including CY 2007.

- Circuit Breaker tax cap limits were intended to provide property tax relief - reducing the property tax bill for taxpayers.
- Circuit breaker caps were intended to make tax bills more consistent and predictable for taxpayers.
- The circuit breaker provisions received widespread popular support, and were amended into the Indiana Constitution.

Did the legislation achieve these goals?

...and what were the results to local units?
Impact to Homestead Taxpayers

Elkhart County Example

- One-time State Hmstd Credit
  Provided Relief in 2008

- GAV = $150K in 2006; $180K in 2007

- Increase in AV due to trending in 2007

- Incorporated Taxpayer reaches cap in 2010

- Unincorporated Elkhart County

- Supplemental Standard deduction provides relief

- Taxpayer within City of Elkhart

- Taxpayer within Unincorporated Elkhart County
Impact to Rental and Commercial Taxpayers

*Illustrative Impact in Elkhart County*

- **Commercial Taxpayer 3% Cap**
- **Non-Homestead Residential (2% Cap)**

Both parcels see tax relief with the implementation of Circuit Breaker in 2010.

Rate caps lead to difference in liabilities.

Increase in AV due to trending in 2007.

GAV = $150K in 2006; $180K in 2007.

Taxpayers

September 29, 2014
# Illustration of Effective Rate Cap Thresholds

<table>
<thead>
<tr>
<th></th>
<th>Commercial</th>
<th>Rental</th>
<th>Homestead</th>
<th>Homestead</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Tax Rate @</td>
<td>$3.0000</td>
<td>$2.0000</td>
<td>$1.0000</td>
<td>$2.5510</td>
</tr>
<tr>
<td>Assessed Value</td>
<td>125,000</td>
<td>125,000</td>
<td>125,000</td>
<td>125,000</td>
</tr>
<tr>
<td>Circuit Breaker Limit</td>
<td>3,750</td>
<td>2,500</td>
<td>1,250</td>
<td>1,250</td>
</tr>
<tr>
<td>Standard Deduction</td>
<td>-</td>
<td>-</td>
<td>(45,000)</td>
<td>(45,000)</td>
</tr>
<tr>
<td>Supplemental Deduction</td>
<td>-</td>
<td>-</td>
<td>(28,000)</td>
<td>(28,000)</td>
</tr>
<tr>
<td>Mortgage Deduction</td>
<td>-</td>
<td>-</td>
<td>(3,000)</td>
<td>(3,000)</td>
</tr>
<tr>
<td>Net Assessed Value</td>
<td>125,000</td>
<td>125,000</td>
<td>49,000</td>
<td>49,000</td>
</tr>
<tr>
<td>District Tax Rate</td>
<td>$3.0000</td>
<td>$2.0000</td>
<td>$1.0000</td>
<td>$2.5510</td>
</tr>
<tr>
<td>Homestead Tax Liability</td>
<td>3,750</td>
<td>2,500</td>
<td>490</td>
<td>1,250</td>
</tr>
</tbody>
</table>
Distribution of Circuit Breaker Credits (2014 Tax Year)

Indiana Total
- 3% Cap: 28%
- 1% Cap: 25%
- 2% Cap: 47%

Allen
- 3% Cap: 15%
- 2% Cap: 47%
- 1% Cap: 38%

Boone
- 2% Cap: 12%
- 1% Cap: 88%

Scott
- 3% Cap: 14%
- 2% Cap: 81%
- 1% Cap: 5%

Grant
- 3% Cap: 78%
- 2% Cap: 21%
- 1% Cap: 1%
Influences on the Circuit Breaker

- Geography and level of services delivered
- Growth (or decline) in the property tax base
- Levying decisions, including overlapping taxing units
Percentage of Certified Levy Lost to Circuit Breaker (2013)

Circuit breaker losses are concentrated in incorporated areas.
District Tax Rates for Tipton County

- **Commercial Cap**: $3.00
- **HS Cap > $125K**: $2.50
- **Rental Cap**: $2.00

### Municipality Tax Rates
- Elwood City
- Tipton City
- Kempton Town
- Sharpsville Town
- Windfall Town
- Prairie Township
- Liberty Township
- Wildcat Township
- Madison Township
- Cicero Township
- Jefferson Township

- **County**: dark blue
- **Township**: light blue
- **School**: medium blue
- **Library/Other**: light gray
- **Municipality**: orange
Assessed Value Trends
Indexed to 2007

- **Agricultural Real**
- **Business Personal Property**
- **Non-Agricultural Real**

Statewide elimination of the inventory tax in 2007

3.9% annual change since 2007

2.4% annual change

0.4% annual change

Introduction of Trending (6 years of market value change)
Average Annual Change in Real Gross AV
Between the 2009-10 and 2013-14 Tax Years

Legend
Change in Real Gross AV
Avg. Annual Change
<-2.5%
-2.49% - -1.5%
-1.49% - -0.5%
-0.49% - 0.5%
0.51% - 1.5%
1.51% - 2.5%
> 2.5%
Average Annual Real GAV Growth

Since the Full Implementation of the Circuit Breaker

Real AV has decreased for Counties with 65% of Indiana Population

Real AV has increased for 35% of Indiana Population
Gross Assessed Value vs. Net Assessed Value

- $430B
- 0.1% Average Annual Change 2009 to 2014
- $457B

- $304B
- 14.4% Decrease due to Supplemental Standard Deduction in 2009
- $272B

0.1% Average Annual Change 2009 to 2014
### Illustration of Unit Interactions: Case A

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>County</td>
<td>0.5000</td>
</tr>
<tr>
<td>Township</td>
<td>0.1000</td>
</tr>
<tr>
<td>Municipality</td>
<td>1.5000</td>
</tr>
<tr>
<td>School</td>
<td>1.0000</td>
</tr>
<tr>
<td>Library</td>
<td>0.2500</td>
</tr>
<tr>
<td><strong>District Rate</strong></td>
<td><strong>3.3500</strong></td>
</tr>
</tbody>
</table>

**Example: Coffee Shop with an Assessed Value of $100K**

*Tax rate exceeds 3%. Parcel hits the circuit breaker cap and pays a max of $3K*

**Distribution of Tax Payment**

- County: $448
- Township: $90
- School: $896
- Library: $224
- City: $1,343

**Total: $3,000**
### Illustration of Unit Interactions: Case B

**Example: Coffee Shop with an Assessed Value of $100K**

**Distribution of Tax Payment**

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Rate</th>
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<tbody>
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<td>0.1000</td>
</tr>
<tr>
<td>Municipality</td>
<td>1.5000</td>
</tr>
<tr>
<td>School</td>
<td>1.3000</td>
</tr>
<tr>
<td>Library</td>
<td>0.2500</td>
</tr>
</tbody>
</table>

**District Rate** 3.6500

*Tax rate exceeds 3%. Parcel hits the circuit breaker cap and pays a max of $3K*
Illustration of Unit Interactions: Net Impacts

Example: Coffee Shop with an Assessed Value of $100K

- County: ($37)
- Township: ($7)
- City: ($110)
- School: $173
- Library: ($18)
Marginal Impact of a $1 Change in Levy

*Fort Wayne Illustration*

**Assumptions:**
1. No change in NAV
2. FW increases levy by $1
3. All other units maintain constant levy

**Currently, Fort Wayne realizes $0.60 of each additional dollar levied**

**This means that $0.40 comes from other taxing units**

**Only $0.20 of new revenue is introduced into the property tax system**
Comparison of Certified Levy to Net Levy

Counties where C.B. Loss Exceeds 10% of Certified Levy*

- Certified Levy increased by 2.7% annually as Units tried to increase share of available revenues.
- Actual revenue available to units decreased by 0.1% annually due to property tax caps.
- Over time, certified levies will become more disconnected with actual property tax revenues.
- Between 2013 and 2014, certified levies increased 25% faster than net levies.

*Excluding Marion and Lake County.
Conclusion

To a large degree, the 2008 property tax reform achieved its intended effects on taxpayers:

- Provided significant property tax relief to taxpayers in districts with relatively high property tax rates - especially for homeowners.
- Provided stability and predictability for taxpayers, in terms of property tax liability in relation to assessed value.

The circuit breaker caps impose significant revenue reductions in urban areas

- Large regions of Indiana are not significantly affected by the circuit breaker caps.
- The addition of the municipal levies push tax rates above the circuit breaker threshold in many areas.
Conclusion

In the circuit breaker era, tax base growth is essential to increasing property tax revenue

- Circuit breaker losses in urban areas were exacerbated by declining property values during the national recession - to an extent not foreseeable at the time of adoption.

- With the imposition of rate caps, accurate assessments are of greater importance - and have revenue implications for local units.

The circuit breaker credit alters the fiscal planning process for affected local units:

- The policy decisions of individual units have substantial revenue implications for overlapping units.

- Actual circuit breaker losses are not known until very late in the budgeting process.

- Moving forward, there will be greater discrepancies between levies that are advertised, and certified, versus revenues received by taxing units.