

The New Age in Indiana Property Tax Assessment

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Property assessment is the process of placing a value on property. Pretty simple process, right?

Two types of property are taxed in Indiana: real and personal. Real property consists of land, buildings, and other major permanent structures. Personal property is almost exclusively that of businesses and includes equipment for farming, manufacturing, and product inventories.

The assessment of personal property is conducted every year, while real property assessment is performed less frequently (before 2002, the last real property assessment was conducted in 1995). Normally, assessments are conducted by elected township assessors and by an elected county assessor (except in Lake County, where the 2002 assessment for most properties was conducted by a private company).

The full value determined for a property is called the gross assessed value (GAV). But in most cases this is not the value taxed, since most properties qualify for exemptions or

deductions that will reduce taxable value. The most common deduction is the homestead deduction for owner-occupied residences. Other common exemptions and deductions include those for disabled veterans, government property, and depressed economic areas. The assessed value after all exemptions and deductions are subtracted is called the net assessed value (NAV).

Units and Districts

Taxing units—entities such as townships, municipalities, school districts, sanitary districts, libraries, and the like—have the authority to receive taxes on real estate within the area they serve. The boundaries of these taxing units overlap and, in overlapping, they form **taxing districts**. In other words, a taxing district is a geographical area in which all of the properties are taxed by the same set of taxing units. Depending on where the parcel is located (geography is very important), a home or business will pay taxes toward a school district, library district, city or town, and township.

The property tax bill for a given parcel lists each taxing unit to which its property taxes are allocated. In addition, a portion of the property taxes goes to the individual county (for parks and recreation, welfare, and other county funds) and a portion goes to the State of Indiana.

Determining the Levy

Each taxing unit creates a budget and a revenue estimate for the coming year. This and other financial information is submitted to the Indiana Department of Local Government Finance (DLGF) for certification (and is called a certified budget). The DLGF calculates the levy for districts by subtracting other non-tax revenues (such as vehicle excise taxes, license fees, and user fees or fines) from the budgeted amount needed. In all but three counties, the levy is also lowered by local income taxes. **Table 1** shows the relative contributions of different sources of revenue to the funding of various types of local government. “Intergovernmental” refers to funds received from federal, state, or other local governments; “charges” include fees received for school lunches, public hospitals, parking facilities, and so on; and “miscellaneous” includes interest earned, receipts from sale of government property, and various other sources. Budget amounts not reduced by other revenues are paid for by property tax levies. **Figure 1** shows these levies as a percent of total net assessed value at the county level.

Table 1
Breakdown of Revenue for Lake County, Indiana, and the Nation, 2002

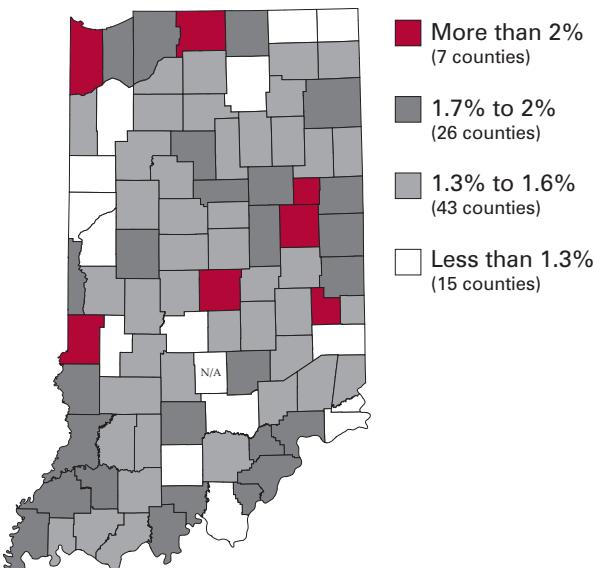
Types of Revenue	Lake County		Indiana		United States	
	Revenue (000)	% of Total	Revenue (000)	% of Total	Revenue (000)	% of Total
Charges	\$218,184	11.6	\$3,475,169	16.2	\$153,381,745	14.1
Tax Revenue	\$671,764	35.8	\$6,786,047	31.6	\$369,730,209	34.0
Intergovernmental Revenue	\$664,535	35.4	\$7,629,892	35.6	\$398,496,939	36.7
Utility Revenue	\$63,221	3.4	\$1,719,987	8.0	\$90,386,981	8.3
Miscellaneous Revenue	\$260,696	13.9	\$1,836,075	8.6	\$74,247,072	6.8
Total (sum of above)	\$1,878,400	100	\$21,447,170	100	\$1,086,242,946	100
Property Tax	\$637,736	34.0	\$5,969,912	27.8	\$269,419,295	24.9
Property Tax as a Percent of Total Tax Revenue	94.9		88.0		72.9	

Source: U.S. Census Bureau; calculations by the Indiana Business Research Center

Calculating Property Tax Rates

After the levy is calculated, the DLGF sets the rate for each taxing district to be used in the tax bills. The basic rate equation is:

Figure 1
Levy as a Percent of Net Assessed Value for Taxes Payable 2003



Source: State Auditor's Comprehensive Annual Financial Report; data not available for Brown County

$$\text{TAX RATE} = \frac{\text{AGGREGATE TAX LEVY}}{\text{AGGREGATE NET ASSESSED VALUE}}$$

A share of each unit levy is assigned to each district in the unit. The district levy is then divided by the net assessed value of all property in the district. **Table 2** provides an example of tax rate calculations for three hypothetical districts.

DLGF also calculates the property tax replacement credit (PRTC) and the homestead credit. These credits, funded by the state, reduce taxes owed after the initial tax is calculated. The credits are only applied against certain types of levies though, so the amount of relief depends on how the units spend the money. Since the levy mix varies by district, the rates must be calculated for each district.

Finally, the Tax Bill

After receiving certified rates from the state, the bills can be calculated for each property. Bills are sent out by the county treasurer twice a year and are normally due May 11 and November 11 (or the next business day). The amount of the bill is figured using the following formula:

$$\text{TAX BILL} = (\text{TAX RATE} \times \text{NET ASSESSED VALUE}) - \text{CREDITS}$$

Table 2
Example of How Property Rates Are Calculated

Units	Total Unit Levy	District 1	District 2	District 3
County	\$1,000,000	\$500,000	\$250,000	\$250,000
Library	\$300,000	\$200,000	\$100,000	
Town	\$75,000	\$75,000		
School 1	\$1,500,000		\$750,000	\$750,000
School 2	\$3,000,000	\$3,000,000		
Sum of Levies	\$5,875,000	\$3,775,000	\$1,100,000	\$1,000,000
NAV	\$200,000,000	\$100,000,000	\$50,000,000	\$50,000,000
Rate		3.7750	2.2000	2.0000

The amount of property tax paid is calculated by multiplying the tax rate by the net assessed value of the property. An example from the Lake County study: If you live in the taxing district served by the City of

Gary, Calumet Township and the Gary Community Schools, your tax rate is 9.8412 percent, the highest in Lake County. If you live in a house with a NAV of \$100,000 (that is, GAV minus deductions, such as the homestead deduction), your gross property tax would be \$9,841. You would then subtract the property tax replacement credit ($\$9,841 \times 0.234399$) and the homestead credit (which is determined after subtracting the PRTC: $\$7,534 \times 0.161506$) for an annual bill of \$6,318.

Understanding Reassessment

Reassessment is a revenue-neutral process. Tax levies were not raised by reassessment and local governments did not get any increase in revenue directly from the reassessment process. The reason this particular reassessment caused difficulties and confusion was due to the major shifts in the tax burden among different properties. When setting property values, almost any change in one property or group of properties affects all other properties in the same unit. In other words, it is your basic zero sum game: if one person pays less, someone else must pay more. To see

why this is, look at the basic tax rate equation:

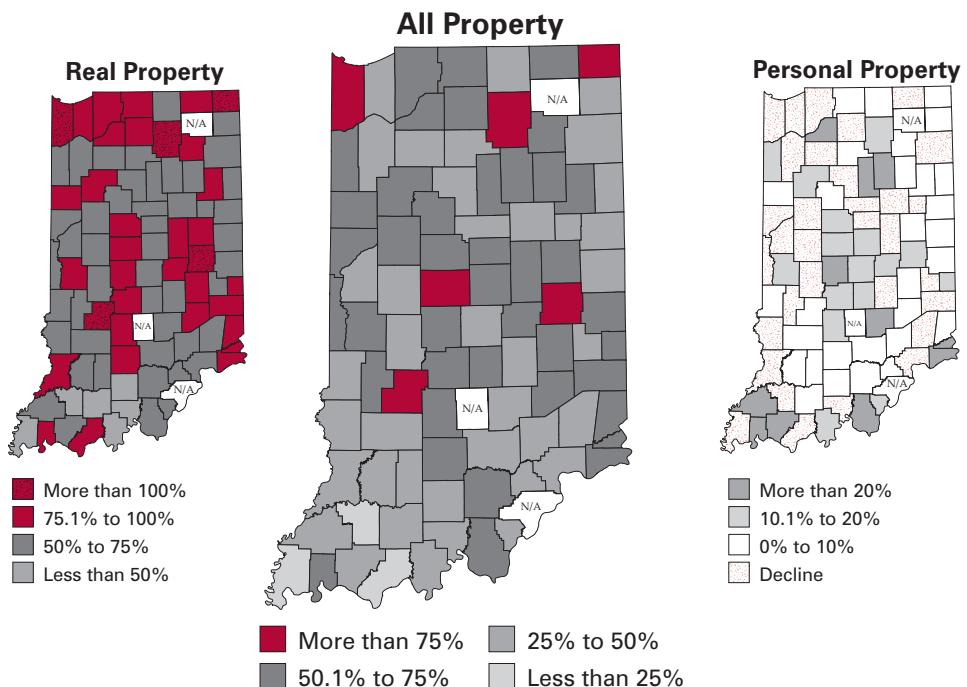
$$\text{TAX RATE} = \text{LEVY} / \text{NET ASSESSED VALUE}$$

The tax levy is not affected by changes in the NAV, so the tax rate must go up or down. Here is an example with a fictional two-property district whose levy is \$150. If a barn and a combine are valued at \$500, the barn owner and the combine owner would owe \$75. However, if the assessed value of the barn is raised to \$1,000, the tax rate decreases. Sound good? Well, the barn owner wouldn't think so since his or her tax bill goes up to \$100 while the combine owner now pays only \$50.

Personal to Real and Back Again

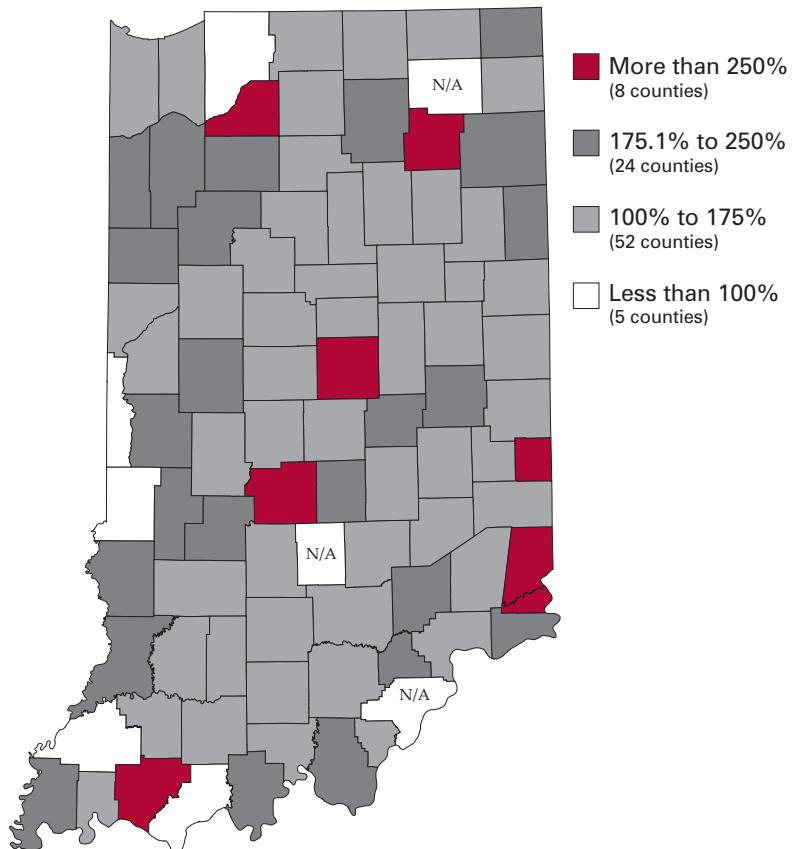
The most important shift with the 2002 reassessment was the change from "true tax value" to market-based assessment. In the past, real property was assessed based on the value of land and reproduction cost minus depreciation. Depreciation was factored in regardless of the condition of the property. As a result, property values were almost always significantly lower than market value. Older properties were particularly under-assessed because they had so many years of depreciation. The result was a continual shift of the tax burden to business, personal property (mostly businesses), and newer homes. In a series of decisions from 1996 to 1998, the Indiana Supreme Court mandated that the state use a more equitable system for a 2002 reassessment. As a

Figure 2
Change in Net Assessed Value, Payable 2002 to Payable 2003



Source: Department of Local Government Finance; data not available for Brown, Clark, and Noble counties

Figure 3
Change in Exemptions for Taxes Payable 2002 and 2003



Source: Department of Local Government Finance; data not available for Brown, Clark, and Noble counties

result, a “fair market value” system was adopted. The assessed values of property were also artificially low because the last reassessment had taken place in 1995. Although this was not a long period of time compared to the gap between other assessments (the previous assessment took place in 1989), it was sufficient time for a gap to develop between the values of real and personal property. This increased the shift in tax burden toward personal property every year, and made the inevitable readjustment more painful (see **Figure 2**).

Knowing that the tax burden would mainly shift to homeowners, the Indiana General Assembly enacted significant property tax relief in 2002 to help ease the increased burden. This relief included an increase of the homestead deduction to \$35,000. This was meant to reduce homeowner NAV and thus shift some of the tax burden back to business (see **Figure 3**). The legislature also increased the state property tax replacement credit for real property and the homestead credit for those who qualified for the homestead deduction.

The 2005 General Assembly ended with a series of enrolled acts that will have an impact on property taxing, among them the budget bill itself, which:

- ▶ Provides for the repayment to the state of certain income tax credits granted to Lake County taxpayers.
- ▶ Expands local options to provide additional homestead credits to property taxpayers.
- ▶ Limits the application of special valuation rules for certain steel companies.
- ▶ Establishes minimum and maximum limits on the amount of state property replacement credits that may be granted.
- ▶ Includes the 2 percent cap on gross assessed valuation of owner-occupied residential property. ■