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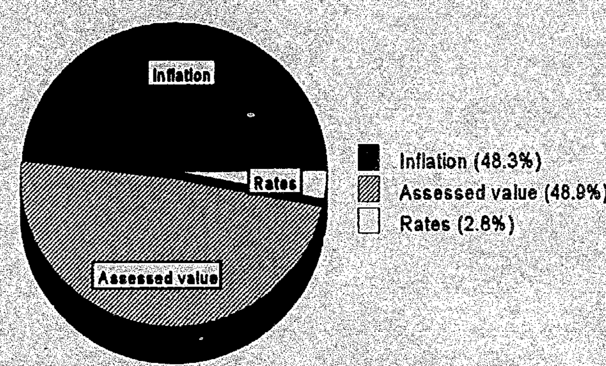
Indiana Business Review Update

A Monthly Overview of Economic Trends

Indiana University School of Business, Indiana Business Research Center

Figure 1. Factors that increased Indiana property taxes, 1988-1994



Property Taxes in Indiana

The election season has given us plenty of talk about property taxes. There is no contesting the fact that property tax levies in Indiana rose by 51 percent from 1988 to 1994.[1] Some analysts and politicians would make this sound as though governments have been gobbling up resources. Let's decompose that increase into its component parts.

The levy (the amount of taxes due prior to any credits or exemptions) rises when the assessed value of property rises or the tax rate increases. Assessed values rise for four reasons:

1) inflation -- the general increase in prices in the economy,
2) investments made by property owners,
3) increased demand for real property, and
4) changes and variations in assessment practices.

The general level of prices[2] rose from 1988 to 1994 by 24.6%. Hence the $2.9 billion property tax levy of 1988 would have risen to $3.6 billion by inflation alone. The total levy increased $1.5 billion; of this amount $708 million (48.3%) can be attributed to inflation.

The data available do not permit us to distinguish that part of increased assessed value arising from added investment in Indiana and that portion due to increased demand for real property in the state. Nor can we determine how changes and variations in assessment practices influence assessed values. We do know, nonetheless, that the assessed value of property in the state rose by 49.6% between 1988 and 1994. But after adjustment for inflation, this increase was only 20%.

To determine how much of the increased levy was due to an increase in the real value of property, we ask, "What if the 1994 assessed value of property had been taxed at 1988 rates?" Then the 1994 levy (payable in 1995) would have been $4.3 billion compared with an inflation-adjusted 1988 levy of $3.6 billion. This difference of $717 million equaled 48.9% of the difference in the nominal growth of the levy.

Our story thus far: inflation accounted for 48.3% of the increased property taxes between 1988 and 1994. Another 48.9% was due to increases in investment, in demand, and in changes in assessment practices. That's 97.2% of the increased levy. What's left (see figure 1)?

Property tax rate increases from 1988 to 1994 added only $41 million dollars to the tax bill for Hoosiers. To state the matter in different terms: of every added dollar due from Hoosiers for property taxes, less than three cents can be attritubed to higher tax rates.

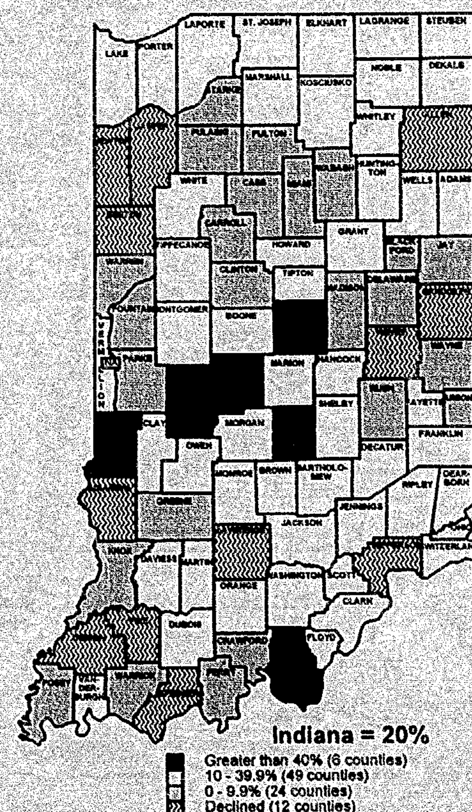
County differences...

From 1988 to 1994, twelve Indiana counties had a decline in the real value of assessed property (see figure 2). These included areas as diverse as Allen, Lawrence, Gibson, and Sullivan Counties. Another 24 counties failed to realize an increase of 10% in that six year period. At the same time, six counties (Hamilton, Hendricks, Putnam, Johnson, Vigo, and Harrison) enjoyed real growth in the assessed value of property of more than 40% (compared with the statewide figure of 20%).

The 36 counties that performed so poorly might be of more importance for economic development than the expressed concern over property tax rates. When the election is over, half the candidates may become serious office holders, or so we can hope.

-mjm

Figure 2. Changes in real assessed value of property, 1988-1994



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[1] Our data are from EDIN table TAXR based on the reports of the State Board of Tax Commissioners.

[2] Our measure of price increases is the national personal consumption deflator. Other indices could be used with similar results.