

# **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](http://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.

~~(b)~~ (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.

(5) A taxpayer's property tax liability on personal property (other than personal property that is tangible property described in subsection (c)(4) or personal property that is other residential property) within a particular taxing district may not exceed three percent (3%) of the gross assessed value of the taxpayer's personal property that is the basis for the determination of property taxes within the taxing district.

(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

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

### Tax Cap Credits with Alternate Tax Rates

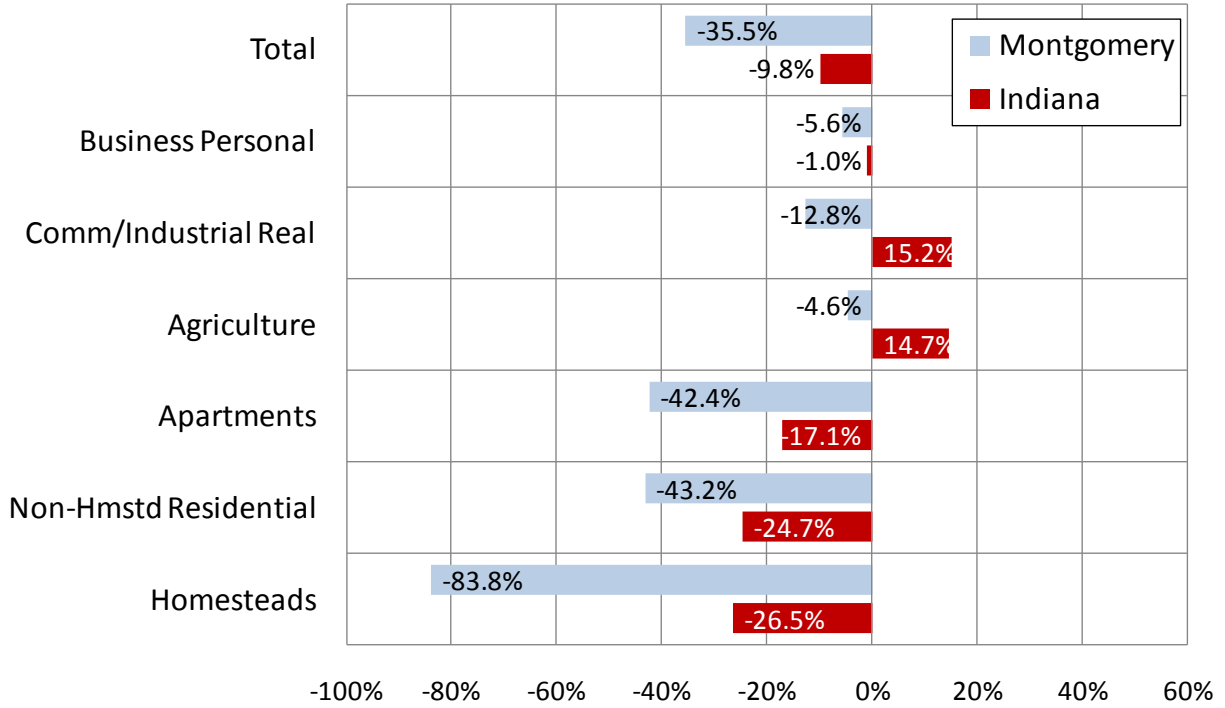
Tax Rate:				
1.50	-	-	-	-
2.00	-	105	-	-
<b>2.50</b>	-	<b>756</b>	<b>1,250</b>	-
3.00	-	1,408	2,500	-
3.50	19	2,059	3,750	1,250

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  
Montgomery County and Indiana (90 Counties) 2007-2010**



**Comparable Homestead Property Tax Changes in Montgomery County**

The average homeowner saw an 85.0% tax bill increase from 2009 to 2010.

Homestead taxes in 2010 were still 85.2% lower than they were in 2007, before the property tax reforms.

	2009 to 2010		2007 to 2010	
	Number of Homesteads	% Share of Total	Number of Homesteads	% Share of Total
<b>Summary Change in Tax Bill</b>				
Higher Tax Bill	8,057	86.0%	45	0.5%
No Change	701	7.5%	32	0.3%
Lower Tax Bill	606	6.5%	9,287	99.2%
<b>Average Change in Tax Bill</b>	<b>85.0%</b>		<b>-85.2%</b>	
<b>Detailed Change in Tax Bill</b>				
20% or More	7,024	75.0%	36	0.4%
10% to 19%	268	2.9%	5	0.1%
1% to 9%	765	8.2%	4	0.0%
0%	701	7.5%	32	0.3%
-1% to -9%	241	2.6%	8	0.1%
-10% to -19%	199	2.1%	17	0.2%
-20% to -29%	36	0.4%	26	0.3%
-30% to -39%	21	0.2%	20	0.2%
-40% to -49%	15	0.2%	60	0.6%
-50% to -59%	13	0.1%	118	1.3%
-60% to -69%	15	0.2%	342	3.7%
-70% to -79%	10	0.1%	1,008	10.8%
-80% to -89%	17	0.2%	4,433	47.3%
-90% to -99%	5	0.1%	2,868	30.6%
-100%	34	0.4%	387	4.1%
<b>Total</b>	<b>9,364</b>	<b>100.0%</b>	<b>9,364</b>	<b>100.0%</b>

99.2% of homeowners saw lower tax bills in 2010 than in 2007.

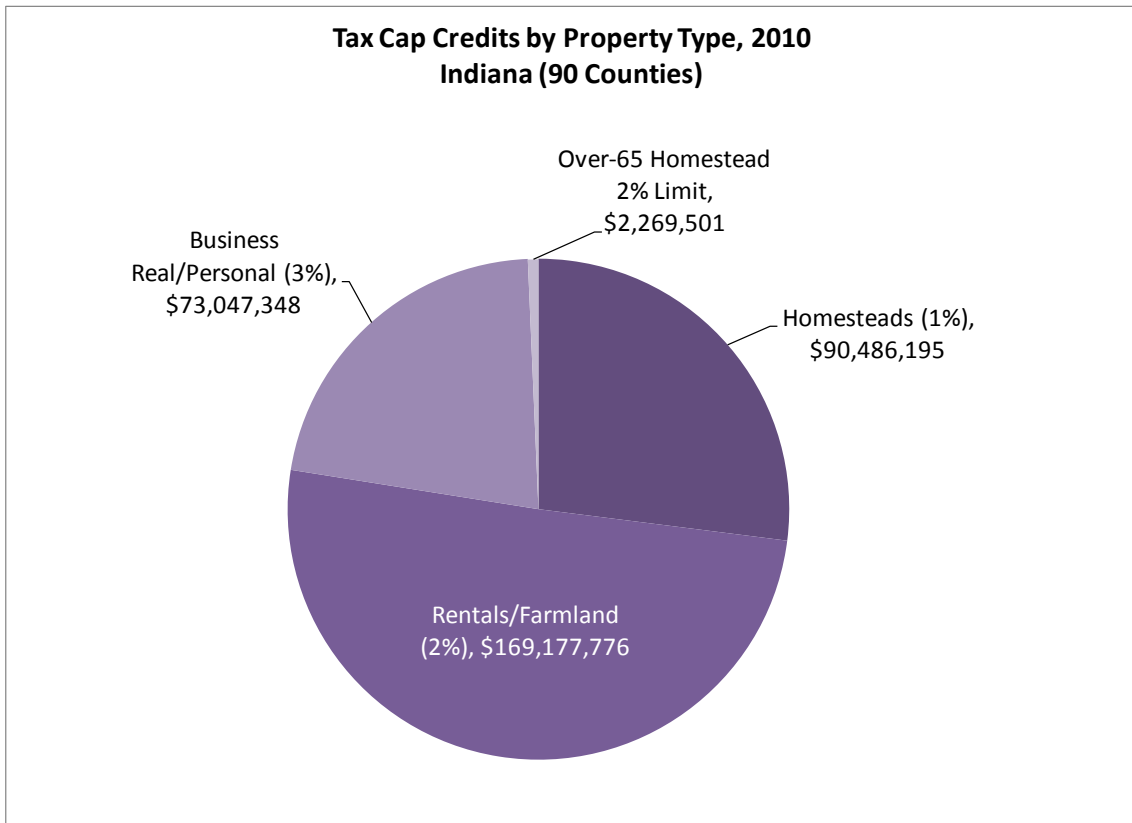
75% of homeowners saw tax increases of 20% or more from 2009 to 2010.

The largest percentage of homeowners have seen between a 80% and 99% decrease in their tax bills from 2007 to 2010.

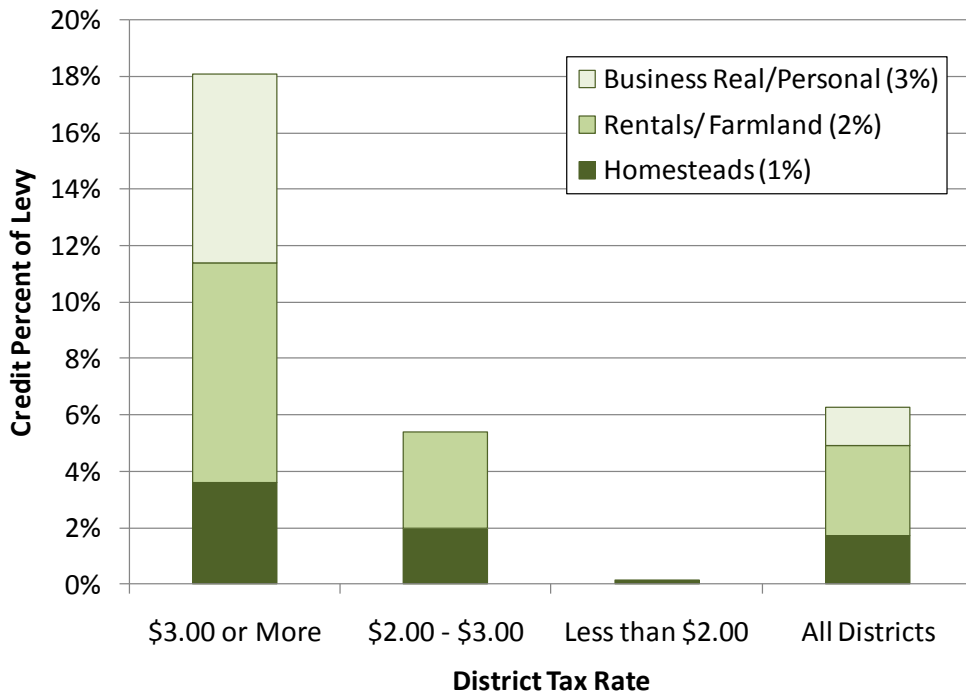
Note: Percentages may not total due to rounding.

**Percent of Homesteads Eligible for Tax Cap Credits  
by Gross Assessed Value and Net Tax Rate, 2010, Indiana (89 counties)**

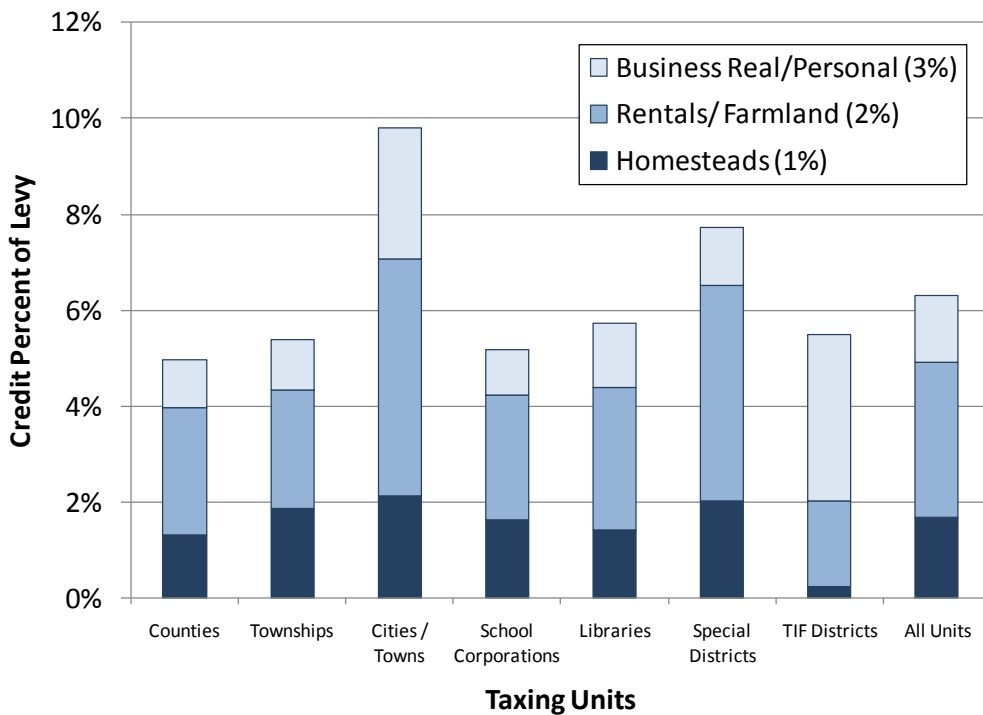
Gross Assd. Value	Net Tax Rate Range			Total	Number
	Less than \$2.00	\$2 to \$3.00	\$3 or More		
Less than \$110,000	0.2%	3.4%	18.9%	4.2%	808,801
\$110,000 to \$250,000	0.7%	41.4%	67.8%	17.0%	659,399
More than \$250,000	13.9%	81.4%	94.8%	31.2%	119,573
Total	1.8%	22.4%	31.2%	11.5%	1,587,773
Number	907,750	517,192	162,831	1,587,773	



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



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



## Montgomery County Taxing Districts, Tax Rates and Tax Cap Credits, 2010

Taxing District	Tax Rate	Other				Total
		Homesteads (1%)	Residential/ Farmland (2%)	Other Real and Personal (3%)	65 and Over 2% Limit	
BROWN TOWNSHIP	1.5776	-	-	-	467	467
BROWN TOWNSHIP-LR CONSERVANCY	1.5776	-	-	-	473	473
NEW MARKET TOWN-BROWN TOWNSHIP	2.0101	-	-	-	362	362
WAVELAND TOWN	1.9115	-	-	-	-	-
WAVELAND TOWN-LR CONSERVANCY	1.9115	-	-	-	219	219
CLARK TOWNSHIP	1.5029	-	-	-	725	725
LADOGA TOWN	2.2420	-	14,077	-	1,438	15,515
COAL CREEK TOWNSHIP	1.4315	-	-	-	451	451
WINGATE TOWN	2.2444	-	2,901	-	164	3,065
NEW RICHMOND TOWN	2.4107	-	4,847	-	103	4,950
FRANKLIN TOWNSHIP	1.4153	-	-	-	804	804
DARLINGTON TOWN	2.0106	-	-	-	685	685
MADISON TOWNSHIP	1.5448	-	-	-	192	192
LINDEN TOWN	1.8253	-	-	-	466	466
RIPLEY TOWNSHIP	1.5564	-	-	-	909	909
ALAMO TOWN	2.0432	-	-	-	-	-
SCOTT TOWNSHIP	1.4501	-	-	-	555	555
NEW MARKET TOWN-SCOTT TOWNSHIP	1.9057	-	-	-	98	98
SUGAR CREEK TOWNSHIP	1.3402	-	-	-	189	189
UNION TOWNSHIP-N. MONTGOMERY S	1.4813	-	-	-	6,912	6,912
UNION TOWNSHIP-S. MONTGOMERY S	1.5719	-	-	-	6,300	6,300
UNION TOWNSHIP-CRAWFORDSVILLE	2.4150	-	19,865	-	4,281	24,146
CRAWFORDSVILLE CITY-N. MONTGOM	2.6978	-	63,780	-	7,514	71,294
CRAWFORDSVILLE CITY-S. MONTGOM	2.7884	-	8,324	-	-	8,324
CRAWFORDSVILLE CITY-CRAWFORDSV	3.6315	-	1,467,218	875,902	48,810	2,391,931
NEW MARKET-UNION TOWNSHIP	2.0430	-	-	-	715	715
WALNUT TOWNSHIP	1.4459	-	-	-	518	518
NEW ROSS TOWN	2.0221	-	-	-	405	405
WAYNE TOWNSHIP	1.3500	-	-	-	1,211	1,211
WAYNETOWN TOWN	1.9296	-	-	-	1,432	1,432

### Montgomery County 2010 Circuit Breaker Cap Credits

Taxing Unit Name	Circuit Breaker Credits by Property Type				Total	Levy	Circuit Breaker as % of Levy
	(1%) Homesteads	(2%) Other Residential and Farmland	(3%) All Other Real/Personal	(3%) Elderly			
<i>Non-TIF Total</i>	0	1,581,013	875,902	86,399	2,543,314	39,461,256	6.4%
<i>TIF Total</i>	0	55,754	109,772	4,716	170,242	1,073,535	15.9%
<i>County Total</i>	0	1,636,767	985,674	91,115	2,713,556	40,534,791	6.7%
Montgomery County	0	173,106	93,102	13,168	279,375	7,206,837	3.9%
Brown Township	0	0	0	65	65	63,079	0.1%
Clark Township	0	197	0	47	244	33,680	0.7%
Coal Creek Township	0	104	0	48	152	104,378	0.1%
Franklin Township	0	0	0	33	33	32,031	0.1%
Madison Township	0	0	0	49	49	145,366	0.0%
Ripley Township	0	0	0	102	102	72,779	0.1%
Scott Township	0	0	0	27	27	33,829	0.1%
Sugar Creek Township	0	0	0	7	7	19,300	0.0%
Union Township	0	9,183	4,848	1,002	15,032	510,929	2.9%
Walnut Township	0	0	0	27	27	35,920	0.1%
Wayne Township	0	0	0	96	96	36,774	0.3%
Crawfordsville Civil City	0	542,794	304,003	20,451	867,249	7,304,911	11.9%
Alamo Civil Town	0	0	0	0	0	5,058	0.0%
Darlington Civil Town	0	0	0	212	212	73,491	0.3%
Ladoga Civil Town	0	4,791	0	489	5,281	155,061	3.4%
Linden Civil Town	0	0	0	72	72	41,732	0.2%
New Market Civil Town	0	0	0	299	299	50,961	0.6%
Waveland Civil Town	0	0	0	48	48	30,064	0.2%
Waynetown Civil Town	0	0	0	430	430	75,553	0.6%
Wingate Civil Town	0	1,191	0	67	1,258	47,018	2.7%
New Richmond Civil Town	0	2,187	0	47	2,234	63,939	3.5%
New Ross Civil Town	0	0	0	124	124	30,335	0.4%
North Montgomery Community School Corp	0	24,396	0	9,915	34,311	6,119,137	0.6%
South Montgomery Community School Corp	0	9,227	0	7,917	17,144	7,751,485	0.2%
Crawfordsville Community School Corp	0	758,171	443,583	27,979	1,229,733	7,594,478	16.2%
Crawfordsville Public Library	0	55,255	30,367	3,402	89,023	1,509,921	5.9%
Darlington Public Library	0	0	0	70	70	58,459	0.1%
Ladoga Public Library	0	411	0	74	485	45,584	1.1%
Linden Public Library	0	0	0	48	48	141,964	0.0%
Waveland Public Library	0	0	0	85	85	67,203	0.1%
West Central Indiana Solid Waste Mgt Dist	0	0	0	0	0	0	
Crawfordsville Redevelopment Comm	0	0	0	0	0	0	
TIF - Cville OS North	0	102	0	0	102	223,984	0.0%
TIF - Crawfordsville	0	55,653	109,772	4,716	170,140	849,551	20.0%

Notes: Circuit breaker tax cap credits are tax savings for taxpayers and revenue losses for local government units. Circuit breaker credits are highest in tax districts with the highest tax rates. These are usually districts that include cities or towns because the municipal tax rate is included in the district tax rate. This means that most circuit breaker credits are in cities and towns and in units that overlap cities and towns.

**Circuit Breaker Credit Types:**

*Homesteads* are owner-occupied primary residences and include homestead land and buildings in the 1% tax cap category. Owner-occupied mobile homes and agricultural homesteads are included in this category. This category only includes credits on the portion of the property that qualifies as a homestead.

*Other Residential/Farmland* includes small rental housing units, larger commercial apartments, second homes, long-term care facilities, and farmland, in the 2% tax cap category.

*All Other Real/Personal* is commercial, industrial, and utility land and buildings, and business equipment, including agricultural equipment, in the 3% tax cap category. This category also includes credits on the portion of homeowner properties that do not qualify as a homestead.

*Elderly* includes credits for the 2% annual limit on homestead tax bill increases for low-income homeowners, age 65 and over.

The *Total Levy by Unit* is gross property taxes levied, before all tax credits.

Numbers may not total due to rounding.

Source: Legislative Services Agency, "2010 Property Tax Report, Montgomery County," July 2010  
[\[www.in.gov/legislative/publications/County\\_Report\\_2010.pdf\]](http://www.in.gov/legislative/publications/County_Report_2010.pdf)

## 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 will make permanent the reduction in property tax revenues received by local governments.
  - Local governments will try to become more efficient, in order to deliver services at lower cost. Some of these efficiencies may involve changes in procedures (joint purchasing, for example), others may involve changes in structure (consolidation, even elimination of some levels of government such as townships).
  - Indiana residents may have to accept a lower level of services, if local governments have less revenue and efficiency cannot be improved enough.
  - 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.
- The amendment will place “code” language in the Constitution, rather than general principles or procedures.
  - A definitions section (e).
  - An expiration date (h).
- The amendment will eliminate the Distressed Units Appeals Board (at least in its present form).
  - There is no provision for appealing the tax caps in the amendment.