Indiana

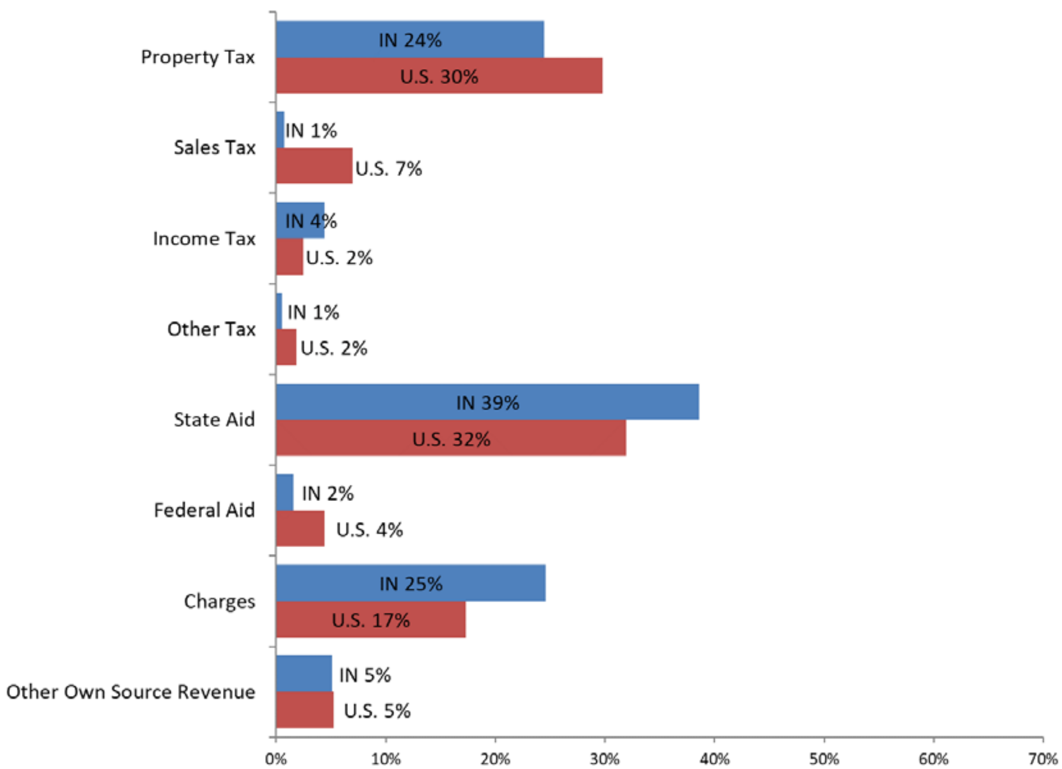
Highlights

Although Indiana relies less heavily on the property tax than do most other states, the property tax is still the largest component of own source tax revenue for local governments (figure IN-1). Every county also makes use of an income tax, the proceeds of which are split selectively among various local government units according to statutory requirements.

Prior to a tax swap implemented in 2009, public schools relied much more heavily on the property tax. That swap eliminated property tax support for operating revenues and replaced it with a higher state sales tax whose revenues pass through the state general fund. Local property taxes for schools can still be raised to support capital facilities or through a special voter referendum.

The state makes significant use of multiple property tax limitations that restrict the size of the property tax levy and the property tax burden for individual parcels of real property.

Figure IN-1
Sources of Local General Revenue, Indiana and U.S., 2014



Source: U.S. Census via Significant Features of the Property Tax

Property Tax Reliance

Indiana is below the national average for all common metrics of property tax burden and property tax dependence (table IN-1).

Table IN-1
Selected Indiana Property Tax Statistics, 2014[1]

	Indiana	U.S. Average	Rank (of 51) *1 is highest*
Per capita property tax	$971	$1,464	*36*
Property tax percentage of personal income	2.4%	3.2%	*38*
Total property tax as percentage of state-local revenue	13.0%	16.9%	*38*
Median owner-occupied home value[2]	$124,200	$178,600	*45*
Median real estate taxes paid for owner-occupied home[2]	$1,085	$2,149	*42*
Effective tax rate, median owner-occupied home[3]	0.9%	1.2%	*29*

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

[1] All revenue numbers in this table include the state government as well as local governments.

[2] The statistics for median owner-occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2011-2015.

[3] Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

Indiana property taxes supply revenues for approximately 2,000 local government bodies that include counties, cities, towns, townships, school districts, and a variety of special districts. Since these taxing units often have non-coterminous borders, there are approximately 12,000 taxing districts that represent unique combinations of the overlapping local government service providers.

Counties and the larger townships are responsible for property tax assessment (see table IN-2), with all real property, except farmland, receiving a gross property assessment of 100 percent of market value-in-use. Market value-in-use, which is not the same as fair market value, refers to the value of "property for its current use, as reflected by the utility received by the owner or by a similar user, from the property" (State of Indiana 2011). Farmland is valued according to use-value, which is based on a number of variables related to agricultural production and profitability. Property is revalued every four years, with trending occurring between years.

Business personal property other than inventories is included in the property tax base.

Limits on Property Taxation

Property taxes are restricted by one rate limit and two levy limits. The rate limit provides that the sum of all tax rates for all political jurisdictions cannot exceed 6.67 mills if the property is inside a city or town, or 4.167 mills if it is outside a city or town, excluding debt service. One levy limit restricts growth in property tax revenue for each tax unit, except for school districts, to the lesser of 6 percent or the average annual growth rate of Indiana non-farm personal income in the previous six years.

The newest levy limit, also known as an overall tax cap or circuit breaker, caps overall tax bills of individual parcels at a certain percentage of gross assessed value. Property tax bills cannot exceed 1 percent of gross assessed value for residential homesteads, 2 percent for residential non-homesteads, and 3 percent for all other property. The taxpayer does not pay any amount in excess of their cap limit, which consequently creates a revenue loss for the units of government. There are no provisions for coordinating the revenue shortfalls among the units of government (Ross and Dinges 2014).

Property Tax Relief and Incentives

Indiana is unusual in not employing a true property tax circuit breaker program but does provide residential relief through homestead and mortgage deductions and through exemptions and reductions for the elderly, blind, disabled, and veterans. The most common property tax relief programs for homeowners are the homestead standard deduction, the supplemental homestead deduction, and the mortgage deduction, all of which can be considered types of homestead exemptions (DeBoer 2015). The homestead standard deduction is $45,000 or 60 percent of the homestead's gross assessed value, whichever is less.

Economic development property tax incentives include an enterprise zone program, two standalone property tax abatement programs, and tax increment finance (TIF).

Table IN-2
Property Tax Features of State Governments, United States, 2015

Feature	Indiana	Count for 50 states plus DC
Statewide classification of real property	No	25
Assessment of property primarily by county	Yes	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	No	19
Circuit breaker property tax relief program	No	34

Sources: Significant Features of the Property Tax

Key Property Tax History

The 1973 Indiana General Assembly passed a package of significant legislative reforms aimed at state and local revenues and expenditures known as the Bowen Tax Package (Faulk 2004). Included in these reforms was a reduction in property taxes funded with increases in state sales and corporate income taxes. A two-percentage-point increase in the sales tax rate funded a new property tax replacement credit (PTRC), a state grant to each taxing unit equal to 20 percent of its general property tax levy. To retain the property tax reduction effect, the revenue swap was bundled with a freeze on the rate at which the levies could grow.

In 1998, the Indiana Supreme Court declared that the administrative formula-based assessment value method was unconstitutional (*Town of St. John v. State Board of Tax Commissioners* (1998)), which ultimately resulted in the state adopting a market value-in-use practice of assessment (Krupa, 2012). The market value-in-use standard became practice in 2002 after several years of considerable legislative debate and another court ruling, this time from the Tax Court in 2000, that set a deadline for adopting a constitutionally acceptable set of regulations (Krupa 2012). The resulting change in assessment was widely expected to result in a substantial shift in the property tax burden away from business and toward residential property. In 2004, Indiana voters approved a constitutional amendment that permitted the General Assembly to create exemptions for certain types of property classifications without violating the state's property tax uniformity clause.

Two important events occurred in 2007 that precipitated the creation of the property tax caps in 2008 under HEA 1001 and their constitutional codification in 2010. The first was a 100 percent deduction for the assessed value of business inventories, and the second was the statewide reassessment of 2007. These developments resulted in large shifts of the property tax burden from business property to residential property in some areas of the state (Krupa, 2012). This created a significant political demand for predictability in the property tax burden, which eventually resulted in the current system that caps the property tax bill for individual parcels of real property at a fixed percentage of the property's gross assessed value.

Recent Developments

In 2014, Governor Mike Pence signed into law a tax reform package that included a local option reduction of business personal property taxes and a phased reduction of the state's corporate income tax rate. The new law allowed local governments to exempt from taxation business personal property up to a $20,000 threshold and/or new business personal property. The law allowed a designated body to establish a project-specific personal property abatement schedule of up to 20 years and established a commission to further study the state's business personal property taxes.

Big box retailers across Indiana are increasingly appealing property tax assessments based on "dark stores" assessment theory which supports using vacant or abandoned stores as the best comparable sales for valuation. In a blow to local governments, the Indiana Supreme Court in April 2017 declined to hear an appeal of a big-box tax assessment case, letting stand a lower court ruling in favor of the plaintiff, Kohl's, which had challenged its valuation based on sales of vacant stores. The retailer's case against Howard County (*Howard County Assessor v Kohl's Indiana LP*) was the first dark stores assessment case to reach the state's highest court (Caffarini 2017 and Thomas 2017).

Resources

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