

# League of Women Voters of Indiana

*Presents:*

**Embed our property tax  
rates in the Constitution of  
the State of Indiana?**

Fall 2010

# 2010 Referendum Text

## “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?”

# Referendum - Sections

These would become part of the Indiana constitution:

- Part 1 – Limits on property tax rates for all classes of real property
- Part 2 – Permission for legislators to apply the same exemptions or deductions to a mobile home which is a primary residence as to a permanent structure which is a primary residence

# *Background: What passed in 2008?*

Indiana's maximum property tax rates are based on a percentage of the property's assessed valuation.

- 1% for homeowners
- 2% for rental property owners  
(and agricultural land)
- 3% for (other real property and) business property owners

# *Background:* Requirements?

What does the constitution say about property tax?

- The General Assembly must set equitable and uniform assessment requirements and property tax rates.
- It may make exemptions for certain classes of property, *e.g.*, educational or religious institutions, investment property, or possessions such as boats or mobile homes.

## *Background: What is real property?*

- *Real property* is land and buildings. Under assessment rules begun in 2002, such property is assessed at its expected sale price.
- *Personal property* includes equipment and inventories.

## *Background:* Other states?

Most states do not list the allowed property tax rates in their constitutions.

- California and Massachusetts do.

# *Background:* Limited Local Control

Without explicit permission from the state, Indiana local governments are allowed to levy few taxes other than property tax (which is now strictly limited by state legislative action).

Examples:

- County option income tax (up to 1%)
- Hotel, motel, or restaurant taxes
- County wheel and excise tax

# Influences

Most who advocate for putting “caps” into the constitution (or keeping them out of it) will give reasons related to one or all of these:

1. nature of a constitution
2. effect on local services and institutions
3. appropriateness of the the income source

# Priorities

## **Yes Vote**

- Cut local government services citizens don't want.
- Force needed government efficiencies.
- Use other revenue sources, and keep property taxes low.

## **No Vote**

- Keep needed local services.
- Avoid layoffs, reductions, and closures.
- Preserve income stability through using property taxes.

# Put Property Tax Caps in the Indiana Constitution?

- Yes!

Because it will make the rates nearly impossible to change . . . .

- No!

Because it will make the rates nearly impossible to change . . . .

- Examine the “Pros” and “Cons” . . . .

# Pro

- Whether property values rise, remain, or fall, owners will know what rate to expect.
- Needs for public funds may change, but tax rates will not.
- The “caps” fix the rate that can be charged for each type of property.

# Pro

- Putting tax caps in the constitution will make legislators more careful of spending the public dollar by forcing them to take a hard, new look at public spending.
- Communities must learn to do “more with less.”
  - Close the library earlier or more often.
  - Reduce fire and police runs.
  - Postpone infrastructure maintenance.
  - Let the kids walk to school.

# Pro

- With the tax caps in place, enough income will be generated to support local government.
- Making the tax caps part of the constitution will help Hoosier working families.

# Pro

Dependence on a less stable stream of income will foster community creativity.

- Perhaps volunteers can take up the tasks of school assistants and coaches.
- Perhaps private companies can assume such tasks as animal control and garbage pick-up.

# Pro

For wealthy citizens whose homes are assessed at more than \$645,000 dollars, the property tax caps will provide welcome relief.

(Through exceptions, such as the homestead exemption, Indiana's property tax system departs significantly from the principle that property taxes should be levied on a property's actual value – a benefit to the wealthy.)

# Con

- When property tax rates cannot rise, the task of funding public services will confound legislators.
- Potential (but less reliable) income sources:
  - Sales tax increase
  - Income tax increase
  - Excise (luxury) taxes
  - User fees

# Con

- To claim that communities can indefinitely “do more with less” is unrealistic.
- After budgets are trimmed, salaries and hiring frozen, and services curtailed, there comes a point when no further savings can be found.

# Con

- Declines of 18 to 20 percent in expected tax revenues will hit local government by next year (2011).
- Local communities and average families will be hurt.
- “Rainy day” funds cannot cover the needs for long.

# Con

- To force dependence on less reliable sources of income is unwise. While property taxes are a relatively **stable** form of public income, other taxes and user fees are more variable.
- Also, property taxes generate a federal tax deduction, thus reducing the total tax burden for middle- and upper-class homeowners, but sales taxes and user fees do not.

# Con

Through exceptions, such as the homestead exemption, Indiana's property tax system departs significantly from the principle that property taxes should be levied on a property's actual value.

For "average" homeowners (in 2008, property in the \$125,000-range), about 60% of the home's value is exempt from tax.

- "homestead standard deduction" on the first \$45,000 of value
- plus 35% discount on the next \$600,000 of value

# Pro/Con Summary

## Pro

- Rates fixed
- Community services should shrink
- Other income sources preferable
- Wealthy homeowners benefit most
- Exceptions lower what citizens pay

## Con

- Rates unresponsive to needs
- Community services diminish
- Stable, progressive income source needed
- Average homeowners benefit less than wealthy ones
- Exceptions diminish reliance on actual value

# Wrap-up

- The November 2010 vote of Hoosier citizens will affect residents' quality of life for years to come.
- Cast an *informed* vote. Read more about the issue. Talk with neighbors and public officials.