

League of Women Voters
of Indiana

Presents:

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

Fall 2010

08/23/10

1

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 reduction 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

08/23/10

3

Table of Contents

- Background: Slides 5 – 9
- General information: Slides 2 - 3; 10 – 12; 24
- Pro Viewpoint: Slides 13 – 17, 23
- Con Viewpoint: Slides 18 – 22, 23

08/23/10

4

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

08/23/10

5

From the Department of Local Government Finance's web site "Citizens Guide" <<http://www.in.gov/dlgef/2516.htm>>:

"A *tax rate* is the percentage used to determine how much a property taxpayer will pay per one hundred dollars of net assessed value. A *tax levy* is the amount, specific in dollars, that a taxing unit (city, town, township, etc.) may raise each year in property tax dollars. In other words, the levy is the cap on the amount of property tax dollars a local government is allowed by law to collect."

The property tax caps adopted by the two Indiana General Assembly sessions are as easy as 1-2-3. For a homeowners' homestead, one percent of assessed valuation can be charged; for a rental property, two percent; for a business property, three percent.

The result of diminishing property taxes prompted two other legislative changes – lowered "exceptions" for property tax exemption, and an increase from 6% to 7% in sales tax. In effect, these changes make the action a tax shift.

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.

08/23/10

6

Section 1. Assessment and taxation

Section 1. (a) 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. 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 for sale in the ordinary course of a trade or business, property being held, used or consumed in connection with the production of income, or property being held as an investment;
- (3) Intangible personal property.

(b) The General Assembly may exempt any motor vehicles, mobile homes, airplanes, boats, trailers or similar property, provided that an excise tax in lieu of the property tax is substituted therefor.

(History: As Amended November 8, 1966)

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.

08/23/10

7

Because of real property's relative permanence, the taxes it produces are relatively stable. Though changes will diminish or enhance the value of the property, often those changes are relatively small in comparison to the total property value. Dramatic change, such as constructing a new business headquarters on a vacant city lot, is also possible.

Expected sale price is roughly the same as "market value."

The following is from the "Citizens Guide" on the Department of Local Government Finance web site

<<http://www.in.gov/dlgf/2516.htm>>:

"Property taxes are a primary source of funding for local government units, including counties, cities and towns, townships, libraries and other special districts including fire districts and solid waste districts. Property taxes are administered and collected by local government officials. These funds are used to pay for a variety of services including welfare; police and fire; new construction and maintenance of buildings; local infrastructure like highways, roads and streets; and the operations, including salaries, of the local units of government.

"Property taxes are an *ad valorem* tax, meaning that they are allocated to each taxpayer proportionately according to the value of the taxpayer's property."

Background: Other states?

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

- California and Massachusetts do.

08/23/10

8

Wikipedia posting 7/22/2010:

- 1978 - California's Proposition 13 capped the tax rate for real estate at 1% of the cash value of the property.
- 1978 - Tennessee - The Tennessee constitution contains provisions limiting the rate of growth of government revenues to that of personal income in the state.
- 1980 – Massachusetts' Proposition 2 ½ contains two limitations on the amount of property taxes a city or town can raise:
 1. The property tax levy ceiling (the amount raised) can never exceed 2 1/2% of the full cash value of all taxable property in the city or town.
 2. The property tax levy cannot increase from year to year by more than 2 1/2%, with certain exceptions for new growth, or through over rides and exclusions as adopted by the voters.
- 1992 – Colorado voters amended Article X of the Constitution to the effect that any tax increase resulting in the increase of governmental revenues at a rate faster than the combined rate of population increase and inflation as measured by either the cost of living index at the state level, or growth in property values at the local level, would be subjected to a popular vote in a referendum.

According to a posting by Natalia Siniavskaia at 800-368-5242 x844,1 or via e-mail at [<nsiniavskaia@nahb.com>](mailto:nsiniavskaia@nahb.com), in 2005, Indiana fell near the middle of the middle of the 50 states for real estate taxes per \$1000 of value

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

08/23/10

9

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

08/23/10

10

- Owners satisfied with the law are protected by the difficulty of changing the state constitution.
- Any adjustment to the constitution would require:
2 separate General Assembly votes
Voter referendum confirmation.
- Rates are not an appropriate constitutional detail. A constitution should state broad principles, not embed specific statistics.
- The need for public services or institutions can no longer readily influence what will be gathered through property tax.
- It is difficult to pay for consistently-needed local services with highly variable funds. Steady demand is best covered by a steady income.

Priorities	
Yes Vote	No Vote
<ul style="list-style-type: none"> • Cut local government services citizens don't want. • Force needed government efficiencies. • Use other revenue sources, and keep property taxes low. 	<ul style="list-style-type: none"> • Keep needed local services. • Avoid layoffs, reductions, and closures. • Preserve income stability through using property taxes.
08/23/10	11

Examples of affected services:

- Common schools
 - Salaries
 - Buildings (construction, upkeep, utilities)
 - Transportation
 - Special services
- Public libraries
- Parks and preserves
- Safety services (e.g., police, fire)
- Public services (e.g., sewers, animal control) and infrastructure
-

Note: Since local governments are required to adopt a budget by Nov. 1st each year, their budget discussions usually occur in September and October.

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” . . .

08/23/10

12

What are the main sections of Indiana's constitution?

- Voting qualifications
- Requirements for equal treatment of citizens
- Regulations against holding multiple lucrative offices
- Apportionment requirements
- Rules for reading of bills
- Prohibition of special local laws
- Legislators' ineligibility for other paid public office
- Description of county Boards
- Establishment of Judicial Nomination Cmsn
- Responsibility for handicapped persons
- Assessment & taxation regulations
- Prohibition of State as stockholder except in public retirement funds
- Rules for amending the Constitution

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.

08/23/10

13

If the November 2010 referendum passes, Hoosiers will “forever” gain public funds from property taxes only at the percentages listed (1%, 2%, 3%), no matter how they may wish to spend the funds raised. Needs may change, but the tax rates will not.

According to the *Wall Street Journal* 1/31/10,

“When lawmakers imposed the caps, they raised the state sales tax to 7% from 6%, directing that extra revenue be used to fund schools. But sales-tax revenue has declined so much during the recession that Gov. Mitch Daniels, a Republican, is ordering public schools to cut \$300 million, or 3.5%, from their budgets.

“The city of Muncie, with about 65,000 residents, was forced by the property-tax caps, disappearing industry and other revenue-shrinking factors to cut 32 firefighters—or about 29% of the department—and close two of seven fire stations. The city has stopped dispatching fire trucks to nonemergency medical calls.”

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.

08/23/10

14

In order to insure that they do not exceed their income, localities already are making changes:

- The Indianapolis-Marion County Public library has proposed closing several branches and already has cut hours and days of service.
- Muncie released nearly 30% of its public safety officers.
- Most communities will do no more than the “quick fix” of roads, bridges, sidewalks, sewers, etc.
- Marion County's Franklin Township Community School Corporation has proposed athletic fees for sports participants in the 2010-11 school year.

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.

08/23/10

15

From the Ft. Wayne *Journal Gazette* of 12/7/2009:

According to the news release, “Watchdog Indiana has evaluated the available facts and determined that the constitutional property tax caps will be good for Hoosier working families.”

Aaron Smith of Lebanon is the founder of Watchdog Indiana. The web site states, “Watchdog Indiana is a non-profit, non-connected, and non-party advocate for good government that focuses on the state and local tax burden of 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.

08/23/10

16

When property taxes no longer can be relied upon to fund local services, increased volunteering and user fees may help close the gap.

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.)

08/23/10

17

In an INCAP policy paper, Prof. Larry DeBoer of Purdue University says, “. . .for those fortunate Hoosiers with homes valued of more than \$645,000, any amount of value above that level is reduced by 25%. The combination of these deductions has significantly lowered homestead property tax bills by sheltering enormous amounts of property value from taxation. “

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

08/23/10

18

Examples of affected services:

Common schools

Public libraries

Parks and preserves

Safety services

Public services and infrastructure

Note: Since local governments are required to adopt a budget by Nov. 1st each year, their budget discussions usually occur in September and October.

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.

08/23/10

19

According to *Indiana Barrister* (posted 1/12/10), Matt Greller of the Indiana Association of Cities & Towns (IACT) said in a letter to legislators, “This resolution forever ties the hands of future General Assemblies to react to any unforeseen economic reality and puts a level of specificity into our constitution that is completely unprecedented.”

The Indiana Association of Cities and Towns (IACT) is a coalition of municipal officials who seek to improve the quality of life in Indiana through effective government, and is a member of the National League of Cities. Founded in 1891, IACT is one of the oldest state municipal organizations in the country, with 470 cities and towns as members. IACT advocates for municipalities as the official voice of municipal government in Indiana, and promotes good government through education, training, and leadership.

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.

08/23/10

20

According to the Ft. Wayne *Journal-Gazette* on 4 August 4, 2010, Prof. Larry DeBoer of Purdue University explains that 2011 is the year when the recessive effects of Indiana's property tax caps (already law) will “hit” local communities. By then, the 2010 November referendum already will have passed or failed. “New income tax projections from the State Budget Agency show revenue declines of 18 percent to 20 percent for many counties in 2011.”

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.

08/23/10

21

We should not make the tax caps permanent, for Indiana has not yet even observed their full effects.

When local income drops,

- Citizens may reject the diminution of the system of public education – larger classes; reduced attention to individual needs; fewer opportunities for sports, music, and other “extra curricular” activities.
- If park upkeep depends on user fees and the public then avoids using the park, the public good is sacrificed.

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

08/23/10

22

INCAP Policy Paper

Prof. LarryDeBoer's reasons NOT to put tax caps in the constitution:

"Indiana's property tax exemptions are more costly than almost any other states. As a result of the "homestead standard deduction," homeowners are allowed to exempt the first \$45,000 of their home's value from their property tax liability. In addition, the March 2008 legislation allows the next \$600,000 of a home's value to enjoy a "supplemental homestead deduction" of 35%. Finally, for those fortunate Hoosiers with homes valued of more than \$645,000, any amount of value above that level is reduced by 25%. The combination of these deductions has significantly lowered homestead property tax bills by sheltering enormous amounts of property value from taxation. According to the Census Bureau, the median Indiana homestead was worth \$125,200 in 2008. After applying the standard and supplemental deductions to that value, only about \$52,130 of that home's value is subject to property tax. Put another way, almost 60% of the median's home value is exempt from tax. By taxing homes on such a small percentage of their overall value, Indiana's property tax system departs significantly from the basic principle that property taxes should be levied as a tax on property's actual value."

Pro/Con Summary

Pro

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

08/23/10

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

23

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.

08/23/10

24

Each voter will be asked to decide whether property tax rates **SHOULD** or **SHOULD NOT** become part of the state constitution. Your vote will affect not only your own life but also the lives of all other citizens of Indiana.