aim Accelerate Indiana Municipalities

SB 1 – Property Tax Relief

Senator Travis Holdman

Homestead Deductions

Current Law

- Current law provides a standard homestead deduction of $48,000 and a supplemental deduction of 35% on AV up to $600,000 and 25% on AV above $600,000.

Proposal

- All homesteads below $125,000 in AV would be able to take the standard deduction of $48,000 plus 60% of the remaining AV as a supplemental deduction.
- Homesteads above $125,000 in AV would only take the 60% deduction on their property.

Aim Comments

- This would cause significant shifts in property taxes to all other property classes e.g. rental housing, agriculture, and businesses, until their growth caps are reached.
- The decrease in taxable AV would also create circuit breaker impacts, especially for communities with 2% and 3% properties near the current tax caps.

Property Tax Growth Caps

Current Law

- Under current law, property tax growth caps are only for those over 65 with AV below $240,000 and under minimal income requirements.
- These individuals are capped at 2% growth each year with the remainder credited in the same way property tax caps are credited.
- Counties can also cap the growth of specified areas of the county for individuals over 55 on their homesteads at a rate of 2-5%.

Proposal

- Caps growth of property tax liability for seniors, low-income Hoosiers, and families with children under 18 at 2%.
- Caps growth of property tax liability for all other taxpayers at 3%.
- Allows an exemption from these caps for changes of use and structural improvements to the property.

Aim Comments

Revenue Implications

- LSA estimates the impact of the homestead deduction and the new tax cap to be around $1.6B by 2028.
- This is one of the largest proposed cuts to local government budgets ever introduced and the most significant cut since the implementation of the property tax caps.
- Cuts in revenue this dramatic will have catastrophic consequences for local ability to deliver basic services, bring in new economic growth and preserve small businesses, provide public safety, and maintain adequate infrastructure,
- Inflation has had a dramatic impact on municipal budgets as road projects and other core municipal cost drivers have not been immune to the inflation effects being experienced by taxpayers and businesses. It is unrealistic to surmise that that the costs of goods and services are not increasing at the same rate.

Tax Increment Financing (TIF)

- TIF is currently the most valuable financing and economic development tool available to municipal governments.
- TIF captures the incremental AV that grows as a result of economic development investment and then uses the increment to pay the debt used to finance those improvements.
- If incremental AV is subject to the same growth caps as AV is the TIF base, less revenue would be available to finance the TIF bonds and this financing tool would be less useful in financing economic development projects.
- Though the proposal allows development to circumvent the 3% cap in the first assessment year where there is change of use or structural improvement, the 3% cap on liability increases over the 25-year lifespan of the TIF would greatly reduce the available revenue to both pay off bonds and invest in economic development

Debt Service

- Debt service levies are protected from property tax credit impacts and would be protected from the impacts of the property tax growth cap.
    - When units experience losses from tax caps, these are applied only to their general fund levies and never to their debt service levies.
    - This ensures that required bond obligations can always be met at the guaranteed amount.
- New debt issuances that increase the tax rate would not be able to significantly capture new tax revenue because the growth in the tax rate would likely trigger the growth cap and all of the tax cap loss would go to the general fund.
- Property-tax backed general obligation debt financing would much more significantly affect a unit's general fund and would largely reallocate money from the general fund greatly limiting its ability to be used as a financing tool going forward. Essentially, these debts would have to be covered before general obligations, like police and fire, could be funded.

Fire Rates

- Many communities are going through the process of consolidating fire services by creating fire territories or districts to more efficiently fund fire protection as one entity comprised of multiple units of government.
- Part of the process of creating the new fire units is resetting the fire tax levies to amounts sufficient to fund the costs of the department that will be serving the area.
- If a new fire rate cannot significantly raise new revenue for the department due to growth caps on tax liability, this may disincentivize consolidation because the new entity won't be able to raise sufficient revenue to serve the consolidated area.
- Restrictions such as these not only pose fiscal consequences, but they also endeavor to take local decision making away on hyper-local activities such as fire suppression and prevention, and incident response. Managing these activities from Indianapolis will inevitably create unsafe situations.