HB 1499 - Taxation of Homestead Property
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Summary

- Under current law, residential property taxes are capped at 1%.
- HB 1499 lowers the property tax cap for homesteads to:
  - 0.95% in 2024
  - 0.975% in 2025
- Additionally, the bill raises the standard and supplemental homestead deduction by 5% in 2024 and 2.5% in 2025
- Caps the max levy growth quotient (MLGQ) at the lesser of:
  - In 2024: 50% of the normal MLGQ calculation or 3%
  - In 2025: 75% of the normal MLGQ calculation or 3%
- Allows a county fiscal body to adopt an ordinance providing property tax relief for homesteads in 2023 by providing a rebate check or tax credit. The tax relief can be a flat amount for all homesteads or a percentage amount for all homesteads.
- For operating property tax referenda adopted prior to 2023, the amount collected by the referendum may not grow by more than 3% in 2024.
- If a unit's debt service levy results in a property tax rate of 0.4% or higher every project thereafter is considered a controlled project subject to the remonstrance process
- If a unit's debt service levy results in a property tax rate of 0.8% or higher every project thereafter is considered a controlled project subject to the referendum process
- Raises the amount of property taxes that can be deducted from income taxes to:
  - $3,500 (up from $2,500) for married couples
  - $1,750 (up from $$1,500) for individuals
- Raises the amount of rent that can be deducted from income taxes to $4,000 (up from $3,000).

Fiscal Impact

- The accumulated fiscal impact of the property tax changes on local governments is:
  - 2024: -$163.8 million
  - 2025: -$202.4 million
  - 2026: -$182.2 million
- The fiscal impact of the property tax changes on cities and towns is:
  - 2024: -$40 million
  - 2025: -$42.7 million
  - 2026: -$33 million

Background

- Rising home prices in 2021 and 2022 have led to large increases in the assessed value of residential property. This has led to concerns about how to provide relief to residential taxpayers facing rising costs in an already uncertain economy.
- Note that increased assessed value is NOT the actual increase in property tax bills.

    - Property taxes are determined by taking the property tax levy and dividing it by the total assessed value in the taxing unit, minus circuit breakers.
        - If levies rise faster than assessed value, the tax rate goes up.
        - If levies rise more slowly than assessed value, the tax rate goes down.
        - In either event, the amount of money collected cannot exceed the property tax levy.
    - Assessments are tied to market data and are meant to reflect the market value in-use of the property in question. This means that if the market is increasing or decreasing in value rapidly assessments can change rapidly.
    - Property tax levies cannot change quickly. The growth of property tax levies is tied to a six-year rolling average of the statewide increase in non-farm income. For 2023, the levy growth quotient is 5%.
    - With an AV growth likely above 5%, on average property tax rates should decrease due to the relatively slower levy growth.
    - The only complicating factor is the property tax caps. Because the property tax caps put a ceiling on liability relative to assessed value, for units at the caps there could be a more significant increase in the actual property tax liability.
- Rising assessments in a period of rising home prices is the system working properly. Assessments are supposed to accurately reflect market conditions and they continue to do so in this period of abnormal housing market growth.
- The housing market already shows signs of cooling going into the future. Rising interest rates and looming recession risk are already starting to show signs of lowering home prices moving into the future. **Any legislative action to cap assessment or liability growth going forward may be unnecessary as the market stabilizes.**
- **Indiana already has robust property tax controls to prevent excessive sticker shock on property tax bills:**
    - The homestead deduction allows residents to deduct the lesser of 60% or $45,000 of your primary residence's AV and the supplemental deduction allows an additional 35% to be deducted on homes less than $600,000 in AV or 25% for homes over $600,000 AV.
    - Constitutional property tax caps ensure that the maximum amount a homestead can be taxed at is 1% of the gross AV.
    - The over 65 circuit breaker caps liability growth at 2% for homesteads owned by seniors over 65 with incomes below $30,000 and home values below $200,000.
    - The maximum levy growth quotient and constitutional debt limits on local units ensure that property tax levies cannot grow out of control and usually limits their growth to below that actual AV growth in the community.

Priorities

- Any proposed reform should maintain the overarching principle of market-based assessments that reflect the market value in-use of properties.
- Expenses for local governments have risen due to inflation along with expenses for citizens, business, and the state government. Any proposed property tax reform should recognize the ongoing and growing revenue needs of local governments in this period of economic volatility.
- Any proposed reform should recognize the uncommon nature of the current housing market and not make sweeping changes to the property tax system to deal with an individual circumstance. A reform should be narrowly tailored to the specific circumstances of the current issue and avoid unintended consequences to the system long-term.
- The county option property tax rebate could reduce the property tax distribution to underlying units of government including cities and towns without any meaningful input from

those units. The county is able to decide if and how much property tax relief to provide unilaterally with only a notice required to underlying taxing units.

- The 0.4% debt service cap to trigger controlled projects is higher than any city or town currently levies so this change will not immediately affect any unit other than schools.