Accelerate Indiana Municipalities

PROPERTY TAX TERMINOLOGY

ACQUISITION COST: Acquisition cost refers to the cost an asset was purchased for initially. It includes the purchase price and all associated transaction costs. It appears on the top line of balance sheets, prior to the application of depreciation.

ANNUALLY ADJUSTING PROPERTY VALUES: Annually adjusting property values is part of Indiana's move to a market-based assessment system that began in 2002. Similar market-based assessment systems are currently being used in 48 other states.

The annual adjustments are calculated by comparing the prior year assessment with current sales data from a neighborhood. The difference, positive or negative, will be used to create a factor that assessing officials will apply to the property's assessed value to bring it to current market value-in-use.

Under the old system, real estate was generally only reassessed every 10 years. That left taxpayers with a large change in their assessments every decade. Annual adjustments curb that large lump sum change in assessments by annually adjusting values based on sales.

ASSESSED VALUE (AV): The total dollar value assigned to all real property and improvements and personal property subject to taxation. Locally elected assessors determine property values with assessment guides prescribed by the Department of Local Government Finance. These values may be changed by the county's Property Tax Assessment Board of Appeals. The Department of Local Government Finance assesses certain public utilities.

ASSESSMENT: The official act of discovering, listing and appraising property for ad valorem tax purposes. "Ad valorem" tax refers to any tax imposed on the basis of the monetary value of the taxed item. In Latin, the term literally means "according to value."

ASSESSMENT APPEAL: The formal process through which taxpayers may dispute the assessed value of their property.

BALANCE SHEET: The balance sheet shows all of the assets and liabilities of an entity. Business personal property should show up on the balance sheets under the asset category.

BUDGET ORDER: The budget order is a critical document for calculating tax bills. The order contains the state's certification of budgets, tax rates, and tax levies for each taxing unit in a county. The order also documents the total tax rate and the local homestead credit rate for each taxing district.

CIRCUIT BREAKER: The means by which no more than a certain percentage of a property's assessed value is paid in taxes. The percentage represents the "cap" for property taxes on the property. If the taxes for a property exceed the cap percentage, a property tax credit is issued for the dollar amount above the cap. The actual property tax to be paid would then equal the dollar amount of the property's gross assessed value multiplied by the circuit breaker percentage cap. For example, if a property with a gross assessed value of $100,000 has a tax bill of $2,100 and the circuit breaker percentage cap is 2%, a tax credit in the amount of $100 would be issued for that property, thereby reducing the property tax amount due to $2,000 or 2% of its gross assessed value.

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CONTROLLED PROJECT: A project is a controlled project if it costs more than the lesser of $2,000,000 or an amount equal to 1% of the total gross assessed value of property within the political subdivision on the last assessment date, if that amount is at least $1,000,000. In other words, if the proposed project costs $2,000,001 or more, it is probably a controlled project. For purposes of IC 6-1.1-20, the term "bonds" means any bonds or other evidences of indebtedness payable from property taxes, with some limited exceptions. Examples include new school construction, new library construction, remodeling and renovations of public buildings (including schools, libraries and local government offices), and beautification projects.

DEDUCTION: A property tax benefit that reduces the assessed value of property. There are a number of property tax deductions available to Indiana taxpayers. Detailed information may be found on this website under the "Information for Taxpayers" section.

DEPRECIATION: Depreciation in accounting allows the cost of an asset to be recorded over the useful life of the asset instead of recording the entire cost at the time of purchase. This is useful in financial accounting because it does not skew costs towards the time period when capital investments are made, better communicating the entity's financial position. In tax accounting, only the portion of the asset that is depreciated is considered an expense for income tax purposes that can be deducted.

DEPRECIATION SCHEDULES: There are conventional depreciation schedules that exist in both financial and tax accounting, and they are not always the same (a single entity may use different depreciation schedules for their financial statements and tax returns). The schedule shows you how much of an asset should be depreciated in each year and over what period of years depreciation to zero should be undertaken. Straight-line depreciation is common in financial accounting because it evenly spreads out the cost of the asset over the useful life. Accelerated depreciation is common in tax accounting because it loads more of the cost early in the life of the asset and increases the tax benefit of capital investment. Indiana Administrative Code provides several depreciation schedules for different asset classes for the purposes of business personal property tax that must be used to calculate assessed value for taxation. They can be found in 50 IAC 4.2-4-7.

EXEMPTION: A property tax benefit that excludes a property from taxation and, in some cases, assessment.

HOMESTEAD DEDUCTION: The homestead deduction is the most commonly used property tax deduction in Indiana. It allows a homeowner who uses a property as his or her principal place of residence to qualify for a deduction of the lesser of 60% of the gross assessed value of the property or $45,000. This deduction potentially lowers the taxpayer's property tax obligation. A taxpayer receiving a Homestead Standard Deduction is also entitled to receive a Supplemental Homestead Deduction. The amount of the Supplemental Homestead Deduction is 35% of the assessed value remaining after application of the Homestead Standard Deduction that is less than $600,000 and 25% of the remaining assessed value that is more than $600,000.

LEVY: The product of a specified tax rate and the assessed value. Levy terminology includes "maximum levy" and "excessive levy."

MARKET VALUE: The most probable price, estimated in terms of money, which a property would bring in a sale between a willing buyer and seller under arms-length conditions, in an open market with adequate market exposure and reasonable marketing time.

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MARKET VALUE-IN-USE: True tax value, or the market value-in-use of a property for its current use, as reflected by the utility received by the owner or by a similar user, from the property.

MAXIMUM LEVY GROWTH QUOTIENT (MLGQ): In Indiana, MLGQ is a factor used to calculate the maximum amount of property taxes a civil taxing unit can levy. The MLGQ is calculated using a formula that considers several variables, including the current year's maximum levy.

PERSONAL PROPERTY: Personal property typically encompasses moveable items that are not permanently affixed to a physical structure. Examples of personal property include: farm equipment, appliances that are not "built in" to the structure, furniture, and similar items. Whereas personal effects are not subject to property taxation in Indiana, most depreciable personal property used in the production of income is.

PROPERTY TAX LEVY: The property tax levy is the amount of money that a taxing body requires to be collected through the property tax system.

PROPERTY TAX RATE: A percentage applied to each taxing unit's assessed valuation that will produce the amount of that taxing unit's levy or, in other words, the product of dividing the levy by the assessed value. The tax rate is expressed in terms of "dollars per $100 of assessed value."

REAL PROPERTY: The interests, benefits, and rights inherent in the ownership of land and anything permanently attached to the land or legally defined as immovable.

SELF-ASSESSED: Some may point out that business personal property is self-assessed which is true. It is, however, taken off of balance sheets (and the depreciation is taken off of income statements) that are used in filing income tax and are subject to audit by the IRS and DoR.

TAXING DISTRICT: This is the term for the geographic area within which taxing units have the authority to fund themselves via property taxes.

TAXING UNIT: An entity that has the power to impose ad valorem property taxes. Examples include counties, cities, towns, townships, and school corporations.