# Q&A GUIDE: The Mechanics of Property Taxes

aim
Accelerate Indiana Municipalities

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### 1. What is assessed value, and how is it determined?

- Assessed value is the estimated worth of a property for tax purposes, determined by the county.
- It can be calculated using:
  - Comparative sales of similar properties;
  - Earnings for income-generating properties like apartments; or
  - The cost for unique commercial properties.

### 2. What is a tax levy?

- The levy is the total amount of revenue a local government is allowed to collect from property taxes.
- Municipalities do not set their levy based on desired spending. The amount is pre-determined and can only grow within state-imposed limits (growth caps).

### 3. How is the property tax rate determined?

- The tax rate is calculated by dividing the total tax levy by the net assessed property value, then adjusting it for every $100 of assessed value.
- Multiple entities (town, city, county, schools, libraries, fire districts, or any other special taxing district) contribute to the final tax rate, leading to different rates across districts. Every entity sets their own levy independently.
- In Greenwood, there are 7 taxing districts with different rates. Rates vary from $1.82 to $2.39.

### 4. What is the Maximum Levy Growth Quotient (MLGQ)?

- A formula that controls how much property taxes can increase every year, based on Indiana's average non-farm personal income growth over six years.
- The rate is then slowly implemented over 6 years by the Department of Local Government Finance (DLGF). That means that during economic downturns or booms, changes are gradual to prevent sharp fluctuations.

### 5. What are property tax caps?

- Caps limit how much property owners can be taxed, based on gross assessed (not net assessed) value:
  - 1% for homesteads (primary residences);
  - 2% for other residential properties & farmland; and
  - 3% for commercial properties.
- If tax bills exceed these caps, the overage appears as a circuit breaker credit, reducing the amount the government collects.

### 6. How do deductions, exemptions, and credits affect property taxes?

- Gross assessed value is the assessed value before deductions, exemptions, and credits are taken.
- Net assessed value is the value after deductions and is the part of assessed value that is taxed. Deductions and exemptions lower the assessed value before the tax rate is applied.
- Credits are proportionally applied to the taxing districts based on their levy.
- Credits reduce the final tax bill (e.g., tax caps show up as credits).

### 7. How are property tax revenues distributed?

- After the council approves the budget, it must then be certified by the DLGF. The budget is then sent to the county auditor for tax rate distribution.
- Tax bills are sent to property owners by the county auditor. This amount is based on what was approved, less whatever credits are taken. Losses are applied at the auditor level.
- Collected taxes are sent to the county auditor, who distributes them to the various entities (cities, towns, schools, libraries, fire departments, etc.) in June and December each year.

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### 8. What do property taxes fund?

- Local services, such as
  - o Public safety (police, fire, EMS);
  - o Infrastructure (roads, sidewalks, traffic lights);
  - o Parks and recreation;
  - o Planning, zoning, and building inspections; and
  - o Municipal administration (HR, finance, IT, legal, etc.).

### 9. How do property tax caps impact local budgets?

- Tax caps reduce how much local governments can collect.
- Many municipalities lose 10-12% of their levy (some lose up to 40%).
- Tax cap reductions come off the top of the levy amount. Meaning that a $10M maximum levy isn't $10M. The actual revenue could be $9M or less.
- This often results in:
  - o Hiring freezes or unfilled positions;
  - o Delaying capital projects (e.g., fire trucks, road repairs); and/or
  - o Seeking alternative funding sources.

### 10. What other funding sources do municipalities have?

- Property taxes are usually between 50-60% of the general fund budget.
- Other funding sources:
  - o Local Income Tax (LIT): tax set by the county, distributed to cities and towns located in the county
  - o State transfers: road funding, financial institution tax
  - o Local option taxes: food & beverage tax, wheel tax, innkeepers tax
  - o User fees: park programs, permit fees
  - o Impact fees: road and park impact fees for new developments

### 11. How do municipalities finance large projects?

- General Obligation Bonds are backed by property taxes, ensuring repayment even in economic downturns. They must be paid before other expenses.
- Tax Increment Financing (TIF) Bonds rely on projected business personal property tax revenue from new developments or developer agreements.
- Lease purchases are used for equipment (police cars, fire trucks, etc.), allowing costs to be spread over multiple years.

### 12. What happens if property tax revenues fall short?

- General Obligation Bonds are protected. Governments must pay them before other expenses.
- If property tax revenue falls, general funds take the hit first, forcing budget cuts.
- TIF Bonds are not guaranteed, so if revenue falls, they may go unpaid.

### 13. Why are property taxes the primary funding source for local governments?

- Property taxes provide stability. Unlike income or sales taxes, property taxes do not fluctuate with incomes and purchases.
- Stable funding ensures essential services, like police and fire departments, remain functional, even in economic downturns.

### 14. What should residents understand about property taxes?

- Any change to the system, like adding deductions or credits, shifts the financial burden elsewhere, either to other taxpayers or government services.
- Indiana's system is designed to balance funding stability with taxpayer protections through caps and structured growth limits.