Indiana Business Personal Property Tax Analysis

Prepared for the Association of Indiana Counties

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David Reynolds, Senior V.P., Policy Analytics, LLC
Policy Analytics, LLC

• Indianapolis, Indiana based firm specializing in economic research, strategic planning, and fiscal and economic policy analysis.

• Utilizing Policy Analytics’ proprietary property tax model, Dr. DeBoer and Policy Analytics:
  • Examined the property tax burdens over a 10-year period
  • Identified the property tax revenue capacity of units of government, and
  • Identified the sensitivity of property tax revenues when business personal property is no longer taxed.

Limitations of the Analysis

• Business personal property tax filings are self reported and confidential. Under the scope of the engagement with the AIC, this analysis modeled the fiscal impact for the 100% elimination of taxation of business personal property.
Brief History of Property Taxation in Indiana
Town of St. John Case

• “... the cost schedules lack sufficient relation to objectively verifiable data to ensure uniformity and equality based on property wealth...”

• Assessments must be based on *objective measures of property wealth*. 
BRIEF HISTORY OF PROPERTY TAXATION IN INDIANA

Property Tax Reforms since the Town of St. John Decision

• The New Assessment Standard: Market value in use
• Trending: Assessed values adjusted every year based on sales price or cost changes
• Large Deductions for Homeowners: $45,000 standard deduction; 35% supplemental deduction
• Base Rate of Farmland: Based on capitalization formula, adjusted each year.
• Maximum Levy Growth Quotient: Based on 6-year average non-farm income growth.
• Elimination of: Property taxes on inventories, school general fund, and county welfare funds.
• Property Tax Relief: Funded by local income tax credits
• Constitutional Circuit Breaker Caps: Tax caps on total tax bills
# Narrowing the Property Tax Base in Indiana

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household Property</td>
<td>Eliminated in 1966</td>
</tr>
<tr>
<td>Intangibles</td>
<td>Eliminated in 1966</td>
</tr>
<tr>
<td>Automobiles</td>
<td>Eliminated in 1970</td>
</tr>
<tr>
<td>Heavy Vehicles</td>
<td>Eliminated in 2000</td>
</tr>
<tr>
<td>Inventories</td>
<td>Eliminated in 2007</td>
</tr>
<tr>
<td>Business Equipment</td>
<td>Remains in Tax Base</td>
</tr>
<tr>
<td>Buildings</td>
<td>Remains in Tax Base</td>
</tr>
<tr>
<td>Land</td>
<td>Remains in Tax Base</td>
</tr>
</tbody>
</table>
The Indiana Constitution: Article 10, Section 1

• Land, Buildings and Business Equipment remain in the tax base.

• As a result of the 2004 Amendment:
  The *General Assembly may exempt* from property taxation any property in any of the following classes: *Tangible personal property* other than property being held as an investment.
The Indiana Constitution: Article 10, Section 1 (c) (2)

ARTICLE 10.
Finance.

Section 1. (a) Subject to this section, 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.

(b) A provision of this section permitting the General Assembly to exempt property from taxation also permits the General Assembly to exercise its legislative power to enact property tax deductions and credits for the property. The General Assembly may impose reasonable filing requirements for an exemption, deduction, or credit.

(c) 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 as an investment.
Property Tax Burden

2017 – 2021
Calculation of Property Tax Maximum Levy Growth Quotient (2014 – 2026)

Growth Quotient: Six-year Average Growth, 2-year lag

2-year lag: 2026 Quotient based on 2019-2024 income growth

Annual Growth Rates, Indiana Non-Farm Personal Income (Statewide)
Certified Levy Growth by Fund Type

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>2013-17</th>
<th>2017-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>2.8%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Referendum Funds</td>
<td>12.8%</td>
<td>23.8%</td>
</tr>
<tr>
<td>Debt/Lease Funds</td>
<td>1.1%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>All Other Funds</td>
<td>3.5%</td>
<td>4.2%</td>
</tr>
</tbody>
</table>
Certified Levy Growth by Unit Type

- County: 3.8% (2013-17) to 3.9% (2017-21)
- Township: 4.2% (2013-17) to 3.6% (2017-21)
- City/Town: 4.1% (2013-17) to 4.2% (2017-21)
- School: 1.5% (2013-17) to 5.3% (2017-21)
- Library: 3.0% (2013-17) to 2.8% (2017-21)
- Special: 3.0% (2013-17) to 3.7% (2017-21)
Difference from 2017 to 2021 in Property Tax Liabilities

(Dollars in Millions)

Pay 2017

<table>
<thead>
<tr>
<th>Category</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Other</td>
<td>$1,171</td>
</tr>
<tr>
<td>Residential</td>
<td>$503</td>
</tr>
<tr>
<td>Apartments</td>
<td>$1,280</td>
</tr>
<tr>
<td>Agricultural</td>
<td>$581</td>
</tr>
<tr>
<td>Commercial</td>
<td>$293</td>
</tr>
<tr>
<td>Industrial</td>
<td>$2,881</td>
</tr>
<tr>
<td>Personal Property</td>
<td>$64</td>
</tr>
</tbody>
</table>

Pay 2021

<table>
<thead>
<tr>
<th>Category</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Other</td>
<td>$1,381</td>
</tr>
<tr>
<td>Residential</td>
<td>$602</td>
</tr>
<tr>
<td>Apartments</td>
<td>$1,434</td>
</tr>
<tr>
<td>Agricultural</td>
<td>$529</td>
</tr>
<tr>
<td>Commercial</td>
<td>$389</td>
</tr>
<tr>
<td>Industrial</td>
<td>$3,685</td>
</tr>
<tr>
<td>Personal Property</td>
<td>$60</td>
</tr>
</tbody>
</table>
Percent of Total Property Tax Liability by Class
(Dollars in Millions)

Pay 2017

- 17.3%, $1,171
- 7.4%, $503
- 18.9%, $1,280
- 8.6%, $581
- 4.3%, $293
- 42.5%, $2,881
- 0.9%, $64

Pay 2021

- 17.1%, $1,381
- 7.5%, $602
- 17.7%, $1,434
- 6.5%, $529
- 4.8%, $389
- 45.6%, $3,685
- 0.7%, $60

CHANGES IN PROPERTY TAX BURDEN 2017 – 2021

- 0.9%, $64
- 0.7%, $60
- 42.5%, $2,881
- 45.6%, $3,685
- 17.3%, $1,171
- 17.1%, $1,381
- 18.9%, $1,280
- 17.7%, $1,434
- 8.6%, $581
- 6.5%, $529
- 4.3%, $293
- 4.8%, $389
- 4.3%, $293
Average Annual Percent Change, Pay 2017 to 2021

Property Tax Liabilities (Tax Bills) by Property Class

<table>
<thead>
<tr>
<th>Property Class</th>
<th>Average Annual Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Other</td>
<td>4.5%</td>
</tr>
<tr>
<td>Residential</td>
<td>6.3%</td>
</tr>
<tr>
<td>Apartments</td>
<td>7.3%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>-2.3%</td>
</tr>
<tr>
<td>Commercial</td>
<td>2.9%</td>
</tr>
<tr>
<td>Industrial</td>
<td>4.6%</td>
</tr>
<tr>
<td>Personal Property</td>
<td>4.2%</td>
</tr>
</tbody>
</table>
Explanation of Changes in Property Tax Burden
Pay 2017 to 2021

**Total Levy:** Maximum Levy Growth Quotient (MLGQ) average increase is 3.8%
- Increase in school referendum funds adds 0.9%

**Residential:** Residential values are rising rapidly, household formation, rising incomes, low mortgage rates, lagging home construction

**Apartments:** Scarce homes keep demand for apartments high

**Agricultural:** Low agricultural commodity prices since 2014

**Commercial:** Ongoing decline of brick-and-mortar retailers due to rising internet sales
Projected Property Tax Burden
2021 – 2026
Average Annual Percent Change, Pay 2017-21 and Projected 2021-26

Property Tax Liabilities (Tax Bills) by Property Class

<table>
<thead>
<tr>
<th></th>
<th>2017-21</th>
<th>2021-26</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>4.5%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Residential</td>
<td>6.3%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Apartments</td>
<td>7.3%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Agricultural</td>
<td>-2.3%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Commercial</td>
<td>1.5%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Industrial</td>
<td>4.6%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Personal Property</td>
<td>0.0%</td>
<td>0.8%</td>
</tr>
</tbody>
</table>
Property Tax Liabilities (Tax Bills) by Property Class
Pay 2021 and 2026 (dollars in millions)
Property Tax Liabilities (Tax Bills) by Property Class
Pay 2021 and 2026 (dollars in millions)

- **Pay 2021**
  - 17.1%, $1,381
  - 7.5%, $602
  - 17.7%, $1,434
  - 6.5%, $529
  - 4.8%, $389
  - 45.6%, $3,685
  - 0.7%, $60

- **Pay 2026**
  - 14.2%, $1,436
  - 6.7%, $672
  - 15.3%, $1,543
  - 7.2%, $727
  - 5.1%, $516
  - 51.0%, $5,149
  - 0.5%, $50
Trends in Property Tax Liabilities
*Pay 2021-2026*

- Total: Maximum Levy Growth Quotient average increase above 4%
- Residential values have been rising *even more* rapidly since 2020.
- Agricultural commodity prices began to rise in 2020-21, so the base rate of farmland will *increase*.
- Pandemic-inspired shift toward work-at-home may decrease values of commercial office space.
Property Tax Revenue Capacity
Average Certified Levy as Percent of Maximum Levy by Unit Type, 2021 (Unweighted)
Property Tax Liability as Percent of Circuit Breaker Cap Maximum by Property Type

<table>
<thead>
<tr>
<th>Year</th>
<th>Homesteads (1%)</th>
<th>Residential/Farmland (2%)</th>
<th>Business Real/Personal Property (3%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>84.3%</td>
<td>89.4%</td>
<td>74.1%</td>
</tr>
<tr>
<td>2021</td>
<td>91.6%</td>
<td>95.7%</td>
<td>75.4%</td>
</tr>
<tr>
<td>2026</td>
<td>91.6%</td>
<td>91.1%</td>
<td>69.5%</td>
</tr>
</tbody>
</table>
Urban, Mixed and Rural Counties (Ayres-Waldorf County Classifications)
Property Tax Liability as Percent of Circuit Breaker Cap Maximum by Property Type – 2021

- Urban: 100.8%, 106.1%
- Mixed: 82.7%, 77.1%, 82.6%
- Rural: 67.8%, 64.6%, 79.2%

Legend:
- Homesteads (1%)
- Residential/Farmland (2%)
- Business Real/Personal Property (3%)
Elimination of Business Personal Property Taxes
Property Tax Liabilities (Tax Bills) by Property Class
Pay 2021 (dollars in millions)

Urban Counties
- Personal Property: $820
- Agriculture: $118
- Industrial: $409
- Residential: $2,668
- Apartments: $342
- All Other: $38

Mixed Counties
- Personal Property: $356
- Agriculture: $199
- Industrial: $142
- Residential: $730
- Apartments: $245

Rural Counties
- Personal Property: $205
- Agriculture: $212
- Industrial: $287
- All Other: $50
- Residential: $7
Property Tax Liabilities (Tax Bills) by Property Class
Pay 2021 (dollars in millions)

Urban Counties
- 48.4%, $2,668
- 2.1%, $118
- 0.7%, $38
- 14.9%, $820

Mixed Counties
- 42.4%, $730
- 2.3%, $39
- 0.7%, $12
- 20.7%, $356

Rural Counties
- 33.9%, $287
- 0.8%, $7
- 1.1%, $9
- 24.2%, $205

Legend:
- All Other
- Residential
- Apartments
- Agricultural
- Commercial
- Industrial
- Personal Property

Other values include:
- 0.7%, $35
- 0.8%, $7
- 10.0%, $327
- 42.2%, $1,100
- 20.7%, $603
- 9.0%, $247
- 5.9%, $76
Elimination of Inventory Taxes (2007)
(about 8% of net taxes)

\[
\text{Tax Rate} = \frac{\text{Levy (at/under max levy)}}{\text{Net Assessed Value}}
\]

\[
\text{Inventory AV} \quad \downarrow \quad \text{Eliminated} \quad \uparrow \quad \text{Tax Rate Rises}
\]

Homestead Net AV \times Tax Rate \rightarrow Tax Bill

Other Residential Net AV \times Tax Rate \rightarrow Tax Bill

Business Land/Bldgs/PP Net AV \times Tax Rate \rightarrow Tax Bill

Inventory Net AV \times Tax Rate \rightarrow \text{Tax Bill (Eliminated)}
Tax Caps in the Indiana Constitution
Article 10, Section 1, Parts f, g, & h

Circuit Breaker Tax caps limit total tax bills to percentages of gross assessed value.

1% Homestead
2% Other Residential/Farmland
3% Business Real/Personal Property

Taxes passed by referendum are exempt from caps.
Elimination of Personal Property Taxes
(about 17% of net taxes)

Homestead Net AV \times \text{Tax Rate} \rightarrow \text{Tax Bill} 

\text{Other Residential Net AV} \times \text{Tax Rate} \rightarrow \text{Tax Bill} 

\text{Business Land/Bldgs Net AV} \times \text{Tax Rate} \rightarrow \text{Tax Bill}

Some taxpayers reach their caps: Minus Tax Cap Credits

Small share of Levy is collected
### Average Percent Change, Net Levy 2026

<table>
<thead>
<tr>
<th>BPP as pct. Of Total NAV</th>
<th>Less than 2%</th>
<th>2% to 5%</th>
<th>5% to 10%</th>
<th>10% to 20%</th>
<th>20% or More</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10%</td>
<td>-2.6%</td>
<td>-4.0%</td>
<td>-6.6%</td>
<td>-7.7%</td>
<td></td>
<td>-4.4%</td>
</tr>
<tr>
<td>10% to 13%</td>
<td>-5.0%</td>
<td>-7.3%</td>
<td>-8.4%</td>
<td>-9.6%</td>
<td></td>
<td>-11.2%</td>
</tr>
<tr>
<td>13% to 17%</td>
<td>-4.2%</td>
<td>-6.3%</td>
<td>-10.8%</td>
<td>-12.5%</td>
<td></td>
<td>-14.5%</td>
</tr>
<tr>
<td>17% to 25%</td>
<td>-8.2%</td>
<td>-14.4%</td>
<td>-14.4%</td>
<td>-19.9%</td>
<td></td>
<td>-19.3%</td>
</tr>
<tr>
<td>25% or More</td>
<td>-19.4%</td>
<td>-29.3%</td>
<td>-14.8%</td>
<td></td>
<td></td>
<td>-14.5%</td>
</tr>
<tr>
<td>All</td>
<td>-5.9%</td>
<td>-7.1%</td>
<td>-11.8%</td>
<td>-14.5%</td>
<td>-15.6%</td>
<td>-10.9%</td>
</tr>
</tbody>
</table>

### Average Percent Change, Residential Liability, 2026

<table>
<thead>
<tr>
<th>BPP as pct. Of Total NAV</th>
<th>Less than 2%</th>
<th>2% to 5%</th>
<th>5% to 10%</th>
<th>10% to 20%</th>
<th>20% or More</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10%</td>
<td>4.7%</td>
<td>1.1%</td>
<td>2.8%</td>
<td>1.9%</td>
<td></td>
<td>3.5%</td>
</tr>
<tr>
<td>10% to 13%</td>
<td>7.0%</td>
<td>5.2%</td>
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<td>7.4%</td>
<td>7.2%</td>
<td>5.7%</td>
<td>4.1%</td>
<td>7.2%</td>
</tr>
</tbody>
</table>
ELIMINATION OF BUSINESS PERSONAL PROPERTY TAXES

Residential Tax Liability Pct. Change
BPP Elimination, 2026

Percent Change
- Less than 3%
- 3% to 5%
- 5% to 7%
- 7% to 12%
- 12% or More
Business Personal Property Tax Elimination

• Greater revenue losses where personal BPP is a large share of assessed value and many taxpayers are at their circuit breaker caps

• Bigger tax bill increases where personal BPP is a large share of assessed value and taxpayers are below their circuit breaker caps

• Rural and mixed counties have a larger share of BPP than urban counties

• Elimination of the 30% floor on new investment should have the same pattern of effects as total elimination

• Counties with more rapidly growing BPP will be affected more by elimination of 30% floor on new investment.
Thank you!

Dr. Larry DeBoer

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