

Indiana Business Personal Property Tax Analysis

Prepared for
the Association of Indiana Counties

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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

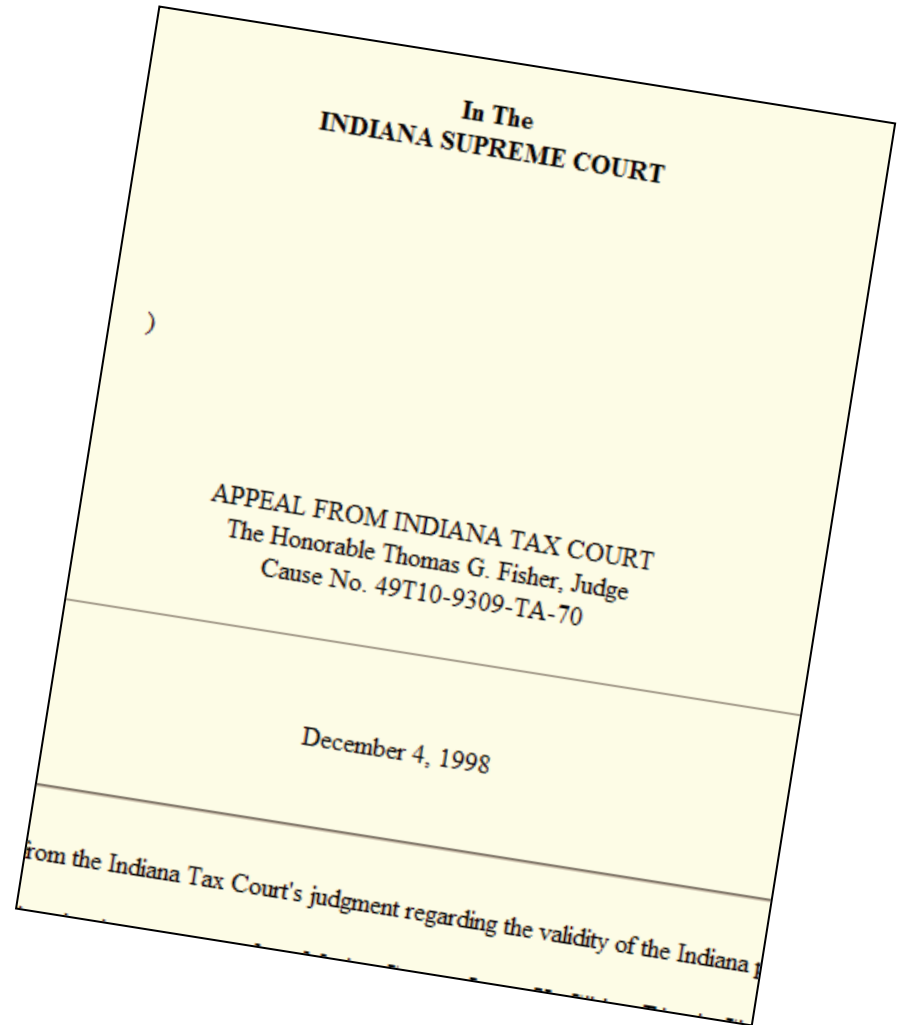
- Business personal property tax filings are self reported and confidential. Under the scope of the engagement with the AIC, this analysis modeled the fiscal impact for the 100% elimination of taxation of business personal property.



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*.



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

Household Property	Eliminated in 1966
Intangibles	Eliminated in 1966
Automobiles	Eliminated in 1970
Heavy Vehicles	Eliminated in 2000
Inventories	Eliminated in 2007
Business Equipment	Remains in Tax Base
Buildings	Remains in Tax Base
Land	Remains in Tax Base

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.

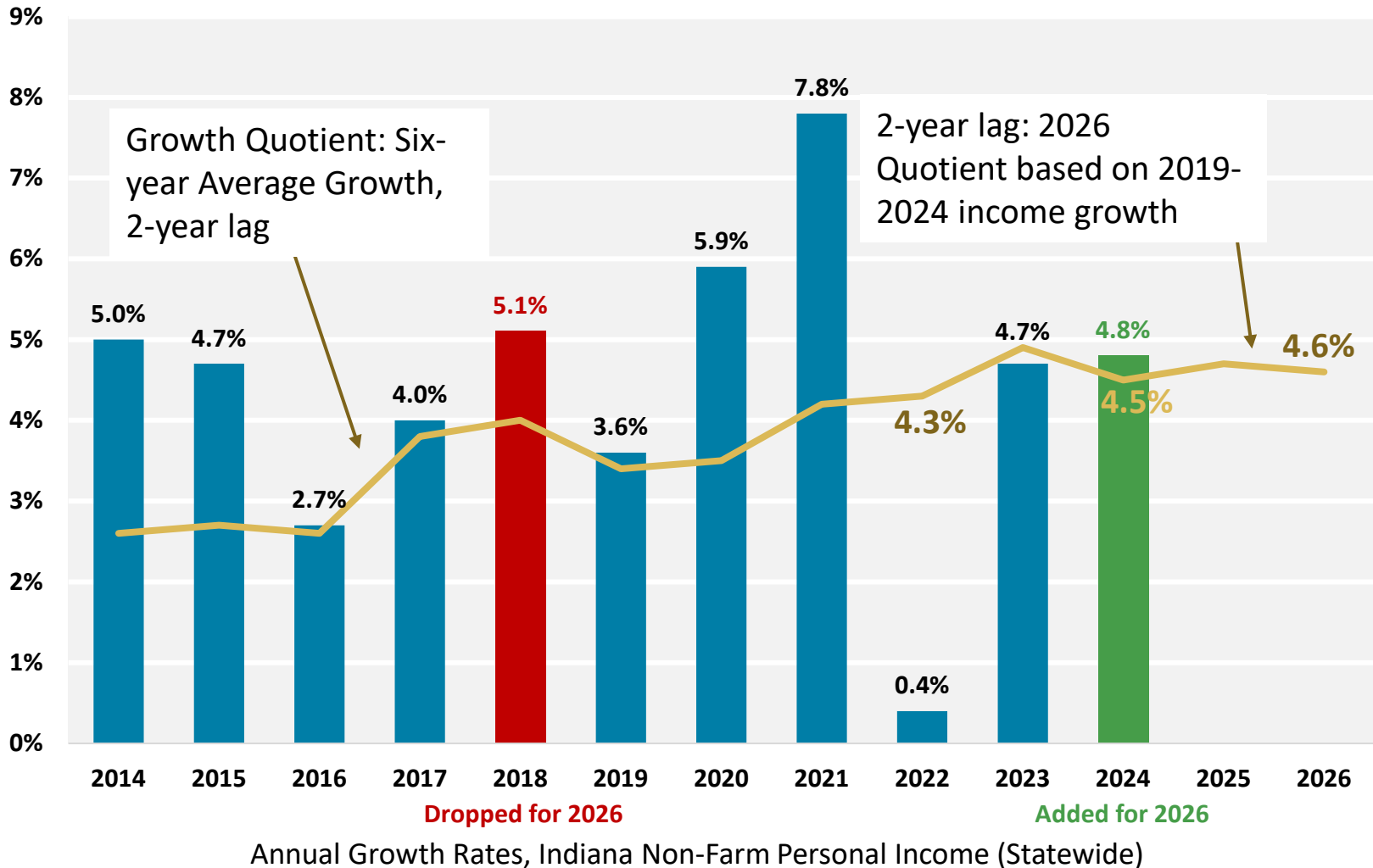
(2) Tangible personal property other than property being held as an investment.



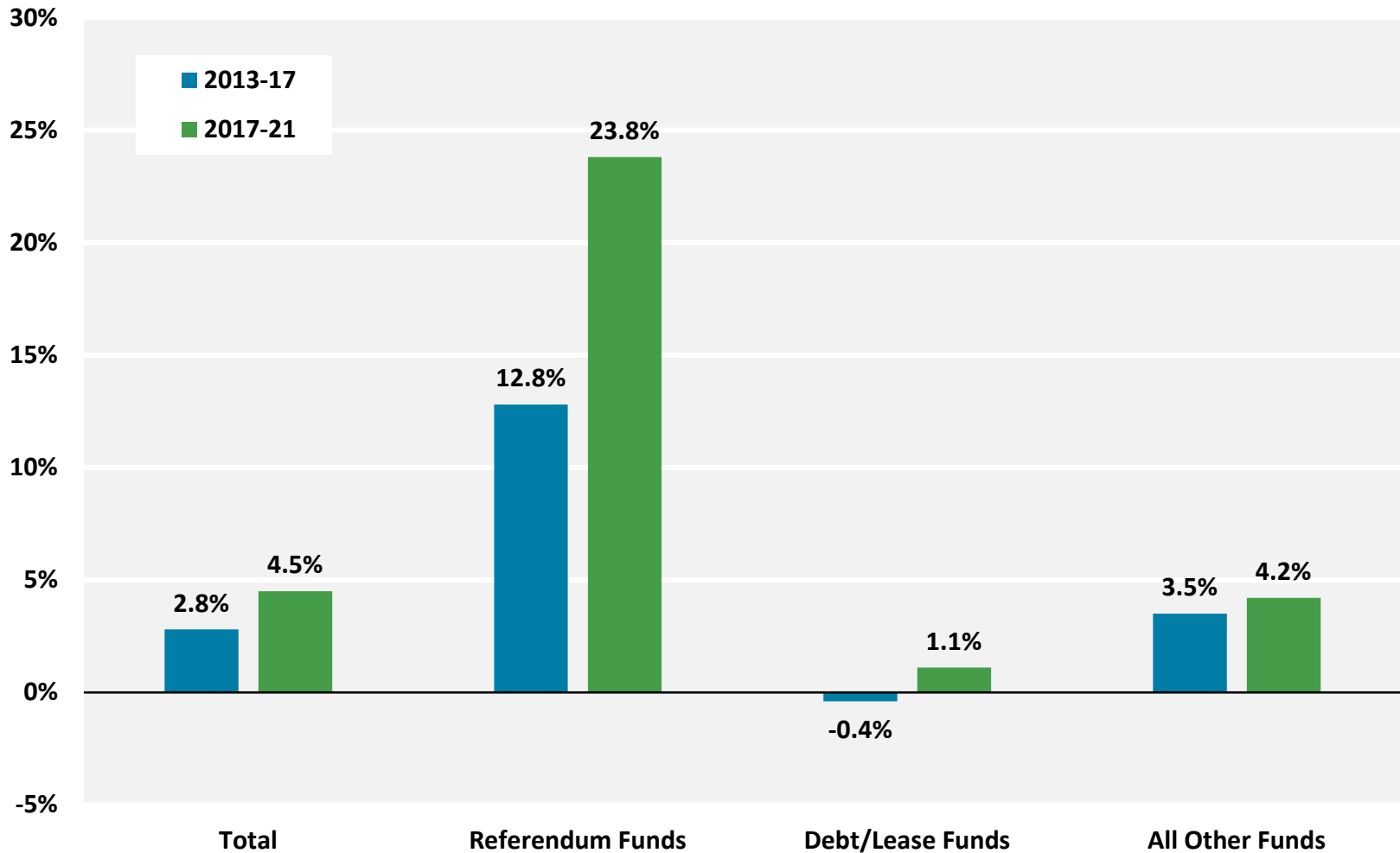
Property Tax Burden

2017 – 2021

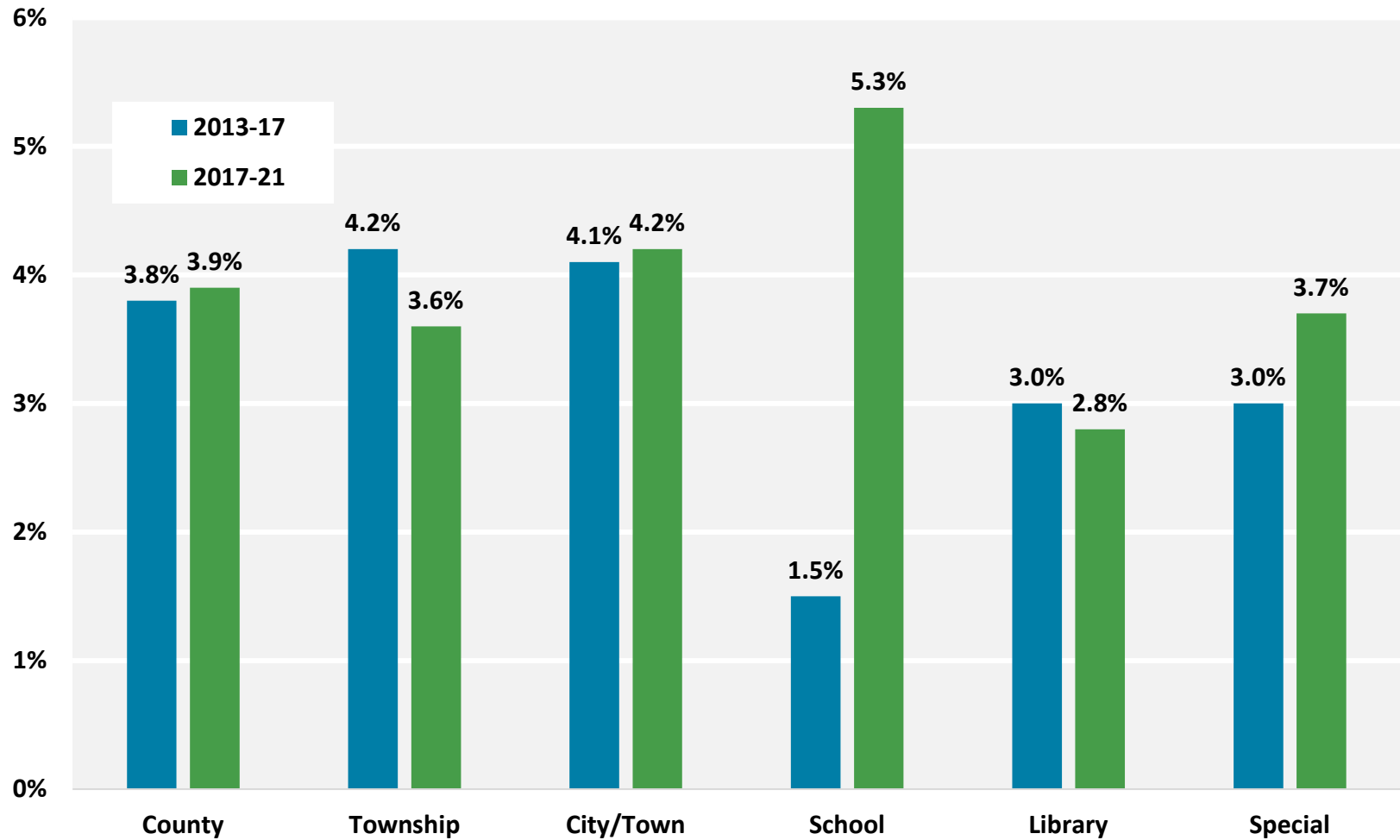
Calculation of Property Tax Maximum Levy Growth Quotient (2014 – 2026)



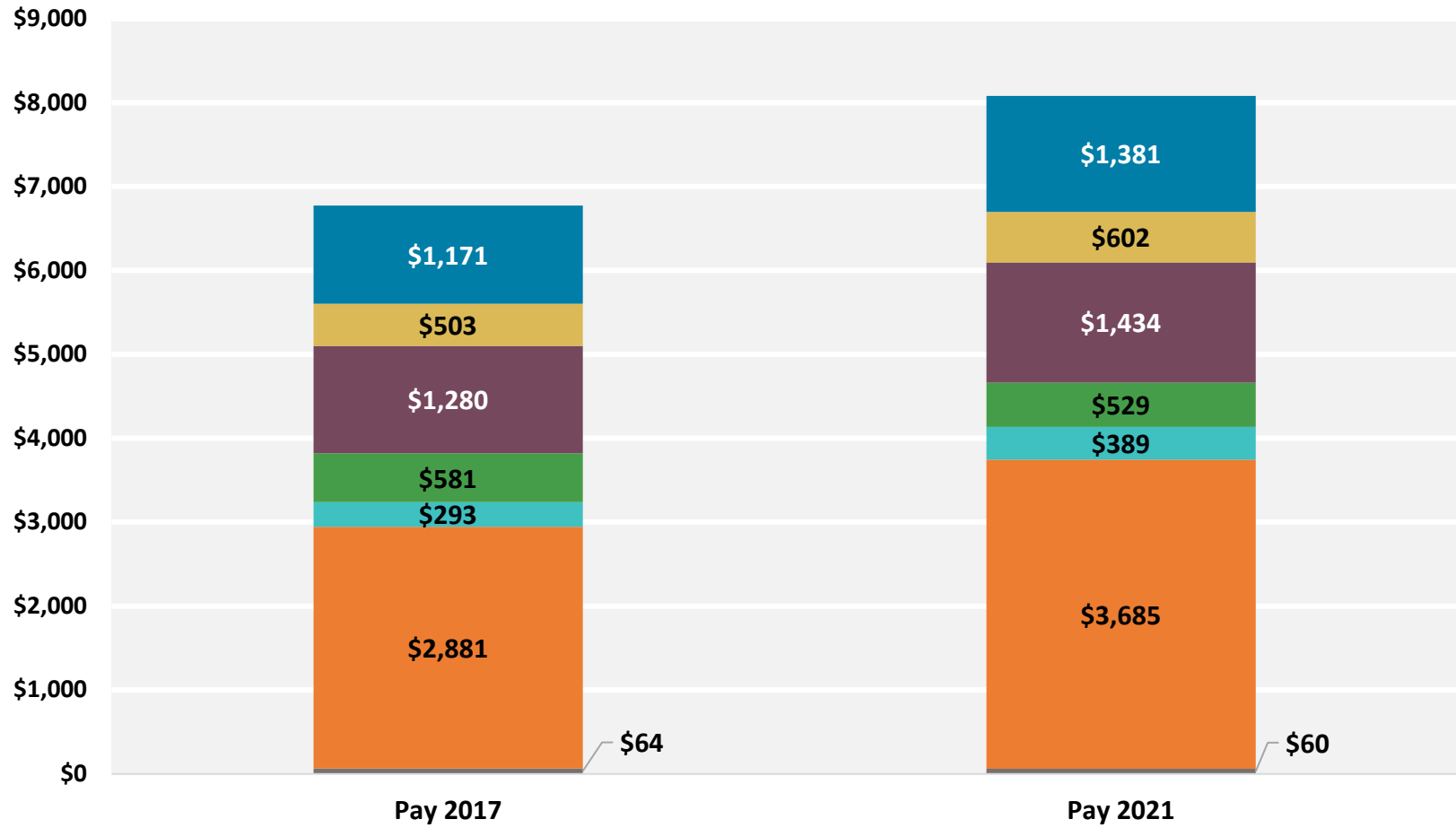
Certified Levy Growth by Fund Type



Certified Levy Growth by Unit Type

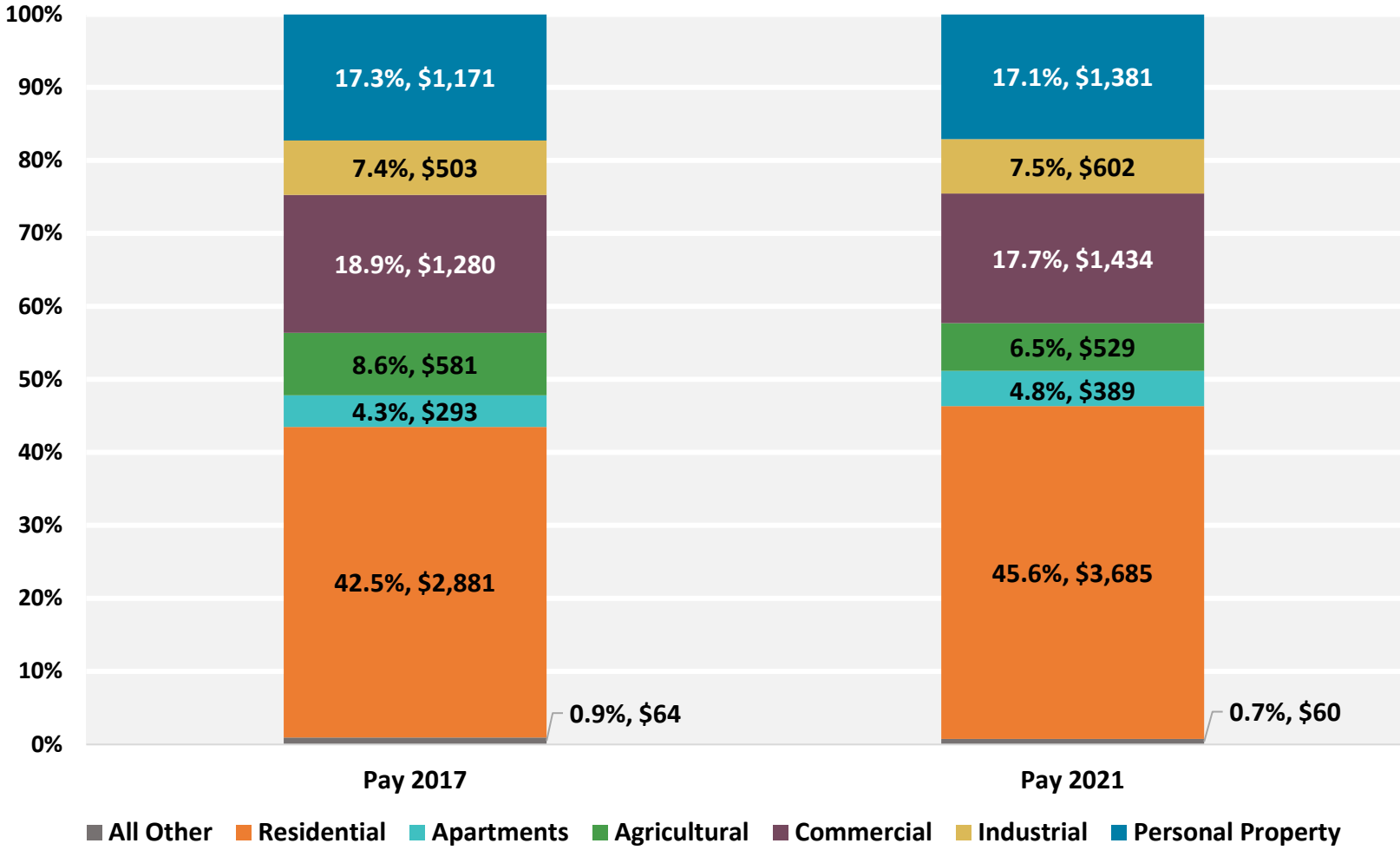


Difference from 2017 to 2021 in Property Tax Liabilities (Dollars in Millions)



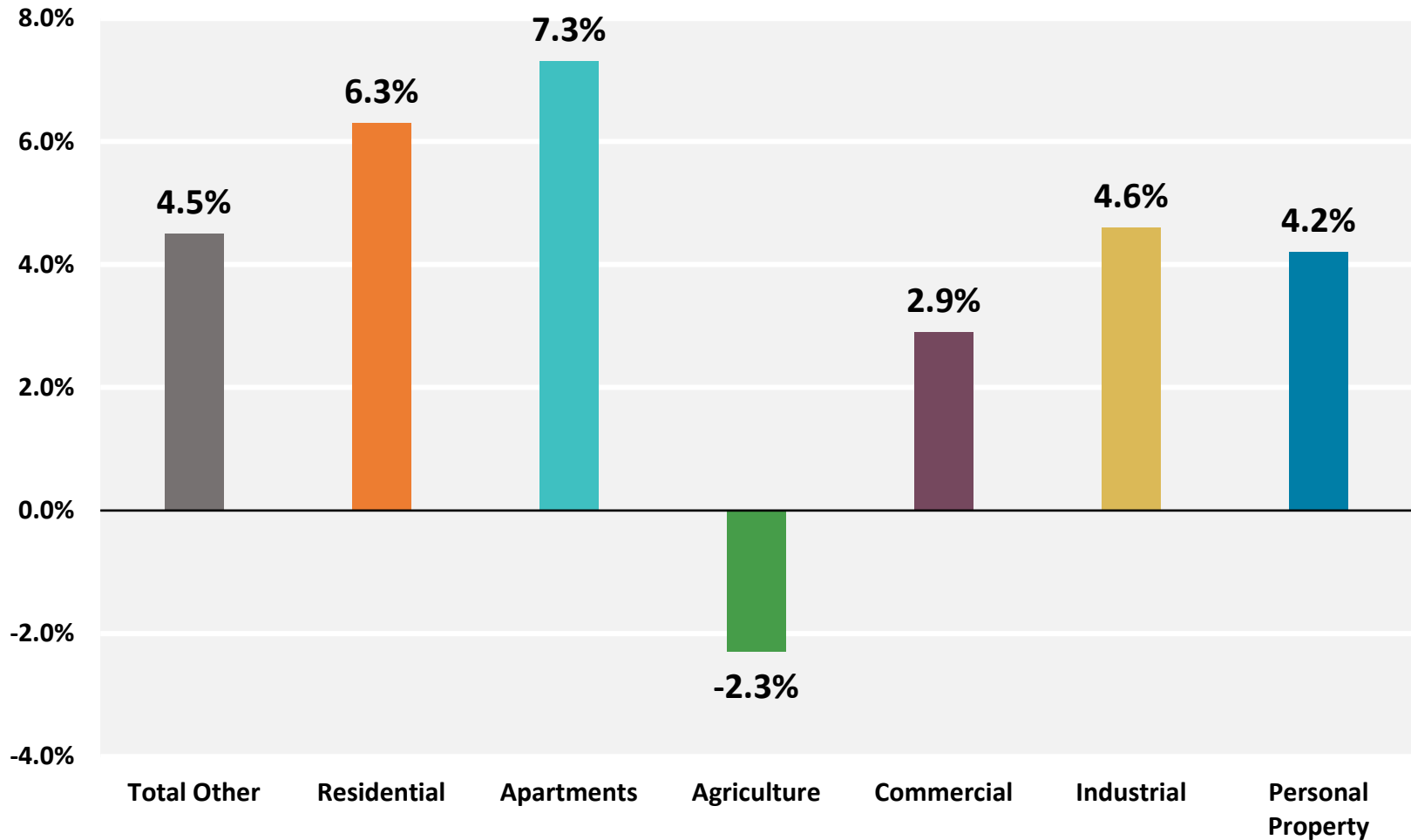
■ All Other
 ■ Residential
 ■ Apartments
 ■ Agricultural
 ■ Commercial
 ■ Industrial
 ■ Personal Property

Percent of Total Property Tax Liability by Class (Dollars in Millions)



Average Annual Percent Change, Pay 2017 to 2021

Property Tax Liabilities (Tax Bills) by Property Class



Explanation of Changes in Property Tax Burden

Pay 2017 to 2021

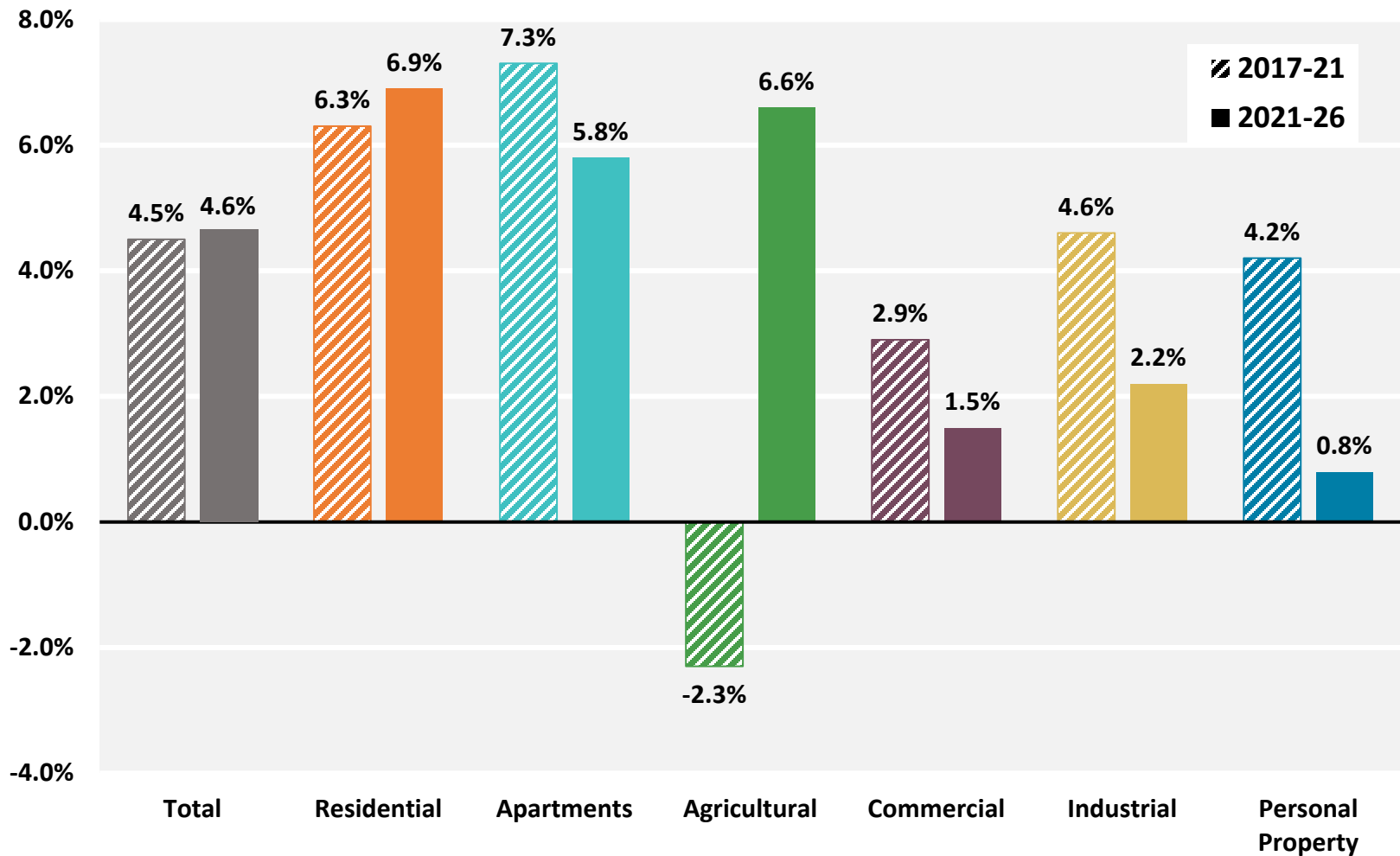
- **Total Levy:** Maximum Levy Growth Quotient (MLGQ) average increase is 3.8%
 - Increase in school referendum funds adds 0.9%
- **Residential:** Residential values are rising rapidly, household formation, rising incomes, low mortgage rates, lagging home construction
- **Apartments:** Scarce homes keep demand for apartments high
- **Agricultural:** Low agricultural commodity prices since 2014
- **Commercial:** Ongoing decline of brick-and-mortar retailers due to rising internet sales



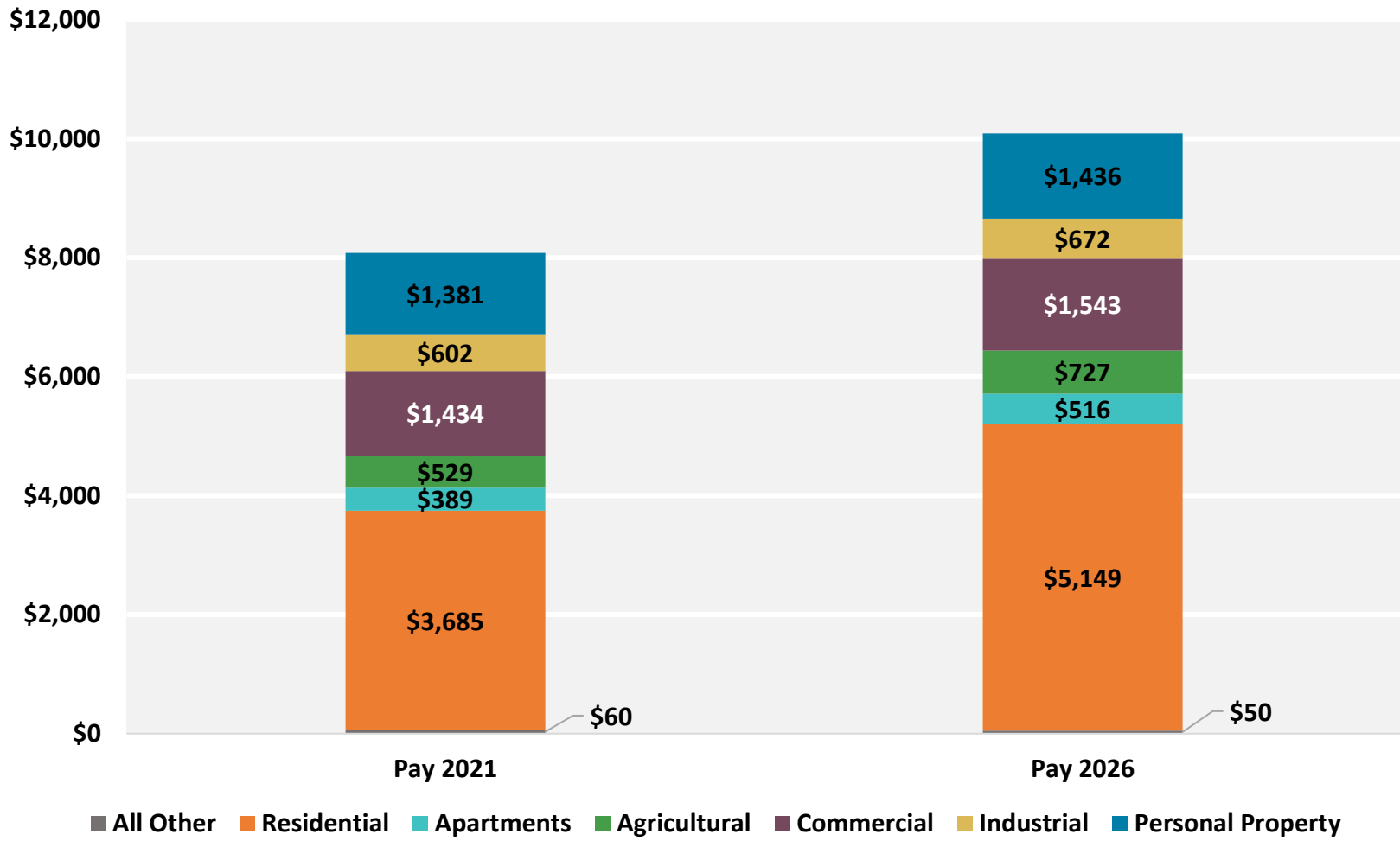
Projected Property Tax Burden

2021 – 2026

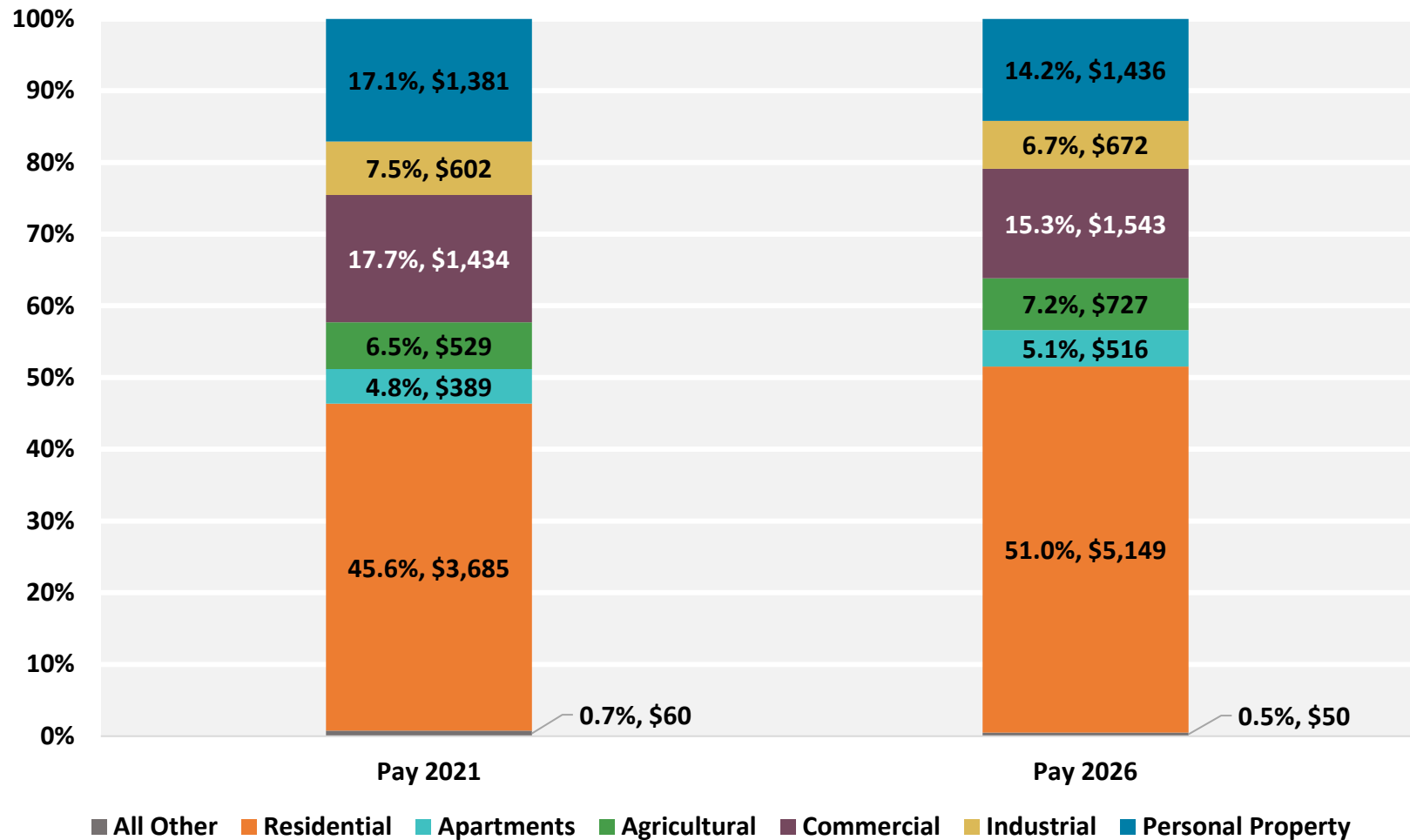
Average Annual Percent Change, Pay 2017-21 and Projected 2021-26 Property Tax Liabilities (Tax Bills) by Property Class



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)



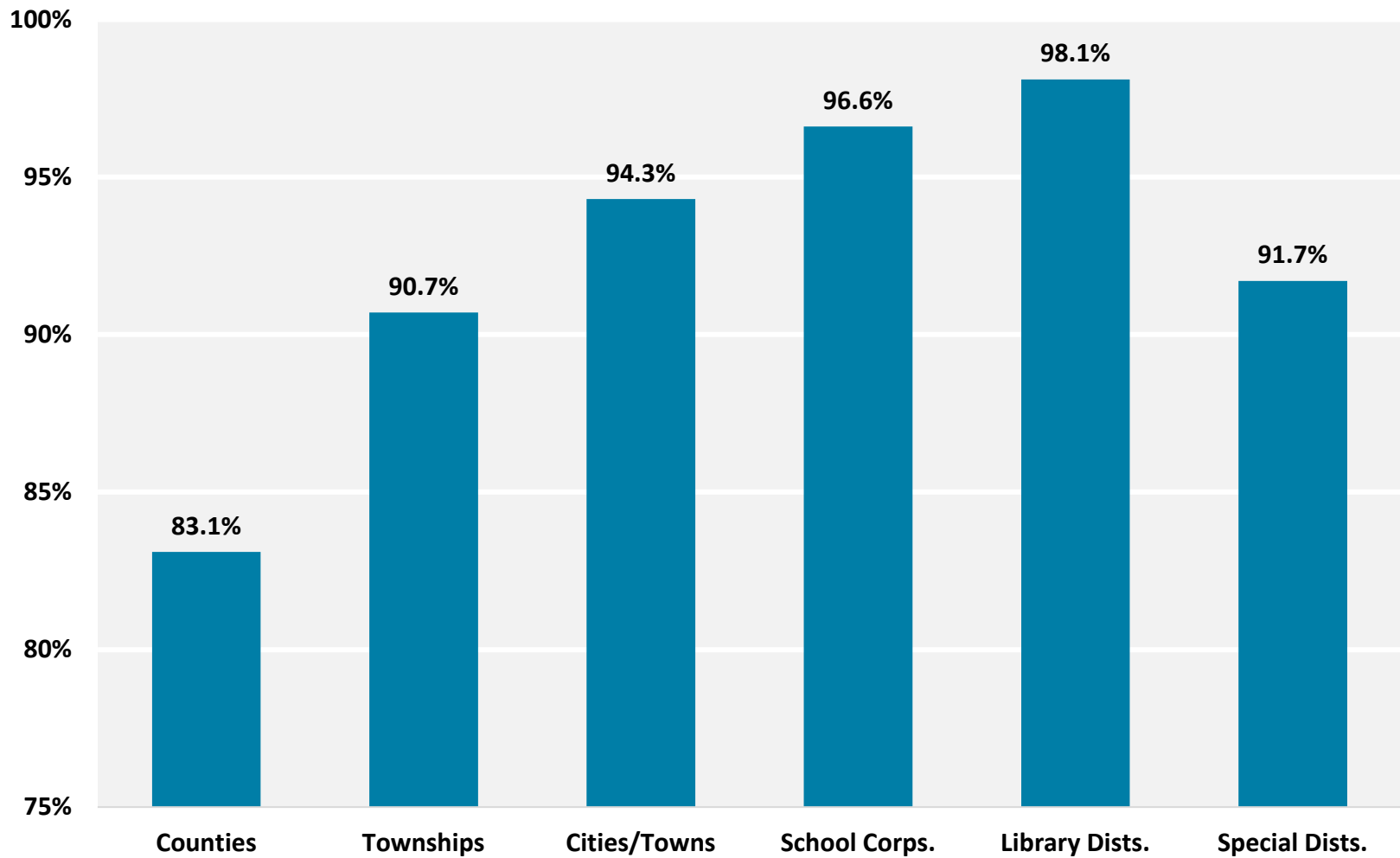
Trends in Property Tax Liabilities *Pay 2021-2026*

- 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.

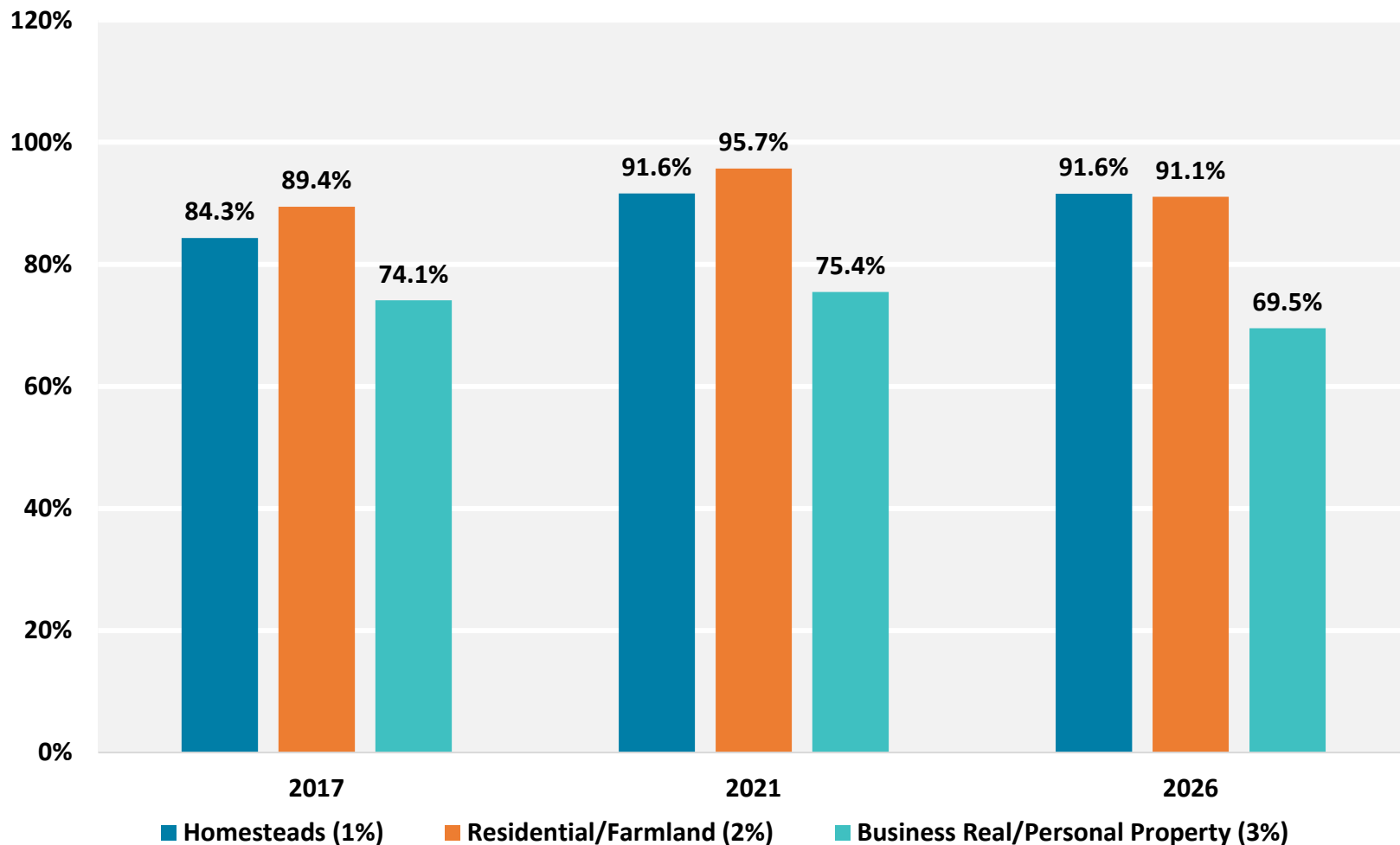


Property Tax Revenue Capacity

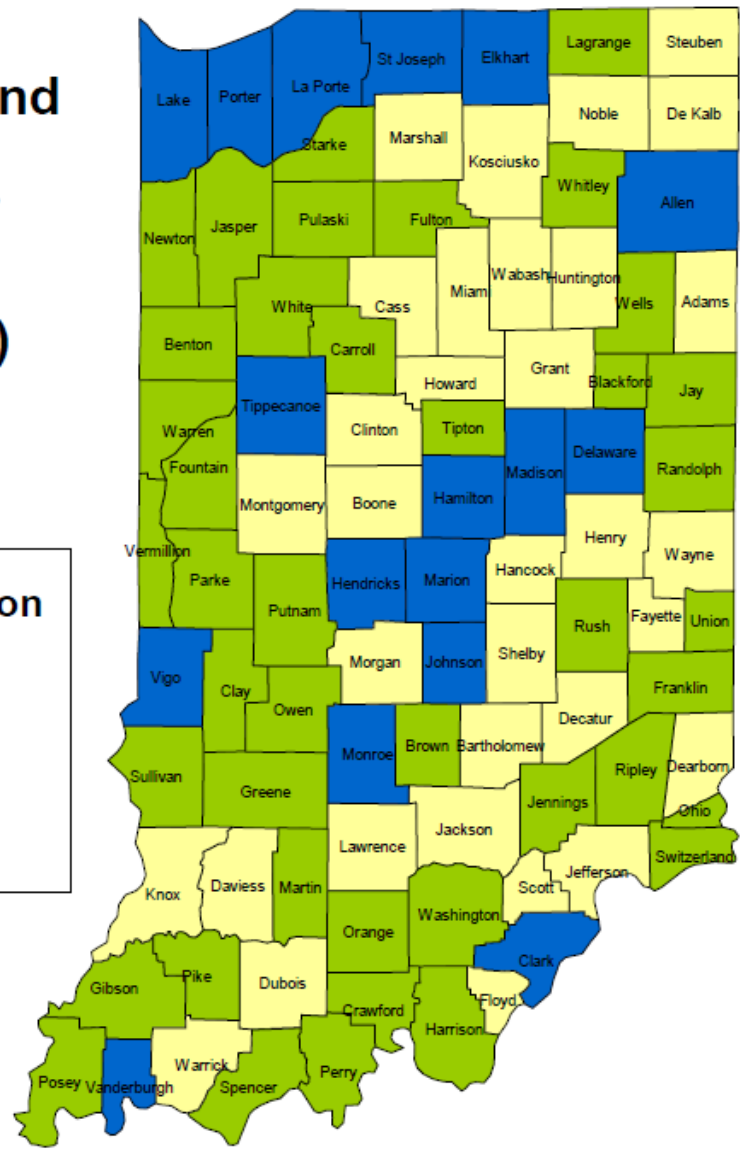
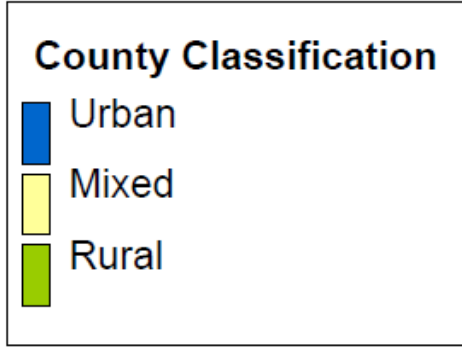
Average Certified Levy as Percent of Maximum Levy *by Unit Type, 2021 (Unweighted)*



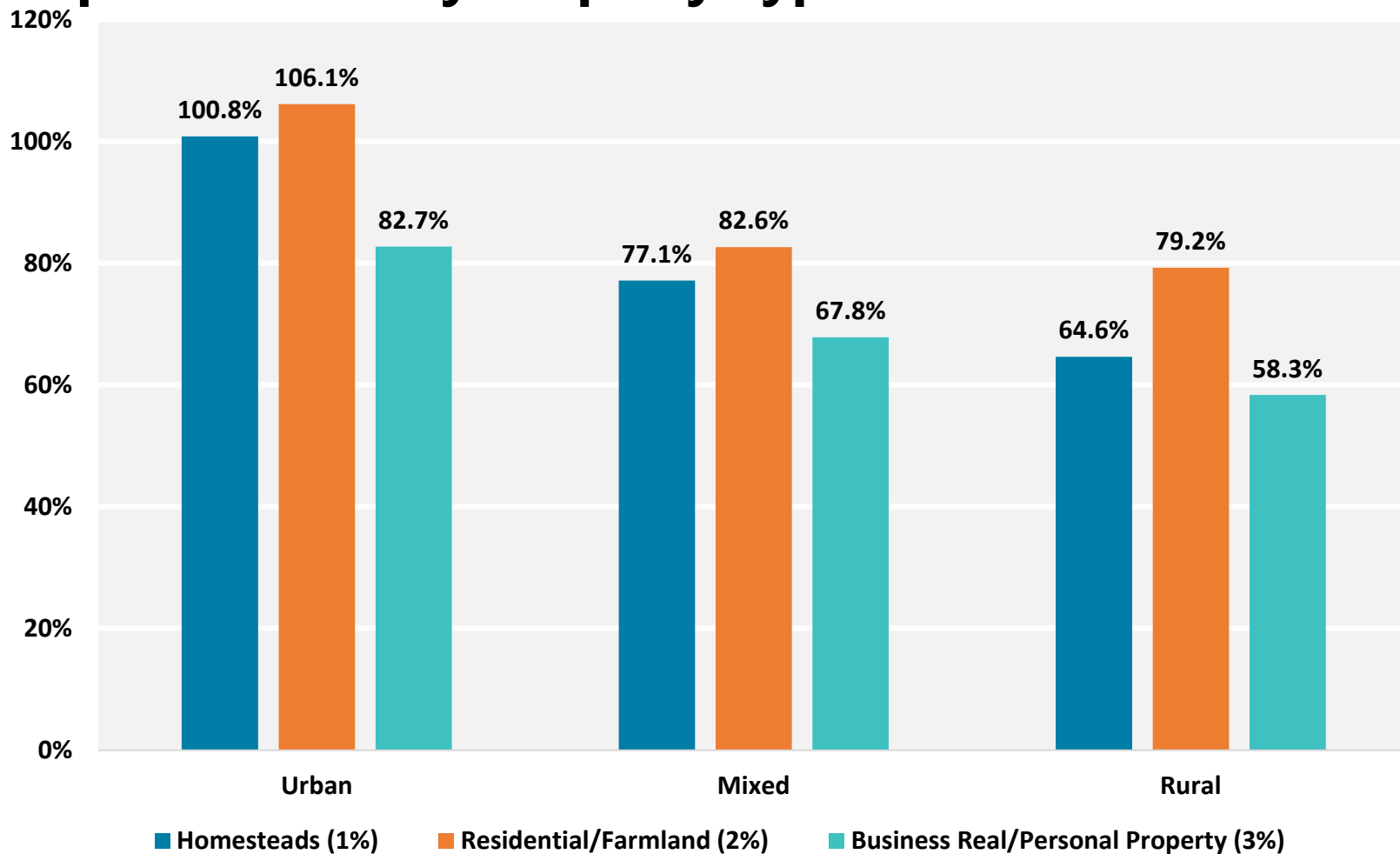
Property Tax Liability as Percent of Circuit Breaker Cap Maximum by Property Type



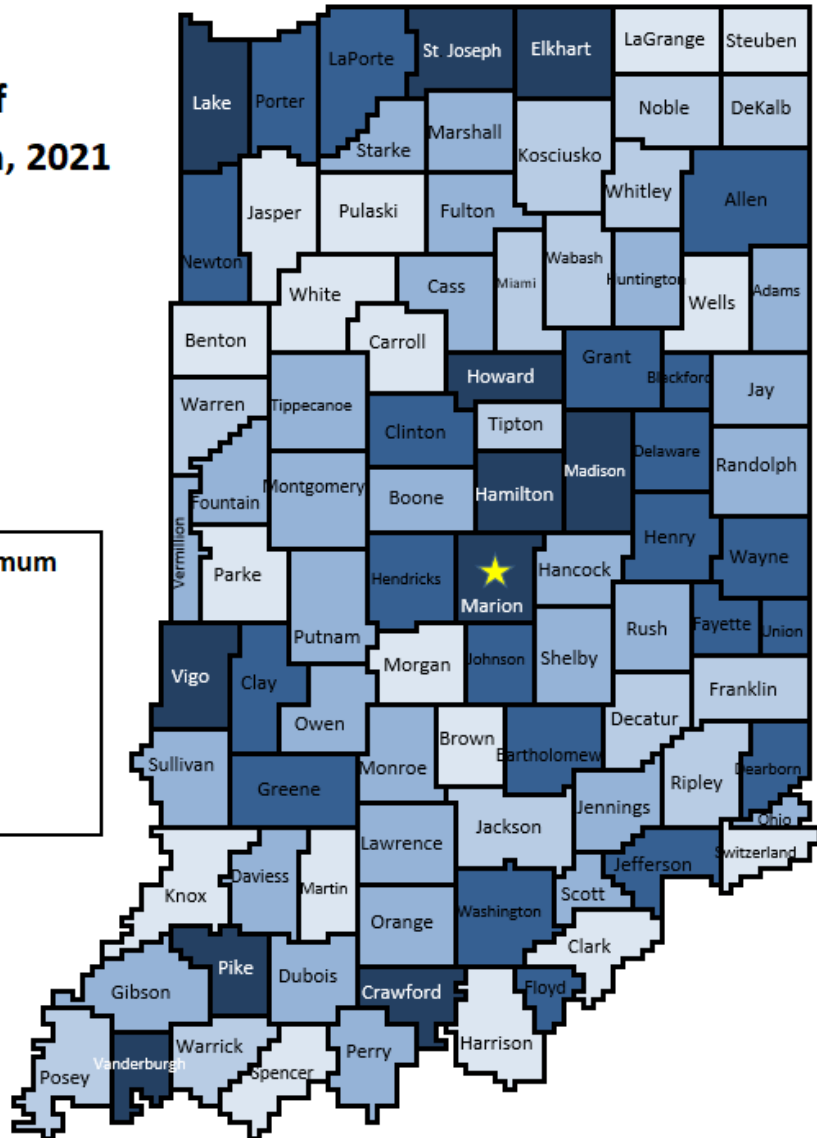
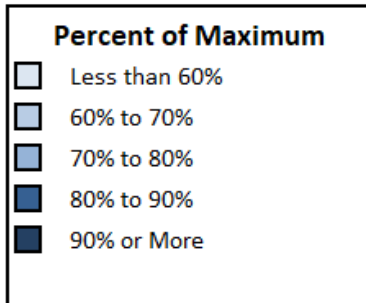
Urban, Mixed and Rural Counties (Ayres-Waldorf County Classifications)



Property Tax Liability as Percent of Circuit Breaker Cap Maximum by Property Type – 2021

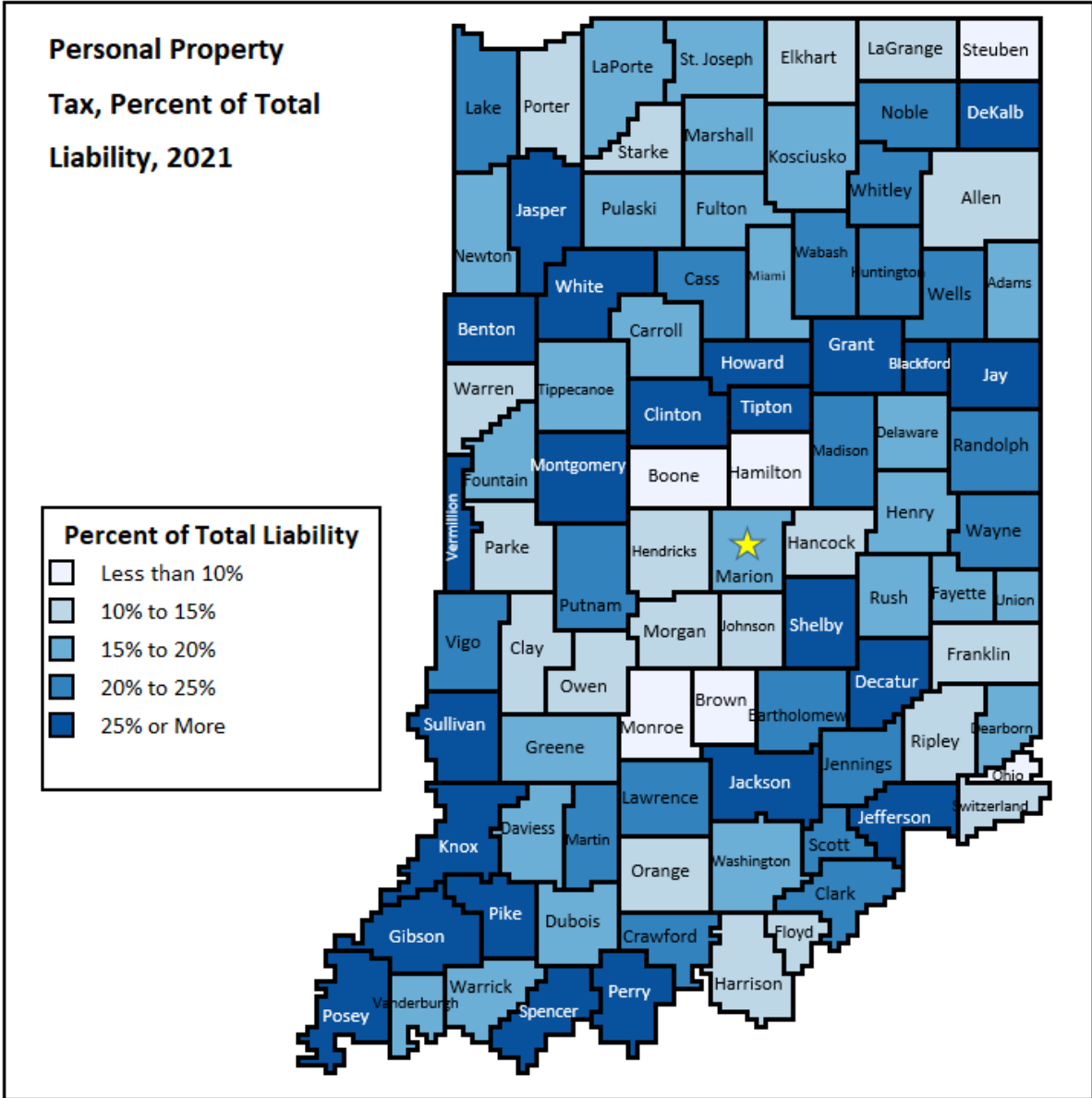


Property Tax Liability, Pct of Cap Maximum, 2021

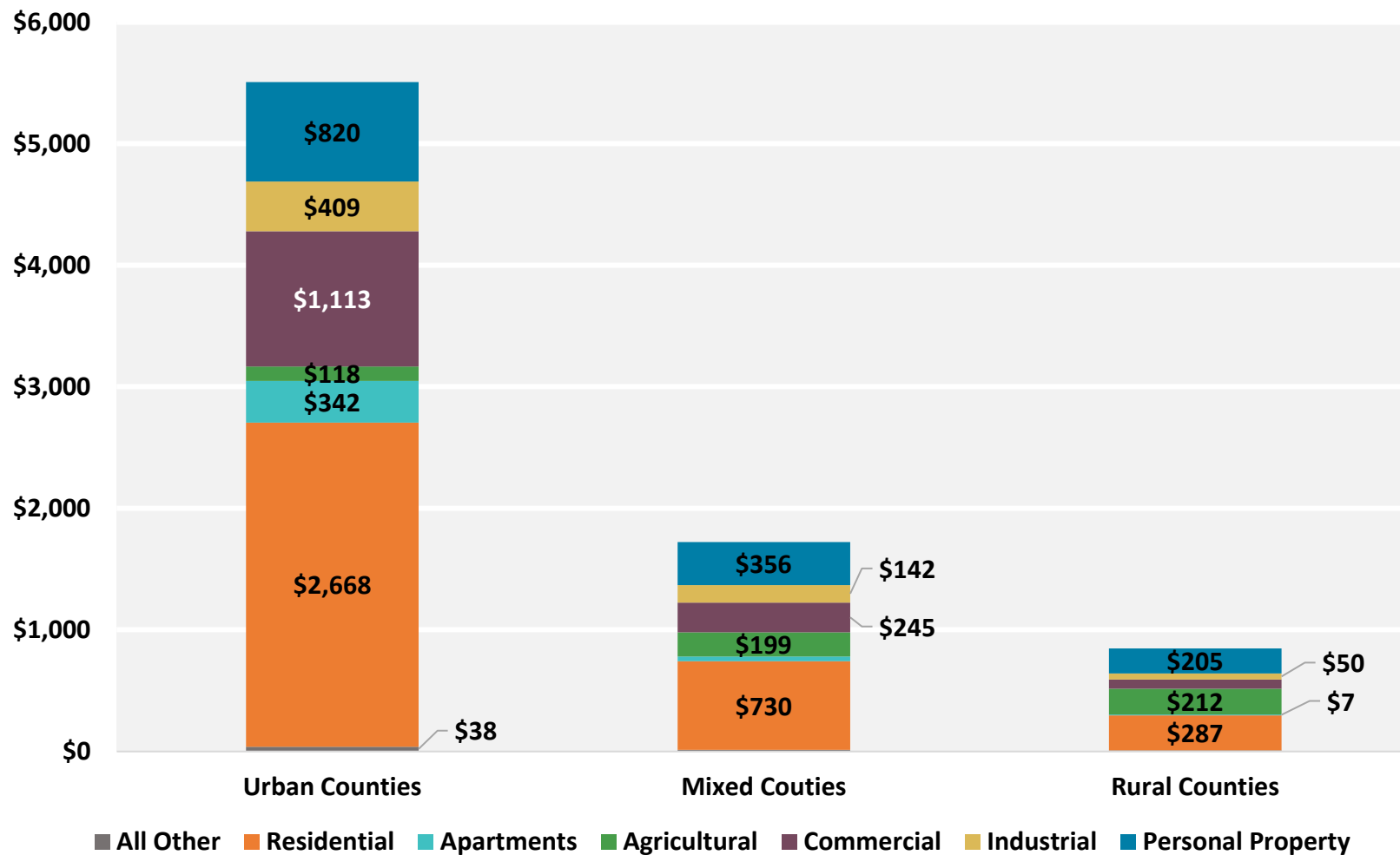




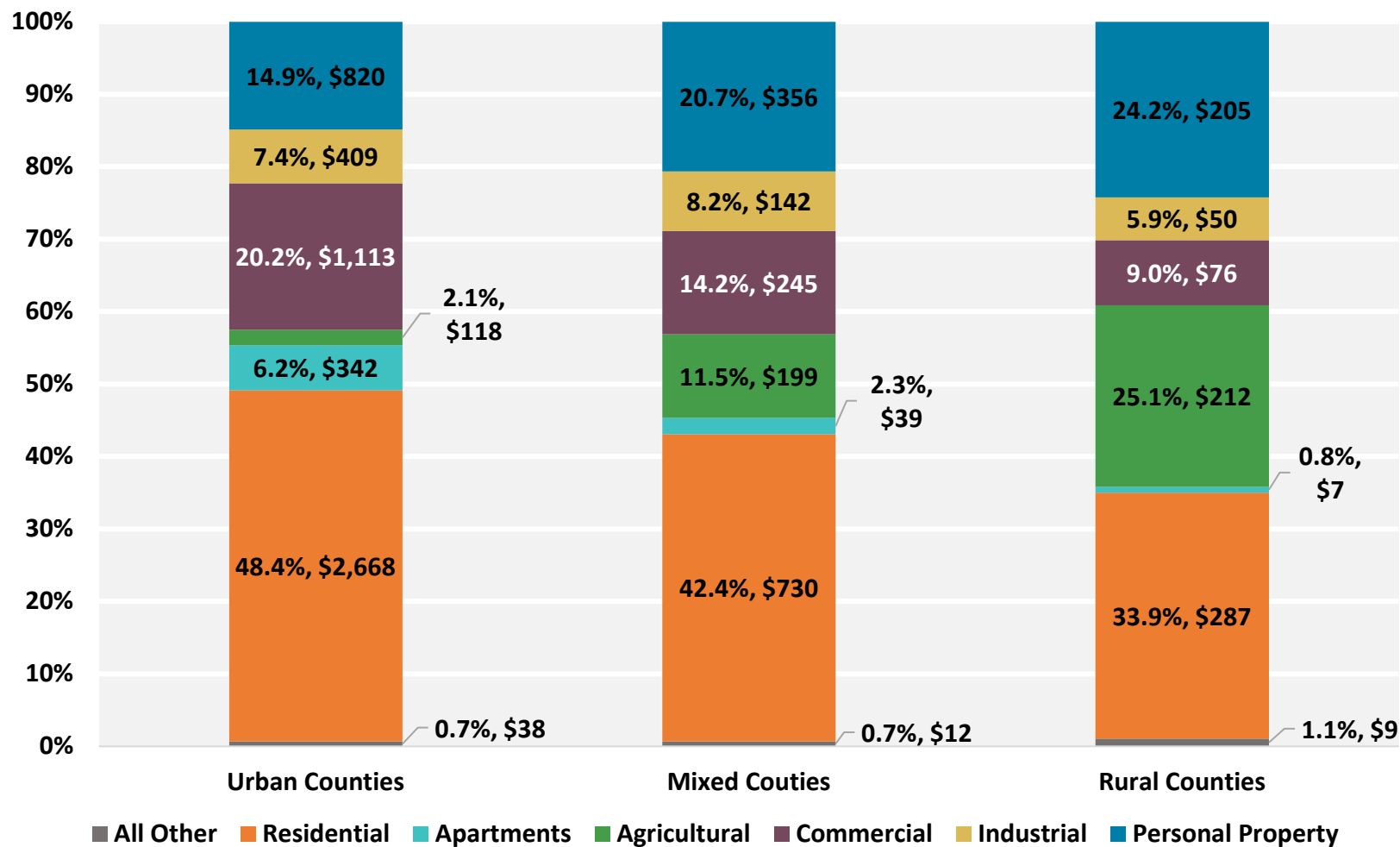
Elimination of Business Personal Property Taxes



Property Tax Liabilities (Tax Bills) by Property Class Pay 2021 (dollars in millions)



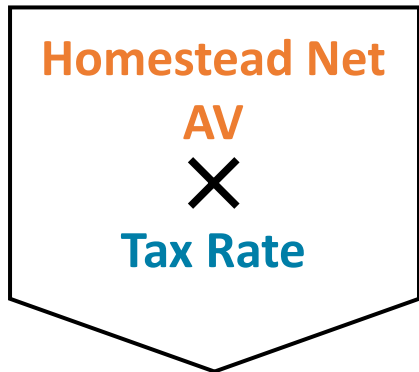
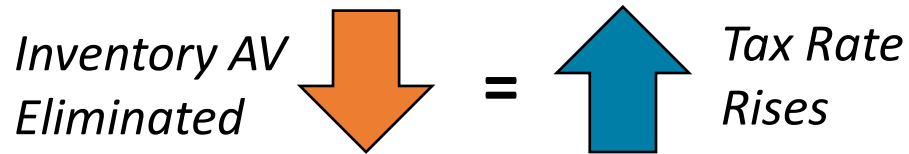
Property Tax Liabilities (Tax Bills) by Property Class Pay 2021 (dollars in millions)



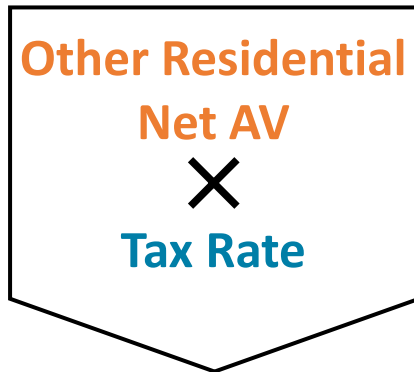
Elimination of Inventory Taxes (2007)

(about 8% of net taxes)

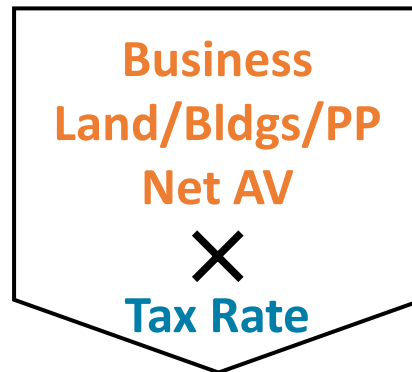
$$\frac{\text{Levy (at/under max levy)}}{\text{Net Assessed Value}} = \text{Tax Rate}$$



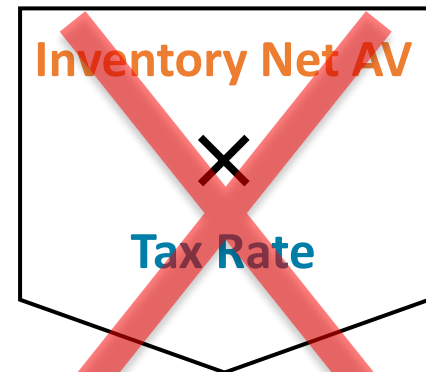
Tax Bill 



Tax Bill 



Tax Bill 



~~Tax Bill~~

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

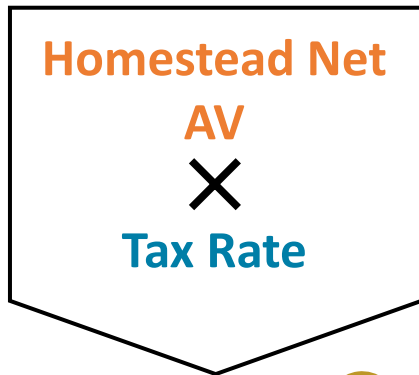
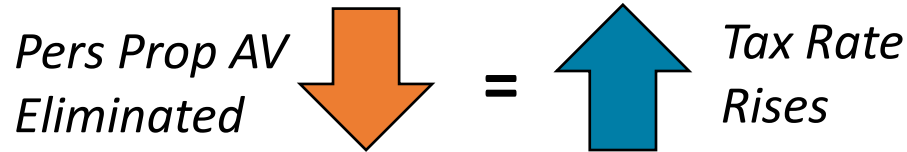
2% Other Residential/Farmland

3% Business Real/Personal Property

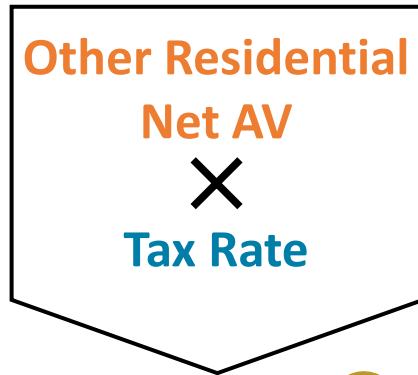
Taxes passed by referendum are exempt from caps.

Elimination of Personal Property Taxes (about 17% of net taxes)

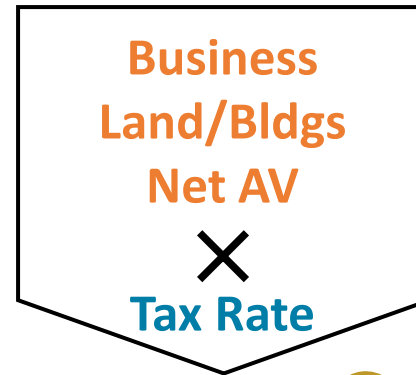
$$\frac{\text{Levy (at/under max levy)}}{\text{Net Assessed Value}} = \text{Tax Rate}$$



Tax Bill ?



Tax Bill ?



Tax Bill ?



~~Tax Bill~~

Some taxpayers reach their caps: Minus Tax Cap Credits

Smaller share of Levy is collected

Average Percent Change, Net Levy 2026

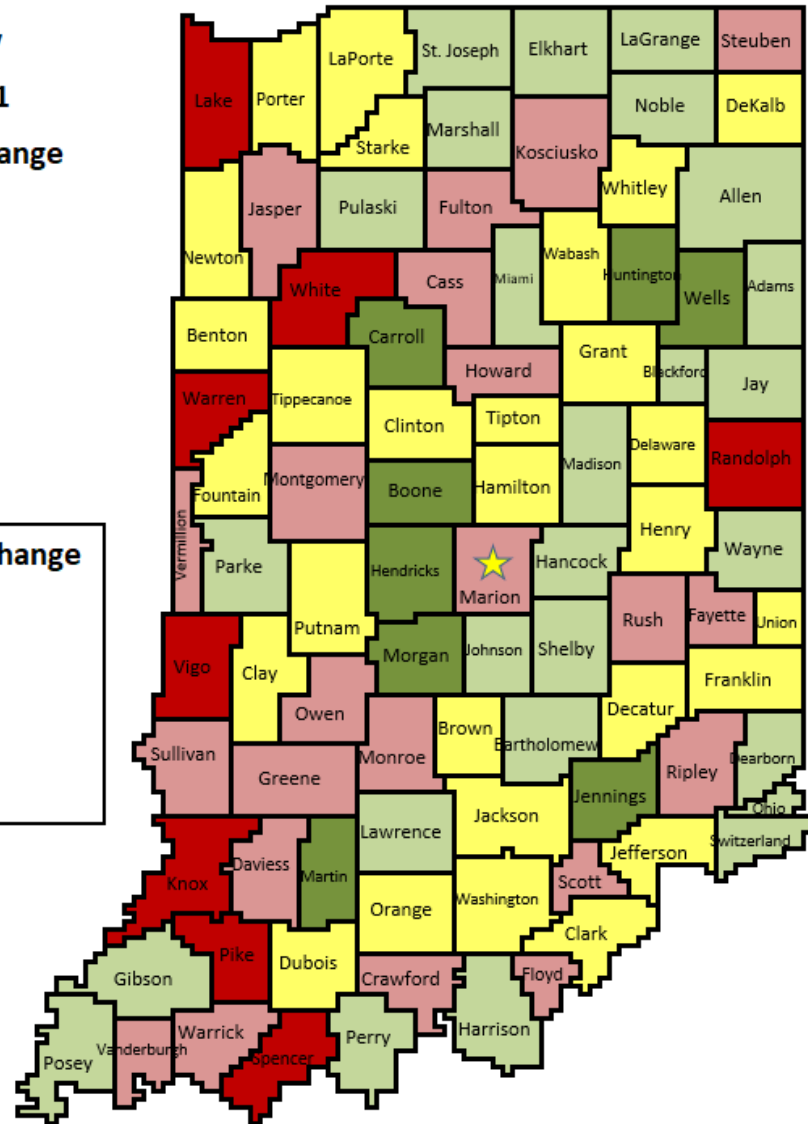
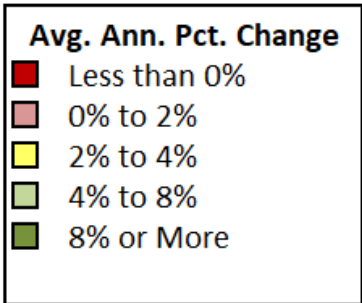
BPP as pct. Of Total NAV	Circuit Breaker Credits as Percent of Levy (w/ BPP)					All
	Less than 2%	2% to 5%	5% to 10%	10% to 20%	20% or More	
Less than 10%	-2.6%	-4.0%	-6.6%	-7.7%		-4.4%
10% to 13%	-5.0%	-7.3%	-8.4%	-9.6%	-11.2%	-8.2%
13% to 17%	-4.2%	-6.3%	-10.8%	-12.5%	-14.5%	-10.6%
17% to 25%	-8.2%	-14.4%	-14.4%	-19.9%	-19.3%	-15.4%
25% or More	-19.4%		-29.3%	-14.8%		-14.5%
All	-5.9%	-7.1%	-11.8%	-14.5%	-15.6%	-10.9%

Average Percent Change, Residential Liability, 2026

BPP as pct. Of Total NAV	Circuit Breaker Credits as Percent of Levy (w/ BPP)					All
	Less than 2%	2% to 5%	5% to 10%	10% to 20%	20% or More	
Less than 10%	4.7%	1.1%	2.8%	1.9%		3.5%
10% to 13%	7.0%	5.2%	5.0%	3.3%	2.1%	4.5%
13% to 17%	11.7%	13.7%	5.6%	6.5%	2.2%	7.1%
17% to 25%	18.5%	12.0%	13.3%	6.4%	6.8%	11.3%
25% or More	23.0%		12.7%	8.6%		13.9%
All	10.5%	7.4%	7.2%	5.7%	4.1%	7.2%

ELIMINATION OF BUSINESS PERSONAL PROPERTY TAXES

**Personal Property
Gross AV, 2017-21
Avg. Ann. Pct. Change**



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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