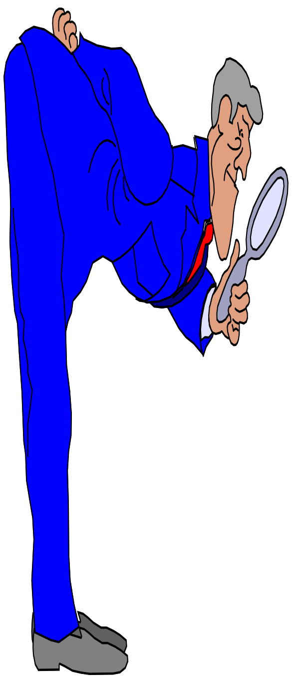
Key Ideas

Chapter 5: Tax Rates & Tax Levies



In this section, we will discuss the following:

- ***The role of Certification of assessed values by local officials***
- ***The limits to annual property tax levy increases.***

TAX RATES AND TAX LEVIES

In terms of technical and administrative problems, the most difficult part of the budget process is establishment of an adequate tax rate and tax levy. This is particularly difficult because maximum levy limitations are in place for each County. The maximum levy limitation controls the amount of property tax levied by a County, thereby placing a cap on revenues available through property tax.

Tax Rate = (Tax Levy/AV) * 100 or Tax Levy = (AV/100) * Tax Rate

When determining the levy required for a specific calendar year, the county is required to subtract from projected expenses any amounts of miscellaneous revenue that will be generated in lieu of property tax. The difference, or amount remaining, reflects what is required to be raised in property tax. If the levy (line 10, Form 4B) remaining after subtraction of miscellaneous revenues is greater than the maximum levy limitation, the auditor has two options:

1) an excessive levy appeal, if applicable; or
2) a reduction in line item expenditures during the current or proposed calendar year.

Unless the county is pursuing an excessive levy appeal for budget purposes, the auditor will automatically be required to reduce current year or ensuing calendar year expenses. A budget reduction is both a financial and political process. The financial aspect covers the requirement in Indiana for a funded budget, operations within a maximum levy limitation, and avoidance of operating in the red. The political aspects of a funded budget are evident. No discussion will follow on this area.

In preparing tax rates, local officials rely on the certification of assessed values by the County Auditor. The County Auditor works with the County Assessor to solidify values that represent the assessed valuation of all real and personal property within the county. The DLGF provides the Auditor and other officials with data on valuation of public utilities and on specific taxation limitations.

In preparing tax rates, local officials rely on the certification of assessed values by the County Auditor.

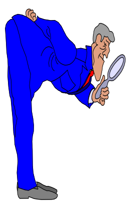
This information is used by each local official in the determination of tax rates and levies for the ensuing calendar year. As covered in Chapter 3, the information should be received no later than August 1st. The County Auditor compiles the following information for use by each taxing unit:

- Current assessed valuations.
- Estimated December property tax collections.
- Estimated December excise collections.
- Prior three years assessed valuation growth.
- Any other information deemed important.

The previous section elaborated on the importance of accurate assessed values and the role of local officials in the certification process.

Property Tax Levies

Counties are permitted property tax growth under the current tax laws. However, the increase is limited to the maximum as calculated under IC 6-1.1-18.5-3. Generally, the maximum increase is limited to the six year state-wide average increase in non-farm personal income. Counties may qualify for an additional increase through the excessive levy appeal process. Other excessive levy appeals are also available to qualifying units. Proper procedures must be followed to obtain an excessive levy appeal. Also, if the county was under their maximum levy the prior year, the calculation for the ensuing year maximum levy adds back one-half of the amount the county was under in the previous year before applying the growth factor.



Property tax levies are allowed to increase by the state-wide average growth quotient percent.

The maximum levy limitations are determined by state statute and calculated by the DLGF. This number represents the maximum amount of property taxes that may be raised in a given year. The information is furnished to County Auditors prior to preparation of ensuing calendar year budgets. The county unit has one maximum levy worksheet. The estimate of funds to be raised through property taxes for all county funds may not exceed the maximum levy established for the county unit. This levy limitation includes any levies for county general, reassessment, health and other county funds. The County Council must balance the needs of the county with the levy limitations. *Note: Some counties may have funds that fall outside the maximum levy limitation. These are called exempt or non-controlled funds, and are often related to the repayment of debt. We will discuss controlled versus non-controlled funds a little later in this chapter.*

Determination of the county's proposed property tax rate is calculated on the 16-line statement or Form 4B, Estimate of Funds to be Raised. The Estimate of Funds to be Raised is the property tax levy desired for each fund. Step 1 involves determining the assessed valuation of taxable property within the county's jurisdiction. This assessed valuation is provided by the County Auditor and certified to the DLGF. The same calculation is used for each fund with a property tax levy.

Step two requires the County Auditor to take the estimate of funds to be raised on Line 16 of Form 4B and divide that amount by the total assessed valuation for the taxing district. This figure is then multiplied by 100 to determine the tax rate needed to support the fund.

For example: Estimate of funds to be raised is $100,000 (line 16 on budget form 4B)
Assessed valuation is $160,000,000

Tax rate = Line 16/ (Assessed Value/100) = Tax Rate
Tax rate: 100,000/ (160,000,000/100) = .0625 tax rate
(To check your work .0625 x (160,000,000/100) = 100,000)

The tax rate calculated (.0625) represents the amount of property tax rate needed to support this particular fund. The same calculation is made for all funds with a property tax levy.

Once the County Auditor determines the tax levy for each fund, he/she must determine whether each fund is "**controlled**" or not controlled. **Controlled levies fall under the maximum levy limitation.** To ensure that the county is within its maximum levy limitation, the County Auditor must also determine the "working maximum levy". For most county units, the working maximum levy is determined by adding the Mental Health and Mental Retardation appropriations in the county general fund budget, the Financial Institutions Tax adjustment, and the Cumulative Capital Development fund levy to the DLGF certified Maximum Levy (the DLGF field representative assigned to your county can assist with this calculation.) The auditor then adds the sum of controlled fund levies to compare that total against the working maximum levy figure.

If the controlled levies exceed the working maximum levy, the County Council may have to consider making budget cuts for the ensuing year or reductions in current year remaining appropriations (line 2).

Summary

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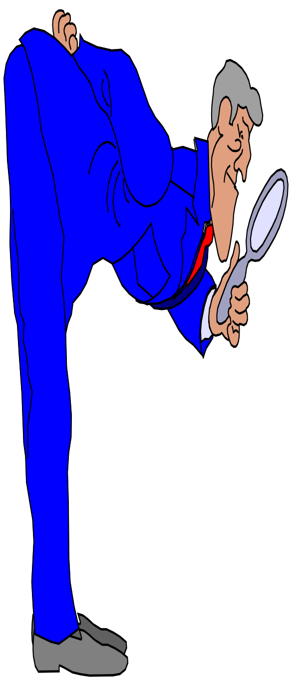

In this section, we have discussed the following:

- ***In preparing tax rates, local officials rely on the certification of assessed values by the County Auditor.***
- ***The County Auditor is required to provide all taxing units with an Auditor's Certificate on or before August 1 of each year.***