



December 2010

# Circuit Breaker Caps FACT SHEET

Beginning with the 2010 tax bills, property owners are entitled to a circuit breaker cap on the amount of property taxes over:

- 1% for homestead properties;
- 2% for residential properties;
- 2% for agricultural land;
- 2% for long-term care facilities;
- 3% for nonresidential properties; and
- 3% for personal property.

(In 2009, the circuit breaker caps were 1.5 percent, 2.5 percent and 3.5 percent.)

It is important to understand that local budgets determine property tax rates in your area. Tax levies are collected by local governments, including counties, townships, cities and towns, school corporations, library districts and other special districts to provide services. Property tax rate increases or decreases are a direct result of local spending. The caps ensure that a property owner does not pay more than a fixed percent of the property's gross assessed value in taxes, but the caps do not change the local tax rate.

Independent of the circuit breaker caps, a property's assessed value must still reflect the market value-in-use of that property. Assessed values are annually adjusted—increased or decreased—to reflect market value-in-use.

If the total tax liability for the property exceeds the circuit breaker cap, the county auditor will provide a tax credit for the amount that exceeds the cap. For example, a homestead property is valued at \$100,000. Under the 1 percent circuit breaker cap, the maximum tax liability that may be imposed on this property is \$1,000. Assume the tax liability on this property after the application of all other deductions and credits is \$2,100. Since this tax liability exceeds the maximum allowed under the caps, the county auditor will apply an additional circuit breaker credit of \$1,100 to reduce the tax liability to \$1,000.

For more information on the circuit breaker caps, contact your County Auditor. A complete listing of Auditor contact information can be found online at <http://www.in.gov/dlzf/2440.htm>.

Additional information regarding the circuit breaker caps can be obtained online at <http://www.in.gov/dlzf/8225.htm>. Information regarding the calculation of property tax bills is available online at <http://www.in.gov/dlzf/8527.htm>.

## Definitions

**Homestead** is an individual's principal place of residence consisting of a dwelling, one garage and up to one acre of immediately surrounding real estate. Structures such as decks, patios and gazebos that are **attached** to the dwelling are considered a part of the homestead. Swimming pools and those structures not attached are not considered a part of the homestead. Homestead Standard Deduction must be applied to the property.

**Real property** is physical real estate and improvements.

**Residential** property consists of any of the following:

- (1) A single family dwelling that is not a part of a homestead and the land, not exceeding one acre, on which the dwelling is located.
- (2) Real property that consists of:
  - (A) a building that includes two or more dwelling units;
  - (B) any common areas shared by the dwelling units; and
  - (C) the land, not exceeding the area of the building footprint, on which the building is located.
- (3) Land rented or leased for the placement of a mobile/manufactured home, including any common areas shared by the homes.

**Nonresidential** real property is:

- (1) Real property that:
  - (A) is not a homestead or residential property; and
  - (B) consists of:
    - (i) a building or other land improvement; and
    - (ii) the land, not exceeding the area of the building or improvement footprint, on which the building or improvement is located.
- (2) Undeveloped land in the amount of the remainder of:
  - (A) the area of the parcel; minus
  - (B) the area of the parcel that is part of a homestead or residential property.
- (3) Not agricultural land.

**Q. What do the circuit breaker caps mean to taxpayers?**

A. The circuit breaker caps are aimed at helping Hoosiers by ensuring they do not pay more than a fixed percent of their property's gross assessed value in property taxes.

**Q. Why are the circuit breaker caps different for different classes of property?**

A. Before the property tax plan of House Enrolled Act (HEA) 1001-2008 went into effect, homestead property owners were entitled to a cap on the amount of property taxes over 2 percent of the gross assessed value of the property and property taxes on all other property was capped at 3 percent of the gross assessed value of the property. (These caps were applied with some adjustments.) The property tax plan reduced the cap on homestead property to 1 percent of the gross assessed value and agricultural land and other residential property to 2 percent of the gross assessed value.

Circuit breaker caps are one of the many forms of property tax relief offered to various types of property. Many forms of property tax relief have been structured by the Legislature to provide different benefits to different classes of property. Separate from the property tax caps, business and agricultural land property owners already were receiving other forms of relief. For businesses, inventory is not taxed. In addition, individuals pay the increased sales tax while businesses do not. Agricultural land owners receive property tax relief because agricultural land is assessed using a special formula. It is also important to note, that while agricultural land is capped at 2 percent, the homestead portion of a farm would receive the 1 percent cap just like all other homestead properties. Equipment and other property for all property owners, whether the taxpayer be an individual, business or farm, is capped at 3 percent of the gross assessed value of the property.

**Q. My entire property is zoned residential. Why is part of the property capped at 1 percent and part capped at 3 percent, which is the cap reserved for business property?**

A. The 1 percent circuit breaker cap is reserved for homestead property only. A homestead is defined as the dwelling, one garage and up to one acre of immediately surrounding real estate. Any additional improvements not attached to the dwelling (i.e. a pool, shed, second garage, etc.) or additional acreage beyond the one allocated to the homestead will be capped at 3 percent. While the 3 percent cap does apply to business and commercial property, it is also applicable to any property not classified as a homestead, residential property or agricultural land (see definitions on first page).

**Q. Are the circuit breaker caps permanent?**

A. Yes, the circuit breaker caps are part of the Indiana Constitution. During the 2008 session of the General Assembly, legislators took the first step in making the circuit breaker caps permanent by passing Senate Joint Resolution (SJR) 1, which sought to add the caps to the Indiana Constitution. In order to change the state constitution, a separately elected General Assembly had to pass the resolution again. During the 2010 session, the resolution was passed for the second time. In November 2010, Hoosiers voted to make the caps part of the Indiana Constitution.

**Q. On my tax statement, there is an adjustment to the circuit breaker cap maximum. What is this adjustment?**

A. In most counties, the only exemptions from the property tax caps are for expenses related to projects or additional school operating funds that are approved by voters in a public referendum. In Lake and St. Joseph Counties, there is another exemption to the property tax caps—debt issued before July 1, 2008. This special accommodation was provided by the General Assembly due to those counties' heavy reliance on property taxes to fund local services and will expire in 2020 at which time any remaining debt will be subject to the caps. In portions of Lake County there is a second exemption to the caps. The City of Gary petitioned for and was granted relief from the caps by the Distressed Unit Appeals Board ("DUAB") in 2009 and 2010. Petitions have been filed for 2011. Only taxpayers residing within the city limits of Gary will have their caps adjusted for this exemption, which allows a portion of the budget to be outside of the caps. The DUAB will not exist in 2012 so no caps will be adjusted for this type of exemption.