



Department of Local Government Finance

Circuit Breaker Overview

Budget Division

April 2020



DLGF Series Webinar: Circuit Breaker

- The presentation will try to answer:
 1. What is a Property Tax Cap / Circuit Breaker Cap?
 2. How is Circuit Breaker loss calculated?
 3. How is Circuit Breaker estimated, reported, and accounted for during Budget Certification?
 4. What does the Department recommend that units consider about Circuit Breaker in July, November, and April?



Agenda

1. Budget Order Overview
 - Taxing Units
 - Taxing Districts
2. Tax Bill 101
 - Calculation of Gross Tax Liability
 - Calculation of Total Property Tax Liability
3. Circuit Breaker and the Budget
4. Frequently Asked Questions



DLGF Certified Budget Order Overview



Definitions – Taxing Unit

- Taxing Unit – A political subdivision with the power to impose taxes.
- Examples of taxing units include: counties, townships, cities/towns, schools, libraries, a number of special districts including airports, fire districts, or waste management districts, and conservancy districts.
- Each year, the units go through a process of adopting budgets and the Department goes through a process of certifying the unit's budget, rate, and levy.



Definitions – Certified Budget Order

- Budget Order – An order produced by the Department for each county by December 31/January 15. The Order contains a list of each taxing unit and their:
 - Certified Appropriation
 - Certified Net assessed value
 - Certified Property tax levy
 - Certified Property tax rate
- Budget Orders can be found on the Department website:
 - <https://www.in.gov/dlgef/2339.htm>



Definitions – Certified Budget Order

2020 BUDGET ORDER				
Year: 2020				
County 32 Hendricks				
Unit: 0503 PLAINFIELD CIVIL TOWN				
<u>Fund</u>	<u>Certified Budget</u>	<u>Certified AV</u>	<u>Certified Levy</u>	<u>Certified Rate</u>
0101 GENERAL	\$14,250,000	\$2,457,311,425	\$3,968,558	\$0.1615
Budget approved for displayed amount. Rate reduced to remain within statutory levy limitation.				
0182 BOND #2	\$954,861	\$2,457,311,425	\$899,376	\$0.0366
Budget approved for displayed amount. Rate reduced due to reduction of operating balance according to IC 6-1.1-17-22.				

- The Certified Budget order contains the certified budget, AV, levy, and rate for each taxing unit. The table above is an except of the Hendricks County Budget Order which includes the town of Plainfield.
- The total tax rate for the town of Plainfield is 0.7994.



Definitions – Taxing District

- **Taxing District** – A geographic area that is composed of multiple unique taxing units.
 - Taxing districts are an organizational structure created for property tax bill purposes.
 - The Department sums the certified tax rates for overlapping units in a geographic area to create a taxing district rate.
 - In 2020, there were 2070 unique taxing districts.
 - A taxing unit may be in multiple taxing districts.



Definitions – Certified Budget Order

2020 TAX RATES (Per Taxing District)		
Year: 2020		
County: 32 Hendricks		FOR COMPARISON ONLY
<u>Taxing District</u>		<u>2020 District Rate</u>
		<u>2019 District Rate</u>
001	Brown Township	2.1320
002	Center Township	2.3558
003	Town Of Danville	2.4234
007	Eel River Township	2.0484
008	Town Of North Salem	3.0446
009	Franklin Township	1.2681
010	Town Of Stilesville	1.7009
011	Guilford Township	1.5322
012	Town Of Plainfield	2.0671

- The Budget Order also contains a listing of the taxing district rates for each taxing district in the county. The Town of Plainfield collects taxes from taxing districts 011, 012, 027, and 029. These four taxing districts include the 0.7994 certified rate for the town.



Definition – Taxing Unit and Taxing District

- Taxing District 012 is made up of the following units.

Taxing Unit	Certified Tax Rate
Hendricks County	.3027
Guilford Township	.0264
Plainfield Town	.7994
Plainfield Community School Corporation	.8594
Plainfield – Guilford Township Public Library	.0792
Hendricks County Solid Waste District	.0000

- Note: There are 4 conservancy districts in 012. While those units have a tax rate, they are not included in the taxing district.



Tax Bill 101 – Calculation of Gross Liability



Tax Bill 101 - Overview

- It is important that all elected officials remember that the property tax revenue that they will use to function is based on the tax bills collections.
- In 2020, there will be 4M individual tax bills created.
- Additional information about the property taxes:
 1. Property Tax Cycle: <https://www.in.gov/dlgf/2516.htm>
 2. Tax Bill 101: <https://www.in.gov/dlgf/8527.htm>
 3. Tax Bill Glossary: <https://www.in.gov/dlgf/8081.htm>



Tax Bill 101 – Overview

TABLE 1: SUMMARY OF YOUR TAXES

ASSESSED VALUE AND TAX SUMMARY	2018 Pay 2019	2019 Pay 2020
1a. Gross assessed value of homestead property	1A1	1A2
1b. Gross assessed value of other residential property and farmland	1B1	1B2
1c. Gross assessed value of all other property, including personal property	1C1	1C2
2. Equals total gross assessed value of property	1D1	1D2
2a. Minus deductions (see Table 5 below)	1E1	1E2
3. Equals subtotal of net assessed value of property	1F1	1F2
3a. Multiplied by your local tax rate	1G1	1G2
4. Equals gross tax liability (see Table 3 below)	1H1	1H2
4a. Minus local property tax credits	1I1	1I2
4b. Minus savings due to property tax cap (see Table 2 and footnotes below)	1J1	1J2
4c. Minus savings due to over 65 circuit breaker credit	1K1	1K2
5. Total property tax liability (see remittance coupon for total amount due)	1L1	1L2

Please see Table 4 for a summary of other charges to this property.

TABLE 2: PROPERTY TAX CAP INFORMATION

Property tax cap (1%, 2%, or 3% depending upon combination of property types) ¹	2A1	2A2
Upward adjustment due to voter-approved projects and charges (e.g., referendum) ²	2B1	2B2
Maximum tax that may be imposed under cap	2C1	2C2

- Table 1 and Table 2 are taken from the State Form 53569.
- This section will focus on Line 1a through Line 4.



Tax Bill Definitions – Gross AV

- Gross AV (Line 1a, Line 1b, and Line 1c)
 - Determined by the local assessing official on an annual basis.
 - Value of a property that reflects the market value-in-use of the land and the improvements.
 - Gross AV approximates the market value-in-use of the property as compared to similar properties in the area.



Tax Bill Definitions

- AV separated into distinct property groups:
 1. Homestead property
 2. Residential property
 3. Long term care property
 4. Agricultural land
 5. Nonresidential real property
 6. Personal property
- While generally considered a single value, the property group that the AV falls in may impact the tax bill calculation.



Tax Bill – Exemptions and Deductions

- Exemptions (<https://www.in.gov/dlgf/8818.htm>)
 - Exemptions involve a certain type of property, or the property of a certain kind of taxpayer, which is not taxable.
 - Application for exemption must be filed before April 1 of the assessment year with the county assessor.
- Deductions (<https://www.in.gov/dlgf/2344.htm>)
 - Deductions work by reducing the amount of assessed value a taxpayer pays on a given parcel of property.
 - Application for deductions must be completed and dated not later than December 31 annually.



Tax Bill Definitions – Net Assessed Value

While the tax bill begins with gross assessed value, the actual tax base or an individual's tax liability is based on the net assessed value.

Net assessed value is the gross assessed value minus any number of qualifying exemptions or deductions for tax payer or property.



Tax Bill – Gross and Net AV

	Standard Homestead	Church	Government Owned Property
Gross Assessed Value	100,000	100,000	100,000
Homestead Deduction	45,000		
Supp. Homestead Ded.	19,250		
Mortgage Deduction	3,000		
Religious Exemption		100,000	
Government Exemption			100,000
Net Assessed Value	32,750	0	0

- The assessor annually calculates each property’s gross AV.
- Exemptions and deductions are calculated and applied locally that reduce the property’s tax liability without suppressing the property values.
- Annually, the county auditor certifies the net assessed value.



Tax Bill – Gross Tax Liability

- A taxpayer’s gross liability is a simple formula:

Net AV	Times	Taxing District Rate
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- Since the taxing district rate is comprised of the overlapping taxing unit rates, this formula can also be expressed as:

Net AV	Times	County Unit Rate
Net AV	Times	School Unit Rate
Net AV	Times	Township Unit Rate
Net AV	Times	City/Town Unit Rate
Net AV	Times	Library Unit Rate



Tax Bill 101 – Overview

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- This section will focus on Line 1a through Line 4.



Tax Bill – Credits and Total Property Tax Liability



Tax Bill 101 – Overview

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TABLE 2: PROPERTY TAX CAP INFORMATION		
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Upward adjustment due to voter-approved projects and charges (e.g., referendum) ²	2B1	2B2
Maximum tax that may be imposed under cap	2C1	2C2

- Table 1 and Table 2 are taken from the State Form 53569.
- This section will focus on Line 4, 4a, 4b, 4c, and Line 5.



Tax Bill Definition - Credit

- Where exemptions and deductions reduce the taxable AV, tax bill credits reduces the Gross Tax Liability directly.
- After calculating the Gross Tax Liability, there are three specific credits that are applied to the tax bill.
- On the tax bill, there are three credits listed:
 1. Local Income Tax – Property Tax Relief Credit
 2. Circuit Breaker Credit
 3. Over 65 Circuit Breaker Credit



Tax Bill Definition – LIT Property Tax Relief

- A county may choose to adopt a Local Income Tax rate to offer property tax relief for its taxpayers under (IC 6-3.6-5)
- In 2020, 60 counties generated a total of \$427M in income tax that was applied to property tax bills.
- Unlike LIT for Certified Shares, Public Safety, or Economic Development which is distributed monthly, LIT for property tax relief is included in the amount distributed by the county semi-annually.



Tax Bill Definition – LIT Property Tax Relief

- In addition to adopting a LIT rate, a county must also select which type(s) of property will receive the credit.

Property Tax Credit Allocation Categories (IC 6-3.6-5-6)

All Property Tax Allocation Categories

1% Allocation Type: Homesteads eligible for a credit under IC 6-1.1-20.6-7.5.

2% Allocation Type: Residential property, agricultural land, long term care property, and other tangible property eligible for a credit under IC 6-1.1-20.6-7.5.

3% Allocation Type: Nonresidential real property, personal property, and other tangible property eligible for a credit under IC 6-1.1-20.6-7.5.

Residential property, as defined in 6-1.1-20.6-4.



Tax Bill 101 – Circuit Breaker Cap/Credit

- The General Assembly shall (**Article 10 Indiana Constitution**) limit a taxpayer's property tax liability.
- The circuit breaker, or property tax caps, represent the maximum tax bill that an individual can pay.
- The circuit breaker credit, an amount applied to a qualifying tax bill that prevents a tax payer from exceeding the property tax cap.



Tax Bill 101 – Circuit Breaker Calculation

- The amount of the credit (IC 6-1.1-20.6-7.5) is the amount by which the person's property tax liability attributable to the person's:
 - (1) homestead exceeds one percent (1%);
 - (2) residential property exceeds two percent (2%);
 - (3) long term care property exceeds two percent (2%);
 - (4) agricultural land exceeds two percent (2%);
 - (5) nonresidential real property exceeds three percent (3%);
 - (6) personal property exceeds three percent (3%);
- of the gross assessed value of the property that is the basis for determination of property taxes for that calendar year.



Tax Bill 101 – CB Cap Calculation

	Homestead Property (1% Cap)	Agricultural Land (2%)	Non Residential Real Estate (3%)
Gross AV	50,000	50,000	50,000
Net AV	Not Applicable	Not Applicable	Not Applicable
Tax Rate	Not Applicable	Not Applicable	Not Applicable
Gross Liability	Not Applicable	Not Applicable	Not Applicable
Property Tax Cap	$50,000 * .01 = \$500$	$50,000 * .02 = \$1,000$	$50,000 * .03 = \$1,500$

- In order to calculate the property tax cap, the gross assessed value is multiplied by 1%, 2%, or 3% based on property type. The net AV, tax rate, and gross liability are not factored into the calculation of the cap, but they will factor into the calculation of the credit.



Tax Bill 101 – 1% CB Credit Calculation

	Homestead Property (1% Cap) Example 1	Homestead Property (1% Cap) Example 2	Homestead Property (1% Cap) Example 3
Gross AV	50,000	50,000	50,000
Net AV	50,000	50,000	50,000
Tax Rate	0.5000	2.5000	4.5000
Gross Liability	\$250	\$1,250	\$2,250
Property Tax Cap	\$500	\$500	\$500
CB Credit	0	750	1,750

- In this example, three properties with an identical gross AV and net AVs, but have different CB profiles. As the tax rate increases, the taxpayer's CB credit increases to ensure that the taxpayer does not pay more than the statutory maximum.



Tax Bill 101 – 2% CB Credit Calculation

	Agricultural Land (2%) Example 4	Agricultural Land (2%) Example 5	Agricultural Land (2%) Example 6
Gross AV	50,000	50,000	50,000
Net AV	50,000	50,000	50,000
Tax Rate	0.5000	2.5000	4.5000
Gross Liability	\$250	\$1,250	\$2,250
Property Tax Cap	\$1000	\$1000	\$1000
Tax Credit	0	250	1250

- In this example, three properties with an identical gross AV and net AVs, but have different CB profiles. As the tax rate increases, the taxpayer's CB credit increases to ensure that the taxpayer does not pay more than the statutory maximum.



Tax Bill 101 – 3% CB Credit Calculation

	Non Residential Real Estate (3%) Example 7	Non Residential Real Estate (3%) Example 8	Non Residential Real Estate (3%) Example 9
Gross AV	50,000	50,000	50,000
Net AV	50,000	50,000	50,000
Tax Rate	0.5000	2.5000	4.5000
Gross Liability	\$250	\$1,250	\$2,250
Property Tax Cap	1,500	1,500	1,500
Tax Credit	0	0	750

- In this example, three properties with an identical gross AV an net AVs, but have different CB profiles. As the tax rate increases, the taxpayer’s CB credit increases to ensure that the taxpayer does not pay more than the statutory maximum.



Tax Bill Definition – Over 65 CB Credit

- Under (IC 6-1.1-20.6) certain individuals may qualify for an the Over 65 CB credit.
- The credit is subject to age, income, AV value, and residency requirements.
- If eligible, the tax bill will not be able to increase by more than 2% from the previous year. The credit applied will equal the amount required to limit the tax bill growth.
- Over 65 Credit FAQ: <https://www.in.gov/dlgf/files/181101%20-%20FAQ%20-%20Over%2065%20Guidance.pdf>



Circuit Breaker in Budgeting



Circuit Breaker in Budgeting

- For taxpayers:
 - Circuit breaker creates a maximum tax liability. Once the gross tax liability exceeds the cap, a credit is applied.
 - The CB represents a savings.
- For taxing units:
 - The circuit breaker credit represents a portion of the certified levy that cannot be collected.
 - The CB represents a loss in revenue.



Tax Bill 101 – 1% CB Credit Calculation

	Homestead Property (1% Cap) Example 1	Homestead Property (1% Cap) Example 2	Homestead Property (1% Cap) Example 3
Gross AV	50,000	50,000	50,000
Net AV	50,000	50,000	50,000
Tax Rate	0.5000	2.5000	4.5000
Gross Liability	\$250	\$1,250	\$2,250
Property Tax Cap	\$500	\$500	\$500
CB Credit	0	750	1,750

- In example 3, there is \$1,750 of CB loss for this one property. What if there are 10, 100, or 1000 properties in the area with similar CB profiles?



Circuit Breaker in Budgeting

- For the 2020 budget, on the Form 1, units reported an estimated CB impact as an expense. For the 2021 budget, circuit breaker will be reported on the Form 4B as a reduction to the revenue.
 - 2021 4B Video: <https://youtu.be/6AoJcX0Q4w8>
 - 2021 4B Template: [Interactive Template](#)



Circuit Breaker in Budgeting

- During the budgeting process, units estimate future expenses and revenue to be collected. This includes estimating the CB impact.
- On or before July 15, the Department will release a CB estimate for every unit in the State.
- While units are required to consider the impact of the CB, they are not required to use the Department's estimate.



Circuit Breaker in Budgeting

2020 Estimated Property Tax Cap Impact Report Bartholomew County

0000 BARTHOLOMEW COUNTY	Estimated Impact
Civil Max Levy Fund Credits	\$1,437,720
Debt Fund Credits	\$2,246
Total Estimated Credits	\$1,439,965

0001 CLAY TOWNSHIP	Estimated Impact
Civil Max Levy Fund Credits	\$720
Total Estimated Credits	\$720

0002 CLIFTY TOWNSHIP	Estimated Impact
Total Estimated Credits	\$0

0003 COLUMBUS TOWNSHIP	Estimated Impact
Civil Max Levy Fund Credits	\$112,200
Township Fire Credits	\$439
Total Estimated Credits	\$112,639

- In July, the Department will release a CB estimate for each unit.
- The Department's estimates factor in prior year actual CBs, the results of the prebudget survey, and the AVGQ.
- In July, the Department will not know which funds will be adopted by the unit in the fall. So, the estimates are summarized by max levy type.



Circuit Breaker in Budgeting

- In April, the Department will calculate and post CB Reports that contain the actual CB for each unit and each fund based on the actual tax data submitted on the County Abstract.
- Unlike the CB Estimate released in July 2019, the CB Actual Report, the Department knows which funds were adopted and certified.
- County Specific Information: <https://www.in.gov/dlgef/2339.htm>



Circuit Breaker in Budgeting

Unit	Unit Type/Fund Name	Fund Code	Certified Levy	Levy Based on Abstract AV	Over 65 Circuit Breaker	1%/2%/3% Circuit Breaker	Total Circuit Breaker	Post-Circuit Breaker Levy	Exempt	Protected
ADAMS COUNTY	County		\$10,021,771	\$10,000,400.34	\$17,194.86	\$293,864.98	\$311,059.84	\$9,689,340.50		
	RAINY DAY	0061	\$0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	N	N
	GENERAL	0101	\$7,721,343	\$7,704,878.05	\$13,247.90	\$226,410.32	\$239,658.22	\$7,465,219.83	N	N
	2015 REASSESSMENT	0124	\$190,181	\$189,775.32	\$326.30	\$5,576.61	\$5,902.91	\$183,872.41	N	N
	CUMULATIVE COURT HOUSE	0590	\$57,815	\$57,691.70	\$99.20	\$1,695.29	\$1,794.49	\$55,897.21	N	N
	HIGHWAY	0702	\$0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	N	N

- The CB Actual Report shows all certified funds and along with their Over 65 and 1%/2%/3% CB loss.



Circuit Breaker in Budgeting

- The Department will not adjust a unit's budget based on the updated circuit breaker amounts, but units are encouraged to reconcile their 2020 CB estimates with their 2020 actual CBs.
- All units will fall into one of three distinct scenarios.
 - Scenario #1: CB Estimate was higher than actual.
 - Budget is fundable and unit's cash balance will increase.
 - Scenario #2: CB Estimate was equal to actual CB.
 - Budget is fundable.
 - Scenario #3: CB Estimate was lower than actual CB.
 - Budget is not fundable and cash balance may decrease.



Frequently Asked Questions



FAQ #1 – Increases in CB

- **Question #1: My unit's total tax rate was the same in 2019 and 2020, why is my unit seeing more CB loss in 2020?**
- The most common reason is the taxing district rate.
- The taxing district rate is made up of the tax rates for several units. While one unit's total tax rate may stay constant, the other units in the taxing district may increase their rate, which could trigger the circuit breaker.



FAQ #2 – Multi Use Parcels

- Question #2a: My tax bill is for a multi use parcel. It is a combination of retail space and residential space. How is my circuit breaker cap calculated?
- Question #2b: My tax bill is for a multi use parcel. It is a combination of my home and farmland. How is my circuit breaker cap calculated?



FAQ #2

TABLE 1: SUMMARY OF YOUR TAXES

ASSESSED VALUE AND TAX SUMMARY
1a. Gross assessed value of homestead property
1b. Gross assessed value of other residential property and farmland
1c. Gross assessed value of all other property, including personal property
2. Equals total gross assessed value of property

- On Lines 1a, 1b, and 1c , the tax bill summarizes and separates the various types of AV on the bill.
- For multi use parcels, the CB cap is calculate multiplying the type of property by the 1%, 2%, or 3%, then summing the values together to calculate the total CB cap.



FAQ #3 – CB Cap Calculation

- Question 3a: My school system just passed a Operating, Capital, or School Safety referendum, how will this impact my tax bill?
- Question 3b: I have reviewed my CB cap, and it's higher than the 1%, 2%, or 3% of my Gross AV?
- Question 3c: What does it mean for a fund to be exempt from CB?



FAQ #3 – CB Cap Calculation

TABLE 2: PROPERTY TAX CAP INFORMATION

Property tax cap (1%, 2%, or 3% depending upon combination of property types) ¹	2A1	2A2
Upward adjustment due to voter-approved projects and charges (e.g., referendum) ²	2B1	2B2
Maximum tax that may be imposed under cap	2C1	2C2

- Charges not subject to the property tax caps include property tax levies approved by voters through a referendum. When added to the base tax cap amount for your property, this creates the effective tax cap.
- Information regarding the referendums proposed during the most recent elections can be located online at www.in.gov/dlgef/8789.htm.



FAQ #3 – CB Cap Calculation

- The certified tax rates for the exempt funds will increase an individual's property tax cap.
- If an individual is at their already tax cap, the tax cap will be increased to ensure that property tax is collected for the exempt funds.
- Exempt funds will never experience circuit breaker loss.



FAQ #3 – CB Cap Calculation

	Homestead Property (1% Cap) Base Year	Homestead Property (1% Cap) Year 2	Notes
Gross AV	50,000	50,000	Same AV in both years.
Net AV	50,000	50,000	Same AV in both years.
Tax Rate	4.5000	4.7500	Rate increase of .25.
Gross Liability	\$2,250	\$2,375	Gross Liability increased.
Property Tax Cap	\$500	\$500	$50,000 * .01 = \\$500$
CB Credit	1,750	1,875	CB Loss Increased by \$125.

- In this example, the tax rate increased without a voter approved referendum. The increase in the tax rate increased the CB credit for this tax payer. Although the rate increased, the tax payer will only pay \$500.



FAQ #3 – CB Cap Calculation

	Homestead Property (1% Cap) Base Year	Homestead Property (1% Cap) Year 2	Notes
Gross AV	50,000	50,000	Same AV in both years.
Net AV	50,000	50,000	Same AV in both years.
Tax Rate	4.5000	4.7500	Rate increase due to Voter Approved Referendum of .25.
Gross Liability	\$2,250	\$2,375	Gross Liability increased.
Property Tax Cap	\$500	\$625	$(.25 / 4.7500 * 2,375) = \\125 $50,000 * .01 = \\$500$
CB Credit	1,750	1,750	No change in the CB loss.

- In this example, the tax rate increased due to voter approved referendum. This time, the tax payer’s tax rate and property tax cap both increased. The tax payer’s tax bill will increase from \$500 to \$625.



Circuit Breaker Preparation



Circuit Breaker Preparation

- The presentation is an introduction to circuit breakers and budget orders, over the next few weeks, all units are encouraged to:
 1. Contact your FR if you have more questions about this presentation or about CBs in general.
 2. Review and reconcile your 2020 CB Estimate and your 2020 Actual CB amounts.
 3. Compare your 2019 Actual CB Amounts and 2020 CB Amount as you work on your 2021 estimate.



Contact Us

- Website: www.in.gov/dlgf
- Contact Us: www.in.gov/dlgf/2338.htm
- Telephone: (317) 232-3777

- Budget Field Representative Map:
https://www.in.gov/dlgf/files/Budget_Field_Reps.pdf

- Gateway Support: Gateway@dlgf.in.gov
- DLGF Customer Service Survey: [Customer Survey](#)