STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE

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TO: **County Auditors**

FROM: **Wes Bennett, Commissioner**

RE: **Legislative Changes Concerning Mortgage Deduction Repeal**

DATE: **April 29, 2022**

The Department of Local Government Finance ("Department") issues this memorandum to inform the county auditors of legislative changes in matters related to the mortgage deduction. Please note that this memorandum is for informational purposes only, and it is not a substitute for reading the law.

On March 21, 2022, Governor Eric J. Holcomb signed into law House Enrolled Act 1260-2022 ("HEA 1260"). Section 12 of HEA 1260 repeals the mortgage deduction in its entirety, effective January 1, 2023.[1] This means that beginning January 1, 2023, individuals will no longer be able to apply for this property tax deduction, and county auditors will no longer apply the mortgage deduction to property tax bills beginning with the 2023 Pay 2024 cycle. Instead, the General Assembly has added $3,000 to the homestead deduction, effective for assessment dates after December 31, 2022.[2] In other words, the homestead deduction amount for 2023 Pay 2024 will be the lesser of:

(1) Sixty percent (60%) of the assessed value of the real property, mobile home not assessed as real property, or manufactured home not assessed as real property; or
(2) $48,000.

The supplemental homestead deduction remains the same in Ind. Code § 6-1.1-12-37.5.

Examples Regarding Repeal of the Mortgage Deduction

1. **The Smiths buy a home that meets the qualifications of a homestead. They closed on the property, on April 15, 2022, after HEA 1260 was signed into law. They have a mortgage on the property and apply for the mortgage deduction.**

If the Smiths apply for the mortgage deduction on or before December 31, 2022, they will be eligible for a $3,000 mortgage deduction on their 2023 tax bill. Beginning with their 2024 tax

[1] *See* SEC. 12 of HEA 1260; Ind. Code § 6-1.1-12-1.
[2] *See* SEC. 22 of HEA 1260; Ind. Code § 6-1.1-12-37.

bill, the Smiths will receive an additional $3,000 for a homestead deduction totaling up to $48,000, but the Smiths will no longer receive the mortgage deduction.

2. **The O'Malleys bought a home on April 1, 2022. They have a mortgage on the property, but the previous owners did not have a mortgage on the property. At the time of closing the O'Malleys applied for the homestead deduction, but they forgot to apply for the mortgage deduction until January 1, 2023.**

Although the O'Malleys had a mortgage on the property before the December 31 deduction application deadline, they will not be eligible to receive the mortgage deduction. With the repeal of the mortgage deduction statute going into effect on January 1, 2023, taxpayers must apply for the mortgage deduction by December 31, 2022, in order for the deduction to be included on the 2022 Pay 2023 tax bills. The 2023 tax bill cycle will be the last time the mortgage deduction is available. Instead, the O'Malleys will realize an increase of $3,000 for their homestead deduction for a total of $48,000.

3. **Sally bought a home in 2021 that qualifies for a homestead deduction. She paid for the property in cash and had no mortgage, thus she never received the mortgage deduction. She timely filed for the homestead deduction when she bought the house and received the deduction of $45,000 for her 2022 assessment date.**

For property tax bills issued in 2024, Sally will receive an additional $3,000 on her homestead deduction, for a total of $48,000.

4. **The county auditor carefully and dutifully applies all deductions as required by law. She continues to receive mortgage deduction application forms after the new law repealing mortgage deductions goes into effect on January 1, 2023, and will no longer be available for tax bills beginning in 2024. She knows that the law has changed, and mortgage deductions will no longer be applied after the 2022 Pay 2023 cycle. What should or could she do?**

The county auditor could take any of the following options:

(1) Keep the filed mortgage deduction forms in accordance with public records statutes (required by law) and send a letter notifying the taxpayer applicant of the change in law, noting that the property owner will receive an additional $3,000 for the homestead if they qualify; or
(2) Publish a letter in the county newspaper to educate taxpayers about the change in law and send no letter; or
(3) Do nothing and just apply the additional $3,000 to the homestead deduction for the 2024 tax bills, and make sure not to apply any mortgage deduction up to $3,000. Do not apply any deduction for a mortgage in any amount.

Homestead Deduction Increase of $3,000

If a person timely files an application for the homestead deduction and meets eligibility requirements, the legislature added $3,000 to the amount. Now, instead of a $45,000 for a homestead deduction, owners will receive $48,000. Taxpayers will see this change in their January 2023 assessments. As noted above, the supplemental homestead remains the same as in current law.

Examples Regarding Homestead Deduction Increase

1. **Max bought a home in February of 2022, before the legislation granting an additional $3,000 for the homestead, was signed into law. He timely filed for the homestead and met its requirements.**

In January of 2023, Max's assessment should reflect a homestead deduction of $48,000, which would be evidenced on Max's 2024 tax bill.

2. **Adam and Molly bought a home in August of 2022 after the legislation was signed into law. They timely filed an application for a homestead and qualified for it.**

Adam and Molly will realize the additional $3,000 deduction on the homestead deduction on their January 1, 2023, assessment date, reflecting $48,000 on their 2024 tax bill.

Contact Information

Questions may be directed to Jennifer Thuma, Deputy General Counsel, at jthuma@dlgf.in.gov.