
STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE



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TO: All County Auditors
FROM: Wesley R. Bennett, Commissioner
RE: Property Tax Referendum Calculations
DATE: July 27, 2021

This is a revision of the May 27, 2021 memorandum to clarify the Step 6 of the calculation for homestead properties, Step 5 for business properties, and to add a note to Part A. This supersedes the May 27, 2021 memorandum on the same subject matter.

This memorandum supplements the memorandum entitled “Legislative Changes to Property Tax Referenda,” dated May 27, 2021, and covers the statutory formulas the county auditor must follow when determining the estimated average percent change in taxes due to a referendum.

The Department will not prescribe a format for the response from the county auditor. However, the response must include a separate estimate for homesteads and for business property. In addition, the Department will request from the county auditor the data and worksheets used for purposes of the calculation.

A. In General

For purposes of the revised property tax referendum calculations, the Department would note the following:

- (1) The form of the proposed question states the estimated average percent increase of taxes **to be paid to the unit as a result of the referendum**, not the overall increase of taxes paid by the taxpayer. In other words, if, for example, a proposed question states that the tax from the referendum will represent an average 15% increase to the taxpayers, it means the taxes that the unit that will impose if the referendum is successful will increase by an average of 15% as a result of the referendum, not that the taxpayers’ taxes will go up by an average of 15%. It does not account for changes in taxes imposed by other units.
- (2) “Residences” is not defined. However, based on the calculations described below and in HEA 1271, the term likely refers to homesteads; that is, properties that are receiving the homestead deduction and subject to the 1% property tax cap.
- (3) Likewise, “business property” is not defined. The Department believes properties that would fall into this category are all properties, both real and personal, that are subject to the 3% property tax cap.

- (4) The form ballot question does not have an estimated average property tax increase for agricultural, non-homestead residential, and excess residential properties, which are subject to the 2% cap. Therefore, it is not necessary to make this calculation for these properties.
- (5) The term “average” is not defined, therefore per Ind. Code § 1-1-4-1(1) the term must be taken in its plain, ordinary, and usual sense. The Oxford American Dictionary defines “average” as “the result obtained by adding several amounts together and then dividing this total by the number of amounts.”

B. Estimated Average Percent Tax Increase Calculation

1. Homesteads

Indiana Code § 6-1.1-20-3.6(n) gives the calculation for determining the estimated average percent tax increase on residences. Where appropriate, the Department will add comments on how to implement any of the steps.

STEP ONE: Determine the average assessed value of a homestead located within the political subdivision.

NOTE: This Step does not direct what year’s assessed value is to be used – i.e., the assessed value for the year the referendum tax would first be imposed as opposed to some prior or later year.

For a May primary election referendum, the deadline for certification will be in February, meaning the next year’s assessed value will not be available. For a November general election referendum, the statutory certification deadline is August 1, which is the same date as the certified net assessed value (“CNAV”) deadline. However, this will likely be after the date when the assessed values are needed in order to perform this calculation. It is better to use known assessed values. For purposes of review of the proposed ballot question, and the percentages contained therein, under Ind. Code § 6-1.1-20-3.6(d), the Department will rely on the assessed values as determined by the assessor in the prior year for the current year.

Likewise, the term “homestead” here is undefined but likely refers to all properties that are subject to the 1% property tax cap (as defined in Ind. Code § 6-1.1-20.6-2) in the taxing districts that comprise the local unit’s jurisdiction. The result of STEP ONE will be the sum of the gross assessed values of these properties; divided by the number of properties.

STEP TWO: For purposes of determining the net assessed value of the average homestead located within the political subdivision, subtract

- (A) an amount for the homestead standard deduction under IC 6-1.1-12-37 as if the homestead described in STEP ONE was eligible for the deduction; and
- (B) an amount for the supplemental homestead deduction under IC 6-1.1-12-37.5 as if the homestead described in STEP ONE was eligible for the deduction; from the result of STEP ONE.

In this step, apply the homestead deduction and supplemental deduction to the average assessed value of the homestead found in STEP ONE using the calculation found in IC 6-1.1-12-37(c) and 37.5(b), respectively.

STEP THREE: Divide the result of STEP TWO by one hundred (100).

STEP FOUR: Determine the overall average tax rate per one hundred dollars (\$100) of assessed valuation for the current year imposed on property located within the political subdivision.

To complete STEP FOUR: (1) find all the taxing districts that comprise the boundaries of the local unit; (2) find the tax rate for each taxing district; (3) find the sum of the tax rates; and (4) divide the sum by the number of taxing districts.

STEP FIVE: For purposes of determining the net property tax liability of the average homestead located within the political subdivision

- (A) multiply the result of STEP THREE by the result of STEP FOUR; and
- (B) as appropriate, apply any currently applicable county property tax credit rates and the credit for excessive property taxes under Ind. Code § 6-1.1-20.6-7.5(a)(1).

Part (A) of this step yields the tax liability per \$100 on the average homestead from the average tax rate in the local unit. Part (B) of this step involves applying a combination of (1) Circuit Breaker Credits (the 1/2/3% and Over 65 Circuit Breaker); (2) Property Tax Relief Credits (“PTRC”) imposed under Ind. Code § 6-3.6-5; and (3) any local homestead credits imposed under Ind. Codes § 6-1.1-20.4.

STEP SIX: Determine the amount of the political subdivision's part of the result determined in STEP FIVE.

To complete this step:

- (i) Find the total certified tax rate for the unit’s funds as reflected in the most recent budget order for the unit.
- (ii) Divide the certified tax rate by the STEP FOUR amount & multiply the result by the STEP FIVE amount.

STEP SEVEN: Determine the estimated tax rate that will be imposed if the public question is approved by the voters.

The estimated tax rate on a debt service for a controlled project is a function of the following variables:

- (i) The maximum bond or lease rental payment. This will be shown in the proposed amortization schedule.

- (ii.) Estimated miscellaneous revenue that a local unit may use to make payments on the bond or lease. Net assessed value. Based on Ind. Code § 6-1.1-20-12(b), this will be the certified net assessed value (“CNAV”) plus the incremental assessed value in an allocation area that would otherwise be allocated to a redevelopment commission (“TIF AV”).
- (iii.) The number 100, because a tax rate is imposed on each \$100 of assessed value.

Use the following equation to find the estimated tax rate:

$$\frac{\text{Est. maximum payment} - \text{Est. misc. revenue}}{\text{CNAV} + \text{TIF AV}} * 100 = \text{Est. tax rate}$$

STEP EIGHT: Multiply the result of STEP SEVEN by the result of STEP THREE.

STEP NINE: Divide the result of STEP EIGHT by the result of STEP SIX, expressed as a percentage.

2. Business Property

Indiana Code § 6-1.1-20-3.6(o) gives the calculation for determining the estimated average percent tax increase on business property. The formula to make the calculation resembles the formula for homesteads, the only difference being there is no subtracting homestead and supplemental deductions from the average assessed value found in STEP ONE. Like with above, Department comments will follow each step, as appropriate.

STEP ONE: Determine the average assessed value of a homestead located within the political subdivision.

The Department believes the term “homestead” is a typographical error in the statute and should refer to business property. The term “business property” is undefined. It is also unclear whether the term refers to all properties subject to the 3% property tax cap, properties designated as commercial or industrial, or properties with assigned parcel class codes in the 300 or 400 series.

STEP TWO: Divide the result of STEP TWO by one hundred (100).

STEP THREE: Determine the overall average tax rate per one hundred dollars (\$100) of assessed valuation for the current year imposed on property located within the political subdivision.

STEP FOUR: For purposes of determining the net property tax liability of the average homestead located within the political subdivision

(A) multiply the result of STEP TWO by the result of STEP THREE; and

(B) as appropriate, apply any currently applicable county property tax credit rates and the credit for excessive property taxes under Ind. Code § 6-1.1-20.6-7.5(a)(1).

STEP FIVE: Determine the amount of the political subdivision's part of the result determined in STEP FOUR.

To complete this step:

- (i) Find the total certified tax rate for the unit's funds as reflected in the most recent budget order for the unit.
- (ii) Divide the certified tax rate by the STEP THREE amount & multiply the result by the STEP FOUR amount.

STEP SIX: Determine the estimated tax rate that will be imposed if the public question is approved by the voters.

STEP SEVEN: Multiply the result of STEP SIX by the result of STEP TWO.

STEP EIGHT: Divide the result of STEP SEVEN by the result of STEP FIVE, expressed as a percentage.

C. School Operating and Safety

The formulas for both "homesteads" and "business property" for operating referenda is found in Ind. Code § 20-46-1-10(c) & (d), respectively, as amended by HEA 1271. For school safety referenda, these may be found in Ind. Code § 20-46-9-9(b) & (c), respectively, also as amended by HEA 1271. The formulas for both are identical.

1. Homesteads

STEP ONE: Determine the average assessed value of a homestead located within the political subdivision.

STEP TWO: For purposes of determining the net assessed value of the average homestead located within the political subdivision, subtract

- (A) an amount for the homestead standard deduction under Ind. Code § 6-1.1-12-37 as if the homestead described in STEP ONE was eligible for the deduction; and
- (B) an amount for the supplemental homestead deduction under Ind. Code § 6-1.1-12-37.5 as if the homestead described in STEP ONE was eligible for the deduction; from the result of STEP ONE.

STEP THREE: Divide the result of STEP TWO by one hundred (100).

STEP FOUR: Determine the overall average tax rate per one hundred dollars (\$100) of assessed valuation for the current year imposed on property located within the political subdivision.

STEP FIVE: For purposes of determining the net property tax liability of the average homestead located within the political subdivision

- (A) multiply the result of STEP THREE by the result of STEP FOUR; and
- (B) as appropriate, apply any currently applicable county property tax credit rates and the credit for excessive property taxes under Ind. Code § 6-1.1-20.6-7.5(a)(1).

STEP SIX: Determine the amount of the political subdivision's part of the result determined in STEP FIVE.

NOTE: For this step, for an extension of an operating levy or school safety levy, the existing fund tax rate for DLGF Fund Number 0022 or 0025, as applicable, should be excluded from the school corporation's certified tax rate. This takes into account the fact that the existing operating levy or school safety levy will expire before the new tax rate will be imposed.

STEP SEVEN: Multiply:

- (A) the tax rate that will be imposed if the public question is approved by the voters; by
- (B) the result of STEP THREE.

STEP EIGHT: Divide the result of STEP SEVEN by the result of STEP SIX, expressed as a percentage.

2. Business property

STEP ONE: Determine the average assessed value of a homestead located within the political subdivision.

STEP TWO: Divide the result of STEP TWO by one hundred (100).

STEP THREE: Determine the overall average tax rate per one hundred dollars (\$100) of assessed valuation for the current year imposed on property located within the political subdivision.

STEP FOUR: For purposes of determining the net property tax liability of the average homestead located within the political subdivision

- (A) multiply the result of STEP TWO by the result of STEP THREE; and
- (B) as appropriate, apply any currently applicable county property tax credit rates and the credit for excessive property taxes under Ind. Code § 6-1.1-20.6-7.5 as if the applicable percentage was three percent (3%).

STEP FIVE: Determine the amount of the political subdivision's part of the result determined in STEP FOUR.

NOTE: For this step, for an extension of an operating levy or school safety levy, the existing fund tax rate for DLGF Fund Number 0022 or 0025, as applicable, should be excluded from the school corporation's certified tax rate. This takes into account the fact that the existing operating levy or school safety levy will expire before the new tax rate will be imposed.

STEP SIX: Multiply:

- (A) the result of STEP TWO; by
- (B) the tax rate that will be imposed if the public question is approved by the voters.

STEP SEVEN: Divide the result of STEP SIX by the result of STEP FIVE, expressed as a percentage.

The formulas are similar to the formulas applicable to controlled project referenda. As such, the comments the Department made above with respect to those formulas apply here, as well. The primary difference is that the proposed tax rate for the referendum is given by the school corporation rather than determined using the provided equation. The school corporation will have to give the county auditor the proposed tax rate when making the request.

Contact Information

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