COUNTY AUDITORS’ FALL 2013 CONFERENCE

Circuit Breaker Credit

Presented by
Dan Bastin, CPA
Settlement Director
Auditor of State’s Office

Circuit Breaker Credit

• Topics
  – What is a circuit breaker credit
  – How is a circuit breaker credit calculated
  – Net tax subject to circuit breaker credit
  – Circuit breaker net assessed value threshold percentage
  – Circuit breaker revenue loss
What is a Circuit Breaker Credit

• Circuit breaker credits occur when net tax bills are capped at a maximum amount

• In Indiana the maximum amount is equal to a percentage of the gross assessed value of the property

• In Indiana there are three cap levels
  – 1% of gross assessed value
  – 2% of gross assessed value
  – 3% of gross assessed value

Circuit Breaker Credit Caps

• Homestead property
  – Cap equals 1% of gross assessed value

• Residential property, long term care property and agricultural land
  – Cap equals 2% of gross assessed value

• Nonresidential real property and personal property
  – Cap equals 3% of gross assessed value
Circuit Breaker Credit Calculation

- The circuit breaker credit deduction equals the amount the net tax bill exceeds the percentage of gross assessed value limit.

- For example, the net tax bill for homestead property is limited to 1% of the gross assessed value of the homestead property and the amount, if any, the net tax bill on the homestead property exceeds this limit is the circuit breaker credit deduction for the homestead property.

- The circuit breaker credit calculation is the same for each property type; the only change is the gross assessed value percentage limit.

- If a property tax bill has more than one type of property, then the circuit breaker credit is calculated separately for each type and the sum of the separate circuit breaker credit amounts is the circuit breaker credit deduction amount for the tax bill.

Circuit Breaker Credit Calculation

- There is one more component to the circuit breaker credit deduction calculation and that component is circuit breaker credit exempt funds.

- Circuit breaker credit exempt funds are funds that are excluded in the calculation of the circuit breaker credit deduction.

- Circuit breaker credit exempt funds are:
  - For all counties:
    - Referendum funds
  - For Lake and St. Joseph Counties:
    - Debt service and lease rental funds for debt or leases issued or entered into before July 1, 2008.
    - And after December 31, 2013 the refunding or amending of the debt or leases issued or entered into before July 1, 2008 are also exempt.
Circuit Breaker Credit Exempt Funds

• The tax rates of the circuit breaker exempt funds are not included in the calculation of the circuit breaker credit calculations shown in this presentation.

• On the TS-1 the net tax amount of the exempt funds is added to the percentage of gross assessed value circuit breaker limit and the total of the two amounts is shown as the maximum net tax bill.

• Both approaches result in the same circuit breaker credit amount.

Circuit Breaker Credit Calculation Example

• The tax bill in this presentation has three types of property and there is a referendum fund.

• Also, in this example there is LOIT PTRC and CEDIT HSC.

• Homestead property gross assessed value and net assessed values are:
  – Gross assessed value 565,000
  – Net assessed value 335,000

• Agricultural land gross assessed value and net assessed values are:
  – Gross assessed value 50,000
  – Net assessed value 50,000

• Nonresidential real property gross assessed value and net assessed values are:
  – Gross assessed value 120,000
  – Net assessed value 120,000

• Total taxing district rate 2.2536

• Referendum fund rate .042

• LOIT PTRC rate .37536

• CEDIT HSC rate .04966
Circuit Breaker Credit Calculation Example

- Calculation of net tax rates subject to circuit breaker limits
- The net tax rate subject to the circuit breaker limits is the taxing district rate minus, if any, circuit breaker exempt fund rate(s) and minus, if any, the applicable property tax credits

Circuit Breaker Credit Calculation Example

- Calculation of net tax rates subject to circuit breaker limits - Homestead property
  - Taxing district rate equals 2.2536
  - Referendum fund rate equals .042
  - Taxing district rate minus referendum fund rate equals 2.2116
  - LOIT PTRC portion of taxing district rate minus referendum rate equals .83
    - 2.2116 times .37536 (LOIT PTRC rate)
  - CEDIT HSC portion of taxing district rate minus referendum rate equals .0686
    - 2.2116 minus .83 (LOIT PTRC) times .04966 (CEDIT HSC rate)
  - Net tax rate for circuit breaker credit calculation equals 1.313
    - Taxing district rate 2.2536 minus referendum rate .042 minus LOIT PTRC portion of rate .83 minus CEDIT HSC portion of rate .0686
Circuit Breaker Credit Calculation Example

- Calculation of net tax rates subject to circuit breaker limits - Residential property, long term care property and agricultural land group
  - Taxing district rate equals 2.2536
  - Referendum fund rate equals .042
  - Taxing district rate minus referendum fund rate equals 2.2116
  - LOIT PTRC portion of taxing district rate minus referendum rate equals .83
    - 2.2116 times .37536 (LOIT PTRC rate)
  - Net tax rate for circuit breaker credit calculation equals 1.3816
    - Taxing district rate 2.2536 minus referendum rate .042 minus LOIT PTRC portion of rate .83

Circuit Breaker Credit Calculation Example

- Calculation of net tax rates subject to circuit breaker limits - Nonresidential real property and personal property
  - Taxing district rate equals 2.2536
  - Referendum fund rate equals .042
  - Taxing district rate minus referendum fund rate equals 2.2116
  - LOIT PTRC portion of taxing district rate equals .83
    - 2.2116 times .37536 (LOIT PTRC rate)
  - Net tax rate for circuit breaker credit calculation equals 1.3816
    - Taxing district rate 2.2536 minus referendum rate .042 minus LOIT PTRC portion of rate .83
Circuit Breaker Credit Calculation Example

• Calculation of circuit breaker credit amount

• Homestead property
  – Net assessed value divided by 100 = 3,350
  – Net tax rate subject to circuit breaker limit = 1.313
  – Net tax amount = 3,350 times 1.313 = 4,398.50
  – Circuit breaker limit = 565,000 times 1% = 5,650
  – Circuit breaker credit amount = 0 because net tax amount is less than circuit breaker limit

• Residential property, long term care property and agricultural land
  – Net assessed value divided by 100 = 500
  – Net tax rate subject to circuit breaker limit = 1.3816
  – Net tax amount = 500 times 1.3816 = 690.80
  – Circuit breaker limit = 50,000 times 2% = 1,000
  – Circuit breaker credit amount = 0 because net tax amount is less than circuit breaker limit

• Nonresidential real property and personal property
  – Net assessed value divided by 100 = 1,200
  – Net tax rate subject to circuit breaker limit = 1.3816
  – Net tax amount = 1,200 times 1.3816 = 1,657.92
  – Circuit breaker limit = 120,000 times 3% = 3,600
  – Circuit breaker credit amount = 0 because net tax amount is less than circuit breaker limit

• The circuit breaker credit amount is zero because none of the groups exceeded the circuit breaker limit
Circuit Breaker Net Assessed Value Threshold Percentage

- You may have expected there to be a circuit breaker amount for the homestead property group because the net tax of 1.313 exceeds 1.0

- There is not a circuit breaker credit amount because the net assessed value divided by the gross assessed value does not exceed what I call the circuit breaker net assessed value threshold percentage

- The circuit breaker net assessed value threshold percentage equals the circuit breaker gross assessed value percentage divided by the net tax rate subject to circuit breaker credit

- The only properties that will have a credit breaker credit deduction are the properties that exceed the threshold percentage

Circuit Breaker Net Assessed Value Threshold Percentage

- In this example the threshold percentage is equal to .76 (1 divided 1.313)

- In this example the NAV as a percentage of the gross AV is equal to .59 (335,000 divided by 565,000)

- In this example the NAV as a percentage of the gross AV would have had to exceed .76 before there would have been a circuit breaker credit amount
Circuit Breaker Credit Calculation Example

- The tax bill in this example has three types of property and there is no referendum fund
- Also, in this example there are no property tax credit rates
- Homestead property gross assessed value and net assessed values are
  - Gross assessed value 565,000
  - Net assessed value 335,000
- Agricultural land gross assessed value and net assessed values are
  - Gross assessed value 50,000
  - Net assessed value 50,000
- Nonresidential real property gross assessed value and net assessed values are
  - Gross assessed value 120,000
  - Net assessed value 120,000
- Total taxing district rate 2.2536

Circuit Breaker Credit Calculation Example

- Calculation of net tax rates subject to circuit breaker limits - Homestead property
  - Taxing district rate equals 2.2536
  - Net tax rate for circuit breaker credit calculation equals 2.2536
Circuit Breaker Credit Calculation Example

- Calculation of net tax rates subject to circuit breaker limits - Residential property, long term care property and agricultural land group
  - Taxing district rate equals 2.2536
  - Net tax rate for circuit breaker credit calculation equals 2.2536

Circuit Breaker Credit Calculation Example

- Calculation of net tax rates subject to circuit breaker limits - Nonresidential real property and personal property
  - Taxing district rate equals 2.2536
  - Net tax rate for circuit breaker credit calculation equals 2.2536
Circuit Breaker Credit Calculation Example

• Calculation of circuit breaker credit amount

• Homestead property
  – Net assessed value divided by 100 = 3,350
  – Net tax rate subject to circuit breaker limit = 2.2536
  – Net tax amount = 3,350 times 2.2536 = 7,549.56
  – Circuit breaker limit = 565,000 times 1% = 5,650
  – Circuit breaker credit amount = 1,899.56 (7,549.56 minus 5,650) because net tax amount is more than the circuit breaker limit

• Residential property, long term care property and agricultural land
  – Net assessed value divided by 100 = 500
  – Net tax rate subject to circuit breaker limit = 2.2536
  – Net tax amount = 500 times 2.2536 = 1,126.80
  – Circuit breaker limit = 50,000 times 2% = 1,000
  – Circuit breaker credit amount = 126.80 (1,126.80 minus 1,000) because net tax amount is more than the circuit breaker limit

• The total circuit breaker credit amount is $2,026.36
  • Homestead property $1,899.56
  • Residential property, long term care property and agricultural land $126.80
Circuit Breaker Net Assessed Value Threshold Percentage

- In this example there is no circuit breaker amount for the Nonresidential real property and personal property because the net tax rate subject to circuit breaker does not exceed the circuit breaker gross assessed value percentage limit
  - The net tax rate subject to circuit breaker equals 2.2536
  - The circuit breaker gross assessed value percentage limit equals 3%

- In this example there is a circuit breaker amount for the homestead property and the residential property, long term care property and agricultural land because
  - The net tax rate subject to circuit breaker exceeds the circuit breaker gross assessed value percentage limit and
  - The net assessed value as a percentage of the gross assessed value exceeds the circuit breaker net assessed value threshold percentage

Circuit Breaker Net Assessed Value Threshold Percentage

- The net tax rate subject to circuit breaker equals 2.2536
- The circuit breaker gross assessed value percentage limit equals
  - 1% for homestead property
  - 2% for residential property, long term care property and agricultural land
- The circuit breaker net assessed value threshold percentage equals
  - 1 divided by 2.2536 = 44% for homestead property
  - 2 divided by 2.2536 = 89% for residential property, long term care property and agricultural land
- The net assessed value as a percentage of the gross assessed value equals
  - 335,000 divided 565,000 = 59%
  - 50,000 divided by 50,000 = 100%
Circuit Breaker Revenue Loss

- In the two examples in this presentation the gross and net assessed values are the same and the gross tax rate is the same.

- The only difference is in one example there are property tax credits and in the other example there are no property tax credits.

- In these two examples the difference between having property tax credits and not having property tax credits is the difference between not having a circuit breaker credit amount and having a circuit breaker credit amount.

- Circuit breaker credit amounts equal loss property tax because the credits reduce the collectible amount of property tax.

- Along with keeping property tax rates as low as possible, LOIT property tax credits is another way to limit circuit breaker credit revenue loss while at the same time reducing the taxpayer’s net property tax bill.