



Back to Basics: Introduction to Local Finance

Department of Local Government Finance

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Budget Basics

- Local units develop a budget each year
- The proposed budget specifies the property taxes to be imposed
- The Department reviews and approves the budget, including the property taxes
- Process starts in August the prior year
- Units must adopt budget by November 1
- Department must certify budget and property taxes by February 15



Budget Vocabulary

- Unit
 - An independent local government (e.g., county, city, township)
- Fund
 - an account established for a particular purpose (e.g., debt service, capital development)
- Appropriation
 - total amount of money the fiscal body authorizes the unit to spend for the year
- Additional Appropriation
 - an appropriation authorized by the fiscal body as a supplement to the approved budget
- Budget Order
 - Department certification of approved appropriation, property levy and property tax rate



Property Tax Vocabulary

- Levy
 - An aggregate amount of property tax that is to be raised
 - Typically aggregated by unit and fund
- Rate
 - The amount of money raised per \$100 of net assessed value
- Assessed Value
 - The tax base for property tax
 - Gross Assessed Value: market value-in-use of property
 - Net Assessed Value: gross assessed value less exemptions, deductions, and abatements.



Developing a Budget

- Annually, each unit of government adopts a separate budget
- Budget forms found on Department website (<http://www.in.gov/dlrf/8945.htm>)
 - Form 1: line-item budget
 - Form 2: anticipated revenue by source
 - Form 3: notice to taxpayers (publication)
 - Form 4: adoption ordinance
 - Form 4a: subtotals from Form 1
 - Form 4b: financial statement; proposed property tax levy and rate
- Beginning 2012, budget forms submitted online through Gateway website (<https://www.stats.indiana.edu/govtGateway/>)



Adopting a Budget

- State law requires:
 - Publication in newspaper (twice)
 - Review by County Council
 - Public Hearing, proper notice given
 - Adoption Hearing, proper notice given
 - Submission of budget forms to Department and County Auditor
- More information at on Department website
[http://www.in.gov/dlgf/files/110103 - Jones Memo - 2011-2012 Budget Calendar.pdf](http://www.in.gov/dlgf/files/110103_Jones_Memo_2011-2012_Budget_Calendar.pdf)



Imposing a Property Tax

- Each unit imposes its own property tax
- Imposed as part of the budget adoption process
 - Published via Form 3
 - Subject to County Council review
 - Adopted via Form 4B
 - Subject to Department approval
 - Certified on Budget Order
- Levies and rates vary by year and location



Calculating Rates and Levies

- “Levy-Driven Funds”
 - Assessed Value (tax base) is fixed
 - Unit specifies dollar amount of levy
 - Rate is derived to generate specified levy
- “Rate-Driven Funds”
 - Assessed Value (tax base) is fixed
 - Unit specifies property tax rate
 - Levy is the result of the rate multiplied by assessed value



Department Budget Reviews

- Department ensures that:
 - Property tax levy and rate are within legal constraints
 - Proposed budget does not exceed available resources (revenue and cash balances)
 - Proper procedures were followed for publication, hearings, and County Council review
 - Most recent Annual Financial Report, Salary Report, and Township Statistical Report filed with Board of Accounts (*New for 2012*)



Property Tax Collection

- Property tax administered at county level
 - Assessor: places Gross Assessed Value on all properties, “rolls” values to Auditor
 - Auditor: applies deductions, certifies Net Assessed Value to Department (aggregated by taxing district)
 - Department: uses tax base information and submitted unit budgets to issue Budget Order
 - Auditor: applies tax credits, calculates tax bills, sends “abstract” to the Auditor of State for approval
 - Treasurer: sends out bills, collects revenue



Property Tax Constraints (applicable to unit)

- “Max Levy” Law
 - certain fund levies may not grow faster than personal income growth
 - primarily operating funds
- Rate Caps
 - certain fund rates may not exceed statutory limits
 - revenue constrained by the tax base
- Debt Funds
 - total budget limited to the reasonable needs of the fund



Property Tax Constraints (applicable to taxpayer)

- Constitutional Property Tax Caps
 - Taxpayer’s “bottom-line” bill after all deductions and credits may not exceed:
 - 1% of gross assessed value for homesteads
 - 2% of gross assessed value for other residential property, farm ground, and long-term care facilities
 - 3% of gross assessed value for all other property
- Credit given to taxpayers to bring them down to the cap (“circuit breaker credit”)
 - Credit is not reimbursed
 - Property tax caps may result in lower revenue
- Voter-approved charges outside caps



Other Local Revenue Sources

- Local Taxes Collected by State
 - Local Option Income Tax
 - Financial Institutions Tax
 - Vehicle Excise Tax
- State Revenue Sharing
 - e.g., highway funding
- Grants
- Local Fees and Charges
 - e.g., court fees



Local Income Tax Vocabulary

- LOIT
 - Local Option Income Tax, all-encompassing
 - “CAGIT”: County Adjusted Gross Income Tax
 - “COIT”: County Option Income Tax
 - “CEDIT”: County Economic Development Income Tax
- “Legacy” or “Base” LOITs
 - First established CAGIT, COIT, and CEDIT rates. Used for general revenue and some property tax relief
- “New” or “HEA 1478-2007” LOITs
 - A new set of rates for specific purposes that was authorized by the 2007 General Assembly
 - Can be administered either as CAGIT rate or COIT rate



Imposing an Income Tax

- One adopting body per county
 - County Council, if the county imposes CAGIT
 - COIT Council, if the county imposes COIT
 - Members are County and Municipality fiscal bodies
 - Votes allocated based on population
- Rate adopted, changed, repealed by ordinance
- Changes must be adopted by November 1 of each year.



Income Tax Collection

- Indiana Department of Revenue collects the tax on behalf of the counties
- Taxpayers report local income tax on state income tax return
- Department of Revenue processes the returns, sets aside local money by county
- State Budget Agency sums the “set-aside” amounts processed during the state fiscal year (ends June 30)
 - Becomes the Certified Distribution for the county for the following calendar year
 - State Budget Agency adjusts the amount for rate changes and/or negative account balances



Income Tax Constraints

- Rate Limits
 - Statute lays out maximum rates for each tax type
- Structured Uses
- Tax Base Fluctuations



“Legacy” CAGIT (I.C. 6-3.5-1.1-2)

- Maximum rate of 1.00%
- 0.25% for property tax replacement credits (“PTRC”) for all units including schools
 - Credit = \$ to local units = levy and rate reduction
- Up to 0.75% for certified shares
 - Distributed to non-school units by statutory formula
 - Used to supplement budgets.



“Legacy” COIT

I.C. 6-3.5-6-8

- Maximum of 1.0%
- Portion may be used for homestead credits
 - Fixed property tax credit percentage
 - Cost may vary from year to year
- Remainder used for certified shares
 - Distributed to non-school units by statutory formula
 - Used to supplement budgets.



“Legacy” CEDIT for Economic Development - I.C. 6-3.5-7-5

- Maximum of 0.5%
 - *CAGIT + CEDIT rate may not exceed 1.25%*
 - *COIT + CEDIT rate may not exceed 1.0%*
- Used for economic development spending (defined in statute)
- Distributed to the county unit and the county’s cities and towns
 - Statutory formula



CEDIT for inventory neutralization credits - I.C. 6-3.5-7-25

- Maximum Rate of 0.25%
- Used for homestead credits
 - to counteract the effect of the exempting of inventory in 2007.
- Rate calculated in one of two ways
 - uniform credit rate
 - “allocated” credit rate, differs by taxing district
 - Based on quantity of inventory exempted



LOIT for Levy Freeze

I.C. 6-3.5-1.1-24 / I.C. 6-3.5-6-30

- Maximum Rate of 1.0%
- Used to flat-line levies subject to “max levy” constraint
 - Growth funded from income tax revenues instead
- Significant administrative regulations
 - DLGF-certified rates mandatory in years 1 and 2
 - Rate may never be reduced/rescinded
 - Must establish stabilization fund
 - Revenue may be transferred to/from stabilization fund under specific circumstances



LOIT for Property Tax Credits

I.C. 6-3.5-1.1-26 / I.C. 6-3.5-6-32

- Maximum Rate of 1.0%
- Used to provide property tax credits on tax bills
- Options:
 - Homestead credit (owner-occupied homes)
 - Residential PTRC (homesteads, residential rental, and apartment complexes)
 - PTRC for all taxpayers in the county
 - A combination of the three above methods.



LOIT for Public Safety

I.C. 6-3.5-1.1-25 / I.C. 6-3.5-6-31

- Maximum rate of 0.25%
 - May only be imposed if:
levy freeze rate + property tax relief rate \geq 0.25%
- Used for public safety spending (defined in statute)
- Distributed to the county unit and the county's cities and towns
 - Statutory formula



Distribution of Revenue

- County Auditor receives revenue collections from State or from County Treasurer
- County Auditor distributes revenue to units
 - Department certifications
 - Local option income tax (“LOIT”)
 - Financial institutions tax (“FIT”)
 - Auditor of State certifications
 - Commercial Vehicle Excise Tax (“CVET”)
 - “Settlement” process
 - Property Taxes
 - Motor Vehicle Excise Tax (“MVET”)



Contact the Department

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