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/dlgf/8945.htm](http://www.in.gov/dlgf/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/](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
  
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
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%
  – \( \text{CAGIT} + \text{CEDIT} \) rate may not exceed 1.25%
  – \( \text{COIT} + \text{CEDIT} \) 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
• 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.
• Maximum rate of 0.25%
  – May only be imposed if:

  \[ \text{levy freeze rate} + \text{property tax relief rate} \geq 0.25\% \]

• 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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