

Key Ideas

Chapter 5: Tax Rates & Tax Levies



In this section, we will discuss the following:

- *The role of Certification of assessed values by local officials*
- *The amount of annual maximum levy increases.*

TAX RATES AND TAX LEVIES

In terms of technical and administrative problems, the most difficult part of the budget process is establishment of an adequate tax rate and tax levy. This is particularly difficult because maximum levy limitations are in place for each township. The maximum levy limitation controls the amount of property tax levied by a township, thereby placing a cap on revenue available through property tax. Most township funds are subject to the maximum levy controls but some funds, such as debt service funds and cumulative funds, are usually outside the maximum levy controls.

$$\text{Tax Rate} \times (\text{AV} / 100) = \text{Tax Levy} \quad \text{or} \quad \text{Tax Levy} / (\text{AV} / 100) = \text{Tax Rate}$$

When determining the levy required for a specific calendar year, townships are required to subtract from projected expenses any amounts of miscellaneous revenue that will be generated in addition to property tax. The difference, or amount remaining, reflects what is required to be raised in property tax. If the levy, (line 10, Form 4B) remaining after subtraction of miscellaneous revenues is greater than the maximum levy limitation, a township has two options:

- 1) an excessive levy appeal, if applicable; or
- 2) a reduction in line item expenditures during the current or proposed calendar year (line 1 or line 2 expenditures on the Form 4B)

In this example, unless the township is pursuing an excessive levy appeal for budget purposes, the township will automatically be required to reduce current year or ensuing calendar year expenses. A budget reduction is both a financial and political process. The financial aspect covers the requirement in Indiana for a balanced budget, operations within a maximum levy limitation, and avoidance of operating in the red.

In preparing tax rates, local officials rely on the certification of assessed values by the County Auditor. The County Auditor works with the County Assessor to solidify values that represent the assessed valuation of all real and personal property within the county. The Department provides the Auditor and other official's data on valuation of public utilities and on specific taxation limitations.



In preparing tax rates, local officials rely on the certification of assessed values by the County Auditor.

This information is used by each local official in the determination of tax rates or levies for the ensuing calendar year. The information should be received no later than August 1st. (IC 6-1.1-17-1).

Property Tax Levies

Unless a county has adopted the levy freeze option of the Local Option Income Tax (LOIT), townships are permitted property tax levy growth under current tax laws. Each year this increase is based on the previous 6-year average growth in Indiana non-farm personal income. The excessive levy appeal procedure described in this manual also allows for levy growth in excess of the norm. Proper procedures must be followed to attain this special exception. IC 6-1.1-18.5-13(3).



Each year this increase is based on the previous 6-year average growth in Indiana non-farm personal income.

The maximum levy limitations are determined by the state statute and calculated by the Department. This calculation represents the maximum amount of property taxes that may be raised in a given year. The information is furnished to township trustees.

Townships normally have two separate maximum levy worksheets. The first worksheet encompasses the township civil operating budget. This levy limitation includes any levies for township general, township assistance, cemetery and recreation funds. The second worksheet is for township fire fighting purposes. This worksheet encompasses operating expenses associated with fire fighting and emergency medical service costs only. The trustee must balance the needs of the township with the levy limitations.

Determination of the township's proposed property tax rate is calculated on the 16-line statement or Form 4B, Estimate of Funds to be Raised. The Estimate of Funds to be Raised is the property tax levy desired for each fund.

Step one involves determining the assessed valuation of taxable property within the township's jurisdiction. This assessed valuation is provided by the County Auditor and certified to the Department. The same calculation is used for each fund with a property tax levy. However, townships may have funds with different assessed values associated with them. For example, if a township has an incorporated city or town within its boundaries, then in most cases, the city or town has the responsibility of providing fire protection services. In this case, the township fire fund will have a lower assessed value since that service is provided by the city or town. The total assessed value of the township is generally applied to the township fund, township assistance, and most recreation funds.

Step two requires the trustee to take the estimate of funds to be raised on Line 16 of Form 4B and divide that amount (numerator) by the total assessed valuation for that fund divided by 100 (denominator) to determine the tax rate needed to support the fund.

For example: Estimate of funds to be raised is \$100,000
Assessed valuation for the fund is \$160,000,000

Tax rate: $100,000 / (160,000,000 / 100) = .0625 = .0625$ tax rate
(To check your work $.0625 \times (160,000,000 / 100) = 100,000$)

The tax rate calculated (.0625) will generate the amount of property tax needed to support this particular fund. The same calculation is made for all funds with a property tax levy.

Summary

Chapter 5: Tax Rates & Tax Levies



In this section, we have discussed the following:

- *In preparing tax rates, local officials rely on the certification of assessed values by the County Auditor.*
- *Each year the maximum increase in levy is based on the previous six year average growth in Indiana non-farm personal income.*