THE ABCs OF INDIANA PROPERTY TAXES: ASSESSMENTS, BILLS AND CAPS

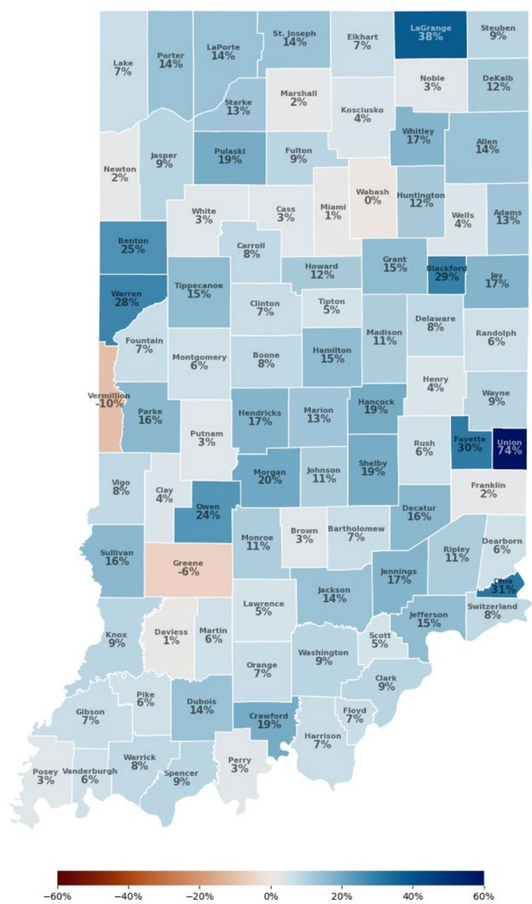
Guiding Homeowners through the Process – April 2023

Across Indiana, homeowners have received their pay-2023 property tax bills, with the first installment due by May 10th. Not far behind, residential taxpayers receive a **Notice of Assessment** (**Form 11**) from their county assessors establishing 2023 property values for next year's (pay-2024) bills.

Indiana property taxes are **market-based** and **paid in arrears:** Current (pay-2023) bills are based on 2022 assessments, which were driven by market trends through 2021; 2023 assessments reflect the slower – but still significant – increase in property values last year.

Indiana REALTORS® are uniquely qualified as market experts and taxpayer advocates to help former, current and potential clients understand the assessment process, their rights of appeal, the market trends behind their tax bill and the possible impacts on buying or selling decisions.

- Indiana homeowners pay an average of 25% less in property taxes than the U.S. average, thanks to reforms pushed by REALTORS® in the mid-to-late 2000s.
- **Homestead property tax bills** for a primary residence **are capped to one percent of their assessed value (A/V)** with a homestead deduction of $48,000.
- Property taxes are divided among cities and counties, school districts, townships and other local governments – their overlapping tax rates can't push individual bills over 1% of A/V; this 'circuit breaker' has saved taxpayers more than $7.5 billion since 2011.
- But the caps don't guarantee that tax bills won't increase with property values: When home prices rise, property owners build wealth and local government gain flexibility under the caps.
- There are scenarios that can push total bills over 1% – school referenda and other controlled projects approved by voters.
- REALTORS® can show homeowners local market trends and comparative sales – the map to the right shows the median sale price increase from 2021 through 2022 (a starting point for looking at changes in 2023 assessments).
- One way to help homeowners evaluate their assessment is simply asking, **"Would you list your home for that price today?"** (And would you advise them to do so?)
- If assessments seem out of line, taxpayers should take advantage of their right to file an appeal – starting at the local level by filing a **Form 130** (Notice to Initiate an Appeal) with the county assessor.
- Indiana's Dept of Local Govt Finance has posted a guide to the process here: https://www.in.gov/dlgf/appeals-property-tax/
- REALTORS® can help homeowners through the options – appeal, accept (or even explore a move).



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Fact Sheet: **Indiana Property Taxes 101** (April 2023)

Guiding Homeowners through Property Tax Season

The preceding page is a higher-level summary of this more detailed discussion of Indiana's property tax system – background, key elements and how REALTORS® can help residential taxpayers.

The IRS estimates it takes the average American eleven hours to complete and file their individual tax return. By comparison, property taxes don't demand much time from many homeowners: Estimated taxes are embedded in monthly mortgage payments and paid automatically through escrow accounts. Easy, right?

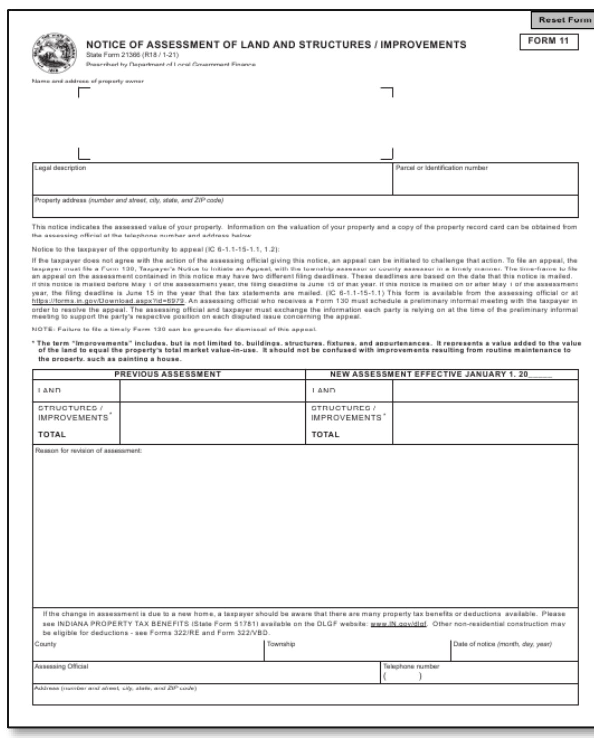
But what if tax bills increase by an unexpected amount or seem out of line with property values? The details of the property tax system can be complex and often confusing for homeowners – but as housing market experts and taxpayer advocates, REALTORS® are in a unique position to help.

April is the perfect time to reach out to former, future and current clients for a property tax check-in. **After all, REALTORS® are local market experts in a market-based assessment system.**

What's Ahead for Homeowners:

Market-based property assessments are one thing, but the system also throws a timing wrinkle at taxpayers – taxes are paid in arrears, so this year's bills ('pay-2023') are based on the previous year's assessments:

- As you read this, many homeowners have already received their tax bills from their county treasurers or are able to check their statements online (April 15th was the last day for treasurers to mail bills).
- Not far behind, homeowners will receive a **Notice of Assessment** (**Form 11**) from their county assessors establishing their property value for next year's (pay-2024) tax bills.
- If counties get these Assessment Notices in the mail by May 1st, the clock starts ticking for assessment appeals – more on this later – with a deadline of June 15th (if notices go out after May 1st, taxpayers get another year to file their appeals).
- The first installment of 2023 property taxes are due on May 10th, and the second installment on November 13th.


Reset Form

NOTICE OF ASSESSMENT OF LAND AND STRUCTURES / IMPROVEMENTS
State Form 21366 (R18 / 1-21)
Prescribed by Department of Local Government Finance

FORM 11

Name and address of property owner

Legal description | Parcel or Identification number

Property address *(number and street, city, state, and ZIP code)*

This notice indicates the assessed value of your property. Information on the valuation of your property and a copy of the property record card can be obtained from the assessing official at the telephone number and address below.

Notice to the taxpayer of the opportunity to appeal (IC 6-1.1-15-1.1, 1.2):

If the taxpayer does not agree with the action of the assessing official giving this notice, an appeal can be initiated to challenge that action. To file an appeal, the taxpayer must file a Form 130, Taxpayer's Notice to Initiate an Appeal, with the township assessor or county assessor in a timely manner. The time-frame to file an appeal on the assessment contained in this notice may have two different filing deadlines. These deadlines are based on the date that this notice is mailed. If this notice is mailed before May 1 of the assessment year, the filing deadline is June 15 of that year. If this notice is mailed on or after May 1 of the assessment year, the filing deadline is June 15 in the year that the tax statements are mailed. (IC 6-1.1-15-1.1) This form is available from the assessing official or at https://forms.in.gov/Download.aspx?id=6979. An assessing official who receives a Form 130 must schedule a preliminary informal meeting with the taxpayer in order to resolve the appeal. The assessing official and taxpayer must exchange the information each party is relying on at the time of the preliminary informal meeting to support the party's respective position on each disputed issue concerning the appeal.

NOTE: Failure to file a timely Form 130 can be grounds for dismissal of this appeal.

* The term "Improvements" includes, but is not limited to, buildings, structures, fixtures, and appurtenances. It represents a value added to the value of the land to equal the property's total market value-in-use. It should not be confused with improvements resulting from routine maintenance to the property, such as painting a house.

PREVIOUS ASSESSMENT		NEW ASSESSMENT EFFECTIVE JANUARY 1, 20_____	
LAND		LAND	
STRUCTURES / IMPROVEMENTS* TOTAL		STRUCTURES / IMPROVEMENTS* TOTAL	

Reason for revision of assessment:

If the change in assessment is due to a new home, a taxpayer should be aware that there are many property tax benefits or deductions available. Please see INDIANA PROPERTY TAX BENEFITS (State Form 51781) available on the DLGF website: www.IN.gov/dlgf. Other non-residential construction may be eligible for deductions - see Forms 322/RE and Form 322/VBD.

County | Township | Date of notice *(month, day, year)*

Assessing Official | Telephone number ( )

Address *(number and street, city, state, and ZIP code)*

The timing of assessments and bills often confounds homeowners, so it's worth reiterating:

- Current ("pay-2023") bills are based on 2022 property assessments (mailed to taxpayers last spring).
- Assessments, in turn, are based on property valuation and improvements as of January 1st – essentially reflecting market trends from the *previous* year.

- This means a two-year lag between the real estate market and resulting property tax bills: The 2022 assessments used to calculate this year's bills were driven by sales activity in 2021 – a record-setting year that saw statewide median home prices grow nearly 14%.

Sticker Shock from a Seller's Market:

The red-hot real estate market of 2020 and 2021 pushed residential property assessments and tax bills higher for most Indiana homeowners. 2021 property assessments – pay-2022 tax bills – reflected the spike in demand as the economy re-opened from COVID and Hoosiers rethought their housing options. Pay-2023 bills, as described in the previous section, are rooted in the hyper-competitive market of 2021.

The 2023 assessments hitting mailboxes in the next few weeks (Form 11 notices) capture last year's cooling housing sector that nonetheless saw statewide median prices rise 11.9%, so pay-2024 bills will bring another notable (but more modest) increase for many homeowners.

This is all a natural result of a market-based system that's still unwelcome news for household budgets – no one likes higher tax bills, even predictable ones based on positive news for homeowners.

After all, this round of assessments and bills reflect the tremendous wealth gained by Hoosier homeowners over the past two years: A median-priced home gained $50,000 in equity through 2021 and 2022.

Let's take a step back and remember that Indiana has built one of the nation's most appealing, pro-homeowner property tax climates in the nation over the past twenty years, turning a crisis into a competitive advantage in response to court rulings in the *Town of St. John* case ordering property assessments tied to objective measures of market value.

REALTORS® successfully pushed for fundamental tax reforms through this transition that continue to pay off for taxpayers today, even during the perfect storm of limited inventory and overheated demand that's led to surging home prices since 2020.

The ABCs of Indiana Property Taxes: Assessments, Bills and Caps

Here's a quick recap of the reforms that led to the current system:

- After the shift to market-based, objective assessments led to large and often-unpredictable increases as the system caught up to reality in the mid-2000s, REALTORS® championed sweeping reforms headlined by constitutional property tax caps.
- **Residential property tax bills were capped to one percent of assessed value** with an increased homestead deduction (now up to $48,000) and additional relief for Hoosiers over 65.
- Pre-existing maximum levy limits also ensure that general property tax collections can't outgrow statewide personal income on a county-by-county basis.
- Tax caps have saved taxpayers more than $7.5 billion since 2011 in 'circuit breaker credits' (uncollected revenues that stay with homeowners when overlapping tax rates imposed by cities and counties, school districts, townships and other units push bills over the 1% cap) while maximum levy controls help keep rates in check.

- On an individual level, a homestead valued at $200,000 today could be paying more than $2,000 a year over and above their current property tax bill without the caps, considering effective pre-cap average tax rates (allowing local units to set rates without considering any limits on overall property tax burden) and lower homestead deductions pre-2008.
- But many taxpayers misunderstand the concept of the caps, thinking they represent a fixed dollar limitation on bills or assessments (accurate assessments are a necessity for a market-based system) rather than a percentage of assessed value.
- So as much as the system favors taxpayers, it doesn't guarantee that tax bills won't increase as property values rise: When the market is growing and property owners build wealth, their cities, counties and school districts also gain flexibility under the caps to raise additional revenue or lower rates.
- Keep in mind when helping homeowners look over their tax bills that there are scenarios that can push total bills over 1% of gross assessed value – school referenda and other 'controlled projects' approved by local voters.
- These increases will undoubtedly create hardship for some homeowners, especially seniors and low-to-moderate income households whose finances have been stretched by inflation – but rising bills may accurately reflect the local housing market.

The Listing Litmus Test: Would You Sell Your House for its Form 11 Value?

One way to advise homeowners on the accuracy of their assessments (and the following year's tax bill) is simply asking, "Would you sell your house for the assessment amount?" Often, the honest answer is that the homeowner would expect to list their home for a higher price – in which case, they may want to think twice before pursuing an appeal.

But if homeowners haven't explored the market in several years, they may not have an accurate picture of home prices in the area, how certain improvements or renovations can impact property values, and particularly how quickly median sale prices have appreciated in many parts of the state.

That's where the expertise of a REALTOR® as a local market professional can be invaluable in providing a realistic look (informed by day-to-day experience) at local (even neighborhood) price trends, and a snapshot of values leading up to the assessment period (January of each year).

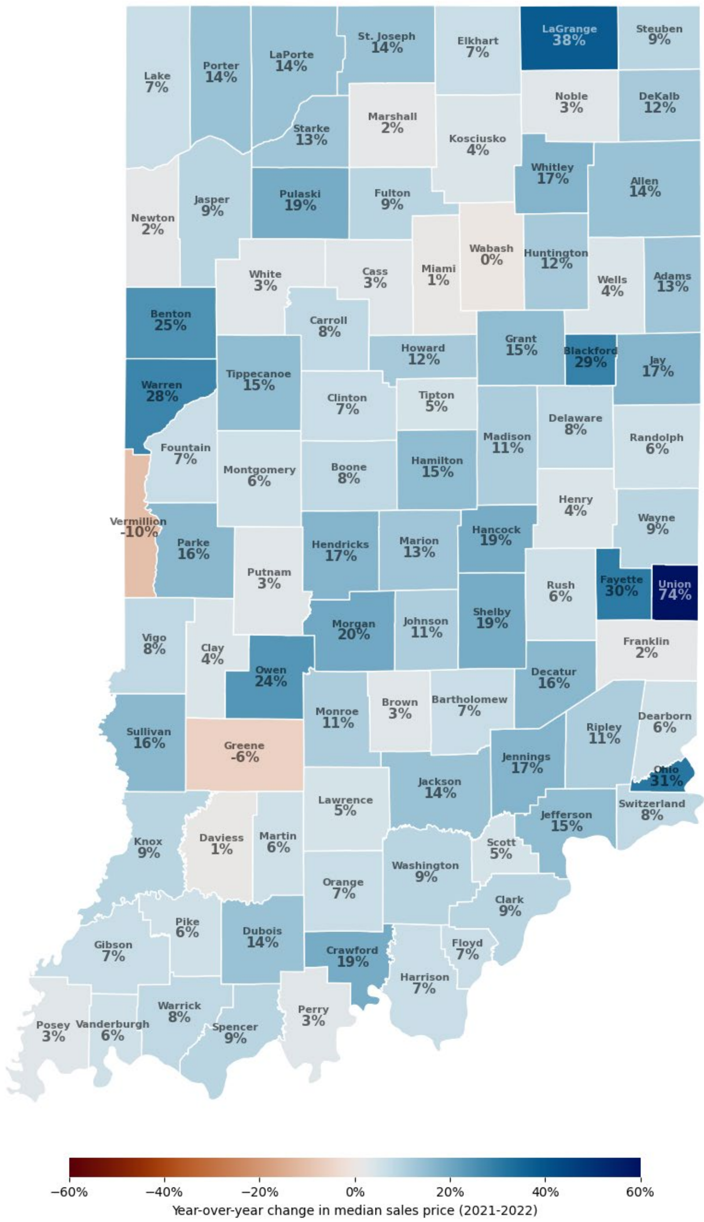
County assessors often use a small or overly broad sample of comparative sales to establish a valuation baseline for individual properties; there's no substitute for the insight of real estate professionals (and access to MLS data) in setting market values.

On the following page you'll find two county maps showing rates of increase in median home sale prices:

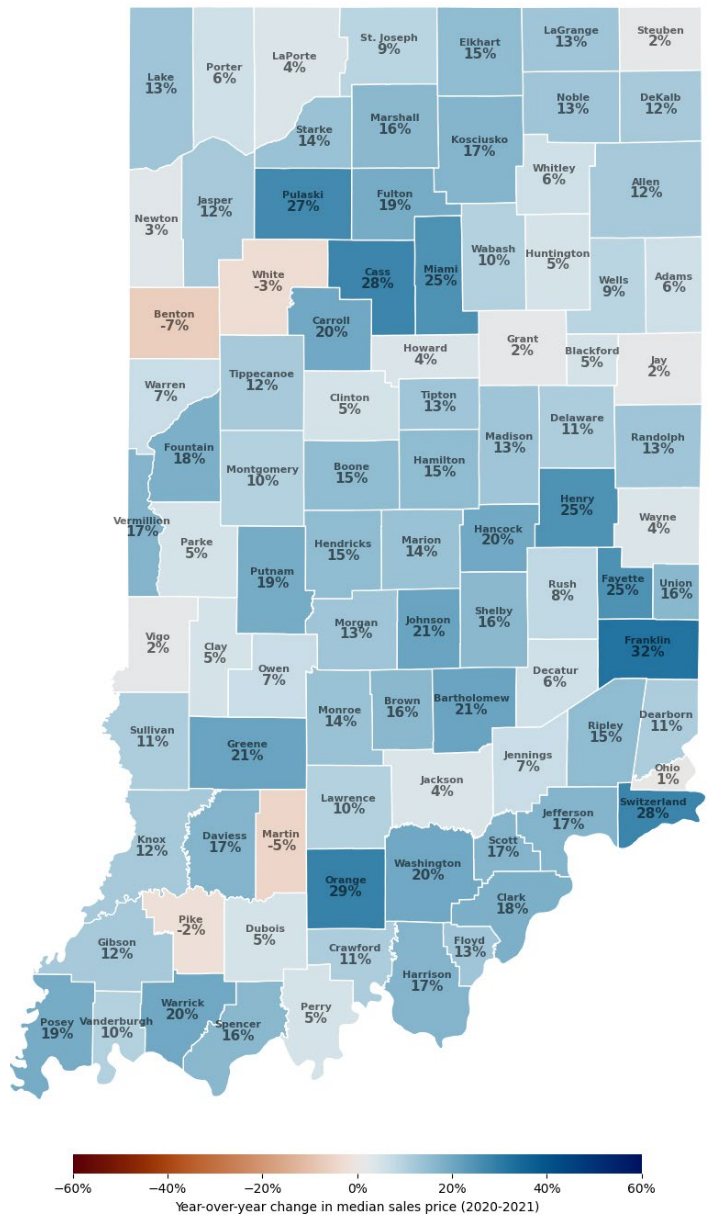
- From 2020 through 2021, impacting 2022 assessments and this year's tax bills; and
- 2021 through 2022, the slowing-but-still-growing market that should be reflected in this year's assessments.

Looking at these countywide rates of increase is a starting point to think about how much assessments and bills have increased over the past two years; have your clients' grown significantly faster (or slower) than the median of properties that have changed hands across their counties of residence?

Median Price Change 2021 to 2022



Median Price Change 2020 to 2021



Filing a Property Tax Appeal

If an assessment does seem out of line with comparative values and market trends, taxpayers should take advantage of their right to file an appeal:

- The process starts at the local level by filing a Form 130 (Notice to Initiate an Appeal) with the county assessor, who makes an initial decision on the merits of the appeal.
- If denied by the assessor, the appeal can be reviewed by the county Property Tax Assessment Board of Appeals (PTABOA).
- Finally, if no relief if granted at the local level, taxpayers can continue the process with the Indiana Board of Tax Review and ultimately the Indiana Tax Court.

Just last year, a Tax Court case (*Marion County v. Schiffler*) raised far-reaching issues of how "homesteads" should be defined and assessed for the purposes of applying Indiana's tax caps and was decided in favor of the homeowner – the appeals process does matter and can make a difference even beyond individual tax bills.

The Indiana Department of Local Government Finance has an **updated description of the process here**, with downloadable versions of the relevant forms.

Watch for more information on issues related to homestead assessments and the Schiffler decision, as Senate Bill 325 in the current session of the Indiana General Assembly could impact future assessments – e.g. the number and types of additional buildings and yard structures that can be included in the "homestead" for assessment purposes.

Tax Bills and the Tax Base

Away from the mechanics of assessments and appeals, it should also be noted that individual tax bills are also affected by other classes of property that make up the local tax base – e.g. other residential (multi-family or non-primary residence), assessed under a 2% cap along with agricultural land, as well as commercial and industrial properties (a 3% cap). Utility property and business personal property have another set of rules altogether.

The maximum tax levy puts an upper ceiling on the total taxing capacity of a local jurisdiction; but if home values are rising faster than other classes of property, or the tax base is limited in other ways, more of the total tax burden under the levy can shift to homeowners – and that has been the case in recent years.

According to a pair of studies released by the Association of Indiana Counties, homeowner tax bills have been rising more than 7.5% a year since 2017 (as positive population trends boosted demand for housing and prices followed). Bills for industrial properties have grown less than 5% a year, and commercial property taxes only saw a 2.5% annual increase. Farmland bills were essentially flat, though the 'agricultural base rate' for farm assessments is set to rise going forward.

In terms of total property tax liability, homeowners paid 43% of all property tax revenue collected in 2017 – today, they shoulder half the total burden. That's a shift of nearly $1.5 billion into the bills paid by homeowners.

This is why REALTORS® are advocates for a broad and balanced local tax base, to protect homestead taxpayers even under the constitutional caps.

As taxpayer champions and trusted market experts, Indiana REALTORS® can play a valuable advisory role in helping homeowners through this process on an individual basis, and also providing insight on the bigger picture economic and policy issues that eventually influence tax bills in tandem with real estate values.

Thank you for reading through this overview, and don't hesitate to contact IAR's Vice-President of Public Affairs Chris Watts (cwatts@indianarealtors.com) for more information and additional resources on navigating Indiana's property tax system.