

The Truth about the November Property Tax Cap Vote

MYTH #1: All homeowners will benefit from the property tax caps.

Fact: Indiana homeowners benefit from a variety of generous property tax breaks that disqualify many Hoosiers from being eligible for the tax caps, including a \$45,000 homestead deduction and 35% deduction on home values up to \$645,000. Those fortunate Hoosiers with homes worth more than \$645,000 also receive an additional 25% deduction on the remaining value of their home.

These deductions dramatically reduce the property taxes paid by most Hoosiers, and do so in a way that makes the most expensive homes more likely to be eligible for the caps. For example, after factoring in the benefit of the homestead deductions and applying a fairly typical 2% tax rate, a home valued at \$125,200 would receive no benefit from the caps, while a home worth \$1 million would receive over \$3,000 in benefits!

MYTH #2: Hoosier taxpayers will be protected from tax increases if the property tax caps are put into the state constitution.

Fact: In order to offset the cost of the property tax caps, the state's sales tax rate has already been increased, and a variety of existing property tax relief programs have been eliminated. Moreover, since the property tax caps restrict the amount of money available for schools, libraries, and other local services, many other taxes may need to be increased later to pay for these services – such as local or county income taxes - or local surcharges will need to be implemented.

MYTH #3: The property tax caps are so well-designed that they are ready to be put into the state constitution.

Fact: The property tax caps were enacted just two years ago, and the full range of changes associated with the caps has yet to be implemented. The state homestead credit relief program, for example, will not be completely eliminated until 2011. As a result, voters this November will not yet have paid a single property tax bill under the fully-implemented tax cap package. Clearly, much remains to be seen regarding the effects of this package.

MYTH #4: The property tax caps need to be put in the state constitution so they will be permanent, but they can still be reversed later if necessary.

Fact: The property tax caps are already in statute (state law), so there is no need to put them in the state's constitution. Doing so will require any future efforts at property tax reform to be done under the state's numerous restrictions on amending the constitution. By keeping the tax caps in state law rather than enshrining them in the constitution, future Hoosiers and their representatives will be better able to modify these new (and untested) provisions as new needs develop. Moreover, if the caps are enshrined in the constitution and economic or budgetary crisis strikes again, changes the property tax will largely be "off the table" in the short-term, and other taxes could be forced to increase dramatically as a result.

To learn more about this issue, visit the *No Property Tax Caps in the Indiana Constitution* Facebook page at: <http://bit.ly/bmiyam>.

Prepared by: The Indiana Institute for Working Families. To learn more about the Institute and their research, please visit: <http://www.incap.org/iifw.html>.