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## Property Tax Assessment in Indiana – I

### The Assessing Process

The sole legitimate objective of property tax assessment is to produce a tax roll that accurately and equitably distributes the tax base among the various taxpayers, within given legal constraints. This objective is not met in Indiana. The process of determining the assessed value of taxable property in Indiana is characterized by:

- Assessments that are explicitly not based on market value, but on cost minus depreciation (“true tax value”);
- Assessed values at 33 1/3% of “true tax value”;
- Relatively infrequent reassessment of real property; annual assessment of personal property;
- No current means of determining the accuracy or equity of assessments on a statewide basis;
- No requirement for transmitting sales data to assessors
- Little consistency in data collection and analysis among assessing units.

**Fair Market Value vs. True Tax Value.** Indiana property tax assessments are not based on market value, but on a concept unique to Indiana called “true tax value” which is determined under rules promulgated by the State Board of Tax Commissioners. The concept is applied with very little consistency by the state’s 1,008 elected assessors.

Under the current system, the assessor has only one way of valuing a parcel of property. A market value approach would permit the assessor to use the

sales comparison approach and the income approach in addition to cost minus depreciation, the current approach. The three approaches are alternative techniques that may be used in coming to a better estimate of market value.

**Lack of Taxpayer Understanding.** Normally, owners of real property have an idea of the market value of their own property. If the assessed value is close to actual market value, the taxpayer is likely to understand the assessment. However, the Indiana assessment process produces assessed values that bear only a coincidental similarity to market value. Secondly, the confusion is compounded by the 33 1/3% assessment ratio. The result is an assessment that seldom bears any obvious relationship to the property owner’s notion of the likely selling price of the property. This creates confusion and reluctance to challenge the assessment.

**Market Data.** The basic criterion for judging the quality of assessing in any jurisdiction is equity. Equity may be measured by the use of an assessment-sales ratio study. A ratio study compares the assessed value of a particular piece of property with its selling price. By comparing individual ratios, a taxing official is able to ascertain how taxpayers are assessed relative to each other. These studies are not now performed in Indiana.

A second concern is the lack of data available to assessors. Indiana law does not require recording of the sale

price of a piece of property. Presently, sales price data are maintained by the real estate brokers for such purposes as they may find useful to their business and not shared with the assessors. Without such data, assessing officials will be unable to accurately estimate the market value of properties.

**Assessing Cycles.** Indiana employs two different assessment cycles — an annual assessment for personal property and a less frequent periodic general reassessment for real property. Prior to 1987, general reassessments in Indiana were performed once every ten years. Long assessment cycles can produce large, sudden increases in property tax bills as well as inequitable treatment of property between reassessments. During the 1989 legislative session, action was taken to shorten the next general reassessment cycle to six years and then each fourth year thereafter.

#### **Recommendations:**

- Adopt market value as the basis for assessed value.
- Change the assessment ratio from 33 1/3 percent of “true tax value” to 100 percent of market value: alter tax rates and debt limits accordingly.
- Continue the trend to shorter assessment cycles.

The Indiana Fiscal Policy Institute has prepared a longer analysis of property tax administration, *Fiscal Policy Report No.4: Property Tax Assessment in Indiana: A Program of Reform*. The report is available to Institute members on request and to non-members for \$5 per copy.

# Fiscal Policy **BRIEF**

## Features of Property Tax Assessment Systems

State	Assessment Standard	Assessment Cycle	State	Assessment Standard	Assessment Cycle
Alabama	Market	1	Montana	Market	5
Alaska	100%	?	Nebraska	100%	1
Arizona	Market	1	Nevada	Market	5
Arkansas	Market	1	New Hampshire	100%	1
California	Market	None	New Jersey	Market	1
Colorado	Market	2	New Mexico	Market	1
Connecticut	Market	10	New York	Market	?
Delaware	100%	?	North Carolina	100%	8
Florida	100%	1	North Dakota	Market	2
Georgia	Market	1	Ohio	Market	6
Hawaii	100%	1	Oklahoma	Other	5
Idaho	100%	1	Oregon	100%	1
Illinois	Market	4	Pennsylvania	100%	3
Indiana	Other	4	Rhode Island	100%	1
Iowa	100%	4	South Carolina	Market	4
Kansas	Market	1	South Dakota	Market	1
Kentucky	100%	4	Tennessee	Market	1
Louisiana	Market	4	Texas	100%	4
Maine	100%	10	Utah	Market	5
Maryland	100%	3	Vermont	Market	1
Massachusetts	100%	1	Virginia	100%	1
Michigan	Market	1	Washington	100%	4
Minnesota	Market	4	West Virginia	Market	?
Mississippi	Market	1	Wisconsin	100%	5
Missouri	Market	1	Wyoming	Market	1

(A) Market means assessments are based on a market value standard but not required to be at 100 percent of estimated market value. 100 percent means assessments are legally required to be at 100 percent of estimated market value. Other means assessments are not based on market value.

(B) Designates the maximum allowable interval, in years between reappraisals. The "?" means that the statutes do not clearly establish a maximum allowable interval.

Source: International Association of Assessing Officials

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