Indiana Farm Bureau®
Advocating for Agriculture

2025 Tax Reform and Local Gov't Finance

As updated in 2026 Legislative Session

Property Tax Relief

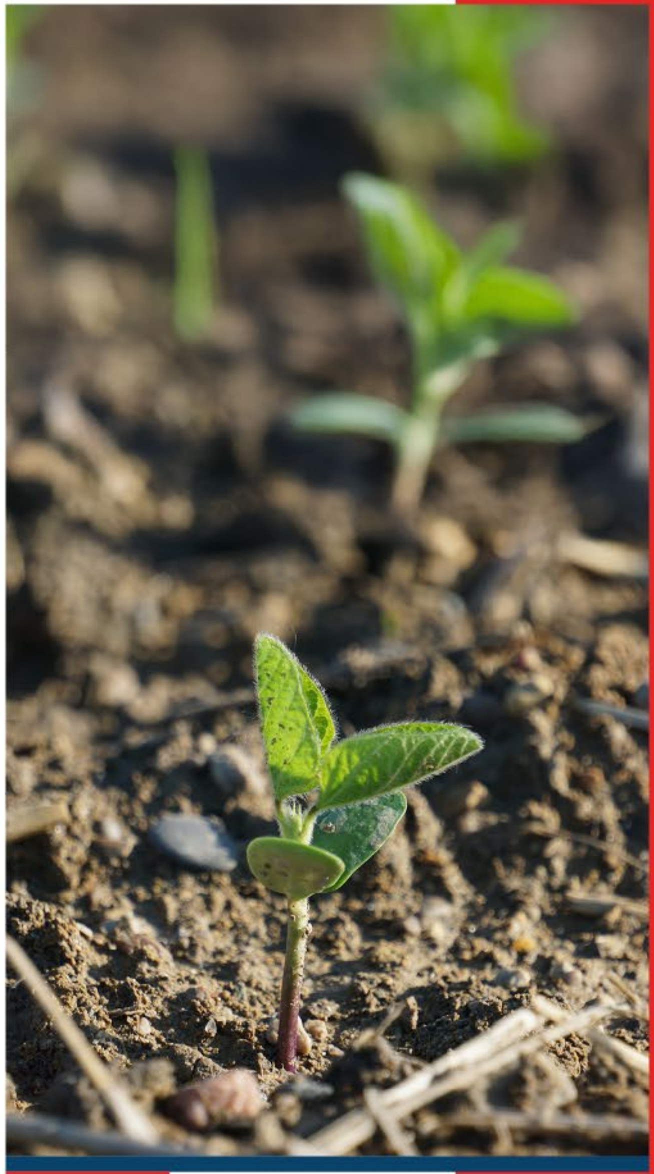
***Beginning in 2025/Pay 2026*:**

- 10% Homestead Credit (capped at $300)
- Agricultural Base Rate Reduction (through Pay ‘28)
- Over 65, Veterans and Disabled Deductions now credit
- 4% MLGQ Growth Cap in 2026 to slow growth in levy, going back to regular calculation for 2027
- Fire Territories established 2025 or after may not impose a rate greater than .40
    - Important as rural fire service consolidation is considered
- New referenda only allowed in general election
- New Business Personal Property installed after 1/1/25 not subject to the 30% valuation floor

Property Tax Relief

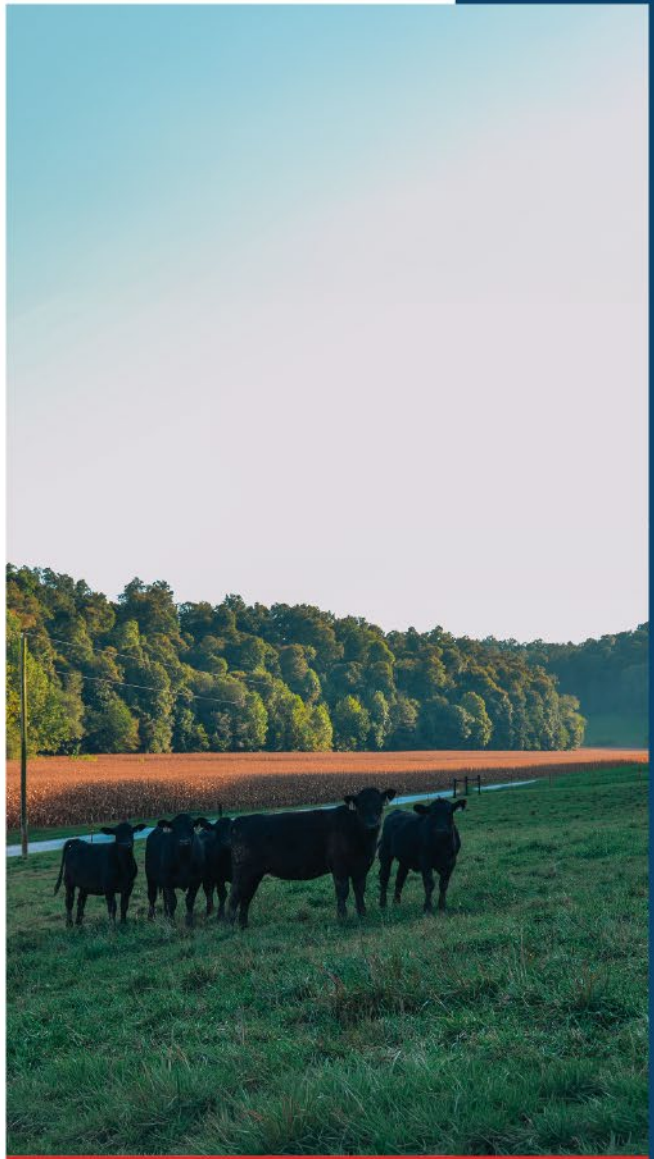
***Beginning in 2026/Pay 2027*:**

- Business Personal Property payers with total BPP acquisition cost below $2 million are exempt in Pay '27
  - Increased from current $80,000 level
  - Note this is NOT the first $2M, so not everyone benefits
- ***Why am I hearing about taxes still going up?***
  - Home values continue to rise in comparison to other property types.
  - AV on ag buildings increased this year because of adjustments to the statewide cost tables.
  - Rates continue to rise in taxing units, resulting in higher bills if you aren't at your property tax cap.
  - Much of the relief is yet to roll in……



Property Tax Reform

- Phase out Homestead Standard Deduction thru Pay 2031
- Supplemental Homestead Deduction phase in to 2/3 of value by Pay 2031 (in addition to credits beginning 2025)
- 2% Cap property (apartments, ag land etc.) phase in a 1/3 deduction of value by Pay 2031
- 3% Cap property (Commercial, Industrial, Ag Buildings) remains the same
- These % deductions are the same use classifications as the 1%, 2%, and 3% caps in the Indiana Constitution.
- Take note that your homestead deductions would match your tax cap, at exactly a $3 rate……
- Watch this issue in the 2027 legislative session.



Local Income Tax Reform

Beginning in 2028 for 2029 budgets

- Distribution of LIT by Certified Shares is eliminated and no longer distributed on levy basis, and schools no longer eligible to receive a LIT distribution.
- LIT Councils Eliminated and County Fiscal Body becomes adopting body for all county wide LIT rates (postponed to 2028 budget adoption).
- Introduction of separate, stacked LIT rates for cities/towns at or above 3500 population, but any can join county rate for formula distribution if they don't to adopt their own.
    - This formula is NOT the levy based formula
- All county residents will pay county rate, and city/town rate will only be applied to city/town residents in addition to county rate.

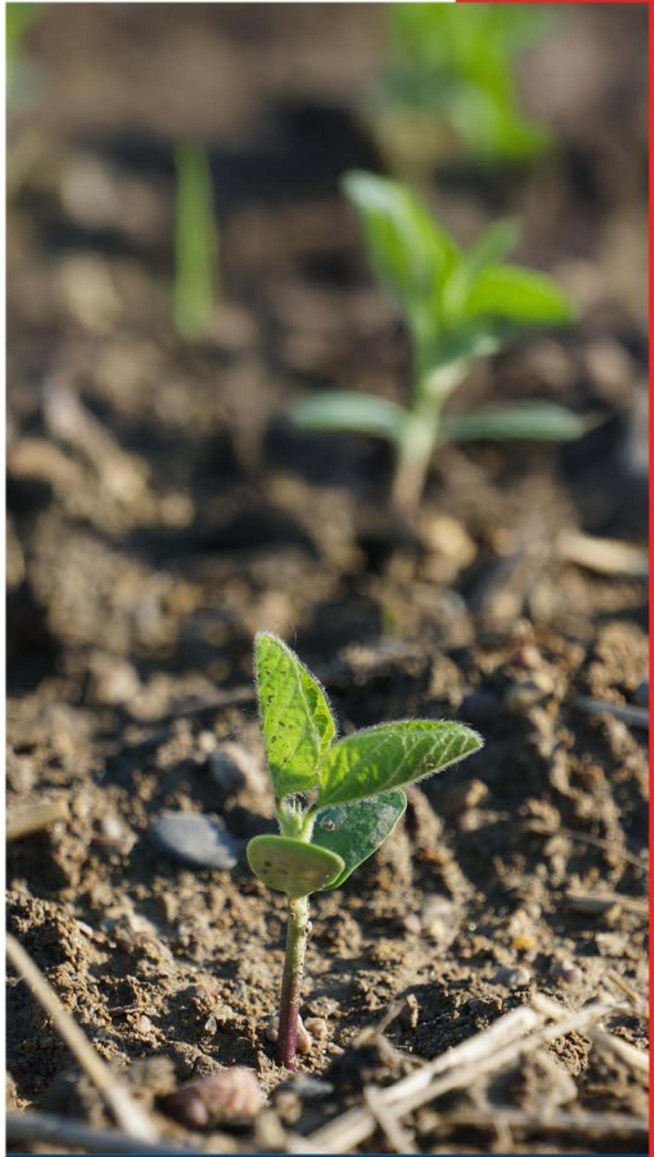
Local Income Tax Reform

County General Rate:

- Optional adoption by County Fiscal Body up to 1.2% and all revenue goes to county for any purpose
  - Max rate includes current funds like EDIT, “off the top” rates and new county PTRC rate (more flexible)
- Paid by all county residents

Fire/EMS Rate:

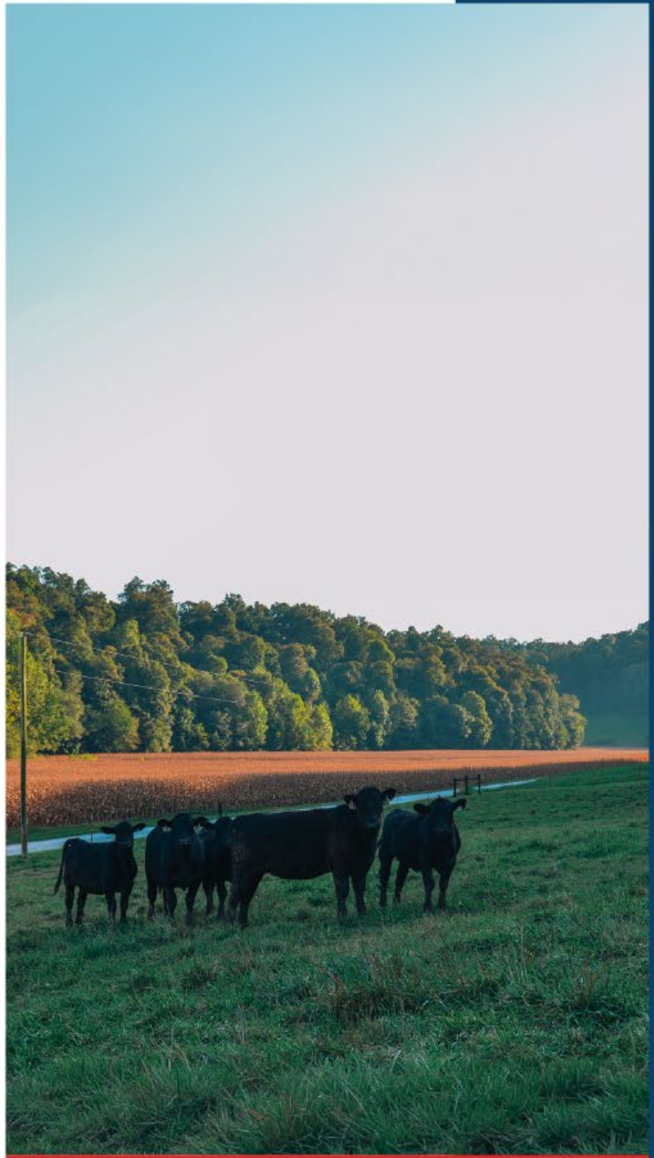
- Optional up to .4% rate adopted by County Fiscal Body
- Mandatory distribution to each fire district, fire territory, and municipality in the county based on population and geographic size of each service provider unit
  - Optional distribution to township and volunteer fire and EMS service providers, at discretion of County Fiscal Body
- Paid by all county residents



Local Income Tax Reform

Non-Municipal Unit LIT Rate:

- Optional max .2% by County Fiscal Body on all county residents
- For distribution to nonmunicipal civil taxing units within the county, incl; townships and libraries.
  - Does not include cities, towns, schools or units requiring binding review
- May adopt for each type of unit, not to exceed .05% per type
- Distribution to all units of that type, pro rata per capita if that unit has adopted a resolution requesting distribution



Local Income Tax Reform

Municipal LIT Rate:

- Optional rate up to 1.2% adopted by City/Town Fiscal Body collected only on city/town residents
  - For Cities/Towns above 3500 population, but those units may instead elect to be treated as below 3500 population to get distribution by formula
- Allocated only to the city or town adopting the rate
- May be used for any city/town purpose, including public safety and economic development

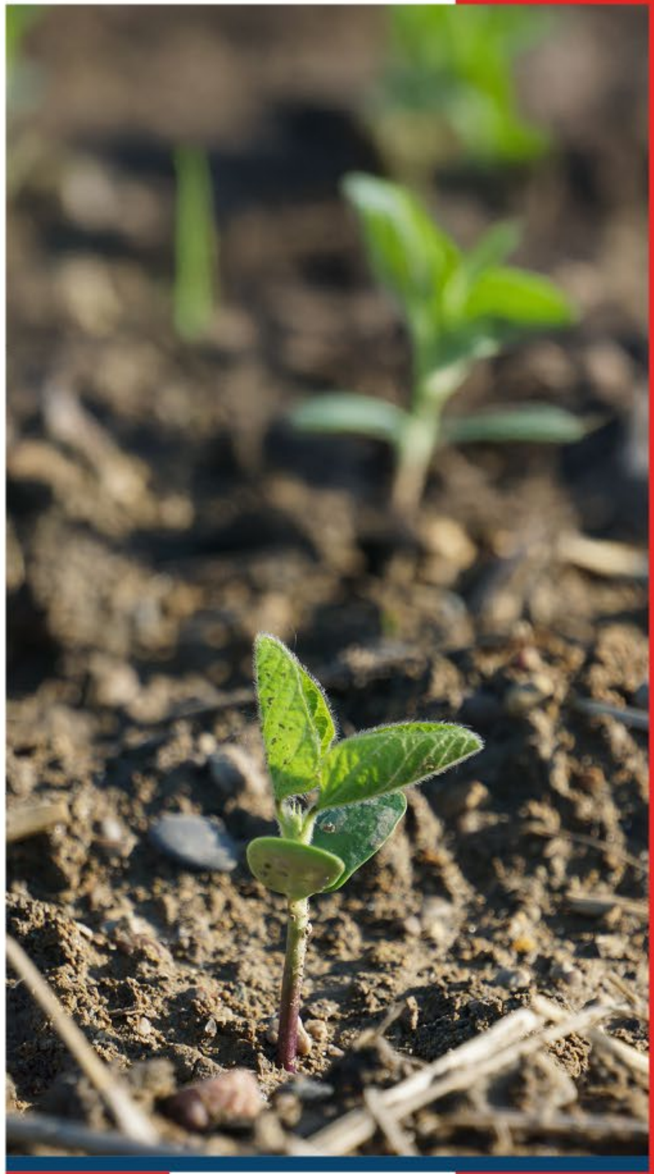
"Rural District" LIT Rate (for lack of better name):

- Optional rate up to 1.2% adopted by County Fiscal Body
- Paid by residents NOT subject to a Municipal Rate of 1.2%
- Distributed to small cities/towns which don't have own authority or cities/towns opting into county rate if that unit has adopted resolution requesting distribution
- Formula is based on population, not levy

Drainage Revenues Impact

Economic Development Impacts:

- Structurally, 2025 changes have impacts along the same lines as the question of rates vs. fees.
- Cumulative drainage tax will be impacted, as it is ad valorem.
  - Max $.05 x AV = Tax (less AV = lower revenue)
  - Tax exempt property remains exempt from this <u>tax</u>
- Drainage assessments are a flat <u>fee</u> rate (per acre, per sq ft, etc.) and not based on assessed value or levy based.
  - So no direct impact because it is a flat fee, not ad valorem.
- Stormwater management districts typically have flat rates, not ad valorem and so wouldn't be impacted.
- Legislative proposals to eliminate property tax would definitely impact these either from a revenue or process standpoint.
  - Either the cumulative tax or the drainage assessment collection process would go away.



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Ryan Hoff

Indiana Farm Bureau Public Policy Team

rhoff@infb.org