



# Circuit Breaker

## Fact Sheet

### Circuit Breaker Overview

The circuit breaker became law in 2006 with the passage of House Enrolled Act 1001. It is aimed at helping Hoosiers by ensuring they don't pay more than 2 percent of their property value in taxes. The goal is to provide predictability in tax bills and equity among Hoosier taxpayers.

The Circuit Breaker is slated to become mandatory statewide for residential property in 2007. Homeowners will not see the potential Circuit Breaker impact until their 2008 tax bill. The circuit breaker expands to include all property types in 2009. Taxpayers will not see the impact of the expansion until their 2010 tax bill.

### Taxpayer Impact

The circuit breaker provides property owners with a credit for any amount of taxes over 2 percent. For example, the maximum amount of property taxes a homeowner would pay on a \$100,000 house would be \$2,000. In this example, the credit limits the tax liability for the property to the 2 percent cap of \$2,000.

The impact the Circuit Breaker may have on local governments and taxpayers will not be fully known until the annual adjustments of assessed values are completed later this year. With the new assessed values, counties and the state will be better able to fully calculate the impact of the Circuit Breaker.

### How It Works

Once property values are annually adjusted by local assessing officials to reflect current market conditions, counties will establish the 2 percent property tax cap for each property.

For example, the maximum amount of property taxes a homeowner would pay on a \$100,000 house would be \$2,000, or 2 percent of the property's assessed value before deductions.

Each unit of government in the county (schools, cities, towns, etc.) then adopts a budget and calculates a tax rate based upon their projected spending. Those tax rates are applied to the each property in the county.

If the total tax liability for the property exceeds the 2 percent "circuit breaker," the county auditor will provide a tax credit for the amount that exceeds the 2 percent. For example, if a property with a gross assessed value \$100,000 has a tax bill of \$2,100, the county auditor would give the property owner a \$100 credit to reduce the tax bill to \$2,000. In this example, the credit reduces the tax liability for the property to the 2 percent cap of \$2,000. The credits that the Circuit Breaker provides are aimed at ensuring Hoosier taxpayers don't pay more than 2 percent of their property's assessed value in taxes.

## Frequently Asked Questions

**Q: What does the Circuit Breaker mean to taxpayers?**

A: The Circuit Breaker is aimed at helping Hoosiers by ensuring they don't pay more than 2 percent of their property's assessed value in taxes. The Circuit Breaker is slated to become mandatory statewide for residential property in 2007, which homeowners will see in their 2008 tax bill. The circuit breaker expands to include all property in 2009, and taxpayers will see the impact of the expansion in their 2010 tax bill.

**3. Q: What happens to the money that is not collected due the circuit breaker's cap?**

A: It's tough to predict today the effect the Circuit Breaker will have on local governments and taxpayers, because the details may change before it becomes effective in 2007 for residential property. With annual adjustments underway, assessed values are likely to change. That change will directly impact total amount of money local government can collect with the 2 percent cap offered by the Circuit Breaker. Should there be any decrease in total property tax revenues because of the circuit breaker, local government units will have to find seek other non-property tax sources of revenue or reduce spending to offset any loss.

**Q: Will local governments still be able to cover their bills after the circuit breaker?**

A: Governments will still have to fully fund payments on debt, lease, or rental agreements regardless of any reduction in collection due to the Circuit Breaker. If local government spending exceeds that two percent cap, the government unit will have to seek other non-property tax sources of revenue or reduce spending to offset any loss. The goal of the Circuit Breaker is to help Hoosiers by ensuring they don't pay more than 2 percent of their property value in taxes.

**Q: What direction has the state provided to local governments to deal with this?**

A: In April, following the passage of the legislation, the Department sent a memo to local governments detailing the steps needed to manage the potential effects of the Circuit Breaker. It basically restated Indiana Law which requires governments to fully fund payments for debt and lease or rental agreements regardless of any reduction in collection due to the Circuit Breaker. If local government spending exceeds that two percent cap, the government unit will have to seek other non-property tax sources of revenue or reduce spending to offset any loss. The goal with the Circuit Breaker is aimed at helping Hoosiers by ensuring they don't pay more than 2 percent of their property's assessed value in taxes.

**Q: Has the state performed any studies to determine the potential impact?**

A: The impact the Circuit Breaker may have on counties will not be fully known until the annual adjustment of assessed values are completed later this year. Some counties are working to estimate the potential impact locally, but it's tough to predict today what effect the Circuit Breaker will have on local governments, because the details may change before it becomes effective in 2007 for residential property.

## Contact Information

For more information on the circuit breaker, contact your County Auditor. A complete listing of Auditor contact information can be found online at [http://www.in.gov/serv/dlqf\\_officials](http://www.in.gov/serv/dlqf_officials).

Additional information regarding the circuit breaker can be obtained by contacting the Indiana Department of Local Government Finance at (317) 233-9222 or online at [www.in.gov/dlqf](http://www.in.gov/dlqf).