

Tax Abatement

Description

Tax abatement is a tool used by local government to attract private investment and job creation by exempting all or a portion of the new or increased assessed value resulting from new investment from the property tax roll. Tax abatement can be granted on either real or personal property. Real property abatements can be granted for both new construction and rehabilitation, with the abatement limited to the increase in assessed value attributable to the new construction or rehabilitation. Personal property tax abatements can be granted to any manufacturing equipment (new or used) that has not previously been taxed in Indiana. Personal property such as laboratory equipment and computers used in experimental research and development laboratories is also eligible for tax abatement.

Tax abatement can be granted for between 1 to 10 years. Only in year 1 is the total amount of new assessed value exempt from paying property tax. In each succeeding year, the share of the previously exempted assessed value that is taxable increases. In most cases the granting of tax abatement will reduce the amount of property taxes paid by the owner by approximately 50 percent over the full abatement period. For example, the schedule for ten-year abatement is as follows:

Real Property	Personal Property
Year 1 – 100% exempt	Year 1 – 100% exempt
Year 2 – 95% exempt	Year 2 – 90% exempt
Year 3 – 80% exempt	Year 3 – 80% exempt
Year 4 – 65% exempt	Year 4 – 70% exempt
Year 5 – 50% exempt	Year 5 – 60% exempt
Year 6 – 40% exempt	Year 6 – 50% exempt
Year 7 – 30% exempt	Year 7 – 40% exempt
Year 8 – 20% exempt	Year 8 – 30% exempt
Year 9 – 10% exempt	Year 9 – 20% exempt
Year 10 – 5% exempt	Year 10 -10% exempt
Year 11 – first year of full property tax payment	

The schedule for a 5 year abatement is:

Real Property	Personal Property
Year 1 – 100% exempt	Year 1 – 100% exempt
Year 2 – 80% exempt	Year 2 – 80% exempt
Year 3 – 60% exempt	Year 3 – 60% exempt
Year 4 – 40% exempt	Year 4 – 40% exempt
Year 5 – 20% exempt	Year 5 – 20% exempt
Year 6 – first year of full property tax payment	

Tax abatement is one of the most commonly used local financial incentives in Indiana. By 2003, tax abatements had been granted in 85 of Indiana’s 92 counties and used by 563 civil cities and towns within these 85 counties. In 2002, over \$2 billion of assessed value was abated in Indiana; this amount was approximately 1.1 percent of the net taxable assessed value in the state. The total amount abated was less than the \$2.9 billion of mortgage and contract exemptions awarded to homeowners with mortgages in Indiana.

Tax Abatement

Those who favor tax abatement argue that it is an essential tool in leveraging private investment and the creation of new jobs as well as the retention of existing jobs. Because tax abatement is granted on a sliding scale at least some level of new assessed value is added to the tax role as soon as the second year of the abatement period. Tax abatement is especially popular in larger cities with higher tax rates as it offers civic leaders in these cities the ability to compete with lower tax rates in surrounding communities. Finally, tax abatement is granted conditionally based on the developer's ability to achieve project goals such as jobs and investment. Developers who fail to complete their project or otherwise fail to achieve the job creation/retention and private investment numbers reported in the abatement application can have their abatement terminated.

Tax Abatement Implementation:

Effective management of a tax abatement program requires four distinct tasks. The first is the establishment of local policy, including eligibility requirements, and the design of contact and information processing procedures. The second task is the development of consistent evaluation processes, local recommendation guidelines, and the public approval/denial procedure. The third task is to assure that the appropriate post approval work is completed, and the final task is to monitor performance and establish a procedure for determining the continuation or termination of the tax abatement.

Task 1 Eligibility requirements: State legislation requires that in order to be eligible for tax abatement, a property must be characterized as undesirable for normal development and designated as an economic revitalization area. Most communities require that a tax abatement application, including a statement of benefits form, be submitted prior to filing for building permits or the purchase of new equipment. Failure to do this suggests that the developer or firm is prepared to complete the project without the granting of tax abatement and thus fails to meet a basic but for test. Most communities establish application fees that compensate local government for the total cost of granting and administering the tax abatement. In many cases, the fee schedule is graduated and related to total project costs.

Task 2 Evaluation, recommendation, and public process: State law precludes the granting of tax abatement for certain specific uses including golf courses, massage parlors, tennis clubs, skating facilities, hot tub facilities, race tracks, package liquor stores and retail facilities in a city or town that are not in an economic development target area. Local communities may impose additional conditions that must be met prior to the granting of tax abatement. Among the additional measures used in Indiana are wage levels, industry type, compliance with zoning, support by other local officials (particularly those representing affected taxing units), and perhaps most importantly consistency with prior tax abatement recommendations.

If the tax abatement application meets all statutory requirements and suitably meets the local criteria, staff will prepare a preliminary resolution recommending approval by the appropriate decision making board/commission (typically the council of the city, town, or county though there are a few exceptions). When an application fails to meet state or local criteria, staff typically discourages official submission of the application to the decision-making board/commission. A final or confirmatory hearing is usually held within 30 days of the preliminary or declaratory resolution. Both resolutions must include a description of the boundaries of the economic revitalization area and the statement of benefits. Additionally, the declaratory resolution should include a staff recommendation and (if positive) an abatement schedule. The confirmatory resolution should declare the granting or denial of the abatement and (if approved) provide an abatement schedule.

Task 3 Post approval requirement: After a tax abatement has been approved, construction has been completed and the new assessed value has been determined; the local assessor will send Form 11 (notice of change in assessed value) to the property owner/abated party. The property owner has 30 days from the mailing date of Form 11 to complete Form 322 and return it to the county auditor and department of local government finance. After the initial filing of Form 322, it must be resubmitted each year between March 1 and April 15, until the abatement expires.

Tax Abatement

Task 4 Annual monitor to determine compliance: Within 60 days after the end of each year of tax abatement, the property owner must file a compliance of Benefits form (CF-1) with the county auditor and the board/commission that granted the abatement. Local staff should review the form to determine if the abated party has complied with the commitments contained in the statement of benefits. If the abated party has failed to comply with the statement of benefit commitments and the failure was not due to unforeseen and uncontrollable events, the local board/commission may choose to reduce or terminate the abatement. If this decision is made, the local board/commission must notify the abated party and establish a date, time, and place, for a hearing to consider reduction or termination of the remainder of the abatement.

Relevant Statutes

- There are not statutory requirements for tax increment financing for economic development.

Capacity Recommendations

No capacity recommendations are available for this tool.

Guidelines / Considerations for Implementation

1. Tax Abatement and TIF: Tax abatements are permitted in TIF districts; however the community should carefully consider the impact of combining these two incentives as tax abatement will delay the growth of incremental assessed value. Because all new assessed value is collected by the TIF district, granting tax abatement within a TIF district has no additional impact on other taxing units.
2. The granting of tax abatement to a new firm may provide the new firm with a short-term competitive advantage (over the length of the abatement) over similar firms that are already located in the community. and who are paying their full share of property taxes.
3. Impact on all local taxing units should be considered, particularly schools. If a large number of new jobs is being created, will large number of new families be moving to the area? If so does the local school corporation have excess capacity or would new facilities be required? If new costs are high, does the existing tax base (and levy limits) have the capacity to meet the increased costs.
4. Within a region, can/should tax abatement policies be developed in a manner that discourages a firm's ability to create abatement competition among various local governments?
5. Tax abatement may result in the abated firm paying less in property taxes than it receives in services, thus resulting in the cost of providing services to the new firm being paid by other taxpayers in the same taxing units as the abated property.

Helpful References and Links

- **Tax Abatement Forms:** The Indiana Department of Local Government Finance provides electronic versions of the forms necessary to implement tax abatement. [<http://www.in.gov/icpr/webfile/formsdiv/2544.htm>]

Helpful Contacts

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[<http://www.citiesandtowns.org/topic/subtopic.php?fDD=4-25>]

Tax Abatement

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Funding Sources

No other funding sources are available for this tool.

Program Objectives and Issues Addressed

- Economic Development
- Growth Management

See Also

- Redevelopment Commission
- Economic Development Area
- Tax Increment Financing