

## **A Guide to the Structure of Property Tax Abatements in the United States**

John L. Mikesell, C. Kurt Zorn,  
Esteban Dalehite, and Sung-Jin Park

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**Lincoln Institute of Land Policy  
Working Paper**

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**Lincoln Institute Product Code: WP10JM1**

## **Abstract**

Property tax abatements – full or partial relief from property tax for certain property parcels – constitute an integral component of many state and local economic development programs. Abatements typically are targeted for improvements but not land, thereby enabling policy makers to use them to augment the attractiveness of particular locations for investment, rehabilitation, and other economic development.

Generally property tax abatements are limited to specific parcels and are awarded after a review process that often is both political and bureaucratic. Because abatements frequently are limited to construction or significant rehabilitation on these parcels, they afford some of the benefits of a dual rate property tax system albeit with a less universal impact than a full dual rating system. However, abatements do distinguish between improvements and land rather than among property uses, as is the case in many state classification systems, thereby providing differential relief to improvements.

It is the dual rating effect of abatements that establishes their utility as a development incentive, but this impact generally has been overlooked. Indeed, there has been no attention given to the differing structure of abatement programs across the states. This guide fills this void in the literature by providing an extensive and exhaustive review of property tax abatement programs currently being offered in the United States. It identifies the states that have abatement programs and describes the critical structural differences in the various state programs. As the comparison indicates, these structural variations are considerable. As a result, both practitioners and researchers should find this document a useful tool for comparison and assessment of programs across the states.<sup>1</sup>

This guide is composed of five sections. Section I provides an introduction with definitions that illustrate the approach taken to delimit the subject matter, as well as a brief history of property tax abatements. Section II presents a review of the literature, and Section III, the lengthiest section of the Guide, contains a cross-state comparison of property tax abatement programs. Section IV presents a brief summary and conclusions. Following the main text, an appendix contains detailed information for each state.

## About the Authors

John L. Mikesell  
Chancellor's Professor of Public and Environmental Affairs  
School of Public and Environmental Affairs  
Indiana University  
Bloomington, Indiana 47405  
Office: (812) 855-0732 and (812) 855 - 9485  
Fax: (812) 855-7802  
mikesell@indiana.edu

C. Kurt Zorn  
Professor and Associate Vice Provost for Undergraduate Education  
School of Public and Environmental Affairs  
Indiana University  
1315 East 10th Street  
Room 459 SPEA Bldg.  
Bloomington, Indiana 47405-1701  
Office: (812) 855-0563  
Fax: (812) 855-7802  
zorn@indiana.edu

Esteban Dalehite  
Assistant Professor of Public Administration  
College of Health and Urban Affairs  
Florida International University  
PCA 352A  
Miami, FL 33199  
Telephone: (305) 348-0430  
dalehite@fiu.edu

## Table of Contents

<b>Introduction</b>	<b>1</b>
Definition of Abatement	1
A Brief History of Abatements	2
<b>Review of Literature on Tax Abatements</b>	<b>3</b>
Why Jurisdictions Abate	3
Abatement Policy	4
The Effectiveness Question	5
<b>Cross-state Comparison of Property Tax Abatement Programs</b>	<b>6</b>
Purposes of abatements and special conditions for awards	7
Process for granting abatement	9
Scope of abatements	11
Abated property	11
Mode of abatement	13
Duration of property tax abatement	16
Amount	17
Abatement oversight	18
Governments bearing abatement costs	19
<b>Summary &amp; Conclusion</b>	<b>21</b>
<b>Table 1</b>	<b>22</b>
<b>Endnotes</b>	<b>23</b>
<b>References</b>	<b>24</b>
<b>Appendix</b>	<b>26</b>

# **A Guide to the Structure of Property Tax Abatements in the United States**

## **Introduction**

This guide provides an overview of property tax abatements including how they have evolved and the literature surrounding their conceptual basis and use. It also presents an exhaustive cross-state study of this policy tool in the United States, which demonstrates a greater degree of cross-state variation than has heretofore been reported. However, before a detailed discussion of the evolution and structure of abatement programs can proceed, it is important to fully understand what constitutes property tax abatement.

### **Definition of Abatement**

Property tax abatements, as defined in this guide, have three elements: (1) A reduction in property tax liability for selected parcels; (2) A purpose that goes beyond tax relief alone, i.e. economic development or redevelopment generally speaking, and (3) A time limit for the relief, i.e. the reduction in the tax liability takes place for a discrete period only. There are various ways to achieve the aforementioned reduction in property tax liability as will be outlined later.

This guide makes a distinction between direct, stand-alone property tax abatement programs (SAPTAPs) and other incentive programs. The latter includes programs which provide reductions in taxes other than those levied on property, programs such as increment financing and other bond issuances, and additional mechanisms that either reduce the cost of or provide funds for economic development. Of course, these incentive programs may be offered in addition to property tax abatements. However, the focus of this guide is SAPTAPs, where direct property tax abatements are, or can be, the sole policy tool.

There are a number of property tax relief programs that fall outside the SAPTAP category. For example, Michigan's renaissance zone program is not considered a SAPTAP because it includes various incentives in addition to property tax abatements.<sup>2</sup> Nebraska offers personal property relief as a component of a more complex bundle of benefits.

Similarly, Tennessee offers an indirect property tax relief program. Local governments or state agencies can finance the development of public (property tax-exempt) property through the issuance of bonds. The developed property is then leased to recruited businesses which make lease or rent payments that cover the debt service and, sometimes, payments in lieu of property taxes. The leasehold interest is subject to property taxation, but it is valued in such a way such that the business is awarded a "de facto" exemption, though technically there is no exemption provided.<sup>3</sup>

## **A Brief History of Abatements**

Property tax abatements may be as old as home rule and profit maximizing firms. Gold (1979) reports that “the first exemption of property for commercial reasons dates from Connecticut in 1649.” However, the emergence of property tax abatements as programmatic policy tools for the enhancement of economic development is a more recent phenomenon. It is related to the growing role of states in the area of economic development policy, especially during the second half of the 20<sup>th</sup> century.

The Mississippi Balance Agriculture with Industry (BAWI) Act of 1936 is often cited as the first state led initiative to promote private industrial development (Wilson, 1993; Anderson and Wassmer, 2000).<sup>4</sup> The BAWI contained incentives that included property tax exemption, exemptions for taxes on patents, and the use of industrial revenue bonds to finance manufacturing building construction. The oldest SAPTAP appears to be the Louisiana Industrial (ten year) Property Tax Exemption. This exemption was established by Act 19 of 1936 and, except for a brief hiatus from 1942 to 1946, it has remained the state’s main industrial inducement program. Thus, the origin of modern property tax abatement programs is related to the efforts of Southern states to industrialize their predominantly agricultural economies through the recruitment of low wage industries from the Midwest and Northeast (Wilson, 1993). In the post World War II period abatement programs have spread throughout the nation.

Three major factors have propelled the growth of tax abatements across the states. First, “a set of forces, originating in the 1950s, prepared states for meeting the challenge that would befall them in the late 1970s. These included a set of institutional reforms in state government — resulting from constitutional reform, reapportionment and expanded political franchise — and the state administration of federal initiatives” (Wilson, 1993, p. 5).

Two other important forces in the late 1970s and 1980s contributed to the growth. These were (1) the structural change in the US economy which included the decline of traditional manufacturing, the expansion of advanced technology manufacturing, and the stiffening of international competition; and (2) the restitution of state prerogatives and responsibilities due to devolution, especially under Reagan’s New Federalism (Wilson, 1993). Both forces imposed a severe fiscal strain as states and localities were forced to meet increased responsibilities devolved from the federal government and also to accommodate sectoral and spatial mismatches, and the accompanying population shifts that were generated by structural economic change (Wilson, 1993). As a result, states and localities entered into heated competition for both revenue sources and economic base, and, in general, became more proactive with regard to the promotion of economic development in their respective jurisdictions.

As a consequence, the number of states offering property tax abatements nearly doubled from 1974 to the present day. Wilson (1993) reports eighteen states offering tax exemption on land or capital improvements in 1974. Gold (1979) identified twenty-six

states attempting to attract new industry by offering exemptions on land and buildings in 1979. In 1985, thirty-one states were identified as having property tax abatement programs (Wolkoff, 1985; Nunn, 1994). By 1990 thirty-five states were offering tax exemption on land or capital improvements (Wilson, 1993). Finally, this research, using the specific definition mentioned above, identified thirty-five states with one or more SAPTAPs.

Two major shifts in the targets and features of abatement programs took place over the course of this evolution. These were: (1) a shift from narrow industrial recruitment purposes to broader economic development and redevelopment purposes with special attention to expanding the tax base, and (2) an increase in the types of abated property to include not only industrial or manufacturing property, but also commercial, residential and even property used to perform services.

### **Review of Literature on Tax Abatements: Evidence of cross-state structural variation, purposes, and impact**

Property tax abatements are elements of broader state and local economic development policy. Therefore it is sensible to refer to this larger body of literature in order to fully understand the background and foundation for property tax abatements. The literature on state and local economic development has gone through two distinct phases. The first phase involved empirical studies that provided no support for the effectiveness of financial incentives for business. Scholars argued against these incentives on the grounds that they had no influence on business decisions – fiscal policy actions were viewed as ineffective instruments for achieving developmental impact. More recently, empirical analyses have at least partially validated the effectiveness of economic development incentives and their use. This especially is the case where potential investment areas are narrow and consequently non-tax factors become more similar, making tax-factors more relevant (Bartik 1991; Wasylenko 1994). The basic argument in these studies is that, if incentive can move jobs from areas of low unemployment to areas of high unemployment, overall utility increases for the region (Bartik, 1994).

Tax abatements clearly try to adjust the tax climate in a jurisdiction in an attempt to promote economic development and job creation. The literature on this topic can be divided into three categories: why jurisdictions choose to abate, the effectiveness of abatements, and public policy surrounding them. Each segment has both theoretical and empirical elements.

#### **Why Jurisdictions Abate**

One thread in the empirical literature focuses on the determinants of why a jurisdiction chooses to offer property tax abatements. Wassmer (1992) finds evidence in his analysis of Detroit metropolitan area data that suggests that local governments offer property tax abatements to compensate for the fact that a community's negative or profit-reducing characteristics have not been fully capitalized into lower land prices. Wassmer also finds that property tax abatements have accompanying costs that come in the form of decreased

values of local homes, decreased local expenditure per capita, increases in user charges, and increases in the rate of grants (state subsidies).

Anderson and Wassmer (1995) estimate the survival or resistance function for municipal property tax abatements. This function measures how long a locality can resist the pressure to adopt a tax abatement program similar to that of a neighboring locality in order to avoid losing economic base to the latter. Their analysis concludes that two factors have a positive effect on the time that local jurisdictions are able to resist the establishment of these programs: median income and the property tax price of local public services. More interestingly, Anderson and Wassmer find an emulation effect in granting manufacturing property tax abatements, i.e. municipalities are more likely to end their non-abatement spells in order to emulate their neighbors.

Reese (1991) finds that the determinants of the amount of abated dollars are different depending on whether commercial or industrial property is benefited. For instance, Reese finds that population size is significantly related only to commercial abatements and specifically to the amount of taxes abated. In contrast, cities with growing economies, as measured by total dollars of new development, or cities with competitive mayoral races or with the presence of an independent economic development department have a preference for abating industrial property. Byrnes, Marvel and Sridhar (1999) examine the abatement offers made to firms under the Ohio Enterprise Zone Program and conclude that cities are rational in that they offer more favorable abatements to better firms (i.e., firms with better credit ratings), and to firms which offer to create jobs, over firms that only offer to retain jobs.

The theoretical literature also provides insights into why jurisdictions may adopt property tax abatements. Beck (1985), for example, analyzes property tax abatements as a form of discriminatory taxation and concludes that these programs may increase revenues. Beck (1993) models the effects on revenues of different paradigms for granting property tax abatement. One paradigm involves a single jurisdiction that can abate the property taxes of all overlapping jurisdictions and the other involves each overlapping jurisdiction abating its own property taxes. Severn (1992) shows that abatements approximate permanent reductions of tax rates on buildings as the abatement period increases.

### **Abatement Policy**

A second thread in the literature focuses on policy issues related to property tax abatements. Wolkoff (1983), for example, asserts that abatements generally are awarded when requested and fail to discriminate between applicants. He provides explanations for this lack of discrimination and suggests policy changes to increase the selectiveness of abatement programs.

Nunn (1994) argues that localities are not able to hold businesses accountable for the jobs and other economic enhancements they promise in return for abatements. He also suggests that abatements have social costs in the form of higher tax rates for others and that abatements undermine democracy unless citizens have the opportunity to debate



whether this tax relief should be granted. Ultimately he suggests that increased regulation of abatements may be necessary to offset the aforementioned shortcomings.

### **The Effectiveness Question**

Most of the abatement literature is empirical and focuses on trying to determine the effectiveness of abatement programs. Some researchers have attempted to find a break-even point for jurisdictions awarding property tax abatements. Morgan and Hackbart (1974) perform a cost benefit analysis to assess the net impact of property tax abatements in seven states. They conclude that if between five and ten percent of the increase in property value added can be directly imputed to property tax abatements and that at least twenty five percent of the value added can be considered a net benefit, then the present value of the stream of benefits is greater than the present value of the stream of costs. Morse and Farmer (1986) use an expected value approach to determine the effectiveness of property tax abatement programs in Ohio. They determine that if 8.8 percent of investment is actually induced by the abatement, the community will break even. Because their estimate of the induced value is 25 percent, they conclude that the programs have been effective.<sup>5</sup>

Others have focused on finding statistically significant relationships between abatements and revenues or expenditures. Wolkoff (1985) finds that the impact of property tax abatements on investment is negligible when considering the property tax as a component of the price of capital. Wassmer (1989) determines that abatements had a significant negative effect on the expenditures of 47 local governments in the Detroit metropolitan area

Coffin (1982) and Chang (2001) both studied the case of Indianapolis, Indiana, and focused on the effect of abatements on firm location. Coffin finds evidence to support the hypothesis that property tax abatements slow the exodus or relocation of firms from the inner city. Chang determines that, assuming promised jobs turn into actual jobs, abatements have attracted billions of dollars in investment and tens of thousands of jobs, and have been effective in directing the stimulus towards underprivileged communities. However, Chang notes the following concerns: (1) most applicants were existing companies, and (2) there is evidence that the same “retained” jobs are used over and over again to justify successive investments.

Royse (1994) provides the results of an evaluation performed on the property tax abatement program of Allen County, Indiana. It was determined that actual jobs and investment created generally exceeded those promised by companies; 43 percent of companies cited tax abatement as the deciding factor in their investment decision; most tax abatements went to existing companies; approximately one fourth of the companies eligible for the abatement never filed for the benefit with the Allen County Auditor’s Office; and the vast majority of the benefit went to a small number of companies with five of seventy-eight companies receiving ninety-four percent of tax savings.

## Cross-state Comparison of Property Tax Abatement Programs

Table 1 summarizes the structure of property tax abatements across states.<sup>6</sup> One interesting fact that is immediately obvious from the table is that many states have more than one property tax abatement program. Out of the thirty-five states that have SAPTAPs, fifteen have one program and the remaining twenty have two or more programs with considerable within-state variation.

Clearly state programs differ in complexity. Some states operate a single program with a narrow target, some operate one program with several targets that have some degree of differentiation between them, while others operate two or more separate programs with noticeable variation in the awarding process, targets, and benefits.

Michigan is illustrative of the breath of possible within-state variation, operating four separate SAPTAPs. Two of these SAPTAPs are the Enterprise Zone Program and the Plant Rehabilitation or Industrial Development Districts Program. The characteristics of these two programs are markedly different. Under the Enterprise Zone Program: (1) target areas must be empowerment zones, rural communities, or enterprise communities designated by the US Department of Housing and Urban Development or the US Department of Agriculture; (2) the abatement involves a 50 percent reduction in the mill rate applicable to the increase in value; (3) it applies to commercial and industrial property, and (4) the duration of the abatement is no more than and no less than five years.

In contrast, the Plant Rehabilitation or Industrial Development Districts Program has the following characteristics: (1) local authorities have flexibility in designating the rehabilitation or development districts; (2) the abatement mechanism varies depending on the type of facility meaning that if the facility is considered a “replacement facility” there is a freeze of the base at pre-investment values and if it is considered a “new facility” or a “speculative facility” there is a 50 percent reduction in the total mills, excluding the state education tax; (3) the abatement applies solely to industrial property, and (4) it can be awarded for up to twelve years.

As part of this study state statutes and regulations governing abatements were carefully reviewed. However, it is the case that, in some states, abatements are not regulated by statute. Abatements may be granted at either the state's or a locality's discretion on a case-by-case and locality-by-locality basis. In North Carolina, for example, property tax abatements are against the law. However, in cases of exceptionally attractive investments the General Assembly and Departments of Commerce and Revenue may act together to enact specific legislation to award a property tax abatement for that particular project.<sup>7</sup> Delaware, Georgia, Virginia, and Hawaii also lack state statutes and regulations regarding property tax abatements, but state officials suggested contacting local government officials in order to gather information for that state.<sup>8</sup> Therefore, just because a visible property tax abatement program is not reported as existing in some states, abatements may be taking place on an *ad hoc* basis.

## **Purposes of abatements and special conditions for awards**

Practically all SAPTAP programs have the general purpose of promoting economic development and/or redevelopment. Though the concepts overlap, a difference can be drawn in that the former refers to economic growth generally, whereas the latter refers to the regeneration or redevelopment of an area that may have previously experienced economic activity, but that now qualifies as a blighted zone. However, in one program, redistribution, not economic development or redevelopment, appears to be the aim. This is the case with Illinois' Leased Low-Rent Housing Abatement where the reduction in the tax liability is reflected in lower levels of rent paid by tenants.

All states with SAPTAPs require the construction or expansion of improvements to land in order to receive tax benefits. Clearly the goal of states and localities with such a requirement is to increase the property tax base, but this principle is not absolute. For instance, variants of the South Carolina and Oklahoma programs deviate from this pattern and award abatements when a company changes ownership in an arms-length transaction which results in the retention of the company and its jobs without new construction taking place.

Some states have stricter standards and, in addition, establish specific conditions to trigger benefits. Eighteen of thirty-five states establish a specific capital investment or value added threshold requirement.

One example of a threshold capital requirement is provided by Oklahoma. Section 68-2902(B)(2) of the Oklahoma Statutes states:

2. For tax years beginning after December 31, 1992, "manufacturing facilities" shall mean those facilities (...) for which the investment cost of the construction, acquisition or expansion of the manufacturing facility is Two Hundred Fifty Thousand Dollars (\$250,000.00) or more;

Other states, such as California, Florida, Maryland, Nevada, Ohio, Oklahoma, and Oregon require a specific threshold increase in jobs or payroll. Consider, as an example, Section 196.012(16)(a)(1) of the Florida Statutes:

- (16) "Expansion of an existing business" means:
  - (a)1. A business establishing 10 or more jobs to employ 10 or more full-time employees in this state, which manufactures, processes, compounds, fabricates, or produces for sale items of tangible personal property at a fixed location and which comprises an industrial or manufacturing plant;

Louisiana and South Carolina emphasize job retention. Understandably this requirement is more vague compared to the previously mentioned requirements because the number of retained jobs tends to vary from applicant to applicant. Other threshold measures include increases in state exports (Alaska, Florida), offering a basic health benefit plan to full-time employees (Oklahoma), a minimum spread between the average tax rates of

neighboring counties (Minnesota's EDTA), or low average wage rates (lower than \$12.10 per hour), and relocation into poor townships in Indianapolis, Indiana (Chang, 2001).<sup>9</sup>

The following paragraphs provide more detailed illustrations of these capital investment and value added threshold requirements for each state.

Alabama, for example, abates property taxes on new industrial development property (put in service for the first time) or on "major additions" to existing industrial development property. A major addition must equal the lesser of 30 percent of the original cost of the industrial development or \$2,000,000. California's Capital Investment Incentive Payment Program abates property taxes for capital investments made to operate a manufacturing facility. This manufacturing facility, however, must have a value of at least \$150,000,000. In Connecticut, the size and duration of the abatement depend on the increase in value to property. For instance, if the cost of real property improvements is \$3,000,000 or more, the abatement will be 100 percent of value increase for seven years; if it is \$500,000 or more, it will be 100 percent of value increase for two years; and if it is \$100,000 or more, the abatement will be 50 percent of value increase for three years.

Iowa's Urban Revitalization Tax Exemptions abate improvements that increase the value of the property by a given margin. If these margins are not established in the agreements, the statute requires an increase of 15 percent or, in the case of residential property, of 10 percent in property value. Louisiana's Restoration Tax Abatement Program abates the expansion, restoration, improvement and development of existing commercial structures and owner-occupied residences in downtown, historic or economic development districts. In the case of residential property, the rehabilitation cost must be at least 25 percent of the assessed valuation of the improvements located on the property for the year prior to the commencement of the project.

Maryland differs from other states in that it does not require a specific dollar amount of capital investment or value increase, but rather the area on which a new business is established, or upon which it is expanded, must be at least 5,000 square feet. Minnesota's Economic Development Tax Abatement requires that the market value of the property be increased by \$400,000 (in the case of commercial property) or \$100,000 (in the case of industrial property). Mississippi's abatement program, in the case of the PILOT (payment in lieu of taxes) option, requires a minimum investment of \$100,000,000. Montana's New and Expanding Industries Abatement requires \$50,000 or more of investments in the first year of the abatement or in the preceding year (in the case of an expansion), or \$125,000 (in the case of new industry).

Nevada's capital investment threshold requirement is a function of population and use: if county or city population is more than 100,000 or 60,000 respectively, industrial or manufacturing businesses must make capital investments of at least \$50,000,000; other type of businesses must make investments of more than \$5,000,000. If county or city population is 100,000 or less, or 60,000 or less, respectively, industrial or manufacturing businesses must invest at least \$5,000,000 and other types of businesses must invest at

least \$500,000. New York's Business Investment Exemption has a capital investment threshold requirement of \$10,000.

To be eligible for Ohio's Enterprise Zone Program, the investment amount should be equal to 10 percent or more of the existing facility's value, in case of an expansion project; 50 percent or more, in case of a renovation; and 20 percent or more, in case of an alteration or repair project. As per the Ohio Community Reinvestment Area Program, investment should exceed \$2,500 for a residential remodeling project (ten-year abatement), or exceed \$5,000 in the case of the twelve-year industrial, commercial or residential property abatement. Oklahoma's Manufacturing Concern Abatement requires a minimal investment cost of construction, acquisition or expansion of \$250,000 or more for the first five years; if the abatement is renewed for another five years, a net increase of \$250,000 or more in payroll, or a net increase of \$500,000 or more in capital improvements (while maintaining or increasing payroll) is required, as well as a basic health benefits plan for full-time equivalent employees of the facility.

Oregon's Strategic Investment Program requires capital investments of \$100,000,000 or more. Interestingly, the amount of the exemption will be the quantity by which capital investments exceed this minimum investment requirement. In addition, Oregon's Construction in Progress Program requires that preexisting industrial property (to which additions will be made) have a market value of \$5,000,000 or more (primary industrial property), or more than \$1,000,000 but less than \$5,000,000 (secondary industrial property). South Carolina's program (in the case of additions to existing manufacturing establishments) requires that additions be \$50,000 or more. South Dakota requires an increase in property value by \$30,000 or more (in the case of new industrial structures and additions), \$15,000 or more (in the case of new structures or additions in "redevelopment neighborhoods"), and \$10,000 or more (in the case of new nonresidential agricultural structures and additions). West Virginia's Capital Addition Property Program requires that capital addition costs exceed \$50,000,000, and that pre-established facilities have a value of \$100,000,000 or more.

However, these capital investment or value added threshold requirements are not applied across the board. For example, Mississippi's capital investment threshold requirement applies only to the payment-in-lieu-of-taxes option, but not to the other modes of abatement offered. Minnesota's similar requirement applies to only one of its six programs.

### **Process for granting abatement**

A previous account suggested that property tax abatements were available either with local approval or statewide as-of-right (Wolkoff, 1985). This research has found that the variations in processes for granting abatements across states are much richer. The process can be local discretionary, state discretionary, joint local-state discretionary, and as-of-right. Additionally, some states require a public referendum for some part of the process. Note that, as before, there is also within-state variation.

Discretionary awards means that in essence local or state authorities, given certain criteria, have a degree of flexibility to award or not to award an abatement on a case-by-case basis. As-of-right awards mean that, given certain requirements in state statute, if an applicant complies with these requirements, the abatement must be awarded to the applicant, as-of-right. The role of the authority is to verify that requirements are observed.

By far the most popular method is the discretionary award process. Thirty-four of the thirty-five states have a discretionary process of some form or another. Of these, twenty-four states have a local discretionary process (Alabama, Alaska, California, Colorado, Connecticut, Florida, Illinois, Indiana, Iowa, Kentucky, Maryland, Minnesota, Missouri, Montana, New Jersey, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Texas and Washington); six states have a state discretionary process (Hawaii, Louisiana, Maine, Nevada, Vermont and West Virginia), and eight states have a joint state-local discretionary process (Kansas, Louisiana, Michigan, Minnesota, Mississippi, New York, Oregon and Vermont).<sup>10</sup> Continuing with Table 1, there are six states with an as-of-right process in addition to a discretionary process (Connecticut, Illinois, Missouri, New York, Oklahoma and Oregon), and a sole state with only an as-of-right program (South Carolina). Only three states have a public referendum for some part of the process—Alabama, Alaska and Florida.

The Louisiana Restoration Tax Abatement Program illustrates a joint state-local discretionary process. The local governing authority conducts a hearing and approves or disapproves the application. If approved at the local level, the Department of Economic Development, the State Board of Commerce, and Industry and the Governor must successively approve it at the state level.

Missouri's Enterprise Zones are interesting because there is a minimum as-of-right component to the abatement and, in addition, a discretionary component that may be added thereto. Consider section 135.215(1) and (3) of the Missouri Revised Statutes for illustrative purposes:

Discretionary component

135.215(1) Improvements made to "real property" (...) which are made in an enterprise zone (...) *may* upon approval of an authorizing resolution by the governing authority having jurisdiction of the area in which the improvements are made, be exempt, in whole or in part, from assessment and payment of ad valorem taxes of one or more affected political subdivisions (...). (Italics are added).

As-of-right component

(3) Notwithstanding subsection 1 of this section, at least one-half of the ad valorem taxes otherwise imposed on subsequent improvements to real property located in an enterprise zone *shall* become and remain exempt from assessment and payment of ad valorem taxes of any political subdivision of this state or municipality (...). (Italics are added).

In order to illustrate the use of public referenda in property tax abatement processes consider section 196.1995 (1), (3) and (7) of the Florida Statutes:

196.1995 (1) The board of county commissioners of any county or the governing authority of any municipality shall call a referendum within its total jurisdiction to determine whether its respective jurisdiction may grant economic development ad valorem tax exemptions (...).

(...)

(3) The board of county commissioners or the governing authority of the municipality (...) may vote to limit the effect of the referendum to authority to grant economic development tax exemptions for new businesses and expansion of existing businesses located in an enterprise zone.(...)

(7) The authority to grant exemptions under this section will expire 10 years after the date such authority was approved in an election, but such authority may be renewed for another 10-year period in a referendum called and held pursuant to this section.

### **Scope of abatements: type of property, mode and amount of abatement.**

#### Abated property

All states offering SAPTAPs abate improvements to land (structures/buildings) with three exceptions: Colorado, Maine and Nevada. These states offer abatements exclusively on personal property. Sixteen of thirty-five states abate land as well. These states are: Alabama, California, Hawaii, Kansas, Maryland, Minnesota, New Jersey, New York, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Texas, Vermont and West Virginia.

Seven states that offer SAPTAPs do not tax personal property and hence abating personal property is not a possibility for them. These states are Hawaii, Illinois, Iowa, Minnesota, New York, North Dakota and South Dakota. Twenty-four states that offer SAPTAPs abate personal property. The remaining four states —Missouri, New Jersey, Pennsylvania and Washington— abate real estate exclusively.

With regards to abated use of property, industrial property is the most heavily abated property, followed closely by commercial property. Residential property is much less likely to be abated. Thirty-four of thirty-five states offering SAPTAPs abate industrial (i.e., manufacturing) property. The exception is New Jersey which offers a SAPTAP for residential property only. Twenty-nine of thirty-five states abate commercial property. The few states that do not abate commercial property are Alabama, California, New Jersey, Oklahoma, South Carolina and Washington. Twenty of thirty-five states abate

residential property. These states are: Alaska, Connecticut, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maryland, Minnesota, Missouri, Nevada, New Jersey, New York, North Dakota, Ohio, Pennsylvania, Rhode Island, South Dakota, Texas and Washington. Lastly, Colorado, Iowa, Maine, Maryland, Missouri, Montana, Nevada, Pennsylvania and South Dakota abate property used for primary activities, such as mining, forestry or agriculture.

In defining economic activities or property uses that will benefit from the abatement, states show considerable variation. Most choose a broad approach by simply stating that the abatement is applicable to “industrial,” “commercial” and/or “residential” property. North Dakota for example uses the term “revenue producing property” for one of its programs. The implication of using these generous terms is that the breath of beneficiaries is equally broad. Other states use lists of specific abated activities; however lists differ on whether they are illustrative or limitative. Montana, for example uses an illustrative list of activities as can be observed in the following provision of the Montana Code Annotated:

- 15-24-1401(2) “Industry” includes but is not limited to a firm that:
- (a) Engages in the mechanical or chemical transformation of materials or substances into products in the manner defined as manufacturing in the North American Industry Classification System Manual prepared by the United States Office of Management and Budget;
  - (b) Engages in the extraction or harvesting of minerals, ore, or forestry products;
  - (c) Engages in the processing of Montana raw materials such as minerals, ore, agricultural products, and forestry products;
  - (d) Engages in the transportation, warehousing, or distribution of commercial products or materials if 50% or more of the industry’s gross sales or receipts are earned from outside the state;
  - (e) Earns 50% or more of its annual gross income from out-of-state sales; or
  - (f) Engages in the production of electrical energy in an amount of 1 megawatt or more by means of an alternative renewable energy source as defined in 90-4-102.

Alabama, Colorado, Kansas, Maryland and Mississippi to the contrary use a limitative list. Consider the following language from the Mississippi Property Tax Statutes:

- 27-31-101. Enumeration of new enterprises which may be exempted  
(...)  
The new enterprises which may be exempt are enumerated as and limited to the following, as determined by the State Tax Commission:  
Warehouse and/or distribution centers;  
Manufacturing, processors and refineries;  
Research facilities;



Corporate regional and national headquarters meeting minimum criteria established by the Department of Economic and Community Development;  
Movie Industry studios meeting minimum criteria established by the Department of Economic and Community Development;  
Air transportation and maintenance facilities meeting minimum criteria established by the Department of Economic and Community Development;  
Recreational facilities that impact tourism meeting minimum criteria established by the Department of Economic and Community Development;  
and Telecommunications enterprise meeting minimum criteria established by the Department of Economic and Community Development. (...).

Alabama uses a limitative approach that is linked to the Standard Industrial Classification Codes published by the Office of Management and Budget. Specifically, this state requires that a project must constitute an “industrial or research enterprise,” defined as any trade or business described in the following codes: Major Groups 20-39 (manufacturing) and 50-51 (wholesale trade), Industrial Group number 737 (computer services) and Industry numbers 0724 (cotton ginning), 4613 (refined petroleum pipelines), 8731 (commercial physical and biological research), 8733 (noncommercial research organizations) and 8734 (testing laboratories).

Missouri’s Enterprise Zone Program has a mixed approach. The minimum as-of-right component of the abatement applies only if improved properties are “used for assembling, fabricating, processing, manufacturing, mining, warehousing or distributing properties.” The discretionary component of the abatement, on the contrary, does not specify use of property, but rather requires a minimum number of jobs to be produced (job creating property).

### Mode of abatement

As Table 1 shows, there are a variety of ways by which property taxes are abated: fraction of tax liability; reimbursement or incentive payment; fraction of value; fraction of value added; value freeze; rate reduction; reclassification; payments in lieu of taxes; and deferrals of tax payments.

Fraction of liability is a credit against property taxes owed. For example, in North Dakota “a partial exemption must be stated as a percentage of the total ad-valorem taxes assessed against the property” (section 40-57.1-03 of the North Dakota Century Code). Reimbursement or incentive payment is very similar to the previous category, except that the full property tax payment is made and then the government reimburses some fraction thereof. Consider for illustrative purposes the following language from the Colorado Statutes:

31-15-903(1)(b) Notwithstanding any law to the contrary, any municipality may negotiate for an incentive payment or credit with any taxpayer who establishes a new business facility (...). In no instance shall any such negotiation result in an annual incentive payment or credit which is greater than fifty percent of the amount of taxes levied by the municipality upon the taxable personal property located at or within such new business facility and used in connection with the operation of such new business facility for the current property tax year. (...).

Fraction of value is a temporary exemption or deduction from assessed value. Consider the following language from Article 11 of the Kansas Constitution for illustrative purposes:

§ 13(a) The board of county commissioners of any county or the governing body of any city may, by resolution or ordinance, as the case requires, exempt from all ad-valorem taxation all or any portion of the appraised valuation of: (1) All buildings (...).

Fraction of value added is a temporary exemption or deduction of the value added to the previous value of land and old constructions by the new investment or expansion. The difference between fraction of value and fraction of value added is that the former can potentially include a deduction of the assessed valuation on land and improvements existing prior to the new investment. An example of the fraction of value added method is contained in the following Indiana Code language:

IC 6-1.1-12.1-4(a) Except as provided in section 2(i)(4) of this chapter, the amount of the deduction which the property owner is entitled to receive under section 3 of this chapter for a particular year equals the product of:  
(1) the increase in the assessed value resulting from the rehabilitation or redevelopment; multiplied by  
(2) the percentage prescribed in the table set forth in subsection (d).

Value freeze means, generally, that the applicant continues to pay property taxes on the assessed value of land and existing improvements to land at some given point in time, normally at the level prior to the new investments being made. The main difference between this method and the two previous methods is that a value freeze does not operate as a deduction, but rather assessed value is set at a given level for a certain amount of time. However, value freeze can be materially very similar to the deduction of a fraction of value added. Roughly speaking, a value freeze (considering the value of property at the onset of new investments) is equivalent to a deduction of 100 percent of value added.

A rather complicated and flexible version of the value freeze method takes place in South Dakota, where the abatement consists, in essence, of freezing the post-construction base of new construction at the level immediately following construction (or a fraction thereof), freezing the during-construction base of unfinished structures at the pre-

construction level, or an overlap of both methods. The freeze can last for no more than five years. The South Dakota Codified Laws textually state the following:

10-6-55 Adoption of formula for assessed value of structures classified pursuant to § 10-6-54. Any structure classified pursuant to § 10-6-54 shall, following construction, be valued for taxation purposes in the usual manner. However, after notice to the governing body of each municipality within the county, the board of county commissioners of the county where the structure is located, may, in the board's discretion, adopt any value for assessed value to be used for tax purposes. The formula may include for any or all of the five tax years following construction all, any portion or none of the assessed valuation for tax purposes. The assessed valuation during any of the five years may not be less than the assessed valuation of the property in the year preceding the first year of the tax years following construction. Any structure that is partially constructed on the assessment date may be valued for tax purposes pursuant to this section and the valuation may not be less than the assessed valuation of the property in the year preceding the beginning of construction. During any period of time that the property is valued for tax purposes pursuant to this section, the period of time may include the years when the property is partially constructed. Thereafter the property shall be assessed at the same percentage as is all other property for tax purposes.

Rate reduction is self-explanatory. The only program using rate reduction is Michigan's Enterprise Zone Program. Though technically a lower tax is substituted for a larger tax, the scheme translates into a 50 percent reduction of the rate that is applied to the increase in value of the property for five years from the date of certification.

Reclassification suggests that property is temporarily catalogued with property of different usage to which either lower assessment ratios or lower rates are applied. Hawaii's wasteland development property program is an example of this mode of abatement, where the property-to-be-developed is reclassified as wasteland and assessed accordingly.

Payments in lieu of taxes, also known as PILOTs are agreed upon flat amounts which are paid instead of taxes. For illustrative purposes, consider the following case found in the Mississippi Property Tax Statutes:

§ 27-31-104 Grant of fee in lieu of taxes for certain projects.  
County boards of supervisors and municipal authorities are hereby authorized and empowered to grant a fee in lieu of taxes including taxes levied for school purposes for projects totaling over One Hundred Million Dollars (\$100 000 000.00. (...).

The fee in lieu shall be negotiated by and given final approval by the Department of Economic Development.

The minimum sum allowable as a fee in lieu shall not be less than one third (1/3) of the ad-valorem levy including ad-valorem taxes for school district purposes and the sum allowed shall be apportioned between the county or municipality as appropriate and the school districts in such amounts as may be determined by the county board of supervisors or municipal governing body (...).

Deferral-of-payments are also self-explanatory and their main benefit is to reduce the present value of tax payments and increase liquidity. For example, section 29-45-050(m) of the Alaska Statutes states that “a municipality may by ordinance permit deferral of payment of taxes on all or some types of economic development property for up to five years.”

Fraction of value added is understandably the most popular approach, given that it correlates the abatement to the increase in the tax base. Fifteen of thirty-five states that offer SAPTAPs use this mode: Alaska, Florida, Indiana, Iowa, Louisiana, Maryland, Minnesota, Mississippi, Missouri, Montana, New Jersey, New York, North Dakota, Oklahoma and Texas. Fraction of value is the second most popular, with the following twelve states making use of this approach: Connecticut, Kansas, Kentucky, Missouri, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, Vermont, Washington and West Virginia. Fraction of liability is the third most popular, with the following eight states making use of this method: Alabama, California, Colorado, Illinois, Maryland, Minnesota, Nevada and North Dakota.

Value freeze is used by the following six states: Connecticut, Kentucky, Louisiana, Michigan, Rhode Island and South Dakota. PILOTs are used by the following three states: Mississippi, Missouri and North Dakota. Reimbursement is used by four states: California, Colorado, Maine and South Carolina. Rate reduction is only offered by Michigan, reclassification only by Hawaii and deferral of tax payments only by Alaska.

Just as the mode of abating property varies among states, there also is within-state variation. As an illustration of in-state variation, consider the case of Oklahoma which, under its Manufacturing Concern Abatement Program, abates the full value added in the case of the expansion of a facility, or the full value in the case of the acquisition of a new facility or the construction of a new facility.<sup>11</sup> Another interesting example of how these modes are combined is the case of Michigan’s Enterprise Zones where the reduction in the mill rate applies only to increases in value.<sup>12</sup>

#### Duration of property tax abatement

The maximum duration of SAPTAPs ranges from one to twenty-five years (See Table 1). The most popular maximum length is ten years with the following twenty-one states offering this period of time for the abatement: Alabama, Alaska, Colorado, Florida, Indiana, Iowa, Kansas, Louisiana, Maryland, Minnesota, Mississippi, Montana, Nevada, New York, North Dakota, Oklahoma, Pennsylvania, Texas, Vermont, Washington and

West Virginia. The second most popular duration for abatements is five years. Eleven states offer this as their maximum duration—California, Connecticut, Hawaii, Indiana, Kentucky, Minnesota, New Jersey, Oklahoma, South Carolina, South Dakota and West Virginia. Connecticut falls between these two categories, offering a maximum duration of seven years.

At the lower extreme is New York which offers a maximum abatement duration of three years, Connecticut and Vermont which offer a maximum period of time for the abatement of two years, and Maryland and Rhode Island which offer a maximum abatement duration of one year. At the upper end of the duration distribution are three states offering a maximum duration of twelve years (Maine, Maryland and Michigan), three states offering fifteen years (Minnesota, Ohio and Oregon), one state offering seventeen years (Oregon), three states offering twenty years (Illinois, North Dakota and Rhode Island), and two states offering a maximum of twenty-five years (Missouri and Rhode Island). One outlier is Illinois's Leased Low-Rent Housing Abatement Program, where the reduction in the tax can go as long as the lease holds.

### Amount

Considering the wide variation across states in the amount of abatement allowed, it is difficult to classify states according to this criterion. The absolute or relative amount of the abatement depends on many factors that have to be considered at the same time.

- (1) Duration. The greater the duration the greater the amount of the abatement. However, one must bear in mind that the actual duration depends on the discretion of the awarding authorities.
- (2) Abatement schedule. Some states offer a flat rate over the entire period, even as much as 100 percent of value. Other states offer a schedule where the fraction of abated value is reduced every year.
- (3) Mode of abatement. Some modes have the potential to be more generous than others. Clearly, fraction of liability, fraction of value, rate reduction, and payments in lieu of taxes are rather unconstrained modes of abatement, whereas fraction of value added, value freeze and deferral of payments (in a low inflation world) are more constrained and pose less of a threat to revenues.
- (4) Type of property or economic activity. Awards to industrial property generally result in a greater revenue loss than abatements to commercial property and residential property.
- (5) The difference in current levels of mill rates across states. A state with low rates and a small abatement may in fact be placing a less onerous burden on a taxpayer than a state with high rates and a large abatement.

(6) Differences in depreciation schedules for personal property must also be considered in order to compare the generosity of one state versus another (in the case of personal property).

### **Abatement oversight (termination, claw-back, sunset, sunshine and evaluation)**

Scholars have debated the efficacy of property tax abatements, given that there is little governments can do to make sure that enterprises follow through with the bargained investments (Nunn, 1994). There are two possible actions that a state or locality can take in order to address this issue. One is to simply terminate the award, thus negating future benefits. The other is to terminate the abatement and also require beneficiaries to return previously acquired tax benefits retroactively.

Some states formally establish a termination clause in their statutes while others do not. However, this distinction is not reported in Table 1 because, regardless of whether or not such a termination clause is established in statute, termination is inherent in the legal nature of the contract or award. In case of noncompliance, the state or locality will always have termination as its legal recourse. Termination, in addition, is little punishment to the beneficiary for noncompliance.

What is more important is whether retroactive effects or claw-back provisions are established. These provisions actually punish the beneficiary for not complying with conditions set forth in law, contract, or award. Fourteen states have claw-back provisions in their statutes—California, Colorado, Hawaii, Illinois, Indiana, Kansas, Maryland, Minnesota, Ohio, Oklahoma, Oregon, Texas, Vermont and Washington. For an example of a claw-back provision, consider the following language from the Texas Property Redevelopment and Tax Abatement Act:

Sec. 312.205. Specific Terms of Tax Abatement Agreement.

(a) An agreement made under Section 312.204 or 312.211 must:

(...)

(4) provide for recapturing property tax revenue lost as a result of the agreement if the owner of the property fails to make the improvements or repairs as provided by the agreement;

Claw-backs are not necessarily established across the board in a particular state. For example, Minnesota has a claw-back provision for only one of its six programs. Also, the aforementioned thirteen states may not be the only states that have established claw-back provisions. In fact, all states that award abatement on a discretionary basis may establish such clauses in the specific award or contracts. One interesting case is that of Illinois, where notwithstanding the existence of a claw-back provision in statute, this may be waived in the specific contract.

Sunset provisions are also an important aspect of property tax abatements. Most states have established their programs on a permanent basis. Eight states, however, see abatements as a transitory policy and have established sunset provisions. These states are California, Florida, Indiana, Michigan, New Jersey, Oregon, Texas, and West Virginia. Some of these sunset provisions are quite original and different from the ordinary clause that repeals the statute after a given period of time. Michigan, for example, establishes that a business may not be certified after six years have passed from the time the first enterprise zone was created in the given jurisdiction. In Florida the statute is permanent but authority to grant abatements can only derive from public referendum and such authority expires in ten years.

Lastly, the only state where we found a formal sunshine provision is Indiana. Section 6-1.1-12.1 of the Indiana Code provides the following:

Sec 8. (a) Not later than December 31 of each year, the county auditor shall publish the following in a newspaper of general interest and readership and not one of limited subject matter:

(1) A list of the approved deduction applications that were filed under this chapter during that year. The list must contain the following:

(A) The name and address of each person approved for or receiving a deduction that was filed for during the year.

(B) The number of each deduction that was filed for during the year.

(C) The number of years for which each deduction that was filed for during the year will be available.

(D) The total amount for all deductions that were filed for and granted during the year

(2) The total amount of all deductions for real property that were in effect under section 3 of this chapter during the year

(3) The total amount of all deductions for new manufacturing equipment or new research and development equipment, or both, that were in effect under section 4.5 of this Chapter during the year.

### **Governments bearing abatement costs**

The question of who bears the cost of abatements is a subtle issue. Formally speaking, government entities that receive an amount less than their theoretical property tax revenues from a specific taxpayer on account of the abatement, forgo revenues or experience a revenue loss with respect to that specific taxpayer. This theoretical revenue loss is what we refer to as “Cost Bearing” in Table 1.

States and localities essentially have three options with regard to cost bearing:

(1) The theoretical revenue loss may be reimbursed to local entities by the state (See the “State Reimbursement” heading in Table 1), which signifies that the tax burden, which the abatement beneficiary is relieved from, is shifted onto the rest of the taxpayers in the state;

(2) Property-taxing entities may raise the mill rate in order to compensate for the theoretical revenue loss deriving from the abatement. This in fact shifts the burden from the beneficiary to the remainder of the taxpayers in the jurisdiction, or

(3) Jurisdictions may actually cut expenditures in order to compensate for what, in this case, would be a “real” not “theoretical” revenue loss. This still implies that taxpayers not receiving benefits bear a greater burden of the cost of government.

Under the “Cost Bearing” heading, Table 1 shows the five different alternatives used by states to distribute the hypothetical revenue loss. The most popular approach is for all overlapping local taxing districts to bear the cost of the abatement regardless of who awards the benefit. This signifies that, for example, the state, a county, or a municipality may formally award the abatement, but its action will affect the revenues of the county, the municipality, the school district, the township, and any other overlapping local jurisdiction. Statutes generally provide for some form of communication between affected districts. Fifteen states establish this some form of communication with regard to the adoption of property tax abatements: Alaska, Hawaii, Illinois, Indiana, Iowa, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Nevada, New York, Oklahoma, South Dakota, and West Virginia.

Fifteen states choose the approach where the awarding unit only suffers the revenue loss: California, Colorado, Connecticut, Florida, Illinois, Kentucky, Maryland, Minnesota, Missouri, Montana, New Jersey, Pennsylvania, Rhode Island, Texas and Washington. Seven states choose a third distribution approach, which requires the state and all overlapping local jurisdictions to absorb the theoretical revenue loss (statewide levies are affected in addition to local levies). These states include Alabama, Kansas, Minnesota, Missouri, North Dakota, Oregon and Vermont.

South Carolina has a cost bearing approach that differs from the other states. This state's as-of-right abatement affects county revenues only.

Some states give special consideration to school levies and preclude them from being abated (be it statewide school levies and/or some or all of the school district levies). Five states fall into this category: Alabama, California, Kansas, Michigan and Mississippi. Lastly, only six states reimburse local taxing districts in some form. These states are Colorado, Connecticut, Maine, Michigan, Oklahoma and Vermont.

States adopt these cost bearing approaches in different and innovative ways. The following examples give one a flavor of the interesting variation amongst states. In Montana, for example, revenue loss is borne by the awarding municipality and, partially, the overlapping school districts, but only regarding mills assessed for local high school and elementary school; other school levies are excluded. Missouri has two SAPTAPs: one affects all overlapping local taxing units, and the other affects only the awarding jurisdiction and any other “consenting” taxing unit. Minnesota has five different



SAPTAPs with considerable variation among them in terms of bearing the revenue loss (see Table 1). Finally, Michigan also represents an interesting case given that revenue losses are borne essentially at the local level but, optionally, the State Treasurer can include statewide mills.

Lastly, Table 1 also indicates which states have a uniform or classified property tax system.<sup>13</sup> A classified property tax system is one where different rates are applied to different types of property, according to their usage. Nineteen of fifty states have a classified property tax system. These states are Alabama, Arizona, Colorado, Florida, Hawaii, Kansas, Kentucky, Louisiana, Massachusetts, Minnesota, Mississippi, Missouri, Montana, Ohio, South Carolina, South Dakota, Tennessee, West Virginia and Wyoming.

### **Summary and Conclusion**

This guide provides an extensive and exhaustive review of property tax abatement programs currently offered by the American states, as well as a review of the literature on this important subject. Indeed, little or no attention has been given to the differing structural features of abatement programs within a state as well as across states. This guide seeks to fill this gap by affording a careful identification of states with abatement programs and the critical structural differences that appear in each of these programs.

A distinction is made between direct, stand-alone property tax abatement programs (SAPTAPs) and other incentive programs, which may offer some form of property tax relief either indirectly or as a subcomponent of a more complex bundle of benefits. This guide focuses on SAPTAPs and finds that thirty-five of fifty states offer one or several of such programs, with considerable variation within, as well as across states.

Each state is compared with regard to the following structural features of their program or programs: (1) awarding procedure; (2) existence of claw-back, sunset or sunshine provisions; (3) purpose of abatements; (4) type of abated property, whether land, improvements and/or personal property; (5) abated use of property, including manufacturing, commercial, services and primary activities; (6) special eligibility requirements such as threshold capital investment clauses; (7) specific abatement mechanisms and schedules; and (8) cost distribution arrangements between states and local taxing districts.

This guide supplies a broader framework to assess models contained in the current literature, especially in terms of their generalizability, and provides elements that suggest further avenues of research. One such avenue was referred to in the introduction of this guide: by focusing on programs which reduce the effective property tax rate for improvements, but not land, researchers can determine the extent to which property tax abatements afford some of the benefits of a dual rate property tax system and whether such programs are more effective than others as an economic development tool.



## Endnotes

<sup>1</sup> The preparation of this guide sought to achieve both completeness of coverage and accuracy of state-by-state details. After review of statutes, regulations, loose-leaf services, and explanatory publications to obtain an initial assessment for each state, state tax and economic development officials were contacted to obtain verification of that assessment and description. This provides considerable assurance about the accuracy of each individual state report.

<sup>2</sup> Michigan does, however, offer several SAPTAPs in addition to its renaissance zone program.

<sup>3</sup> This form of abatement and tax increment financing is regulated in sections 7-53-101 through 7-53-311, and 4-17-301 through 4-17-307 of the Tennessee Code.

<sup>4</sup> See also Puerto Rico Industrial Tax Exemption Office, “History of Tax Exemption” at [http://www.estado.prstar.net/oecieng/history\\_of\\_tax\\_exemption.htm](http://www.estado.prstar.net/oecieng/history_of_tax_exemption.htm).

<sup>5</sup> They also determined that if state reimbursement of school districts were absent, than 41.7 percent of investment would have to be induced in order to break even, meaning abatements would actually be ineffective.

<sup>6</sup> Detailed data for individual states is provided in the appendix to this guide along with its sources.

<sup>7</sup> Telephone interview with Bill Connelly, Assistant Director, Property Tax Division, Department of Revenue.

<sup>8</sup> Under the auspices of this study, it was not feasible to contact sub-state units of government to gather abatement information. Additionally, the case of Hawaii was rather unique. Although the “Wasteland Development Property Program” exists in state statute and is allegedly administered by the State Department of Taxation, it is apparently obsolete. Several Hawaii state tax officials were consulted about this program by e-mail and telephone, but all confessed to not knowing about its existence and referred us to the local level. Thus, Property tax abatements (other than the “Wasteland Development Property Program”) are offered at the local level in Hawaii, but these programs are not regulated in state statute; each county has a different program and some have none.

<sup>9</sup> Note that other states may impose similar requirements, but they are not contained specifically in their statutes or regulations or were not conveyed in written or verbal communication with state officials. Thereby the requirements left to the individual agreements reached with the beneficiaries.

<sup>10</sup> This list does not add up to thirty-four because a number of states offer several programs which may use different processes for granting abatements.

<sup>11</sup> Section 68-2902(C)(3) and Section 68-2902(A) of the Oklahoma Statutes.

<sup>12</sup> Section 125.2121b of the Enterprise Zone Act.

<sup>13</sup> The source for most of the information on cross-state variation regarding classified and uniform property tax systems was Almy, Richard R. (2000). “Property Tax Policies and Administrative Practices in Canada and the United States: Executive Summary.” *Assessment Journal*, Vol 7, No. 4, p. 41-57. Information not contained in this article was obtained directly from states.

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## Appendix: State-by-State Details

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### Alabama

#### Links:

The Code of Alabama 1975

[http://alisdб.legislature.state.al.us/acas/ACASLogin.asp](http://alisdب.legislature.state.al.us/acas/ACASLogin.asp)

Tax incentive web site

<http://www.ador.state.al.us/Taxincentives/homepage.html>

#### Contacts:

George C. Howell, Jr., Kelly M. Graham, Jennifer Hughes  
Commissioner's Office

Alabama Department of Revenue

334-242-1175

[kgraham@revenue.state.al.us](mailto:kgraham@revenue.state.al.us)

### A. Introduction

The State of Alabama has a property tax abatement program under the “Tax Incentive Reform Act of 1992.” Under this act the following taxes may be abated: non-educational ad-valorem taxes (i.e. property), construction related transaction taxes (sales and use) and mortgage and recording taxes.

### B. Process of granting property tax abatements (formal)

Alabama has a local, discretionary award process.

1. Designation of a revitalization or redevelopment area.

An area is not designated. Abatements are granted to private users who meet the statutory requirements.

2. Formulation and adoption of a tax abatement agreement.

Any person who proposes to become a private user of industrial development property or of a major addition may apply, at or about the time that private user is requesting INDUCEMENT, for an abatement of taxes. The application shall contain necessary information for the authority to conduct a cost-benefit analysis. An AGREEMENT may be entered into, which shall refer to:

- Amount of each abatement and maximum period of exemption.
- Amount to be invested
- Number of individuals to be employed

- Payroll

An INDUCEMENT refers to an agreement or letter in which the authority expresses intent of issuing bonds in connection with the private property. However, bonds do not have to be issued in order to get the abatement.

### 3. Implementation, oversight and evaluation.

No statutory references to these matters were found. The ADOR web page states that the Department will review, audit and conduct inspections and investigations of property for which abatements are granted. ADOR: The law does not give ADOR granting or denying authority; the local granting authorities are.

### 4. Termination, claw-back or sunset provisions.

No statutory references to these matters were found.

## **C. Eligibility and scope of the property tax abatement (substance)**

### 1. Is personal property taxed?

Yes.

### 2. What is the purpose of the property tax abatement?

Industrial development. The State of Alabama does not give monetary incentives. Abatements are a way to help industries on the front end, lowering out-of-pocket expenses.

### 3. Is there a requirement or condition to attain the property tax investment?

The acquisition of property or the placing of property in service for the first time, wherein an industrial or research enterprise is established or expanded in Alabama, or a subsequent “major addition” is performed. The predominant activity conducted at the project must constitute an “industrial or research” enterprise,” defined as any trade or business described in the 1987 Standard Industrial Classification Manual published by the OMB. A major addition is an addition to an existing industrial development property that meets the SIC code requirement and that equals the lesser of 30% of the original cost (of the initial development) or \$2,000,000 dollars.

### 4. Abated real property, including schedule, caps, and other specifics.

- The abatement is only for industrial property.
- Land is not explicitly excluded. The tax incentives web page of ADOR, asserts that (1) in the case of new companies (not major additions), the total amount of the capital

investment by the company that is locating a facility in Alabama is eligible for the tax abatement, and (2) an abatement applies to all real and personal property incorporated into the project.

- The statute refers to abatement of taxes but also to the same abatement as an exemption. Therefore it is rather unclear whether it refers to a deduction from assessed value or a credit against taxes owed. The booklet issued by ADOR states that the abatement takes the form of a credit on taxes owed. For property tax purposes, the abatement is treated as an exemption in that the private user must apply (in the first year only) for the abatement with the county taxing official's office to actually receive the abatement.
- The amount is established in the agreement.
- The maximum period is ten years from the time of acquisition. No further abatement may be granted with respect to the same property unless there is a major addition to the same.

#### 5. Abated personal property.

Abated in same fashion as real property.

#### 6. Who bears the cost?

The abatement may be granted by:

- The governing body of the municipality
- The governing body of the county, with respect to property not within a municipality, or
- The governing body of a public industrial authority.

The cost is absorbed by any taxing unit with jurisdiction to tax the property (i.e., it is not limited to the awarding entity). Therefore, both the state and local units absorb the cost. However, the abatement only applies to non-educational property taxes, which means that school districts are not affected and neither is the state in the case of a state education property tax.

With regard to construction related taxes (sales and use), all of the state sales tax is abated, including all state education levies. Property tax abatements are limited to non-educational only.

The statute does not contain provision regarding state reimbursement to localities for revenue losses.



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## Alaska

### Links:

The Alaska Statutes (29.45.050)

[http://old-www.legis.state.ak.us/cgi-bin/folioisa.dll/stattx00/query=\[group+section2945050\]/doc/{@11677}](http://old-www.legis.state.ak.us/cgi-bin/folioisa.dll/stattx00/query=[group+section2945050]/doc/{@11677})

### Contact

Steve VanSant

Department of Community and Economic Development

[steve\\_vansant@dced.state.ak.us](mailto:steve_vansant@dced.state.ak.us)

### A. Introduction

The State of Alaska has one stand-alone property tax abatement program for economic development purposes under section 29.45.050 of the Alaska Statutes. By stand-alone we mean programs where property tax abatements are, or could be, the sole policy tool.

### B. Process of granting property tax abatements (formal)

Alaska has a local, discretionary award process that is subject to public referendum.

#### 1. Designation of a revitalization or redevelopment area.

A specific area as such is not defined and implicitly the exemption or deferral extends over the entire municipality. A municipality by ordinance (1) may partially or totally exempt all or some types of economic development property from taxation, or (2) permit deferral of payment of taxes on all or some types of economic development property. A public hearing must be performed prior to adoption, and the voters through referendum may repeal the ordinance.

Economic development property means personal or real property that

- a. Has not previously been taxed as real or personal property by the municipality
- b. Is used in a trade or business that creates employment and exports and reduces imports.
- c. Has not been used in the same trade or business in another municipality for at least six months before the application.

#### 2. Formulation and adoption of a tax abatement agreement.

The ordinance must include specific eligibility criteria and require a written application. No additional details are provided for the application process.

3. Implementation, oversight and evaluation.

Nothing to this effect found in the statute.

4. Termination, claw-back or sunset provisions.

Nothing to this effect found in the statute.

### **C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

Yes.

2. What is the purpose of the property tax abatement?

Economic redevelopment in general.

3. Is there a requirement or condition to attain the property tax investment?

Creation of employment, increases in exports and decreases in imports.

4. Abated real property, including schedule, caps, and other specifics.

The statute does not make distinctions amongst types of property and therefore applies to industrial, commercial and residential property. The abatement can be either an exemption, which means that the owner subtracts the value of the exempted property for his/her assessed value, or a deferral of payment of taxes. In either case, the abatement can be granted for up to five years, renewable under certain restrictions. Land is implicitly excluded in the “has not been taxed before” requirement. Also, the same requirement implies that only new increases in value are the object of abatement and that the preexisting base is not affected.

5. Abated personal property.

Abatement takes place in the same fashion as real property. Inventory is excluded. However, the municipality may establish a flat tax or a quota on the exempted personal property or type thereof.

6. Who bears the cost?

The costs of the abatement is absorbed at the local level by the municipality and any other overlapping jurisdiction that can tax the same property.

In Alaska, there is no statewide property tax or levy. Each taxing jurisdiction stand on its own. The cost of mandatory exemptions are born by the local taxing jurisdictions. Each taxing jurisdiction includes school funding and local government administration costs. Any optional exemptions a taxing jurisdiction may enact affects both the school and the local government revenues and we do not split them in Alaska. We do have one optional exemption for economic property where the renewal of the exemption will exclude taxes fro school funding, but the initial exemption includes all taxes.

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## California

### Link:

California Revenue and Taxation Code

<http://www.leginfo.ca.gov/cgi-bin/calawquery?codesection=rtc&codebody=&hits=20>

California Government Code

<http://www.leginfo.ca.gov/cgi-bin/calawquery?codesection=gov&codebody=&hits=20>

### Contact:

POC: State Board of Equalization

[Mickie.Stuckey@boe.ca.gov](mailto:Mickie.Stuckey@boe.ca.gov)

[Dean.Kinnee@boe.ca.gov](mailto:Dean.Kinnee@boe.ca.gov)

Whitney Graham

Corporate Development Specialist

1017 J Street

Sacramento, CA ,95814

[wgraham@commerce.ca.gov](mailto:wgraham@commerce.ca.gov)

### A. Introduction

Property taxes in California are levied and administered by county government. There are two stand-alone property tax abatement programs in the local government level:

“Economic Revitalization Manufacturing Property Tax rebates” (California Revenue and Taxation Code Sec. 5108), and “Capital Investment Incentive Payments” (Government Code Sec. 51298)<sup>1</sup>

### B. Process of granting property tax abatements (formal)

California has a local, discretionary award process.

1. Designation of a revitalization or redevelopment area.

#### Economic Revitalization

An area is not designated. Redevelopment agency obtains the approval, by a majority vote of the governing bodies of a city, county, city and county, special district excluding any school district in which the redevelopment agency is located. Redevelopment agency will be authorized to give rebate to pursuant.

#### Capital Investment

An area is not designated. The governing body of a county, city and county, or city may establish a capital investment incentive program by ordinance or resolution.

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<sup>1</sup> All of tax incentives provided by four economic development zone programs are related to Income tax or Franchise tax. Four economic development programs refer Enterprise Zones (Ezs: Cal. Gov’t Code Secs 7073, 7074, 7076.1-2), Local Agency Military Base recovery Areas (LAMBRAs: CRTC Secs. 17053.45-46, 23645-23646), Targeted Tax Areas (TTAs: CRTC 17053.33-34, 23633-23634), and Manufacturing Enhancement Areas (MEAs: Cal Gov’t Code Sec. 7073.9, CRTC Secs 17053.47, 23622.8).

2. Formulation and adoption of a tax abatement agreement.

Economic Revitalization

With the application of pursuant, majority of governing body of local agency make a finding, in its sole discretion, that the property is used in conjunction with the establishment or expansion of a manufacturing project or facility. In this connection, the governing body may authorize the rebate.

Capital Investment

If the program is established, the city/county/city or county pay the incentive amount to the proponent of a qualified manufacturing facility. A payment request shall be filed by a proponent in writing with the governing body of the city/county/city or county.

3. Implementation, oversight and evaluation.

Economic Revitalization

On or before January 1, 2002, the Legislative Analyst shall prepare a report including (1) the list of local agencies utilizing tax rebate provisions, (2) dollar expended by the agencies, (3) number of jobs created by each agency, (4) estimate number of jobs might be created out of the jurisdiction/state without the rebate

Capital Investment

Each city/county/city or county shall notify the Trade and Commerce Agency of its election of the program. The Trade and Commerce Agency shall compile the information, and submit a report to the Legislature, biannually.

4. Termination, claw-back or sunset provisions.

Economic Revitalization

If pursuant fail to complied with the conditions in the agreement, the governing body may recapture all or any portion of the amount rebated. This will remain in effect until January 1, 2003.

Capital Investment

If the proponent fails to operate the facility as required, any capital investment incentive payment amount previously paid shall be recaptured. If the proponent is delinquent in paying community service fee, incentive payment shall stop.

**C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

Yes.

2. What is the purpose of the property tax abatement?

The purpose of this program is economic redevelopment in general.

3. Is there a requirement or condition to attain the property tax investment?

Economic Revitalization

- a. Property should be in manufacturing process in the state.
- b. Creation of at least 10 new full-time manufacturing jobs, or positions at salary least \$10 per hour (\$20,000 per year), existing for continuous 5 years.

Capital Investment

- a. The proponent should pay 25% of incentive payment as the community service fee, which cannot exceed \$2,000,000.
- b. Job creation plan should be submitted, but minimum job number is not specified.

4. Abated real property, including schedule, caps, and other specifics.

Economic Revitalization

No.

Capital Investment

Abatement is payment of ad valorem property tax revenue up to 100%.

Real property necessary to operate the facility exceeds \$150,000,000 value (total with personal property).

5. Abated personal property.

Economic Revitalization

Abatement is the rebate some or all of the property tax revenue from the property.

Tangible personal property used in manufacturing process is rebated.

Rebate amount can go up to 100%, and the maximum period is 5 year.

Capital Investment

Tangible personal property is also eligible to incentive payment in the same way of real property.

6. Who bears the cost?

The local government.

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## Colorado

### Links

The Colorado Statute Manager

<http://64.78.178.125/stat01/index.htm>

### Contacts:

Diane Champney

Department of local Affairs (in charge of Property Tax)

(303) 866-2371

[diane.champney@state.co.us](mailto:diane.champney@state.co.us)

Evan Metcalf

Colorado Office of Economic Development

1625 Broadway #1710

Denver, CO 80202

(303) 892-3743

FAX (303) 892-3725

<http://www.state.co.us/oed>

[evan.metcalf@state.co.us](mailto:evan.metcalf@state.co.us)

### A. Introduction

Colorado has an enterprise zone program. However, since the incentives offered there include income and sales tax relief, in addition to property tax relief, they go beyond the scope of the present research.

In addition, Colorado has a “plain vanilla” stand-alone property tax abatement program in sections 31-15-903 (for municipalities), 30-11-123 (for counties) and 22-32-110 (for school districts). By stand-alone we mean programs where property tax abatements are, or could be, the sole policy tool. This program is summarized in the following sections.

### B. Process of granting property tax abatements (formal)

Colorado has a local discretionary abatement process.

1. Designation of a revitalization or redevelopment area.

An area is not designated.

2. Formulation and adoption of a tax abatement agreement.

A county, a municipality or a school district may separately negotiate for an incentive payment or credit with any taxpayer who establishes a new business facility or expands an existing facility.

3. Implementation, oversight and evaluation.

No provision to this effect.

4. Termination, claw-back or sunset provisions.

No provisions to this effect either. While oversight and claw-back provisions are not specified in state statute, they are typically part of the negotiated local agreements.

### **C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

Yes.

2. What is the purpose of the property tax abatement?

Economics development.

3. Is there a requirement or condition to attain the property tax investment?

The investment in the case of an expansion must exceed one million dollars or, if less, one hundred percent of its investment in the original facility prior to expansion.

4. Abated real property, including schedule, caps, and other specifics.

This abatement is available ONLY on personal property, NOT on real property.

5. Abated personal property.

Property tax credit or incentive payment: a local jurisdiction may select either mechanism. In the event of an incentive payment, the jurisdiction collects the applicable tax, then makes a payment for the agreed upon amount to the company. In the case of a credit, the amount of property tax due is reduced prior to payment.

The type of property is defined as a “revenue producing enterprise,” which is defined to mean not only manufacturing and commercial property but also livestock feeding property and property for the performance of services. Residential property is implicitly excluded.

The abatement is capped to an amount no greater than fifty percent of the amount of taxes levied by the county, municipality or school district upon the personal property directly attributable to the expansion or used in connection with the operation of the new business facility.



Maximum term of an agreement is 4 years, but renewable up to a maximum of 10 years. (Legislation is currently proposed that would simplify this to a simple 10 year maximum.)}

6. Who bears the cost?

No statewide levies.

The cost in terms of revenue loss is borne solely by the awarding jurisdiction, in the case of municipalities and counties. However, in the case of school districts, the state provides reimbursement of revenue loss.

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## Connecticut

### Links:

General Statue of Connecticut: <http://www.cga.state.ct.us/2001/pub/Titles.htm>

Enterprise Zone: <http://www.cga.state.ct.us/2001/pub/Chap585.htm>

Dept. of Economic & Community Development:

<http://www.cga.state.ct.us/2001/pub/Chap578.htm>

Property Tax Assessment: <http://www.cga.state.ct.us/2001/pub/Chap203.htm>

### Contact:

POC: Department of Economic & Community Development

[decde@po.state.ct.us](mailto:decde@po.state.ct.us)

## A. Introduction

In the state of Connecticut, considerably multiform property tax incentive programs are operated. There are Enterprise Zone (EZ), Entertainment District, Urban Job Program (this is for business located in the municipality of Targeted Investment Community including EZ, but out of the EZ) benefits, Manufacturing Plant Zone, and so on. By statute, a municipality may have only one EZ. Consequently, many of these economic development purpose property tax abatement programs are branched out from the Enterprise Zone program. They are only specially specified form of EZ for a certain condition or locality. For instance, Urban Job programs are compensating the businesses out of EZ, but in the same municipality. And, Entertainment District is just for some entertainment business specified by SIC codes. It uses same procedure and benefit plans to the EZ program.

However, Connecticut contains some stand-alone property tax abatement programs, too. These are about newly acquired machinery and equipment [chapter 203, section 12-81(72)], improvement of real/personal property [chapter 203, section 12-65, 65(b), 65(h)], and new commercial vehicle [chapter 203, section 12-81(74)]

Here, Enterprise Zone series program will be surveyed to capture the image of how the property tax abatement program works in the State of Connecticut. And, stand-alone programs are surveyed.

## B. Process of granting property tax abatement (formal)

1. Designation of a revitalization or redevelopment area.

### Enterprise Zone

- a. With the approval of the Commissioner of Economic and Community Development, any ‘distressed’ municipality can designate an area as an EZ
- b. A municipality with EZ will be defined as Targeted Investment Zone. (GS32-222).

Benefits and conditions are equal to EZ program.

- c. Any municipalities with population less than 20,000 that is contiguous to Targeted Investment Zone may request the Commissioner approve the designation as the Manufacturing Plant Zone. However, benefits and conditions are the same to EZ program.

Newly acquired machinery and equipment

Area is not designated.

Improvement of property

Area is not designated.

New commercial vehicle

Area is not designated.

2. Formulation and adoption of a tax abatement agreement.

Enterprise Zone

- a. In 30 days of the Commissioner's approval, the municipality shall establish a community enterprise zone board. The board shall determine the zone development policy and plan.
- b. Each EZ business applicant must complete a preliminary application to determine all eligibility criteria met. After that is approved by the Commissioner, the formal application can be provided
- c. After inspections of Department of Economic and Community Development (DECD) officials and local program administrators, Certificate of Eligibility shall be issued

Newly acquired machinery and equipment

This is as-of-right program, but cannot be eligible at the same time with other benefit program.

Improvement of property

Any municipality shall have the power to enter into a written agreement with a taxpayer

New commercial vehicle

This is as-of-right program, but cannot be eligible at the same time with other benefit program.

3. Implementation, oversight and evaluation.

Enterprise Zone

- a. Annually, Office of Policy and Management shall submit an report to the General Assembly concerning the data of real and personal property in each town, including information of tax loss to town with/without state reimbursement (Sec.12-120a)
- b. Abatement Review Committee under the Department of Revenue Services shall adopt regulations and guidelines for any type of tax abatement (Sec.12-3b)

- c. Biannually, the legislative Office of Fiscal Analysis shall submit the tax expenditure report to the General Assembly (Sec.12-7b)

Newly acquired machinery and equipment

- a. The local assessor will certify the amount of approved abatement to the Office of Policy and Management
- b. The secretary of the OPM shall review and modify the abatement

Improvement of property

Any municipality may, by affirmative vote of its legislative body, can enter into an agreement.

New commercial vehicle

- a. The local assessor will certify the amount of approved abatement to the Office of Policy and Management
- b. The secretary of the OPM shall review and modify the abatement

4. Termination, claw-back or sunset provisions.

Enterprise Zone

- a. If the qualified business ceases to operate, the property tax abatement shall be terminated
- b. No provisions for clawback, and sunset

Newly acquired machinery and equipment

- a. *Termination*: If the claimant is delinquent in a property tax payment or corporate business tax payment, the assessor or the secretary of the Office of Policy and Management can deny the abatement.
- b. No provisions for clawback or sunset.

Improvement of property

*Termination/Clawback*: If the taxpayer does not comply the terms of agreement, the municipality may bring an action in the superior court of the judicial district

**C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

Yes. But only tangible property is taxed.

2. What is the purpose of the property tax abatement?

Economic Development, in general

3. Is there a requirement or condition to attain the property tax investment?

### Enterprise Zone

- a. Manufacturers, distribution warehousing (new construction/expansion only) and certain service sector firms (specified by some SIC codes) may be eligible for EZ benefits (Sec.32-9p)
- b. In case of renovation, capital investment amount should be larger than 50% of the assessed value of the property prior to renovation.

### Newly acquired machinery and equipment

Machinery and equipment mean tangible personal property used in manufacturing facility, R&D, or biotechnology industry.

### Improvement of property

- a. Residential property used for the housing project of urban renewal project or community development plan
  - b. Real property improvement
  - c. Personal property in the improved manufacturing facility
4. Abated real property, including schedule, caps, and other specifics.

### Enterprise Zone

- a. 80% of property will be exempted from the assessment
- b. If the investment amount of the manufacturing property out of EZ (e.g. Targeted Investment Community) is
  - \$20 ~ \$39 million: then, exemption of 40% of assessed value of the property
  - \$39 ~\$59 million: then, exemption of 50% of assessed value of the property
  - \$59 ~\$79 million: then, exemption of 60% of assessed value of the property
  - \$79 ~\$90 million: then, exemption of 70% of assessed value of the property
  - \$90 million or more: then, exemption of 80% of assessed value of the property
- c. These abatement is for 5 full assessment year
- d. Manufacturing property and some commercial property can be eligible (Eligible business is specified by SIC codes)
- e. Land is not explicitly excluded

### Newly acquired machinery and equipment

No

### Improvement of property

- a. Residential property: Fixing the assessed value for not more than 15 year
- b. Real property: Fixing 20% through 100% of the assessed value increment for 2 through 7 years based on the amount of cost for improvement

### New commercial vehicle

No

5. Abated personal property.

Enterprise Zone

Same as above

Newly acquired machinery and equipment

- Industrial property shall be eligible
- 100% of the assessed value of property shall be exempted for 5 years

Improvement of property

- Personal property: Fixing the assessed value  
not more than 7 years, if the AV increment is not less than \$3million  
not more than 2 years, if the AV increment is not less than \$500,000  
not more than 3 years of 50% of the AV increment, if the AV is not less than \$100,000

New commercial vehicle

- a. New commercial purpose vehicle
- b. 100% of the assessed value shall be exempted for 5 years

6. Who bears the cost?

EZ and Targeted Investment Community

State government shall grant in lieu of taxes on exempted property with the amount of 50% of tax loss.

Newly acquired machinery and equipment / New commercial Vehicle

State government shall reimburse in lieu of tax revenue from these exempted properties

Improvement of property

Local government

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**Florida**

(Note: We divide the analysis into two categories: process for granting property tax abatements and eligibility requirements and scope of the property tax abatement.)

**Links:**

The 2001 Florida Statutes

<http://www.leg.state.fl.us/Statutes/index.cfm?Mode=View%20Statutes&Submenu=1&Tab=statutes>

Enterprise Zone Act

[http://www.leg.state.fl.us/Statutes/index.cfm?App\\_mode=Display\\_Statute&URL=Ch0290/titl0290.htm](http://www.leg.state.fl.us/Statutes/index.cfm?App_mode=Display_Statute&URL=Ch0290/titl0290.htm)

Property Tax Abatement Program

[http://www.leg.state.fl.us/Statutes/index.cfm?App\\_mode=Display\\_Statute&Search\\_String=&URL=Ch0196/SEC1995.HTM&Title=->2001->Ch0196->Section%201995](http://www.leg.state.fl.us/Statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=Ch0196/SEC1995.HTM&Title=->2001->Ch0196->Section%201995)

**Contacts:**

Melissa DeLoach

FL DOR/Property Tax Administration

2410-A Allen Rd.

Tallahassee FL 32312

Kathy Henley

Program Administrator, Property Tax Administration

[DORPTA@dor.state.fl.us](mailto:DORPTA@dor.state.fl.us)

David Beggs

[BeggsD@dor.state.fl.us](mailto:BeggsD@dor.state.fl.us)

**A. Introduction**

The State of Florida promotes redevelopment in different ways. One of these consists of establishing “enterprise zones” in blighted areas where diverse state and local investment, tax and regulatory incentives are awarded, including property tax abatements. In addition, Florida has a stand-alone property tax abatement program in section 196.1995 of the 2001 Florida Statutes, called the “economic development ad valorem tax exemption.”

The latter will be referred to in the following sections. By stand-alone we mean programs where property tax abatements are, or could be, the sole policy tool.

**B. Process of granting property tax abatements (formal)**

Florida has a local process that combines public referendum and discretion.

1. Designation of a revitalization or redevelopment area.

The board of county commissioners or the governing authority of any municipality calls for a referendum to authorize them to grant property tax exemptions to new businesses and expansions of existing businesses.

A specific area is not defined; however, the exemptions can be limited to property located within an enterprise zone.

## 2. Formulation and adoption of a tax abatement agreement.

Upon a majority vote in favor of such authority, any person, firm or corporation may file an application containing, amongst other things, a description of the improvement or investments and proof that the applicant is a new business or an expansion of an existing business. The decision to issue an award or ordinance is made giving due consideration to current revenues from ad valorem taxes, current tax expenditures from previously awarded economic development exemptions and the tax expenditure that the applied-for exemption represents.

“New business” means, amongst others, (1) a manufacturing or industrial plant that establishes 10 or more full-time jobs; (2) a business that exports more than 50 percent of its goods and that creates 25 or more full time jobs; and (3) an office space of a newly domiciled corporation where 50 or more full time jobs are provided.

An “expansion of an existing business” means, amongst others, a business that fits (1) and (2) above, that increases employment or output by 10 percent.

## 3. Implementation, oversight and evaluation.

Nothing to this effect is mentioned in the statute.

## 4. Termination, claw-back or sunset provisions.

Sunset provision. The authority to grant exemptions expires in 10 years, but it may be renewed by referendum for another 10 years.

Nothing on termination or claw-black is mentioned in the statute.

### **C. Eligibility and scope of the property tax abatement (substance)**

#### 1. Is personal property taxed?

Yes.

#### 2. What is the purpose of the property tax abatement?

Economic redevelopment in general.



3. Is there a requirement or condition to attain the property tax investment?

Establish a new business or expand an existing one.

4. Abated real property, including schedule, caps, and other specifics.

The abatement applies to commercial and industrial property. The ordinance may exempt up to 100% of the assessed value of all improvements to real property made by or for the use of the new business, and of all tangible personal property of such new business. Or up to 100% of the assessed value of all added improvements to real property made to facilitate the expansion of an existing business and of the net increase in all tangible personal property acquired to facilitate such expansion. The exemption may be granted for a period of up to 10 years (non renewable).

5. Abated personal property.

See previous section.

6. Who bears the cost?

The exemption applies only to taxes levied by the respective unit of government granting the exemption. There is a statewide levy, but the abatement does not affect the state property tax. State levy is only on intangible personal property.

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## Hawaii

### Links:

Hawaii Revised Statutes—Taxation

<http://www.state.hi.us/tax/hrs.html>

Chapter 246. Real Property Tax Law

[http://www.capitol.hawaii.gov/hrscurrent/vol04\\_ch201-257/hrs246/](http://www.capitol.hawaii.gov/hrscurrent/vol04_ch201-257/hrs246/)

Hawaii Revised statutes (searches)

<http://www.capitol.hawaii.gov/site1/docs/docs.asp#hrs>

Good little summary of Hawaii taxes

<http://www.co.honolulu.hi.us/ecodev/tools/taxes.htm>

Hawaii Enterprise Zones

<http://www.hawaii.gov/dbedt/invest.html>

### Contact:

Department of Taxation

Marie Okamura, Director

(808) 587-1510

Technical Section

(808) 587-1577

[Technical\\_section@tax.state.hi.us](mailto:Technical_section@tax.state.hi.us)

### A. Introduction

The state of Hawaii has an enterprise zone program which is run jointly by counties and the Department of Business, Economic Development and Tourism. The benefits include exemptions from the general excise and income taxes and, additionally, each county offers incentives which may or may not include property tax abatements. This program is not summarized below because our research is interested in stand-alone property tax abatement program, i.e. programs where property tax abatements are, or could be, the sole policy tool.

However, the state does have one stand-alone property tax abatement program under the name of “wasteland development property” in the Real Property Tax Law (sections 246-13 to 246-20). This is the program that we summarize in the following sections.

### B. Process of granting property tax abatements (formal)

Hawaii has a state, discretionary award process.

1. Designation of a revitalization or redevelopment area.

No areas as such are designated by the state.

1. Formulation and adoption of a tax abatement agreement.

(a) An owner may apply to the state director of taxation for his property to be classified as wasteland. The application shall state how the property will be developed and other requirements. (b) The director then makes a finding of fact as to eligibility, whether it can be developed as proposed, whether the development will add to the development of the economy of the state and whether the development will broaden the tax base of the state. (c) The property is classified as wasteland development property, or the application is disapproved. (d) The applicant may appeal.

Any property of 25 acres or greater is eligible for classification as wasteland if it meets the classification requirements of the state director of taxation.

3. Implementation, oversight and evaluation.

Implementation and oversight. Each year the owner shall develop the land as specified in the application or as prescribed by the state director of taxation.

Statute does not mention anything on evaluation.

4. Termination, claw-back or sunset provisions.

Sunset provision. None found.

Termination and Claw-back provision. Noncompliance of any law, ordinance, rule or regulation triggers the cancellation of the special tax assessment, retroactive to the day it was effective. The taxes that otherwise would have been paid become immediately due, together with a five per cent a year penalty.

**C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

No.

2. What is the purpose of the property tax abatement?

The purpose of the Indiana ERA program is economic redevelopment in general.

3. Is there a requirement or condition to attain the property tax investment?

Develop the land as specified in the application and prescribed by the state director of taxation.

4. Abated real property, including schedule, caps, and other specifics.

The statute does not specify to what type of property it is applicable (industrial, commercial and residential), so since it is for developing purposes we assume that it applies to industrial and commercial. Land is implicitly included in the benefit.

The benefit consists of having the property assessed at its value as wasteland for 5 years. (We still need to find out what that value is).

5. Abated personal property.

N.A.

6. Who bears the cost?

The statute is silent, but since the property tax is collected and spent locally, we assume that the cost of the abatement is absorbed at the local level. No state reimbursement, no statewide property tax levies.

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## Illinois

### Links:

Illinois Compiled Statutes

<http://www.legis.state.il.us/ilcs/chapterlist.html>

Illinois Enterprise Zone Act

<http://www.legis.state.il.us/ilcs/ch20/ch20act655.htm>

Chapter 35. Revenue

<http://www.legis.state.il.us/ilcs/ch35/ch35actstoc.htm>

Economic Development for a Growing Economy Tax Credit Act.

<http://www.legis.state.il.us/ilcs/ch35/ch35act10articles/ch35act10artstoc.htm>

Property Tax Code

<http://www.legis.state.il.us/ilcs/ch35/ch35act200articles/ch35act200artstoc.htm>

### Contacts:

Jerry Lanter

IL DOR, Property Tax Division

217-782-6336

Karen Kloppe

IL DOR, Property Tax Division

217-524-9479

[kkloppe@revenue.state.il.us](mailto:kkloppe@revenue.state.il.us)

Deb Grider, Communications Office

[DGrider@revenue.state.il.us](mailto:DGrider@revenue.state.il.us)

## A. Introduction

The State of Illinois has many economic development programs, some of which entail property tax abatements and some not. We have classified those that do entail property tax abatements as follows:

1. Property tax abatements that can be granted, in addition to other incentives, in the following areas or zones:
  - a. Enterprise zones created under the Illinois Enterprise Zone Act.
  - b. Redevelopment areas created under the Tax Increment Allocation Redevelopment Act
  - c. County economic development project areas created under the County Economic Development Project Area Property Tax Allocation Act.
2. Stand-alone property tax abatement programs for
  - a. Commercial and industrial property (sec 18-165), in the following cases:
    - i. Property of any commercial or industrial firm

- ii. Commercial or industrial development of at least 500 acres (large-scale).
- b. Residential property, where the following two cases are distinguished:
  - i. Leased low-rent housing abatement (sec. 18-177).
  - ii. Areas of urban decay (sec. 18-180).

It is to these stand-alone programs that we refer in the following sections. By stand-alone we mean programs where property tax abatements are, or could be, the sole policy tool.

**B. Process of granting property tax abatements (formal)**

The state of Illinois has a local, discretionary process, except for the leased low-rent housing abatement, which is local, as-of-right.

1. Designation of a revitalization or redevelopment area.

No specific redevelopment areas are delimited.

2. Formulation and adoption of a tax abatement agreement.

A contract is entered into by taxing district and beneficiary where the terms and length of the abatement are set forth, but not more specifics are given in the statute.

3. Implementation, oversight and evaluation.

Nothing to this effect was found in the statute.

4. Termination, claw-back or sunset provisions.

Termination and claw-back. Relocation of an entire facility in violation of the terms and length of contract triggers the forward cancellation of benefits and the repayment of benefits received within 30 days. However, this provision may be waived by the parties to the contract.

**C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

NO.

2. What is the purpose of the property tax abatement?

The purpose of the Illinois tax abatement program appears to be economic development, except for the case of the leased low-rent housing abatement which appear to be more for redistribution purposes (to affect the level of the rent).

3. Is there a requirement or condition to attain the property tax investment?

Commercial and industrial property

Relocation into the taxing district, creation or expansion of facility, or expansion of number of employees.

Residential property

*Leased low rent housing abatement*

Lease of either a multifamily dwelling or a multi-building development consisting of 6 units or more, for a period of no less than 20 years to a housing authority solely for low-rent housing

*Area of urban decay*

New construction of a single-family or duplex residential dwelling.

4. Abated real property, including schedule, caps, and other specifics.

Commercial and industrial property

Abatement is offered on taxes owed, with the following qualifications:

- With regards to large-scale developments (greater than 500 acres), abatement shall not exceed 20 years and the aggregate amount of abated taxes for all taxing districts combined shall not exceed 12 million; all others, for a maximum period of 10 years and with a cap is 4 million.
- In the case of the regular-scale expansion of facility or number of employees, the abatement may be renewed (no limit to the renewal is established).

Residential property (abatement is also offered on taxes owed)

*Leased low rent housing abatement*

Full 100% of property taxes levied by any taxing district on property that is certified. Certification can only be performed on property that complies with requirements. Certified property cannot exceed 1/3<sup>rd</sup> of the residential units in the leased housing complex. Abatement continues for as long as lease holds.

*Area of urban decay*

Any percentage of the taxes levied by the municipality and any other taxing district, although the total abatement for any levy year shall not be in an amount in excess of 2% of the taxes extended by all taxing districts on all parcels located within the township that contain residential dwelling units of 6 units or less.

5. Abated personal property.

NA.

6. Who bears the cost?

Commercial and industrial property

The abatement is ordered by a taxing district and only affects the taxes owed to that taxing district.

Residential property

*Leased low rent housing abatement*

The county clerk complied with the statutory mandate and abates the property taxes owed to all taxing districts.

*Area of urban decay*

The home rule municipality orders the abatement and it affects the taxes owed to any taxing district.

Therefore, in conclusion, commercial and residential abatements apply only to taxes levied by the awarding taxing district, whereas in the case of residential abatements, it affects all taxing districts (is the state property tax also abated?).

Whether the state government finds a way to compensate taxing districts I shall find out (though I doubt it).



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## Indiana

### Links:

Enterprise Zone Program

<http://www.ai.org/legislative/ic/code/title4/ar4/ch6.1.html>

Economic Revitalization Areas

<http://www.ai.org/legislative/ic/code/title6/ar1.1/ch12.1.html>

### Contacts:

Brian Bucher

State Board of Tax Commissioners

[BBucher@tcb.state.in.us](mailto:BBucher@tcb.state.in.us)

Brenda Harris

State Board of Tax Commissioners

[bharris@tcb.state.in.us](mailto:bharris@tcb.state.in.us)

Deanna Jeffrion

Indiana Department of Commerce

[djeffrion@commerce.state.in.us](mailto:djeffrion@commerce.state.in.us)

### A. Introduction

The State of Indiana has both an enterprise zone program (I.C. 4-4-6.1.) and a stand-alone property tax abatement program for economic revitalization areas. The latter can be subdivided into two programs, one “economic revitalization areas” and another for “residentially distressed areas.” The Indiana enterprise zone program includes mostly income tax incentives for business, but also includes property tax abatement on business inventory. The free-standing property tax abatement program for economic revitalization areas includes only property tax incentives, excluding inventory, as discussed in more detail in the following sections. The information has been extracted from Indiana Code 6-1.1-12.1. By stand-alone we mean programs where property tax abatements are, or could be, the sole policy tool.

### B. Process of granting property tax abatements (formal)

Indiana has a local, discretionary award process.

#### 1. Designation of a revitalization or redevelopment area.

The first phase is for a local government to identify and designate an “economic revitalization area (ERA).” On particular type of ERA is a “residentially distressed area (RDA).” In the designating resolution the local government may limit the type of deductions, dollar amounts of the deductions and the duration of the area. The local

government then publicizes the proposed resolution and conducts a hearing. Final action is taken after considering all remonstrances and objections. An aggrieved person may appeal, but the only ground for an appeal is whether a project meets the qualifications of the economic revitalization law.

## 2. Formulation and adoption of a tax abatement agreement.

An individual or an entity may present an application and a “statement of benefits.” The ex-parte application can be filed before the designation and actually drive the designation, or it can come after the designation, as an application for a particular deduction. The statement of benefits must include:

- a. The description and estimated value or cost of the project.
- b. Number and salaries of people to be employed or retain employment.

The local government judges whether the information provided by an applicant is reasonable and whether the benefits justify the deduction. If the answer is in the affirmative, it either designates the area or, if the area already exists, the local body allows the deduction.

## 3. Implementation, oversight and evaluation.

Owner must provide information showing compliance with the statement of benefits every year before the deduction is made.

Relocation of abated PP can only take place within an ERA, or to another ERA that lies within the jurisdiction of the designating government. The local government must allow the relocation and, if it does, the deduction continues as if the relocation had not taken place.

Sunshine provision. At the end of every year, the local government must publish a list of the authorized deductions, including name of beneficiary, amount and years of the deduction.

Evaluation. Every four years an evaluation shall be conducted at the state level on the effectiveness of the program, including whether it has been instrumental in creating new jobs, increasing income or the tax base in the jurisdiction of the designating body. It may also include impacts on tax burdens borne by various classes of property owners.

## 4. Termination, claw-back or sunset provisions.

If the designating body finds that compliance with the statement of benefits has not been substantial, then it may terminate the tax abatement. The corresponding resolution may be appealed by the owner.

Sunset provision. No statement of benefits may be approved after December 31, 2005.

Claw-back provision. The designating body may include the following claw back provision in the designating resolution: if the owner ceases operations at the facility and he, she or it also provided false information regarding plans for continuing operations at the facility, then the owner will be assessed an amount equivalent to the benefits received plus a 10% penalty.

### **C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

Yes.

2. What is the purpose of the property tax abatement?

The purpose of the Indiana ERA program is economic redevelopment in general.

3. Is there a requirement or condition to attain the property tax investment?

The owner is entitled to a deduction if the property has been rehabilitated or the property is located in real estate which has been redeveloped. Redevelopment means the construction of new structures in economic redevelopment areas (ERAs). Rehabilitation means the remodeling, repair, or betterment of property in any manner, or any enlargement or extension of property.

4. Abated real property, including schedule, caps, and other specifics.

The abatement on real property is offered to industrial, commercial and residential property, with the following qualifications. Land is explicitly excluded. In an ERA that is not a residentially distressed area (RDA), abated property can be industrial, commercial or residential. However, residential property qualifies in very limited cases. Facilities such as golf courses, country clubs, massage parlors, tennis clubs and others, are also excluded from the deduction. In a RDA, only residential property qualifies.

The abatement takes the form of a deduction from the assessed value of the property. The amounts and schedules depend on the nature of the property and the type of designated area.

- In the case of a RDA, abatement is granted for 1 to 5 years, and the deduction is for the full assessed value of the improvement, subject to dollar caps depending on type of dwelling (e.g. \$36,000 for a one family dwelling, \$51,000 for a two family dwelling, etc.)
- In the case of any other ERA, abatement is granted for 1-10 years and the deduction is for a specific percentage of the increase in the assessed value resulting from the

rehabilitation or redevelopment. In the first year such percentage is always 100%, and thereafter the percentage decreases roughly at a constant rate. The percentage can be calculated exactly or approximately, depending on the case, by dividing the year of the deduction over the total amount of years in the abatement award.

Clearly, the abatement is limited to the increase in value generated by the investment.

#### 5. Abated personal property.

Personal property means personal property other than inventory. Moreover, the abatement applies solely to new manufacturing equipment and new research and development equipment. Therefore, personal property used for industrial purposes is the main if not sole object of the abatement. The abatement is granted for 1-10 years and the deduction is for a specific percentage of the assessed value of the equipment. The schedule is the same as for real property in an ERA, other than an RDA.

#### 6. Who bears the cost?

Abatements are awarded by fiscal bodies (county council, city council, town boards) and affect the base of any taxing unit with jurisdiction to tax the property. The full weight of the abatement is absorbed at the local level. The state government does not absorb any part of it. There is a small statewide levy but this is not affected by the abatement, nor does the state reimburse local jurisdictions for revenue losses.

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## **Iowa**

### **Links:**

DOR & Finance Web Site

<http://www.state.ia.us/tax>

Booklet on Property Tax

<http://www.state.ia.us/tax/educate/78573.html>

Iowa Code (click on 2001)

<http://www.legis.state.ia.us/Code.html>

Chapter 404. Urban Revitalization Exemption

<http://web.legis.state.ia.us/IACODE/2001/404/>

Chapter 427B (Value Added Exemption)

<http://web.legis.state.ia.us/IACODE/2001/427B/>

### **Contacts:**

Jim Moyle

[Jim.Moyle@idrf.state.ia.us](mailto:Jim.Moyle@idrf.state.ia.us)

### **A. Introduction**

The State of Iowa has two stand-alone property tax abatement programs:

1. The Urban Revitalization Tax Exemptions (UR) under Chapter 404 of the Iowa Code, and
2. The Industrial Property And Cattle Facilities Actual Value Added Exemption (VAE) under Chapter 427B of the Iowa Code.

By stand-alone we mean programs where property tax abatements are, or could be, the sole policy tool.

### **B. Process of granting property tax abatements (formal)**

The state of Iowa has a local, discretionary process.

1. Designation of a revitalization or redevelopment area.

#### UR

The governing body of a city or of the county (for an area outside a city) finds that revitalization is necessary, holds a hearing, proposes and approves a revitalization plan and, by ordinance, designates a revitalization area.

#### VAE

No specific area is designated. However, the city council or a county board of supervisors issues an ordinance for partial exemption to industrial real estate, research service

facilities, warehouses, distributions centers, the acquisition of or improvement to machinery and equipment assessed as real estate, and owner operated cattle facilities.

2. Formulation and adoption of a tax abatement agreement.

UR

A person submits a proposal for an improvement project to the governing body to receive prior eligibility approval if the project conforms to the revitalization plan. However, the owner is only entitled to the exemption after the improvements have been completed and verified to be qualified real estate.

VAE

Owner files an application for each eligible project, which the city council or the county board of supervisors may approve after conducting a hearing.

3. Implementation, oversight and evaluation.

UR

The local assessor makes a physical review of the property to determine that the required increases in value have been made. There is a first year review and subsequent periodic reviews

The governing body, after deciding when the desired level of revitalization has been attained, repeals the ordinance establishing a revitalization area.

VAE

The governing body or board of supervisors, after deciding when the ordinance ceases to be of benefit to the city or county, repeals the ordinance allowing the exemption.

4. Termination, claw-back or sunset provisions.

UR

No provisions were found regarding these issues.

VAE

Termination. If the property ceases to be classified as industrial property, warehouse, etc. the partial exemption shall not be allowed in subsequent years.

**C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

NO.

2. What is the purpose of the property tax abatement?

Economic redevelopment generally.

3. Is there a requirement or condition to attain the property tax investment?

UR

Basic requirement is to increase value (as a result of making improvements) by a given percentage. The default percentages are fifteen percent and ten percent (for residential property). If the percentage is not reached the property will not qualify for the exemption.

VAE

Only the construction of the project is required. A minimum percentage of values added is not required.

4. Abated real property, including schedule, caps, and other specifics.

UR

The abatement is on assessed value, but only of the value increase. Abated property may be residential, commercial, industrial or agricultural. Qualified real estate does not include land. The owner can elect between different schedules:

Type of property	Exemption schedule	Duration
Residential	115% of value added (VA). However, value added used to calculate the exemption cannot exceed \$20,000 dollars.	10 years
All	80% of VA in year 1, 70% in year 2, (...), 20% in year 10.	10 years
All	100% of VA.	3 years
Residential and certain commercial	100% of VA.	10 years
Residential	Exemption on the first \$75,000 dollars of VA.	5 years.

VAE

Abated property may be industrial (mostly), commercial or cattle. The exemption is awarded for five years according to the following schedule:

Year	Percentage of Exempt VA
1	75%
2	60%

3	45%
4	30%
5	15%

5. Abated personal property.

NA.

6. Who bears the cost?

The cost of the abatement is borne exclusively at the local level, by all overlapping taxing units or districts. According to US Census Bureau the state does not collect a property tax and therefore is not affected by the abatement.



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## **Kansas**

### **Links:**

Kansas State Constitution

[http://skyways.lib.ks.us/kansas/KSL/Ref/GovDocs/Kan/State\\_Const/ks\\_const.html](http://skyways.lib.ks.us/kansas/KSL/Ref/GovDocs/Kan/State_Const/ks_const.html)

Kansas Statutes

<http://www.kslegislature.org/cgi-bin/statutes/index.cgi>

**Summary of tax incentives**

[http://www.ksrevenue.org/property\\_tax.htm](http://www.ksrevenue.org/property_tax.htm)

### **Contacts:**

Kathleen Smith

[Kathleen\\_Smith@kdor.state.ks.us](mailto:Kathleen_Smith@kdor.state.ks.us)

Laura Johnson

[Laura\\_Johnson@kdor.state.ks.us](mailto:Laura_Johnson@kdor.state.ks.us)

### **A. Introduction**

The State of Kansas has a stand-alone property tax abatement program for economic development purposes under Article 11 section 13 of the Kansas State Constitution and several provision of the Kansas Statutes. By stand-alone we mean programs where property tax abatements are, or could be, the sole policy tool.

We do not consider the “industrial revenue bond exemption” here because it is more a tax increment financing (TIF) mechanism than a stand-alone property tax abatement program.

### **B. Process of granting property tax abatements (formal)**

The state of Kansas has a joint state/local discretionary award process.

1. Designation of a revitalization or redevelopment area.

No specific area as such is designated but the board of county commissioners or the governing body of any city must develop and adopt official policies and procedures for the granting of the exemptions.

2. Formulation and adoption of a tax abatement agreement.

Owner files an initial request for exemption. The county appraiser reviews (may conduct a hearing), issues a recommendation and turns the request over to the state board of tax appeals, which may conduct another hearing and award or not the exemption. A cost

benefit analysis, including the effect of the exemption on state revenues must also be conducted.

### 3. Implementation, oversight and evaluation.

A procedure to monitor compliance of the awardee with any conditions established in the award must be established. Every year a claim for the exemption must be filed, accompanied by a letter from the assessing officer stating that the property continues to meet all terms and conditions established. No specific provision for evaluation was found.

Under K.S.A. 79-210, an annual filing with the county appraiser is required in March each year. The Division of Property Valuation has issued a uniform “annual claim” form the locals use for this purpose. It requires certain information to be reported; such as, the list of property exempted by BOTA and a list of all property as of the most recent January 1 (assessment date). The forms are ultimately submitted to the Division of Property Valuation. The forms are compiled and reported to the legislature and the governor annually.

K.S.A. 79-210 (and the aforementioned “annual claim” form) further require the clerk of the city or county originally approving exemption to submit a written statement as to whether the property continues to meet all the terms and conditions of exemption. The county appraiser has the statutory duty to list all taxable property in the jurisdiction. When in doubt, the county appraiser must construe in favor of taxation. Directive 92-025. Thus, when it is questionable whether property continues to qualify for exemption, the matter is forwarded to the Kansas Board of Tax Appeals (a quasi-judicial state agency) for consideration.

### 4. Termination, claw-back or sunset provisions.

Termination. When the property ceases to be used for the exempt purpose, the proprietor must notify or face penalties for late filing of statements.

Claw-back. If terms and conditions of award are not met, prior tax years can be put back on the tax rolls.

No sunset provision was found.

See effects of the annual claim required by K.S.A. 79-210 above, which is a mechanism for reviewing/enforcing the terms and conditions the locals imposed upon exemption on an annual basis.

Also, K.S.A. 79-214 requires the owner of exempt property to report to the county appraiser whenever the property ceases to be used for exempt purposes, or be subject to penalties. Every Kansas Board of Tax Appeals order issued on exemption contains this

language as well. Prior tax years can be placed on the tax rolls (see, e.g., K.S.A. 79-1702, K.S.A. 79-1475, K.S.A. 79-1427a).

### **C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

YES.

Personal property is taxed in Kansas (K.S.A. 79-101, 102). However, personal property in addition to real property may receive an economic development exemption under Article 11, Section 13 of the Kansas Constitution and K.S.A. 79-201a Second.

2. What is the purpose of the property tax abatement?

Economic redevelopment generally.

3. Is there a requirement or condition to attain the property tax investment?

New business or expansion of existing business that creates new employment. The property must also be used exclusively for the following purposes:

- Manufacturing articles of commerce
- Storage of goods or commodities sold in interstate commerce
- Conducting research and development

4. Abated real property, including schedule, caps, and other specifics.

The abatement is on assessed value (an exemption) and it includes land. According to the language, the property can be industrial and commercial though not all manufacturing and commercial property would receive the benefit. Poultry and rabbit confinement facilities and swine production facilities are excluded from the benefit. The specific amount of the exemption is established in the award but can range from 100% of total value of buildings, land and personal property associated therewith [note “property” in Kansas refers to real and personal property. See K.S.A. 79-102]} hereunder, to some fraction thereof. The abatement cannot exceed ten years.

BOTA (the Kansas Board of Tax Appeals) has repeatedly held that motor vehicles do not qualify for exemption under Article 11, Section 13. I have several BOTA docket no.’s if needed. Two chief reasons are generally given: (1) vehicles are viewed as being used for delivery purposes, not for manufacturing or storing goods shipped in interstate commerce. (2) The language in the Kansas Constitution envisions the personal property would be closely connected to the real property, not subject to travel off premises or a variety of nonexempt uses.

5. Abated personal property.

Personal property can also be abated in the same way as real estate.

#### 6. Who bears the cost?

In terms of revenue losses, the cost of the abatement is borne both at the state (the state does receive property tax revenues) and local levels of government, by any overlapping taxing unit or district, with one exception (see KDOR comments).

There are a few statewide mill levies. 20 mills for schools (72-6431), and a total of 1.5 mills for state buildings (located throughout Kansas) (76-6b01, 6b04, 6b09).

Actually, the property tax revenue for a school district can be affected by a property tax exemption granted pursuant to Article 11, Section 13 of the Kansas Constitution or K.S.A. 79-201a Second. Only when the locals are considering exempting property under Article 11, Section 13 and it is located within a redevelopment district established pursuant to K.S.A. 74-8921 is the ad valorem property tax levied by or on behalf of a school district protected by law. (K.S.A. 79-252a).

There is nothing provided in the statute to indicate that the state reimburses local governments in any way for revenue losses.

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## Kentucky

### Link:

Kentucky Revised Statutes: <http://162.114.4.13/KRS/TITLES.HTM>

### Contact:

POC: Steve Jones

[rsjones@mail.state.ky.us](mailto:rsjones@mail.state.ky.us)

## A. Introduction

In the State of Kentucky, property taxes are levied by state government as well as local government. Moreover, some items are taxed by the state government only. As an example, manufacturing machinery and raw materials and products in the course of manufacture are exempted from local property taxes, but still state property taxes are levied. For the economic development purposes, State government actively utilizes sales/use tax and income tax credits, and industrial revenue bonds (KRS 103.200). In terms of property tax incentives, there are three programs in Kentucky: City tax exemption (KRS 92.300), Moratorium of property assessment (KRS 99.600), and Enterprise Zone program (KRS 154-subchapter 45).

## B. Process of granting property tax abatements (formal)

1. Designation of a revitalization or redevelopment area.

### KRS 92.300

Area is not designated.

### KRS 99.600

Area is not designated.

### Enterprise Zone

- After the designation of an area as the economically depressed area by local government, it can apply to the Enterprise Zone Authority of Kentucky for designation of the area as an enterprise zone.

2. Formulation and adoption of a tax abatement agreement.

### KRS 92.300

- Any city, except 1<sup>st</sup> class city (Louisville, Jefferson county) may grant city property tax exemption by ordinance.

KRS 99.600

- Any local government can establish a program granting property assessment or reassessment moratorium for existing properties.

Enterprise Zone

- No agreement. Local government may levy ad valorem tax rate of one-tenth of one cent (\$0.001) on each \$100 value on qualified property, regardless of regular tax rate.

3. Implementation, oversight and evaluation.

KRS 92.300

- Details shall be determined by ordinance of each local government

KRS 99.600

- When the project is completed, administering agency shall do on-site inspection to verify the application. Moratorium certificate shall be issued only after the completion.

Enterprise Zone

- Enterprise Zone Authority shall establish administrative regulations
- The authority shall aggressively review local incentives annually

4. Termination, claw-back or sunset provisions.

KRS 92.300/ KRS 99.600

- Nothing is specified

Enterprise Zone

- Although there are provisions related to the revoke of designation, no provision related to the local incentives is provided (termination, clawback, sunset)

**C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

Yes. (Intangible personal property is also taxed)

2. What is the purpose of the property tax abatement?

- KRS 92.300: “to induce business location in the city”
- KRS 99.600: “to encourage the repair, rehabilitation, restoration or stabilization of existing improvements.”
- Enterprise Zone: “revitalization of the economically depressed area”

3. Is there a requirement or condition to attain the property tax investment?

KRS 92.300

- Details shall be determined by ordinance of each local government

KRS 99.600

- The applicant should complete the improvement in 2 years.

Enterprise zone

- To get tax advantages in an enterprise zone, a qualified business maintains the percentage of targeted workforce employees for the entire time it is certified as a qualified business in the zone

4. Abated real property, including schedule, caps, and other specifics.

KRS 92.300

- Maximum period is 5 year
- Details shall be determined by ordinance of each local government

KRS 99.600

- Residential/Commercial property that is 25(or more) years old
- Maximum moratorium period is 5 year

Enterprise zone

- Qualified property within an enterprise zone (No more specification)
- Local property tax incentive will be granted by an act

5. Abated personal property.

KRS 92.300

- Details shall be determined by ordinance of each local government

KRS 99.600

- No personal property

Enterprise zone

- Same above

6. Who bears the cost?

Local government

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## Louisiana

### Links:

Page on Business Tax Incentives

<http://www.lded.state.la.us/new/tbi.htm>

### Contacts:

John Jernigan (for the Industrial Property Tax Exemption)

[jernigan@mail.lded.state.la.us](mailto:jernigan@mail.lded.state.la.us)

225/342-5254

Bob Berling (for the Restoration Tax Abatement)

[Berling@lded.state.la.us](mailto:Berling@lded.state.la.us)

225/342-5401

### A. Introduction

Louisiana has two stand-alone property tax abatement programs:

- a. The Industrial Property Tax Exemption (IPTE), under article VII(PART II)(21)(F) of the Louisiana Constitution and the rules issued pursuant to this article, and
- b. The Restoration Tax Abatement Program (RTAP), under article VII(PART II)(21)(H) of the Louisiana Constitution and Title 47(V)(4)(4311) of the Louisiana Revised Statutes.

By stand-alone we mean programs where property tax abatements are, or could be, the sole policy tool.

### B. Process of granting property tax abatements (formal)

Louisiana has a state, discretionary awarding process in the case of the ITEP and a joint state/local discretionary awarding process in the case of the RTAP.

1. Designation of a revitalization or redevelopment area.

#### IPTE

A specific area is not designated.

#### RTAP

Exemption applies to property located in certain areas (downtown, historic or economic development districts) but these areas are established under statutory provisions independent of this exemption.

2. Formulation and adoption of a tax abatement agreement.



### IPTE

Owner files an “advanced notification of intent to apply” and then an application. The State Board of Commerce and Industry and then the Governor must approve the application.

### RTAP

The local governing authority conducts a hearing and approves or disapproves the application. If approved at the local level, the Department of Economic Development, the State Board of Commerce and Industry and the Governor must successively approve it also at the state level.

### 3. Implementation, oversight and evaluation.

#### IPTE

Oversight. Board has full investigation powers to oversee compliance to established terms and conditions. Owner must report any change in operations, transfers of property and present an affidavit of final cost.

No provisions found on evaluation, but this appears to be performed because documents sent by the State of Louisiana assess the effectiveness of the program in terms of jobs created, etc.

#### RTAP

There are several oversight provision, but no provision on evaluation.

### 4. Termination, claw-back or sunset provisions.

#### IPTE and RTAP

Board can restrict or cancel the exemption in case of noncompliance. No claw-back/recapture provision. No sunset provision either.

## **C. Eligibility and scope of the property tax abatement (substance)**

### 1. Is personal property taxed?

YES.

### 2. What is the purpose of the property tax abatement?

Economic development (IPET) and redevelopment (RTAP) generally.

### 3. Is there a requirement or condition to attain the property tax investment?

### IPTE

The construction of a new manufacturing establishment or an addition to an existing manufacturing establishment.

### RTAP

Expansion, restoration, improvement and development of existing commercial structures and owner-occupied residences in downtown, historic and economic development districts.

4. Abated real property, including schedule, caps, and other specifics.

### IPTE

The abatement applies only to industrial property. The exemption does NOT apply to land, and applies to 100% of the value added or improvements for a maximum period of ten years (5 renewable for another 5). The abatement is an exemption, i.e. an exclusion of the assessed value of the new investment from the tax base for the awarded period. The original cost of items being replaced must be subtracted from the application amount.

### RTAP

The abatement applies only to commercial and residential property. The abatement is on assessed value and consists of freezing the base for a maximum of ten years (5 renewable for another 5). In the case of residential property, the rehabilitation cost must be at least 25% of the assessed valuation of the improvements located on the property for the year prior to the commencement of the project (Not applicable to land).

5. Abated personal property.

### IPTE

The abatement includes personal property and is treated the same as real estate. Inventories are excluded.

### RTAP

The RTAP applies only to real estate. Equipment is included only when it becomes an integral part of the structure.

6. Who bears the cost?

### IPTE and RTAP

The cost of the abatement in terms of revenue loss is borne by all overlapping local taxing units or jurisdictions, including school districts.

There is no sign of state reimbursement to localities. Statewide levy is not affected.

The IPTE program can be applied for with either an advance form before the project or as a compilation of miscellaneous capital additions (MCA) with a total of 5 million or

less post marked no later than March 31st of the year following the year of the MCA. Both personal and real property (Less Land) which stays on the manufacturing site is eligible for exemption. A very important feature of the program is "job retention". In some cases, a company has a choice of either updating a manufacturing process and staying competitive or going out of business. Also, there are many people living in Louisiana who make a living as construction workers. These last two issues fail to be noticed by many of the critics of the program. Lastly, the local parishes are the ones which lose the property taxes when the exemptions are granted. For the most part, the Assessors endorse the program.

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## Maine

### Link:

Maine Revised Statutes

Title 5: Administrative Procedures and Services, Part 18-1: Economic and Community Development

Chapter 383: Economic and Community Development

<http://janus.state.me.us/legis/statutes/5/title5sec13070-J.html>

Title 36: Taxation, Part 9: Taxpayer Benefit Programs

Chapter 915: Reimbursement for Taxes Paid on Certain Business Property:

<http://janus.state.me.us/legis/statutes/36/title36ch915sec0.html>

### Contact:

POC: Winfield S. Smyth

[Winfield.S.Smyth@state.me.us](mailto:Winfield.S.Smyth@state.me.us)

## A. Introduction

Any business in the state of Maine should pay local property tax for their properties. However, the state government provides stand-alone state tax incentive on qualified business properties through Business equipment property tax reimbursement (BETR) program.

## B. Process of granting property tax abatements (formal)

Maine has a state, as-of-right award process.

1. Designation of a revitalization or redevelopment area.

Area is not designated. This is a statewide program.

2. Formulation and adoption of a tax abatement agreement.

A person entitled to reimbursement may file a claim with the State Tax Assessor. Before that, a taxpayer must notify the assessor(s) of that taxing jurisdiction. If claimed amount is different from the statement provided by assessor(s), then State Tax Assessor will determine.

3. Implementation, oversight and evaluation.

- Implementation

If reimbursement claim is proper and processed in time, the State Tax Assessor shall certify that claimant is eligible, and shall pay the amount from the General Fund.

- Oversight

The State Tax Assessor has the authority to audit any claim.

Annually, the taxpayer should report carrying information such as the amount of incentive, number, type, wage level of jobs created as a result of the incentive to the Commissioner of Economic Development.

- Evaluation

Annually, the State Tax Assessor should report the amount of revenue foregone to the Legislature and the Economic Development Incentive Commission.

4. Termination, claw-back or sunset provisions.

- If the taxpayer failed to do annual report, the Department of Economic and Community Development shall notify the State Tax Assessor. Then, the State Tax Assessor shall withhold reimbursement.

- No provision on “clawback” and “sunset.”

**C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

Yes.

2. What is the purpose of the property tax abatement?

The purpose is to encourage capital investment in the State of Maine to promote the general welfare of the people of the State.

3. Is there a requirement or condition to attain the property tax investment?

- The property should be under productive operations on April 1<sup>st</sup> of each year, and under productive operations for at least 12 months.
- The property should be used exclusively for business (including inventory)

4. Abated real property, including schedule, caps, and other specifics.

Only tangible personal property can be qualified for reimbursement.

5. Abated personal property.

- Reimbursement can go up to 12 property tax years.
- Reimbursement cannot be granted with other tax credits for the same property.

6. Who bears the cost?

State government. Reimbursement is paid from the General Fund.

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## Maryland

### Link:

Maryland Code (LexisNexis)

<http://198.187.128.12/maryland/lpext.dll?f=templates&fn=fs-main.htm>

### Statewide Mandatory

- Enterprise Zone  
Maryland Code Article 83A, Title 5, Subtitle 4, §5-401 ~405  
Maryland Code Tax-Property, Title 9, Subtitle 1, §9-103

### Statewide Optional

- Restorations and rehabilitations of historic or heritage properties  
Maryland Code Tax-Property, Title 9, Subtitle 2, §9-204.1
- Manufacturing, fabricating, or assembling facilities  
Maryland Code Tax-Property, Title 9, Subtitle 2, §9-205
- Newly constructed or substantially rehabilitated dwellings that are unsold or unrented  
Maryland Code Tax-Property, Title 9, Subtitle 2, §9-207  
Maryland Code Tax-Property, Title 9, Subtitle 2, §9-401 (Baltimore city)
- Business personal property that is computer software  
Maryland Code Tax-Property, Title 9, Subtitle 2, §9-227
- Commercial or residential building in eligible area undergoing renovations for accommodating advanced computer and telecommunications system  
Maryland Code Tax-Property, Title 9, Subtitle 2, §9-228
- Businesses that create new jobs  
Maryland Code Tax-Property, Title 9, Subtitle 2, §9-230
- Vacant and underutilized commercial buildings  
Maryland Code Tax-Property, Title 9, Subtitle 2, §9-234
- Rehabilitated property  
Maryland Code Tax-Property, Title 9, Subtitle 2, §9-236

### Contact:

POC: Stacey, Kubofcik

[skubofcik@choosemaryland.org](mailto:skubofcik@choosemaryland.org)

## A. Introduction

State of Maryland has two types of property tax abatement programs. One is statewide mandatory program, and the other is statewide optional program. Mandatory one is a part of Enterprise Zone incentive program, and the others are stand-alone property tax incentive programs.

## B. Process of granting property tax abatements (formal)

## 1. Designation of a revitalization or redevelopment area.

### Enterprise zone

- With the application of any political subdivision, the Secretary of Business Economic Development may designate an area as the enterprise zone.
- The application should contain information about (1) sufficient information for the Secretary to determine; (2) whether the feasibility of educational/training opportunities are examined; (3) standards to be complied as a precondition of incentive.
- Requirements of designation as an enterprise zone are that (1) the area's average rate of unemployment for the recent 18 months should be at least 150% average rate of unemployment of the other Maryland region or the US; (2) at least 70% of family in the area has less income than 80% of median family income; (3) population in the area is decreased by 10% from the previous census.
- Requirements for "Focus Area" are that (1) unemployment rate should be 150% of the other Maryland or the US; (2) 150% of national average incidence of poverty in the area; (3) 150% of crime rate in the applying political subdivision; (4) 200% of substandard housings rate in the area.

### Restorations and rehabilitations of historic or heritage properties

- Area is not designated.

### Manufacturing, fabricating, or assembling facilities

- Area is not designated.

### Newly constructed or substantially rehabilitated dwellings that are unsold or unrented

- Area is not designated.

### Business personal property that is computer software

- Area is not designated.

### Commercial or residential building in eligible area undergoing renovations for accommodating advanced computer and telecommunications system

- A governing body can designate an area if the area is eligible for designation of Neighborhood Business Development Program area(Article 83B, §§4-201~209).

### Businesses that create new jobs

- Area is not designated.

### Vacant and underutilized commercial buildings

- Area is not designated.

### Rehabilitated property

- Area is not designated.

## 2. Formulation and adoption of a tax abatement agreement.

### Enterprise zone

- Any business entities locating within an enterprise zone after the designation and meeting the requirements may benefit from the incentives

### Restorations and rehabilitations of historic or heritage properties

- Methods and procedures shall be determined by the applicable local government

### Manufacturing, fabricating, or assembling facilities

- Appropriate governing body may adopt rules and regulations by law

### Newly constructed or substantially rehabilitated dwellings that are unsold or unrented

- Appropriate governing body may adopt rules and regulations by law

### Business personal property that is computer software

- Appropriate governing body may adopt rules and regulations by law

### Commercial or residential building in eligible area undergoing renovations for accommodating advanced computer and telecommunications system

- Appropriate governing body may adopt rules and regulations by law

### Businesses that create new jobs

- A business shall provide written notification of job creation to the county or municipal corporation
- The county or municipal corporation shall certify that the business meets the conditions to SDTA and the Department of Business and Economic Development

### Vacant and underutilized commercial buildings

- Appropriate governing body may adopt rules and regulations by law

### Rehabilitated property

- The methods and procedures to implement the program shall be determined by the applicable local government.

## 3. Implementation, oversight and evaluation.

### Enterprise zone

- Implementation: A political subdivision may certify that the respective business entities are in compliance with the standards. A political subdivision may request the Secretary to designate all or part of an enterprise zone as a focus area up to 5 years.



- Evaluation: Annually, Department of Business and Economic Development and Comptroller of the Treasury shall jointly assess the effectiveness of the tax credits, and report to the Governor and the General Assembly.

Restorations and rehabilitations of historic or heritage properties

- Determined by local government

Manufacturing, fabricating, or assembling facilities

- Each governing body granting property tax credit shall submit to Department a copy of the law.

Newly constructed or substantially rehabilitated dwellings that are unsold or unrented

- Determined by local government

Business personal property that is computer software

- Determined by local government

Commercial or residential building in eligible area undergoing renovations for accommodating advanced computer and telecommunications system

- Before the construction, the county or municipal corporation shall review the renovation plan to see whether it fits to the EIA/TIA industry standard
- During the construction, the county or municipal corporation shall monitor the implementation

Businesses that create new jobs

- Each county or municipal corporation shall report the amount and duration of the tax credit to SDTA, Department of Business and Economic Development, and the Comptroller
- Program details are determined by local government

Vacant and underutilized commercial buildings

- Determined by local government

Rehabilitated property

- Determined by local government

4. Termination, claw-back or sunset provisions.

Newly constructed or substantially rehabilitated dwellings that are unsold or unrented

- *Termination/Claw-back*: If a recipient fails to comply with the provisions of this program, the property tax credit shall be forfeited
- No *sunset* provision

Businesses that create new jobs

- *Termination/Claw-back*: If the employment level and/or square footage of the business entity fail to satisfy the premises for 3 succeeding years.

- No *sunset* provision

All other programs

- No provisions for termination, claw-back, or sunset.

**C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

Yes.

2. What is the purpose of the property tax abatement?

Economic development (“to facilitate the attraction, creation, expansion and retention of business and jobs in Maryland” Article 83A Title 5, §5-101; stimulate the positive aspects of historic or heritage preservation, such as economic development and employment opportunities)

3. Is there a requirement or condition to attain the property tax investment?

Enterprise zone

- The business entity should create new or additional jobs or make a capital investment (No specification is provided.)

Restorations and rehabilitations of historic or heritage properties

- The property should be listed individually on the National Register of Historic Places, or a national register historic/landmark district; or designated as a historic property under local law.

Manufacturing, fabricating, or assembling facilities

- Locate and Expand or Develop a new product or industrial process

Newly constructed or substantially rehabilitated dwellings that are unsold or unrented

New construction or substantial rehabilitation

- Fail to be sold or rented

Business personal property that is computer software

- Computer software

Commercial or residential building in eligible area undergoing renovations for accommodating advanced computer and telecommunications system

- Renovation should meet the industry standard for advanced computer and telecommunications system, such as fiber-optic cable, emergency electrical capacity, etc.

Businesses that create new jobs

- Obtain at least 5,000 square feet of new or expansion premise; employ at least 25 individuals for permanent full-time job. In a county with a population under 30,000 : employ at least 10 individuals
- To get *enhanced* credit, obtain at least 250,000 square feet of new or expansion premise ; retain 2,500 jobs and create at least 500 new permanent full time jobs or create 1,250 new permanent full time jobs. The business should be engaged in manufacturing or mining ; transportation or communication ; agriculture, forestry, or fishing ; central financia, real estate, or insurance service ; biotechnology or computer technology ; etc.

Vacant and underutilized commercial buildings

- Previously built for office, industrial, or commercial purpose, but renovated for housing purpose

Rehabilitated property

- Local government shall determine details

4. Abated real property, including schedule, caps, and other specifics.

Enterprise zone

- Real property which is not used for residential purposes can be qualified.
- Property tax credit amount shall be 80%(1~5 taxable years), 70%(6<sup>th</sup> year), 60%(7<sup>th</sup> year), 50%(8<sup>th</sup> year), 40%(9<sup>th</sup> year), and 30%(10<sup>th</sup> year) of amount of property tax imposed.
- In “Focus Area”, amount shall be 80% of property tax imposed for entire period, up to 5 years.
- State property tax imposed on real property is not affected.

Restorations and rehabilitations of historic or heritage properties

- Do not exceed 10 years
- Amount would not exceed different between before/after the improvement

Manufacturing, fabricating, or assembling facilities

- Up to 100% of the county or municipal corporation property tax
- Duration shall be determined by the local government

Newly constructed or substantially rehabilitated dwellings that are unsold or unrented

- Do not exceed 100% of the county or municipal corporation property tax
- Residential or Commercial property (Land is excluded)
- Maximum 1 year

Business personal property that is computer software

- No

Commercial or residential building in eligible area undergoing renovations for accommodating advanced computer and telecommunications system

- Commercial or residential building (Land is excluded)
- Amount of credit shall not exceed the lesser of 10% or renovation cost and the county or municipal property tax
- Maximum period is 10 years

Businesses that create new jobs

- 1<sup>st</sup> ~ 2<sup>nd</sup> year : 52% of the property tax leviable to the assessed value increment shall be credited  
3<sup>rd</sup> ~ 4<sup>th</sup> year : 39%  
5<sup>th</sup> ~ 6<sup>th</sup> year : 26%  
Thereafter, 0%
- In case of enhanced credit, 58.5% of the property tax for assessed value increment shall be credited for 12 years

Vacant and underutilized commercial buildings

- Local government will specify details

Rehabilitated property

- Maximum period is 10 years
- Property tax credit amount cannot exceed the amount of increase due to the increased assessed value

5. Abated personal property.

Enterprise zone

- No. But, in "Focus Area", personal property on real property can be counted as qualified property for credit.

Restorations and rehabilitations of historic or heritage properties

- Same as above

Manufacturing, fabricating, or assembling facilities

- Same as above

Newly constructed or substantially rehabilitated dwellings that are unsold or unrented

- No

Business personal property that is computer software

- Property tax credit up to 100% of the county or municipal property tax
- Duration and details shall be determined by the appropriate local government

Commercial or residential building in eligible area undergoing renovations for accommodating advanced computer and telecommunications system

- No

Businesses that create new jobs

- Same as above

Vacant and underutilized commercial buildings

- No

Rehabilitated property

- No

6. Who bears the cost?

Enterprise zone

The state shall remit to each county or municipal corporation an amount equal to one half of the funds that would have been collected if the property tax credit had not been granted.

All the other local optional programs

Local government

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## Michigan

### Links:

The General Property Tax Act

<http://www.michiganlegislature.org/law/getObject.asp?objname=Act-206-of-1893&objType=statute>

The Michigan Renaissance Zone Act

<http://www.michiganlegislature.org/law/GetObject.asp?objName=Act-376-of-1996&queryid=2035341>

The Obsolete Property Rehabilitation Act

<http://www.michiganlegislature.org/law/GetObject.asp?objName=Act-146-of-2000&queryid=2035348>

Downtown Development Authority

<http://www.michiganlegislature.org/law/GetObject.asp?objName=Act-197-of-1975&queryid=2035396>

Commercial Housing Facilities Exemption Certificates

<http://www.michiganlegislature.org/law/GetObject.asp?objName=Act-438-of-1976&queryid=2035395>

Summary on renaissance zones

<http://medc.michigan.org/services/sitedevelopment/renzone/>

Summary of tax abatements

<http://medc.michigan.org/services/sitedevelopment/combo.asp?ContentId=94E06760-B793-4687-BCDE-9639CBAE6BDC&QueueId=1&ContentTypeId=10002>

Plant Rehabilitation and Industrial Development Districts (Act 198 of 1974)

<http://www.michiganlegislature.org/law/GetObject.asp?objName=Act-198-of-1974&queryid=2036684>

Administrative rules related to the Plant Rehab Act (go to part 5, rules 209.51 and subsequent).

[http://www.state.mi.us/orr/webapp/admincode.asp?AdminCode=Single&Admin\\_Num=20900001](http://www.state.mi.us/orr/webapp/admincode.asp?AdminCode=Single&Admin_Num=20900001)

Enterprise Zone Act

<http://www.michiganlegislature.org/law/GetObject.asp?objName=Act-224-of-1985&queryid=2041330>

### Contacts:

Gary Nelson

[Nelsongl@michigan.org](mailto:Nelsongl@michigan.org)

### A. Introduction

The State of Michigan probably has the widest assortment of interrelated and overlapping economic development programs with or without property tax abatements. We have classified those that do entail property tax abatements as follows:

1. Property tax abatements that can be granted, in addition to other incentives, regarding

- a. Property located in “renaissance zones” established under the Michigan Renaissance Zone Act.
  - b. New business personal property placed in “industrial development districts,” “renaissance zones,” “enterprise zones” and other areas (211.9f)
2. Stand-alone property tax abatement programs for
- a. Industrial and commercial property located in an “enterprise zone” established under the Enterprise Zone Act.
  - b. Commercial (including commercial housing) property located in “obsolete property rehabilitation districts” established pursuant to the Obsolete Property Rehabilitation Act (Act 146 of 2000).
  - c. Industrial property located in “plant rehabilitation” or “industrial development districts” established under Act 198 of 1974.
  - d. Commercial property to which a “commercial housing facilities exemption certificate” is issued, pursuant to Act 438 of 1976, or to which a certificate “may” be issued (section 211.7i). This is not discussed below because it would not add much more to the characteristics of the Michigan property tax abatement programs.

By stand-alone we mean programs where property tax abatements are, or could be, the sole policy tool. It is to these stand-alone programs that we refer in the following sections. Note: commercial housing property is NOT considered residential property but rather commercial.

## **B. Process of granting property tax abatements (formal)**

Michigan has a discretionary award process that is carried out jointly by local and state governments.

### 1. Designation of a revitalization or redevelopment area.

#### Enterprise zone (EZ) created after 1993

A local governmental unit (city, village or township) qualifies to establish an EZ if it has been designated an empowerment zone, a rural enterprise community or an enterprise community by the USDHUD or the USDA. The qualified local governmental unit conducts a public hearing and issues an ordinance establishing the EZ. The Michigan EZ authority must approve the ordinance. Following approval, the local governmental unit must prepare a development plan (physical improvements etc.), which also must go through a public hearing and the approval of the state EZ authority. Approval may be revoked for not complying with the statute.

#### Obsolete Property Rehabilitation Program

A local governmental unit (city, village or township) qualifies if it has a median income 150% below the state median, or if it is a central city, etc. A qualified local governmental

unit, if it has obsolete property, conducts a hearing and establishes an “obsolete property rehabilitation district” (on its own or upon written request of businesses)

#### Plant Rehab and industrial development districts

A local governmental unit (city, village or township), on its own initiative or upon written request from businesses, conducts a hearing and establishes a “plant rehabilitation district” or an “industrial development district.”

2. Formulation and adoption of a tax abatement agreement.

#### Enterprise zone (EZ) created after 1993

The owner or lessee of a facility applies for a certification before the local governmental unit. An ad hoc citizens council and the state EZ authority must approve this certification. The local governmental unit or the state EZ authority may revoke the certification for noncompliance with the statute. The application must contain:

1. General description of the facility and the renovation project.
2. Jobs created and duration of jobs.
3. Amount of investment

Facility means real or personal industrial or commercial property located in an EZ, excluding property used to provide rental housing. A facility is not eligible for certification if it is to be built solely on property that has never had a structure on it.

#### Obsolete Property Rehabilitation Program

The owner of obsolete property files an application for an “obsolete property rehabilitation certificate,” which must contain info similar to that contained by the EZ certification. The local governmental unit grants the certification and the State Tax Commission approves and issues the certificate.

The exemption should not substantially impede the operation of the local government unit or the financial soundness of any overlapping taxing unit. The local governmental unit makes this assessment. However, if the value of the property proposed to be exempt exceeds 5% of the assessed value of the local governmental unit, the state tax Commission makes this determination.

#### Plant Rehab and industrial development districts

The owner or lessee of a facility may file an application for an “industrial facilities exemption certificate,” which must contain info similar to that contained by the EZ certification. The local governmental unit approves the application and the State Tax Commission approves and issues the certificate (with written concurrence of the Department of Consumer and Industry Services). The same 5% rule (see previous section) applies here.

3. Implementation, oversight and evaluation.



#### Enterprise zone (EZ) created after 1993

- Any resident, any business and the authority may allege non-compliance.
- Sunshine provisions
  - (Nothing similar to publishing a list of the authorized deductions, including name of beneficiary, amount and years of the deduction)
- Evaluation
  - Every three years the state EZ authority assesses the economic impacts of each enterprise zone.

#### Obsolete Property Rehabilitation Program

- Sunshine provisions
  - (Nothing similar to publishing a list of the authorized deductions, including name of beneficiary, amount and years of the deduction)
- Evaluation
  - Each year the local governmental unit reports to the State Tax Commission on the status of each exemption (number of retained jobs, number of residents living in renovated housing, etc.). The MI Department of Treasury report annually to the legislature on the utilization of rehabilitation districts.

#### Plant Rehab and industrial development districts

No specific sunshine or evaluation provisions found. There is special concern for the timely completion of large projects (three certificated at different times are issued).

#### 4. Termination, claw-back or sunset provisions.

#### Enterprise zone (EZ) created after 1993

- Revocation
  - The state EZ authority may revoke the EZ ordinance, the development plan, or the business certification.
- Sunset provisions
  - A business may not be certified after six years have passed from the time the first EZ is established in the respective local jurisdiction.
- Claw-back provisions
  - None found.

#### Obsolete Property Rehabilitation Program

- Revocation
  - The local governmental unit may revoke the certification if the facility has not been rehabilitated on schedule or if the holder has not proceeded in good faith in accordance with the statute. The certificate is *de jure* revoked if the substitute tax is not paid.
- Sunset provisions
  - Exemptions cannot be granted after December 31, 2010.
- Claw-back provisions
  - None found.

### Plant Rehab and industrial development districts

- No sunset, no claw-back provisions.
- Revocation
  - The Commission may revoke the certification if (1) construction is not complete on time; (2) the purposes are not being fulfilled, etc. The certificate is *de jure* revoked if the substitute tax is not paid.

### **C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

Yes.

2. What is the purpose of the property tax abatement?

Economic redevelopment in general.

3. Is there a requirement or condition to attain the property tax investment?

### Enterprise zone (EZ) created after 1993

Renovation, alteration, restoration and construction of a facility.

### Obsolete Property Rehabilitation Program

Rehabilitation of obsolete property to an economically efficient condition.

### Plant Rehab and industrial development districts

Rehabilitation of obsolete property to an economically efficient condition or construction of new facilities.

4. Abated real property, including schedule, caps, and other specifics.

### Enterprise zone (EZ) created after 1993

The abatement is in the form of a reduction in the mill rate. Though, technically speaking, one (lower) tax is substituted for the (greater) general tax, the main benefit is a 50% reduction of the rate that is applied to the increase in value of the property for five years from the date of certification (no more, no less). The benefit applies to certified commercial and industrial property. Land is implicitly excluded because the abatement applies only to the increase in value.

### Obsolete Property Rehabilitation Program

The abatement is in the form of a freeze of the base at its pre-certification value for up to 12 years {though, technically speaking, a (lower) tax, called the “obsolete properties tax” is substituted for the (greater) general tax}. If it is less, it can be extended until the sum of abated years reaches 12. It applies to commercial property, including commercial housing property. Land is explicitly excluded.

### Plant Rehab and industrial development districts

Abatement depends on the type of project:

- A “replacement facility” (i.e. a rehabilitated or renovated facility) gets a freeze of the base at the pre-certification value. Technically, a lower “industrial facility tax” is substituted for the general tax.
- “New facilities” or “speculative buildings” (i.e. a new building in search of a user) get, for certificates that become effective after 1993, a reduction of 50% in the total mills (except for the mills of the state education tax). Also takes place as a substitution of taxes.

The general rule with regards to duration of the certificate is no more than 12 years after project completion. There are several rules in place that try to make sure that the replacement or construction phase is done promptly, especially in the case of large projects (>\$150,000,000). Land and inventory are explicitly excluded in both cases.

#### 5. Abated personal property.

##### Enterprise zone (EZ) created after 1993

Personal property is abated in the same fashion as real property.

##### Obsolete Property Rehabilitation Program

Personal property is not abated under this program.

### Plant Rehab and industrial development districts

Personal property is abated in the same fashion as real property. Inventory is explicitly excluded from the abatement.

#### 6. Who bears the cost?

##### Enterprise zone (EZ) created after 1993

Abatements are awarded by local governmental units (city, village or township) and affect the rate of any overlapping taxing unit with jurisdiction to tax the abated property. The full weight of the abatement is absorbed at the local level. The state government does not absorb any part of it (the state education tax is excluded from the abatement).

##### Obsolete Property Rehabilitation Program

Abatements are awarded by local governmental units (city, village or township) and affect the base of any overlapping taxing unit with jurisdiction to tax the abated property, with the following exception: mills levied for school operating purposes are excluded from the benefit. The state government does not absorb any part of it (the state education tax is excluded from the abatement). However, the State Treasurer may include ½ of the mills levied for school operating purposes or ½ of the mills of the state education tax, in which case the state would also absorb part of the cost of the abatement.

### Plant Rehab and industrial development districts

Roughly the same as the two previous cases. With regards to an abatement awarded to a “replacement facility” no taxing unit is omitted from the effects of the abatement, which means that the state loses the revenue that otherwise would have derived from the state education tax. In the case of “new facilities” and “speculative buildings,” mills for school operating purposes and the state education tax are excluded but, as in the case of the previous program, the State Treasurer may include  $\frac{1}{2}$  of the mills in the abatement.

In all of these abatement programs there is an adjustment mechanism established so that abatements do not affect the allocation of state school aid (which is distributed according to property tax mills). The education revenue local units lose when granting abatements is made up by the state in the student foundation grant. The state pays local school districts an equal amount for each student in the district. Thus if a local unit grants an abatement and collects less local revenue for education, the state would make up the difference.

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## Minnesota

### Links:

Minnesota Statutes

<http://www.revisor.leg.state.mn.us/stats/>

Chapter 469. Local Economic Development

<http://www.revisor.leg.state.mn.us/stats/469/>

Section 469.171. State tax Reductions

<http://www.revisor.leg.state.mn.us/stats/469/171.html>

Section 469.43. Exemption for residential redevelopment projects

<http://www.revisor.leg.state.mn.us/stats/469/043.html>

Section 469.1811. Agricultural Processing Facility exemption

<http://www.revisor.leg.state.mn.us/stats/469/1811.html>

Section 469.169. Enterprise zones

<http://www.revisor.leg.state.mn.us/stats/469/169.html>

### Contacts:

Bob Style, Minnesota Department of revenue

[Bob\\_Style@notes.mdor.state.mn.us](mailto:Bob_Style@notes.mdor.state.mn.us)

Bob Isaacson, Director, Analysis and Evaluation Office

MN Dept. of Trade and Economic Development

651-297-3615 (v)

[Bob.Isaacson@state.mn.us](mailto:Bob.Isaacson@state.mn.us)

Louie Jamboise

[louis.jambois@state.mn.us](mailto:louis.jambois@state.mn.us)

651-297-3172

### A. Introduction

Our search has produced six stand-alone property tax abatement programs:

- a. General Abatement Authority (GAA) for political subdivisions, under section 469.1813 of the Minnesota Statutes.
- b. The Economic Development Tax Abatement (EDTA), under section 375.194 of the Minnesota Statutes.
- c. The state paid property tax reduction in enterprise zones (SPPTR), under sections 469.171 and 469.169 of the Minnesota Statutes, primarily.
- d. The redevelopment project exemption (RPE) under section 469.043, and
- e. The agricultural processing facility exemption (APFE), under section 469.1811.

By stand-alone we mean programs where property tax abatements are, or could be, the sole policy tool. There is another program, which we do not expand upon for purposes of brevity, which entails the exclusion of improvements from the base for five years, and a gradual phase out of the program for another five years. This applies to 50 year-old business property, located in small towns, amongst other requisites.

## **B. Process of granting property tax abatements (formal)**

The state of Minnesota has a local, discretionary process in the case of the RPE and the APFE, but has a joint state/local, discretionary abatement awarding process in the case of the SPPTR.

### 1. Designation of a revitalization or redevelopment area.

#### GAA

No specific area is designated.

#### EDTA

No specific area is designated, although the property has to be within miles of the border with another county.

#### SPPR

An enterprise zone must be designated in order to get the property tax abatement, but an enterprise zone is also a requirement to get tax incentives other than property tax incentives. So, the designation of an enterprise zone is independent from the property tax abatement or credit.

In order to establish an enterprise zone, a municipality submits an application to the State Commissioner of Trade and Economic Development. Along with the application, the municipality submits proof of compliance with eligibility criteria, a development plan, other requirements, and the SPECIFIC FORM OF TAX REDUCTIONS that the municipality proposes to be granted to businesses. THE STATE PAID PROPERTY TAX CREDIT is only one option among others that refer to other taxes. After analyzing the needs of the area, the available funds, and consulting with the Department of Revenue and the Legislative Advisory Commission, the Commissioner makes a decision on the creation of the enterprise zone. The amount available to refund revenue losses is capped by the current statute at \$36,400,000 dollars for all enterprise zones and all possible tax reductions.

#### RPE

No specific area is designated for purposes of the exemption, but the exempted property must be located within a “redevelopment project,” which is rather broadly defined in section 469.002.

APFE

No specific area is designated.

2. Formulation and adoption of a tax abatement agreement.

GAA

The governing body of political subdivisions may grant abatements (even without the consent of the property owner), if it expects the benefits to equal or exceed the cost, employment to increase, help redevelop blighted areas, phase in a tax increase, etc. [very broad powers]. The governing body must adopt an abatement resolution.

EDTA

The county board of an eligible county may enter into a written agreement with the taxpayer of eligible property to grant a property tax abatement.

SPPR

Once the Commissioner of Trade and Economic development approves the designation of the enterprise zone and the type of tax incentive to make available therein, the “Commissioner of Revenue implements the tax reductions.” The procedure is unclear in the statute, but apparently the municipality awards a specific abatement to a property owner, and then the Department of Revenue reimburses the municipality for the revenue loss. Abatements, however, are granted within the constraints of available state money to reimburse.

RPE

A developer proposing to construct a building on land located within a redevelopment project applies for the partial exemption. The governing body of the city, hearing the County Board of Commissioners and the School Board, approves the application. The project must conform to the redevelopment plan and meet the housing shortage, and the exemption must be a *conditio sine qua non* for carrying out the project.

APFE

The governing body of a home rule or statutory city may by resolution exempt qualifying property from property taxation. Owner who plans to construct applies for the abatement. The governing body conducts a hearing and decides whether to grant the exemption or not.

3. Implementation, oversight and evaluation.

GAA

No specific provision regarding these issues was found in the statute.

EDTA

No specific provision regarding these issues was found in the statute.

SPPR

No specific provision regarding these issues was found in the statute.

RPE

No specific provision regarding these issues was found in the statute.

APFE

No specific provision regarding these issues was found in the statute.

4. Termination, claw-back or sunset provisions.

GAA

No specific provision regarding these issues was found in the statute.

EDTA

No specific provision regarding these issues was found in the statute.

SPPR

Termination and Claw-back. If an owner ceases to operate the facility, he or her must repay (to the state) the reductions received during the previous two years. No sunset provision.

RPE

No termination, claw-back/recapture or sunset provisions were found in the statute.

APFE

The governing body may revoke the exemption for reason of non-compliance with terms and conditions set forth in the award. No language was found regarding claw-back or sunset provisions.

**C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

NO.

2. What is the purpose of the property tax abatement?

EDTA, SPPR, RPE and APFE

Economic development or redevelopment generally.

GAA

The scope of GAA includes the foregoing but other purposes such as provide access to public services, etc.

3. Is there a requirement or condition to attain the property tax investment?



### GAA

Theoretically many conditions could be established in the contract, but none were found in the statute.

### EDTA

- The average tax rate of the awarding county has to be 45 points greater than the adjacent county, in the initial year of the abatement (some metropolitan areas are excluded).
- Property has to be located within 20 miles of the border with the adjacent lower-rate county.
- The market value of the property has to have increased by \$400,000 (commercial) and \$100,000 (industrial) dollars from improvements made since 1996.

### SPPR

Construction of a new commercial or industrial facility or expansion of existing facility (commercial or industrial).

### RPE

None, other than to construct the proposed building.

### APFE

Construction of an agricultural processing facility. This means land, buildings, structures, fixtures, and improvements used or operated primarily for the processing or production of marketable products from agricultural crops, but not including livestock, poultry or wood.

4. Abated real property, including schedule, caps, and other specifics.

### GAA

The abatement can theoretically apply to any kind of property. It is on taxes owed, and can reduce all or just part of the tax on the parcel, for a maximum period of 10 years. If an overlapping taxing jurisdiction refuses to grant a similar abatement, the maximum period is increased to 15 years. The political subdivision can cap the abatement in different ways (specific amount, to the increases in value, etc).

### EDTA

The abatement applies to commercial and industrial property. It is on taxes owed. The county board specifies a percentage of the maximum annual abatement to be given each year, for a maximum of 10 years. The annual maximum abatement is the difference between the theoretical average tax mills of the owner in both counties.

### SPPR

Abated property is commercial and industrial. Little other details are given other than that the abatement is “for a portion of the property taxes paid.” This seems to suggest that a fraction of the tax bill is abated and that the abatement could theoretically results from

taxes owed on land, and old and new improvements. Tax reduction is given for a term no longer than five years.

RPE

The project must be designed and used primarily for housing/residential purposes. The local governing body may exempt from all local taxes up to 50% of the net tax capacity (concept akin to net assessed value, or the value upon which the rate is applied in order to determine the net tax liability) of the property which represents an increase over the net tax capacity of the property, including both land and improvements, at the time of acquisition for the development. Net tax capacity is the product of the net class rates and market values.

APFE

The abated property is industrial, and the exemption may include the entire market value of the qualifying property, including the land and any improvements existing at the time the exemption is granted, any increases in the value of the land and improvements constructed or attached during the exemption period. Exemption may not exceed ten years.

5. Abated personal property.

N.A.

6. Who bears the cost?

The state does receive property tax revenues.

GAA

The revenue loss is only for the awarding political subdivision, and not for any other overlapping taxing district or unit, local or state.

EDTA

Apparently the revenue loss is only for the awarding county (only the county can award the abatement), and not for any other overlapping taxing district or unit, local or state.

SPPR

The abatement is absorbed at the state level, even though state property tax revenues are not affected (it's a reimbursement of local revenue loss).

RPE

The abatement is absorbed at the local level by all overlapping local taxing units or districts, including school districts. State property tax revenues are not affected.

APFE

The abatement is absorbed by all overlapping jurisdictions, including the state and all local taxing units or districts (please confirm this).

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## Mississippi

### Links:

Ad-Valorem Exemption for New Enterprises (This appears to be outdated)

<http://www.mstc.state.ms.us/taxareas/property/rules/rul10adv.pdf>

MS State Tax Commission Page on Tax Incentives (see property tax exemptions, then industrial exemptions)

<http://www.mstc.state.ms.us/revenue/main.htm>

### Contacts:

Bob Dampeer

Mississippi State Tax Commission/Office of Property Tax

[BDAMPEER@mstc.state.ms.us](mailto:BDAMPEER@mstc.state.ms.us)

(or JmcCain@)

(601) 923-7635

Rita Fisher

Mississippi State Tax Commission/Office of Property Tax

(601) 9237634

### A. Introduction

The State of Mississippi has one stand-alone property tax abatement program for economic development purposes under sections 27-31-7, 27-31-101, 27-31-104, 105 et seq. of the Mississippi Code. By stand-alone we mean programs where property tax abatements are, or could be, the sole policy tool.

### B. Process of granting property tax abatements (formal)

The state of Mississippi has a joint state/local discretionary award process.

1. Designation of a revitalization or redevelopment area.

No specific area as such is designated.

2. Formulation and adoption of a tax abatement agreement.

Owner files an initial request for exemption, itemizing personal property, describing real property and expressing the true value of property. The board of county supervisors or the governing body of any municipality may award the exemption. The application must then be approved by the State Tax Commission, which verifies that the property is eligible, and that the creation and establishment of such industry will promote industrialization, and will supply employment and development. The application goes back again to the board of county supervisors or the governing body of the municipality for final declaration of exemption.

3. Implementation, oversight and evaluation.

No provisions to this effect were found in the statute.

4. Termination, claw-back or sunset provisions.

Termination. If operation of the industry stops for twelve months or more, all un-expired exemptions shall become void. To get them back, the application process must be redone. In addition, if the exemption was obtained by fraud or misrepresentation, or if the industry does not meet the definition of manufacturing industry set forth in the statute, the governing body or the county board must cancel the exemption.

Claw-back or sunset provisions were not found in the statutes.

### **C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

YES.

2. What is the purpose of the property tax abatement?

Economic development generally.

3. Is there a requirement or condition to attain the property tax investment?

An investment requirement of \$100,000,000 for the fee-in-lieu-of-taxes form of abatement.

4. Abated real property, including schedule, caps, and other specifics.

The abatement can only be awarded to the following types of industries:

- Warehouse and distributions centers;
- Manufacturing, processors and refineries;
- Research facilities;
- Corporate regional and national headquarters;
- Movie industry studios;
- Air transportation and maintenance facilities.

{Basically two types: commercial and industrial}

The abatement can take on the following forms:

- a. Abatement on assessed value, and specifically on the value added by investments in the case of new industries or expansion of existing industries. All or a portion of this value added can be exempted for a maximum period of ten years.
- b. Abatement on assessed value, and specifically on the value of the products (including finished goods) owned by the manufacturer, a sub, or a wholeseller, if the goods are located in the locality. (27-31-7). All or a portion of the value can be exempted for a maximum period of ten years.
- c. Abatement on taxes owed in the form of a fee in lieu of taxes. Minimum fee is 1/3 of the theoretical tax bill (including school district property taxes).

#### 5. Abated personal property.

Personal property can also be abated in the same way as real estate.

#### 6. Who bears the cost?

The state does perceive property tax revenues.

The cost (revenue loss) of the abatement is borne by all local overlapping taxing entities, except for school districts. State property taxes are also not affected.

There is nothing provided in the statute to indicate that the state reimburses local governments in any way for revenue losses.

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## Missouri

### Links:

Missouri Revised Statutes (chapter Index)

<http://www.moga.state.mo.us/STATUTES/STATUTES.HTM>

Ch.135. Tax Relief

<http://www.moga.state.mo.us/STATUTES/C135.HTM>

Ch. 137. Assessment and Levy of Property Taxes

<http://www.moga.state.mo.us/STATUTES/C137.HTM>

Information about the Property Tax Credit:

<http://www.dor.state.mo.us/tax/ptc/ptcinfo.htm>

The statute enabling the above credit:

<http://www.moga.state.mo.us/statutes/C100-199/1350020.HTM>

The entire chapter that speaks to tax relief:

<http://www.moga.state.mo.us/statutes/chapters/chap135.htm>

The State Tax Commission, which oversees property tax administration.

<http://dor.state.mo.us/stc/>

Chapter 353 Property Tax Abatement

[http://www.ecodev.state.mo.us/cd/finance/progsheets/pdf\\_summarysheets/353TaxAbatement.pdf](http://www.ecodev.state.mo.us/cd/finance/progsheets/pdf_summarysheets/353TaxAbatement.pdf)

Ch 353. Urban Redevelopment Corporations Law

<http://www.moga.state.mo.us/statutes/chapters/chap353.htm>

Chapter 99. Municipal Housing Authority

<http://www.moga.state.mo.us/statutes/chapters/chap099.htm>

Tax increment financing

<http://www.ecodev.state.mo.us/cd/finance/tif.htm>

Industrial development bonds

<http://www.ecodev.state.mo.us/cd/finance/progsheets/IndustrialDevBonds.html>

### Contacts:

Mike Downing

Department of Economic Development

[mdowning@mail.state.mo.us](mailto:mdowning@mail.state.mo.us)

Department of Economic Development

[ecodev@mail.state.mo.us](mailto:ecodev@mail.state.mo.us)

Kay Dinolfo (only for the property tax credit)

Director of Electronic Communications

Missouri Department of Revenue

[Kay\\_Dinolfo@mail.dor.state.mo.us](mailto:Kay_Dinolfo@mail.dor.state.mo.us)

### A. Introduction

The State of Missouri has two stand-alone property tax abatement programs for economic development purposes:

1. One for enterprise zones (EZ), under section 135.205 et seq. of the Missouri Revised Statutes.
2. The other under the Urban Redevelopment Corporation's Law (URCL).

These will be summarized in the following sections. By stand-alone we mean programs where property tax abatements are, or could be, the sole policy tool.

Missouri has other economic development tools that go beyond the purposes of the present research and are therefore not considered here. These additional programs include the following:

1. Development carried out by a land clearance for redevelopment authority under Chapter 99.
2. The industrial development bonds program,
3. The tax increment financing program, and
4. The Mo property tax credit the objective of which is to lessen the burden of elderly, disabled and veterans.

### **B. Process of granting property tax abatements (formal)**

The state of Missouri has a local process that is both as-of-right (a minimum benefit is assured) and discretionary in the case of the EZ, and discretionary in the case of the URCL.

1. Designation of a revitalization or redevelopment area.

#### EZ

Any governing authority desiring to have any portion of a city or unincorporated area of a county under its control designated as an enterprise zone, shall hold a hearing, and then file a petition before the Department of Economic Development, requesting designation. Final approval from the Joint Committee on Economic Development must be attained. An EZ should be an area of general distress and low income.

#### URCL

The legislative authority of a city designates a blight area

2. Formulation and adoption of a tax abatement agreement.

### EZ

With respect to the discretionary abatement, the owner files an application. The governing authority conducts a hearing (especially to vent the considerations of the other affected political subdivisions), and approves an authorizing resolution.

### URCL

The legislative body of a city authorizes a development plan for the blight area and will then confer upon an urban redevelopment corporation by city ordinance certain powers, duties, immunities and obligations pursuant to the redevelopment plan. These corporations are private but must satisfy special statutory requirements such as that net earnings cannot exceed eight percent per annum of the cost to such corporation of the redevelopment plan, they must serve a public purpose, etc.

### 3. Implementation, oversight and evaluation.

#### EZ

Evaluation. Every five years an evaluation must be made of the activity which has occurred within the zone during the previous five-year period, including investments and the creation of new jobs. This evaluation is presented before the joint legislative committee on economic development policy and planning. If it is found that there has been bad faith; that the zone no longer qualifies under the original criteria; or that development is not being promoted effectively, then the enterprise zone may be cancelled.

#### URCL

The city enters into a development agreement with the developer stipulating certain conditions and time schedules. In the event the developer has not met such conditions, the city has the ability to either cancel the agreement, modify the agreement, or transfer the rights of the agreement to another developer. Also, the developer is limited to a specified return on investment over the term of the abatement.

### 4. Termination, claw-back or sunset provisions.

#### EZ and URCL

No provision regarding these aspects were found in the statute.

### **C. Eligibility and scope of the property tax abatement (substance)**

#### 1. Is personal property taxed?

YES (137.075)

#### 2. What is the purpose of the property tax abatement?

Economic development (EZ) and economic redevelopment (URCL).



3. Is there a requirement or condition to attain the property tax investment?

EZ

The as-of-right/minimum part of the abatement requires that improvements be used for assembling, fabricating, processing, manufacturing, mining, warehousing or distributing properties.

The discretionary abatement requires that, at least, fifty new jobs that provide an average of at least thirty-five hours of employment per week per job be created, and maintained at the new or expanded facility.

URCL

No specific conditions once the project is awarded to a certain corporation.

4. Abated real property, including schedule, caps, and other specifics.

EZ

There are two types of abatement:

- A minimum abatement: “At least 1/2 of the ad valorem taxes otherwise imposed on subsequent improvements (value added) to real property in an EZ shall become and remain exempt from assessment and payment of ad valorem taxes of any political subdivision of this state or municipality thereof for a period of no less than ten years.” The abatement applies only to improvements and not to land. As stated above, it applies to property that could be classified as industrial (including primary activities such as mining) and commercial.

- A discretionary abatement. The statute provides that “improvements made to real property (...) may [by resolution of the governing authority] be exempt, in whole or in part, from assessment and payment of ad valorem taxes of one or more affected political subdivisions.” The abatement implicitly excludes land. The type of property is not specified, though implicitly one concludes that it is only applicable to industrial and commercial property (job creating property).

The discretionary abatement may be added to the minimum/as-of-right abatement where applicable. No exemption shall be granted for more than 25 years.

#### URCL

The abatement applies only to real property. Though the statute does not specify, the abatement appears to be applicable mainly to commercial property.

During the first 10 years (after the corporation takes title to the property) the property is not subject to property taxes (except the land, which will be taxed). During the next 25 years up to 50% of the value of the improvements may be assessed. Hence, the abatement is awarded for a maximum of 25 years.

Payments in lieu of taxes (PILOTS) may replace actual taxes paid. These must be allocated to each taxing district according to their proportionate share of ad-valorem property taxes

5. Abated personal property.

#### EZ and URCL

Abatement is not applicable to personal property, only real property

6. Who bears the cost?

## EZ

The state does receive property tax revenues according to Census Bureau Data.

The revenue loss is suffered at the local level, in two ways:

- The revenue loss derived from the minimum as-of-right abatement is suffered by all local overlapping taxing jurisdictions.
- The revenue loss derived from the discretionary abatement will only be suffered by the awarding taxing jurisdiction, unless other affected jurisdiction express consent at the public hearing, in which case, they will also be included in the resolution and suffer the correspondent revenue loss.

No statewide levy is affected.

There is nothing provided in the statute to indicate that the state reimburses local governments in any way for revenue losses.

## URCL

The abatement affects the tax base of all overlapping local jurisdictions, as well as statewide levies.

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## Montana

### Links:

Department of Revenue Biennial Report (See property tax expenditures, p. 133-4; section on Prop. Tax starts on p. 45)

<http://discoveringmontana.com/revenue/css/2forindividuals/07publications.asp>

Page on Property Tax Incentives

<http://discoveringmontana.com/revenue/css/3forbusinesses/03taxincentives/property.asp>

The Montana Code Annotated (Go to Title 15, Chapter 24, parts 14 and 15)

[http://data.opi.state.mt.us/bills/mca\\_toc/index.htm](http://data.opi.state.mt.us/bills/mca_toc/index.htm)

### Contacts:

Judy Paynter

[jpaynter@state.mt.us](mailto:jpaynter@state.mt.us)

Brad Simshaw

[bsimshaw@state.mt.us](mailto:bsimshaw@state.mt.us)

### A. Introduction

The State of Montana has two stand-alone property tax abatement programs for economic development purposes:

- a. The new and expanding industries (NEI) abatement, under section 15-24-1402 of the Montana Code Annotated
- b. The reduced rate (RR) for remodeling of building or structures abatement, under section 15-24-1501 of the Montana Code Annotated.

By stand-alone we mean programs where property tax abatements are, or could be, the sole policy tool.

### B. Process of granting property tax abatements (formal)

The state of Montana has a local discretionary award process in both cases.

1. Designation of a revitalization or redevelopment area.

#### NEI and RR

No specific area is designated.

2. Formulation and adoption of a tax abatement agreement.

NEI and RR

The taxpayer first applies before the governing body of the county, city or town, which conducts a hearing and then may approve (one resolution per project) the exemption. The approved application then goes to the Department of Revenue, which makes the assessment change.

3. Implementation, oversight and evaluation.

NEI and RR

No such provisions were found in the statute.

4. Termination, claw-back or sunset provisions.

NEI

Termination. The governing body may end the tax benefits at any time. No claw-back or sunset provisions.

When the legislature ends a tax provision, it does not do so retroactively. If a facility qualified for a ten year tax exemption two years prior to the legislature removing that provision, the facility would have been granted that tax benefit and have eight years remaining. No new facility could come in and qualify for this benefit once it is removed from the law.

RR

No provisions on these issues were found in the statute.

**C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

YES.

2. What is the purpose of the property tax abatement?

Economic development generally.

3. Is there a requirement or condition to attain the property tax investment?

NEI

Other than to make the improvements and be current in property taxes due, the following conditions apply:

- In an expansion, \$50,000 or more worth of investments in the first year of the abatement or in the preceding year,
- In the case of a new industry, \$125,000 worth of investment in the first year of the abatement or in the preceding year.

RR

Increase the value of the building or structure by 2.5%, aside from the remodeling, reconstruction or expansion requirement.

4. Abated real property, including schedule, caps, and other specifics.

NEI

The abatement applies to new or expanding industries. However, the term industry, as defined in the statute, includes transportation, distribution and warehousing of goods. The term industry also includes primary activities such as mining and forestry.

Land is excluded from the benefit. The abatement is on assessed value, and only applies to the value added by the investments. Increased value is taxed at 50% of its taxable value for five year. Over the next five years the abatement is phased out by equal percentages, in such way that on the 10<sup>th</sup> year the increased value is taxed at 100% of its taxable value.

RR

The statute does not specify what type of property the abatement applies to. Therefore theoretically it could apply to all (buildings used for residential, manufacturing, primary activities, commerce and services). The abatement is on assessed value and applies only to the value added by the investments (land is therefore implicitly excluded), according to the following schedule

<b>Period</b>	<b>% of taxed value added</b>
Construction period	0%
First year following	20%
Second	40%
Third	60%
Fourth	80%
Fifth et seq.	100%

The governing body may change the percentages for the “first through fourth years following construction,” but is then bound to apply the changed schedule uniformly.

5. Abated personal property.

NEI

Personal property is also eligible for abatement under the same terms.

RR

The abatement does not apply to personal property.

6. Who bears the cost?

The state does receive property tax revenues.

NEI and RR

Only the awarding local taxing jurisdiction and, partially, the overlapping school districts (only mills assessed for local high school and elementary school districts are affected) suffer revenue losses. The other overlapping taxing jurisdictions are not affected. Statewide levies are also excluded, as are all other education levies.

There is nothing provided in the statute to indicate that the state reimburses local governments in any way for revenue losses.

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## Nevada

### Links:

Nevada Revised Statutes

Chapter 360-General Provision: <http://www.leg.state.nv.us/NRS/NRS-360.html>

Chapter 361-Property Tax: <http://www.leg.state.nv.us/NRS/NRS-361.html>

### Contact:

POC: Susan G. (Susi) Combs

Incentive Coordinator/IT Manager

Nevada Commission on Economic Development

775.687.4325, 775.687-4450 (fax)

[scombs@bizopp.state.nv.us](mailto:scombs@bizopp.state.nv.us)

### A. Introduction

State of Nevada has one stand-alone property tax abatement program for the purpose of economic development.

### B. Process of granting property tax abatement (formal)

Nevada has a discretionary award process carried by state government.

#### 1. Designation of a revitalization or redevelopment area.

An area is not designated. Property tax abatement is the statewide economic development program.

#### 2. Formulation and adoption of a tax abatement agreement.

A person who intends to locate/expand a business applies to the commission on economic development. If the requirements for the abatement program are met, the commission may approve partial property abatement.

#### 3. Implementation, oversight and evaluation.

Implementation. If partial abatement is granted, the executive director of the commission on economic development shall notify the department of taxation, the Nevada tax commission, and the county assessor of the duration and conditions of the abatement.

Oversight. When the executive director of the commission on economic development requests, the applicant of partial abatement shall furnish the executive director of the department of taxation with copies of all records necessary to verify that the requirements are met.



Evaluation. Annually, on or before April 15, the executive director of the department of taxation shall advise the county assessor in which the business is still eligible for the abatement.

4. Termination, claw-back or sunset provisions.

If the requirements are no longer met, the business shall repay the amount of tax abatement allowed before the failure of compliance. The Nevada tax commission shall determine whether the business substantially complied the requirement or not.

### **C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

Yes.

2. What is the purpose of the property tax abatement?

Nothing mentioned distinctively.

3. Is there a requirement or condition to attain the property tax investment?

- In a county (city) whose population is 100,000 (60,000) or more, the business shall make a capital investment in the county at least \$50,000,000 in case of industrial or manufacturing business, or \$5,000,000 in case of other business.  
In a county (city) whose population is less than 100,000 (60,000), the business shall make a capital investment in the county at least \$5,000,000 in case of industrial or manufacturing business, or \$500,000 in case of other business.
- And, in case of new business, 75 or more jobs need to be created; in case of existing business, number of employee needs to be increased 10%, and capital investment amount should be expanded at least 20%.
- The business should be in operation at least 5 year.

4. Abated real property, including schedule, caps, and other specifics.

Only personal property tax is abated.

5. Abated personal property.

Duration of the abatement is from 1 year up to 10 years.  
Up to 50% of taxes on personal property payable by a business.

6. Who bears the cost?

Local Government

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## New Jersey

### Links:

New Jersey Permanent Statutes: [http://www.njleg.state.nj.us/cgi-bin/om\\_isapi.dll?clientID=83903&depth=2&expandheadings=off&headingswithhits=on&infobase=statutes.nfo&softpage=TOC\\_Frame\\_Pg42](http://www.njleg.state.nj.us/cgi-bin/om_isapi.dll?clientID=83903&depth=2&expandheadings=off&headingswithhits=on&infobase=statutes.nfo&softpage=TOC_Frame_Pg42)

### Contact:

POC: Gary Dalcorso  
Treasury Department  
Division of Taxation  
Tel: 609-292-7221

## A. Introduction

In municipalities of the State of New Jersey, there are one stand-alone program and the Urban Enterprise Zone program related to the property tax abatement for economic development purpose. “5-Year Property Tax Abatement and Exemptions” program is regulated by N.J.S.A. Chapter 40A:21-1 ~ 40A:21-21, and “New Jersey Urban Enterprise Zone” program is administered by Chapter 54:4-3.139 ~ 54:4-3.149. However, due to New Jersey’s strong “home rule” concept of government, details of the programs can be modified by the local ordinances.

## B. Process of granting property tax abatement (formal)

1. Designation of a revitalization or redevelopment area.

### 5-Year Abatement

A portion or all of a municipality shall be determined as “area in need of rehabilitation” or a “blighted area.”

### UEZ

The governing body of the qualified municipality may designate one or more areas as “area in need of rehabilitation”

3. Implementation, oversight and evaluation.

### 5-Year Abatement

- After the governing body of a municipality adopts an ordinance, residential property owner can apply for the abatement/exemption. If proper ordinance is adopted, industrial or commercial property can receive abatement/exemption.
- Within 30 days after tax agreement is executed, a municipality should forward the copy of the agreement to Division Local Government Services in the Department of Community Affairs

UEZ

- After approval of the Urban Enterprise Zone Authority to the municipality's zone designation application, the municipality may provide the real property tax abatement to qualified properties.
- Each approved abatement shall be evidenced by a financial agreement between the applicant and the municipality

4. Termination, claw-back or sunset provisions.

5-Year Abatement

- If the property owner cease to operate the property or fails to meet the conditions, all tax shall be levied as if no exemption or abatement has been granted.
- Unless the ordinance is readopted, it will valid for ten full tax year.
- All tax agreement shall be in effect for no more than five full tax year.

UEZ

- Failure to requalify annually, or failure to pay annual administration fee to the municipality shall result in the termination of the abatement

**C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

Yes.

2. What is the purpose of the property tax abatement?

Economic Development

3. Is there a requirement or condition to attain the property tax investment?

5-Year Abatement

- Construction, improvement or conversion of a building or structure of residential purpose

UEZ

- Property should belong to the qualified business
- Conversion or construction of residential property

4. Abated real property, including schedule, caps, and other specifics.

5-Year Abatement

- Only Residential property can be qualified, unless corresponding ordinances are adopted for industrial and commercial property

- A certain amount (first \$5,000/\$15,000/\$25,000, as specified by the ordinance) of value improvement of the property shall be disregarded
- Up to 5 years, not to exceed 30% of total cost of the construction/improvement
- Land is not explicitly excluded

UEZ

- Residential property only
- Payment in lieu of taxes may be computed as 2% of the total cost; or
  - 1<sup>st</sup> year: no payment
  - 2<sup>nd</sup> year: not less than 20% of the real property tax otherwise due
  - 3<sup>rd</sup> year: not less than 40%
  - 4<sup>th</sup> year: not less than 60%
  - 5<sup>th</sup> year: not less than 80%
  - 6<sup>th</sup> year: 100% of tax shall be levied
- Land is explicitly excluded

5. Abated personal property.

5-Year Abatement

No.

UEZ

No.

6. Who bears the cost?

Local government

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## New York

### Links:

State of New York Consolidated Law

Real Property Tax: <http://assembly.state.ny.us/leg/?cl=101>

Banking: <http://assembly.state.ny.us/leg/?cl=9&a=7>

New York State Empire Zones: <http://assembly.state.ny.us/leg/?cl=48&a=192>

Railroad Real Property: <http://assembly.state.ny.us/leg/?cl=101&a=10>

City over 1 million population: <http://assembly.state.ny.us/leg/?cl=101&a=12>

Commercial Revitalization Area: <http://assembly.state.ny.us/leg/?cl=101&a=13>

Mixed Use Property in 1 million or more city:

<http://assembly.state.ny.us/leg/?cl=101&a=14>

Tax Abatement for Commercial Property in 1 mil city:

<http://assembly.state.ny.us/leg/?cl=101&a=16>

Office of Real Property Service Exemption Administration Manual:

<http://www.orps.state.ny.us/assessor/manuals/vol4/part1/section2/sec2.01.htm>

### Contact:

POC: George LaPointe

[glapointe@empire.state.ny.us](mailto:glapointe@empire.state.ny.us)

## A. Introduction

In the State of New York, there are several property abatement programs for economic development purpose. Three stand-alone programs are “Business Investment Exemption” (State of New York Consolidate Law Chapter 50-A, Article4, Title2, S485-b), “Banking Development District” program (Consolidated Law Chapter 50-A, Article4, Title2, S485-f; Chapter2, Article3, S96-d), and “Infrastructure Exemption” (Consolidated Law Chapter 50-A, Article4, Title2, S485-g). And one remaining program is a part of benefit package of the “Empire Zone” program (Chapter 50-A, Article4, Title2, S485-e; Chapter24, Article18-B).

Other property tax abatements may be available through arrangements with local industrial development agencies (IDAs) via "payment in lieu of tax" (PILOT) agreements. Under PILOTs, the base tax generally remains fixed; but future tax payments due to increased assessments are abated under schedules negotiated through the agreement.

## B. Process of granting property tax abatement (formal)

1. Designation of a revitalization or redevelopment area.

### Business Investment Exemption

An Area is not designated. The exemption is granted as a right. But, a county, city, town or village (and a school district) may reduce the amount of exemption by law (or resolution).

### Banking Development District

Superintendent of banks, appointed by the governor, may designate an area as the banking development district with consultation of the department of economic development

### Empire Zone Program

- After the commissioner of economic development reviews economic and demographic conditions of cities/towns/villages/counties, the satisfying localities for EZ are notified and invited to apply for designation. Or, any county that believes it can meet the eligibility criteria may apply
- Following a review of applications, the State Zone Designation Board, comprised of members appointed by the Governor, State Assembly and State Senate, designates the zones

### Infrastructure Exemption

Area is not designated.

2. Formulation and adoption of a tax abatement agreement.

### Business Investment Exemption

- The industrial and commercial incentive board, comprised of the representatives from the county / cities / towns / villages / school districts, makes plans and recommendations about the restrictions of exemption
- Property owner should apply for the exemption in written form

### Banking Development District

- After the public hearing, a municipal corporation may adopt a law for exemption of real property in the district
- If the law is adopted, the exemption shall be granted to the applicants

### Empire Zone Program

- After the public hearing, a municipal corporation may adopt a law for exemption of real property in the Empire Zone
- If the law is adopted, the exemption shall be granted to the applicants

### Infrastructure Exemption

- A county, city, town or village may by local law or a school district by resolution provide the exemption.
- If the assessor receives an application by the owner, and is satisfied that the applicant is entitled to an exemption, the assessor shall approve the application for exemption (*as-of-right* program).

### 3. Implementation, oversight and evaluation.

#### Business Investment Exemption

- Amount of the exemption shall be entered by assessor on the assessment roll.
- No specified provision on oversight and evaluation.

#### Banking Development District

- Amount of the exemption shall be entered by assessor on the assessment roll.
- No specified provision on oversight and evaluation.

#### Empire Zone Program

- Local empire zone certification officer shall certify business enterprises (QEZE) eligible to receive benefits by the following criteria:
  - i. whether the business enterprise is likely to create new employment or prevent a loss of employment
  - ii. whether such new employment opportunities will be for individuals who will perform a substantial part of their employment activities in the zone
  - iii. whether certification will have the undesired effect of causing individuals to transfer from existing employment
  - iv. whether an enterprise is likely enhance the economic climate of the zone
  - v. whether the enterprise, during the three years preceding the submission of an application for certification, has engaged in a substantial violation or a pattern of violations of laws regulating unemployment insurance, workers compensation, child labor, and etc.
- Local empire zone administration board shall prepare annual report for the state government and the assembly that contains all information regarding the zone activity
- The department of audit and control, the department of taxation and finance, the department of economic development, and the legislative commission on expenditure review shall prepare reports on the management and the economic and fiscal impact of empire zones
- Comprehensive evaluation of the performance of the zone program shall be conducted by an entity independent from the department, and submitted to governor and the legislative

#### Infrastructure Exemption

- A copy of such law/resolution shall be filed by the office of real property.

### 4. Termination, claw-back or sunset provisions.

#### Business Investment Exemption

- No specified provision on termination, clawback, or sunset

#### Banking Development District

- No specified provision on termination, clawback, or sunset

#### Empire Zone Program

- When the applicant fail to meet the empire zone development plan, the commissioner of economic development shall *terminate* the designation of EZ with the consultation of the director of budget and the commissioner of labor.
- This program is valid through July, 31<sup>st</sup>, 2004 (*Sunset Provision*)

#### Infrastructure Exemption

- Nothing is provided

### **C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

No.

2. What is the purpose of the property tax abatement?

#### Banking Development District

To encourage establishment of bank branch in response with the demand of banking services

#### Empire Zone Program

To stimulate the economic growth in the most distressed area of New York State

3. Is there a requirement or condition to attain the property tax investment?

#### Business Investment Exemption

- Exemption is not valid to special *ad valorem* taxes for fire district, fire protection district, and fire alarm district
- Construction, alteration, installation or improvement of real property
- Cost should be greater than \$10,000 (or more, by the specified local law)
- This is not valid to the city of 1 million or more population

#### Banking Development District

- Construction, alteration, installation or improvement of the real property in the district that is used to establish a branch of bank, trust company or national bank

#### Empire Zone Program

- The area should be designated as an empire zone
- Construction, alteration, installation or improvement of real property in the zone

#### Infrastructure Exemption



- Property must be located on residential building lots which are part of a subdivision plat for residential development which includes infrastructure intended to be dedicated to the municipal corporation or a special district thereof
- This incentive is not valid in a city with a population of one million or more

4. Abated real property, including schedule, caps, and other specifics.

Business Investment Exemption

- Industrial and commercial property shall be exempted(No residential property)
- Exemption is against the increase in assessed value of the property
- Land is excluded (implicitly: “Real property constructed...”)
- 10-year exemption schedule with decreasing rate by 5% (ex: 1<sup>st</sup> year = 50%, 2<sup>nd</sup> year = 45%, 3<sup>rd</sup> year = 40%, ... 10<sup>th</sup> year = 5%)

Banking Development District

- Nature of use is not specified
- Exemption is against the increase in assessed value of the property
- Land is not excluded (implicitly: “Real property used in construction...”)
- 10-year exemption schedule with decreasing rate by 5% (ex: 1<sup>st</sup> year = 50%, 2<sup>nd</sup> year = 45%, 3<sup>rd</sup> year = 40%, ... 10<sup>th</sup> year = 5%)

Empire Zone Program

- Nature of use is not specified (just real property in the zone)
- Exemption is against the increase in assessed value of the property
- Land is excluded (implicitly: “Real property constructed...”)
- 10- year exemption schedule with decreasing rate (1<sup>st</sup>~7<sup>th</sup> year = 100%, 8<sup>th</sup> year = 75%, 9<sup>th</sup> year = 50%, 10<sup>th</sup> year = 25%)

Infrastructure Exemption

- Residential building lots shall be exempted
- Amount is limited to increase in assessed value of such lots attributable to the eligible infrastructure.
- Maximum duration is 3 years

5. Abated personal property.

Personal property, whether tangible or intangible, is exempt from state and local taxes.

6. Who bears the cost?

Local governments (all overlapping jurisdictions)

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## North Dakota

### Links:

ND DOR's page

[www.ndtaxdepartment.com](http://www.ndtaxdepartment.com)

Economic Development and Finance Dept.'s page for property tax

<http://www.growingnd.com/ndprofile/taxes/default.asp?sectionID=1&subSectionID=4&pageID=28>

DOR property tax page

<http://www.state.nd.us/taxdpt/forms/property.html>

Publication on business incentives (see Property Tax Exemption and Renaissance Zones)

[http://www.state.nd.us/taxdpt/pubs/general/business\\_incentives.pdf](http://www.state.nd.us/taxdpt/pubs/general/business_incentives.pdf)

Page on renaissance zones

<http://www.growingnd.com/ndprofile/taxes/default.asp?sectionID=1&subSectionID=4&pageID=183>

ND Century Code (click on State Statutes)

See 40-57.1 Tax Exemptions For New and Expanding Businesses

40-63 Renaissance Zones

52-02.2 Exemption of improvements to Commercial and Residential Buildings

<http://www.state.nd.us/lr/>

### Contacts:

Marcy Dickerson

State Supervisor of Assessments

[mdickers@state.nd.us](mailto:mdickers@state.nd.us)

## A. Introduction

The State of North Dakota has two stand-alone property tax abatement programs for economic development purposes:

- a. The new and expanding businesses exemption (NEBE), under section 40-57.1-01 et seq. of the North Dakota Century Code, and
- b. The improvements to commercial and residential buildings exemption (ICRBE), under section 57-02.2-01 et seq. of the North Dakota Century Code.

By stand-alone we mean programs where property tax abatements are, or could be, the sole policy tool. Because of this definition we do not consider the North Dakota Renaissance Zones, which provide a combination of income tax, property tax and other incentives.

## B. Process of granting property tax abatements (formal)

The state of North Dakota has a local discretionary award process in both cases.

1. Designation of a revitalization or redevelopment area.

No specific area is designated in both cases.

2. Formulation and adoption of a tax abatement agreement.

NEBE

The project operator applies to the city governing body if the project is located within city boundaries, or the county commission if the project is located outside city boundaries. Affected school districts and townships must be included in the negotiations. A hearing is conducted and the appropriate body acts upon the application.

ICRBE

The governing body of the city or county issues a resolution stating the general parameters of the exemption (within the parameters set by the statute). The owner files an application before the county assessor, which determines whether the improvements qualify for the exemption based on the resolution of the governing body. If the assessor's dictum is in the affirmative, the governing body may then approve the specific application.

3. Implementation, oversight and evaluation.

No provisions regarding these questions were found in the statutes.

4. Termination, claw-back or sunset provisions.

NEBE

No provisions were found regarding these aspects.

ICRBE

Termination. A resolution adopted by the governing body of the city or county may be rescinded at any time.

No claw-back or sunset provision was found in the statute.

**C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

NO.

2. What is the purpose of the property tax abatement?

Economic development generally.

3. Is there a requirement or condition to attain the property tax investment?

NEBE

To qualify, a project must be a new or expanded revenue producing enterprise (although the abatement may apply to existing improvements—not land).

ICRBE

An “improvement” means the renovation, remodeling, alteration or addition, BUT NOT THE REPLACEMENT, of an existing building or structure. An improvement for residential purposes is limited to a building or structure at least twenty-five years old.

4. Abated real property, including schedule, caps, and other specifics.

NEBE

The abatement can take on the following forms:

- a. Abatement on taxes owed. The statute specifically states that, “a partial exemption, must be stated as a percentage of the total ad-valorem taxes assessed against the property, ” although 100% of the taxes owed on the property, except land, may be abated. Land is excluded; it applies to improvements, new and existing. This abatement can be granted for 5 years, renewable for another 5 years only in the case of agricultural processors or a project located on property leased from a government entity. The abatement applies to any “revenue producing” property; it could therefore apply to commercial and industrial of any sort.
- b. Abatement on taxes owed in the form of payments in lieu of taxes for up to 20 years from the date the project operations begin.

ICRBE

The abatement applies only to commercial and residential property (the statute does not define these terms). The abatement is on assessed value and specifically the full amount of the value added by the improvement is exempted from taxation for a maximum period of five years.

5. Abated personal property.

N.A.

6. Who bears the cost?

The state does perceive property tax revenues, according to US Census data. In fact, the state has a one-mill levy on all taxable property in the state to support the state medical center. That levy is affected the same as all local levies by exemptions granted.

There is nothing provided in the statute to indicate that the state reimburses local governments in any way for revenue losses.

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## Ohio

### Link:

Ohio Revised Code: <http://onlinedocs.andersonpublishing.com/revisedcode/>

Property Tax Abatement Programs Guide: <http://www.state.oh.us/tax/Publications/ta.pdf>

### Contact:

POC: Carrie Richards Manno

Senior Tax Incentives Specialist

Ohio Department of Development

77 S. High St., PO Box 1001

Columbus, Ohio 43216-1001

P: 614-752-9690 F: 614-644-1789

[CManno@odod.state.oh.us](mailto:CManno@odod.state.oh.us)

## A. Introduction

In the State of Ohio, various kinds of tax incentives are provided related to the property tax. As an example, Municipal Urban Renewal Debt Retirement program (O.R.C. 725.01-725.11) and Community Urban Redevelopment Corporation (O.R.C. 1728.01-1728.13) are financing tool for economic redevelopment, and the property tax abatement is provided to the properties that are improved through these programs. And also, Ohio has two stand alone property abatement programs: Enterprise Zones (O.R.C. 5709.61 - 5709.69) and Community Reinvestment Areas (O.R.C. 3735.65 - 3735.70)

## B. Process of granting property tax abatements (formal)

Ohio has a local, discretionary award process.

1. Designation of a revitalization or redevelopment area.

### Enterprise Zone

The legislative authority of local government may designate an area as “proposed” enterprise zone. On designating an area, the legislative authority shall petition the director of development for certification of the area’s characteristics. Without certification of the director, the legislative authority cannot enter into any agreements.

### Community Redevelopment Area

The legislative authority or a county can adopt a resolution describing the boundaries of a community reinvestment area. Then, all residential project may get some exemptions.

2. Formulation and adoption of a tax abatement agreement.

### Enterprise Zone

Any enterprise wishes to enter into the agreement should submit a proposal. In the proposal, the following information is required:

- a. An estimate of the number of new employees the enterprise intends to hire or retain, with an estimate of the amount of payroll of them;
- b. An estimate of the amount to be invested to establish, expand, renovate, or occupy a facility;
- c. A listing of the enterprise's current investment based on the date of proposal submission.

If the legislative authority finds that the proposal is qualified by financial responsibility and business experience, then it can enter into agreement.

	Type of Property (Assessed Value)		Maximum amount	Maximum period
	Real	Personal		
Incorporated area	Yes	Yes	75%*	10 years
Unincorporated area	Yes	Yes	60%*	10 years

\*: With the permission of affected school board, it can go beyond.

Community Redevelopment Area

The owner of real property must apply for the exemption with the housing officer. If approved, then the housing officer will forward the application to the county auditor who will implement the exemption.

	Type of Property (Assessed Value)		Maximum amount	Maximum period
	Real	Personal		
CRA	Yes	No	100%	10 years: pre-existing 1 or 2 family dwelling 15 years: new structures 12 years: all others

3. Implementation, oversight and evaluation.

Tax incentive review council will monitor and evaluate.

4. Termination, claw-back or sunset provisions.

Enterprise Zone

*-Termination/Clawback*

If any party believes any other party has failed to perform any provision of the agreement, the complaining party shall give clear stating what breach has occurred. If

that is not cure in 90 days, the complaining party may sue for the recovery of the money, sue for specific enforcement of the agreement, or terminate the agreement. (ORC 701.07 Cooperative economic development agreement)

- *Sunset*

The legislative authority can enter into the agreement on, or before June 30, 2004.

#### Community Redevelopment Area

-*Termination/Clawback*

If commercial or industrial project cease prior to end of the agreement period, the legislative authority may revoke the tax exemption and may, “subject to agreement”, requires repayment of the previously exempted taxes.

- No Sunset provision

### **C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

Yes.

2. What is the purpose of the property tax abatement?

Economic redevelopment, in general. More specifically:

#### Enterprise Zone

Job creation and economic redevelopment. (Remediation of environmentally contaminated facility can be entered into the agreement.)

#### Community Redevelopment Area

The revitalization of areas

3. Is there a requirement or condition to attain the property tax investment?

#### Enterprise Zone

Pre-existing operations cannot enter into the agreement. And, the agreement shall require the enterprise to agree to establish, expand, renovate, or occupy a facility in the zone, and hire new employees, or preserve employment.

4. Abated real property, including schedule, caps, and other specifics.

#### Enterprise Zone

The Statute just mentioned that the assessed value of “tangible personal property” or “real property” will be exempted, or any other optional services or assistances will be provided.

#### Community Redevelopment Area

This program is used for historic preservation, residential rehabilitation, industrial

remodeling and expansion, and new commercial, residential, and industrial construction. Increased assessment value of the structure shall be abated by the aforementioned schedule (Land is excluded)

5. Abated personal property.

Enterprise Zone

Tangible personal property, here, means the personal property first used in business at the project site as a result of the agreement. Pre-established property is not tax-exempted. Inventory beyond the required amount by the agreement is not exempted.

6. Who bears the cost?

The local government. However, the business is supposed to compensate the school district. All recipient of abatement more than 5 years will present to any affected school district a compensation agreement of 15% of tax saving



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## Oklahoma

### Links:

Page on property tax incentives

<http://domino1.odoc.state.ok.us/BusDev/bitit.nsf/pages/B.+Ad+Valorem+Tax+Exemption+S>

Oklahoma Statutes (search 68-2902 and 62-860)

<http://oklegal.onenet.net/statutes.basic.html>

Constitution of the State of Oklahoma

<http://oklegal.onenet.net/okcon/>

### Contacts:

Kenny Chuculate

[kchuculate@oktax.state.ok.us](mailto:kchuculate@oktax.state.ok.us)

## A. Introduction

The State of Oklahoma has two stand-alone property tax abatement programs for economic development purposes:

- a. The manufacturing concern abatement (MCA), under section 68-2902 of the Oklahoma Statutes, and
- b. The Local Development Act (LDA), under section X-6C of the Constitution of the state of Oklahoma and section 62-851 et seq. of the Oklahoma Statutes.

By stand-alone we mean programs where property tax abatements are, or could be, the sole policy tool. The Oklahoma freeport exemption does not fall under our definition of property tax abatement program.

## B. Process of granting property tax abatements (formal)

The state of Oklahoma has a local discretionary award process in the case of the LDA, and a joint local/state as-of-right abatement program (anybody who fulfills requirements can get it) in the case of the MCA.

1. Designation of a revitalization or redevelopment area.

### MCA

No specific area is designated.

### LDA

The governing body of a city, town or county establishes a review committee, which assesses development or redevelopment needs and the need to establish an incentive district, plan or project. Two public hearing are held, a local planning commission

reviews the development project or plan, and finally the governing body will approve the boundaries of a plan, project or district.

The net assessed value (NAV) of a “district” may not exceed 25% of the NAV of the awarding jurisdiction (15% in case of a “project”) and may also not exceed 25% of the NAV of an overlapping school district. Additionally, the surface of the district shall not exceed 25% of the total area of the awarding jurisdiction.

## 2. Formulation and adoption of a tax abatement agreement.

### MCA

Any person, firm or corporation claiming the exemption files an annual application with the county assessor where the facility is located (an appeal may be presented before the county board of equalization). Approved applications are filed before the (state) Tax Commission.

### LDA

A project plan may include a provision that certain local taxes may be subject to incentives. Once the project, plan or area is approved, the governing body may enter into contracts and grant exemptions to property owners.

## 3. Implementation, oversight and evaluation.

### MCA

No such provisions were found in the statute

### LDA

No such provisions were found in the statute

## 4. Termination, claw-back or sunset provisions.

### MCA

Termination and Claw-back. If after construction or expansion, or after three years from the start of initial construction or expansion, the construction, acquisition or expansion has not resulted in a net increase in the required number of full-time employees, or the other qualifications or conditions, the manufacturing concern shall pay an amount equal to the amount of any exemption granted, including penalties and interest thereon.

No sunset provision was found.

### LDA

No such provision were found in the statute

## **C. Eligibility and scope of the property tax abatement (substance)**

### 1. Is personal property taxed?

YES.

2. What is the purpose of the property tax abatement?

Economic development/redevelopment generally.

3. Is there a requirement or condition to attain the property tax investment?

MCA

For first five years

- Investment cost of construction, acquisition or expansion of \$250,000 or more

For additional five years

- Net increase of \$250,000 in payroll or more, or a net increase of \$500,000 in capital improvements, AND
- Offer within 180 days of date of employment, a basic health benefits plan to the full-time-equivalent employees of the facility.

LDA

None, other than to make new investments (according to the plan or project),

4. Abated real property, including schedule, caps, and other specifics.

MCA

The abatement applies exclusively to industrial property (“manufacturing facilities”). The abatement is an exemption or deduction from the base. In the case of an acquisition of a facility or of a new facility, the full value of the manufacturing facility will be exempt from property tax levies. In the case of an expansion, only the value added will be exempt.

The default duration of the exemption is five years, but this can be extended to another five years if all initial conditions are met again (initial conditions must be satisfied again) and previous employment is maintained.

LDA

The abatement applies to industrial, commercial and residential property (only retail establishments are excluded from the possible benefit). The abatement consists of exempting part or all of the value of the new investment (land is implicitly excluded), for a maximum period of 5 years (6 in an enterprise zone, federal or local).

5. Abated personal property.

MCA

The abatement includes machinery, equipment and other personal property used directly and exclusively in the manufacturing process.

LDA

Apparently personal property is not excluded from the abatement, as long as it has not been subject to property taxation prior to the exemption.

6. Who bears the cost?

There are no state property tax revenues (source: US Census data)

MCA

The cost is absorbed by the state because it reimburses local governments for revenues lost.

LDA

The revenue loss is borne by any overlapping local taxing jurisdiction, including school districts (state does not reimburse).

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## Oregon

### Link:

Oregon Revised Statutes: <http://www.leg.state.or.us/ors/home.html>

Enterprise Zone Guidebook: <http://www.econ.state.or.us/enterthezones/EZone2000.pdf>

### Contact:

POC: Erica L. Preston

[erica.preston@state.or.us](mailto:erica.preston@state.or.us)

Tel: 503-986-0198

## A. Introduction

The State of Oregon has two statewide programs and enterprise zone as stand-alone property tax abatement programs. Two statewide programs include the Strategic Investment Program (SIP) and Construction in Progress program (CIP). All programs allow local governments to waive some property tax payments for businesses that meet particular job creation and related criteria. The enterprise zone is regulated by Oregon Revised Statutes (ORS) 285B.650 ~ ORS 285B.728, SIP by ORS 285B.380~285B.392/ORS 307.123, and CPP by ORS 307.300~ORS 307.400.

## B. Process of granting property tax abatements (formal)

1. Designation of a revitalization or redevelopment area.

### Enterprise zone

- With the application of a city or county as a Zone sponsor, the Director of Oregon Economic and Community Development Department may designate an area as the enterprise zone.
- 4 E-commerce EZs are designated for the pilot program

### SIP

- Area is not designated. After a public hearing, the county may approve the special provisions related to the property tax exemption.

### CIP

- Area is not designated.

2. Formulation and adoption of a tax abatement agreement.

### Enterprise zone

- A business and the local government sponsor should enter into a written agreement about the exemption conditions.
- Urban EZ can grant the “short-term exemption” only. Non-urban EZ can provides

“rural long-term exemption” too.

SIP

- Applicant shall pay \$10,000 application fee, and again \$50,000 when determined as eligible project.
- The beneficial business enters into agreement with the county for payment of an annual community service support fee in an amount equal to 25% of property tax exempted, but not exceeding \$2 million.
- The agreement shall include the fee payment schedules

CIP

- Abatement is provided as of right. Therefore, no agreement is made
- Filing document proof of exemption status is needed

3. Implementation, oversight and evaluation.

Enterprise zone

- Once qualified as the exemption applicable property by county assessor, local zone manager shall handle the program.
- The economic and community development department shall take action necessary to assist business and terminate or designate zones.
- Department of Revenue shall submit a report showing the benefits of the program (number of jobs created, value of the qualified investment, etc)

SIP

- First \$100 million of land, building, real property machinery and equipment, and personal property shall be taxed. The remainder of real market value shall be exempted.
- Oregon Economic and Community Development Commission shall determine that a project is an eligible project for property tax exemption

CIP

- Receiving sufficient documentary proof, the assessor shall cancel the assessment

4. Termination, claw-back or sunset provisions.

Enterprise zone

- If the business fails to satisfy or adhere to requirements, the EZ exemption shall be terminated. Retrospective paying back of property tax (clawback) and additional 20% penalty will be levied.
- The zone shall be terminated after 11 years from designation. Local sponsor can reapply for the designation.

SIP

- If the business fail to pay the community service fee, exemption shall be revoked and the property shall be fully taxable until the payment resumed
- No clawback, sunset provision.

CIP

- Failure of satisfying any condition results in “denial” of any exemption application
- No provision for termination, clawback, or sunset

**C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

Yes.

2. What is the purpose of the property tax abatement?

Economic development, in general. Specifically, the EZ has the purpose of encouraging business investment in the economically lagging area of the state.

3. Is there a requirement or condition to attain the property tax investment?

Enterprise zone

- Construction of new building/structure, new addition or modification, or newly purchased personal property
- Minimum value of investment: \$25,000 for short-term exemption / \$1~50million for long-term exemption / \$1,000 for e-commerce EZ exemption
- Any eligible business must increase its full-time employment by the greater of one person or 10% based on the number of existing employees
- To receive “rural long-term” exemption, minimum new employment should be 10,35,50 or 75 depending on location; average compensation for the employees should be above 150% of the county’s annual average wage

SIP

- Total cost of project should be over \$100 million
- The project should get benefits from the traded industry. Therefore, residential property is not included.
- Business should pay annual fee for community service support in an amount equal to 25% of property tax exempted (not exceeding \$2 million)

CIP

- The facility should be under construction or addition to an existing structure
- In case of industrial property, the status of the property should be “principal” or “secondary” industrial property (Principal industrial property: market value of \$5 million and more / secondary industrial property: market value is between \$1 million and \$5 million)

4. Abated real property, including schedule, caps, and other specifics.

Enterprise zone

- *Benefit:* 100% exemption of value invested to qualified property (Land is excluded). Industrial, commercial property located in EZ can be qualified, but residential property would not be eligible.
- *Exemption period:* 3 to 5 years for “short-term” exemption / up to 17 years for “long-term” exemption / E-commerce EZ is only valid through Aug, 2002 (pilot program)

SIP

- Assessed value of the property greater than \$100 million shall be exempted for 15 years
- Real and personal property constituting the qualified project (Land is included)

CIP

- The property shall be listed for ad valorem taxation, but assessor shall cancel the assessment (exemption)
- Commercial facility (including principal and secondary industrial property) shall be qualified
- Valid for 2 years
- Exemption is against building, structure, or addition to building only. Land is excluded

5. Abated personal property.

Enterprise zone

- Same as above

SIP

- Same as above

CIP

- No

6. Who bears the cost?

State government and local government. Before July 1, 2001, local government took any cost of property tax expenditure. But, since then, Property Tax Expenditure Funding Account is created in the State of Oregon General Fund, and 50% of revenue foregone shall be compensated by the fund



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## Pennsylvania

### Link:

KOZ/KOEZ information: <http://koz.inventpa.com/>

Pennsylvania Bill Information:

<http://www.legis.state.pa.us/wu01/LI/BI/ALL/1999/0/hb2498.htm>

LERTA: Unconsolidated Pennsylvania Statutes, Title 71 Taxation and Fiscal Affairs, Chapter 4: Local Taxation <http://members.aol.com/StatutesP4/72.Cp.4.html>

### Contact:

POC: Sechoka, Elizabeth

[esechoka@state.pa.us](mailto:esechoka@state.pa.us)

## A. Introduction

In the State of Pennsylvania, there are two kinds of property tax abatement programs: One kind is the Keystone Opportunity Zones (KOZ) and Keystone Opportunity Expansion Zones (KOEZ), and the other is program made by Local Economic Revitalization Tax Assistance Act (LERTA). In KOZ.KOEZ, property tax abatement is a part of benefit package, and LERTA is a stand-alone local property tax abatement program.

## B. Process of granting property tax abatement (formal)

1. Designation of a revitalization or redevelopment area.

### KOZ/KOEZ

- When a political subdivision applies, Department of Community and Economic Development (DCED), with consultation with Department of Revenue, shall determine whether the area is eligible for the designation
- To qualify for a KOZ/KOEZ designation, the area must be underutilized, abandoned, or not used, where revenue received by state and local government is already at minimum

### LERTA

- Local government should affix the boundary of the deteriorated area, before adoption of ordinance for property tax abatement

2. Formulation and adoption of a tax abatement agreement.

### KOZ/KOEZ

- Local taxing authorities are required to pass ordinances or resolutions to issue exemptions or abatements to reduce/eliminate taxes within the zone

- Property owner or the business should apply with written form to receive the benefit

LERTA

- After the public hearing, at least once, local governing body shall determine the specifics of the program by the ordinance or resolution

3. Implementation, oversight and evaluation.

KOZ/KOEZ

- Pennsylvania DCED is responsible for the administration of the program
- Each local authorities should submit a annual report of the program to DCED
- After annual compliance reviews by the local authorities, DCED shall notify the approval of the benefit renewal

LERTA

- After receiving a written application for exemption, the assessment agency shall calculate the amount of the assessment eligible for tax exemption

4. Termination, claw-back or sunset provisions.

KOZ/KOEZ

- Termination/Clawback:  
If any qualified business relocate outside of the zone, that business must refund to the political subdivision granting the exemption/abatement with the amount of 66% (within 3 years from the abatement) or 33% (within 3~5 years)
- KOZ/KOEZ designation will last through December 2010

LERTA

- No provision. Individual local authority shall determine details of the program

**C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

No.

2. What is the purpose of the property tax abatement?

Economic redevelopment (stimulate the economic growth of deteriorated area/economically distressed areas)

3. Is there a requirement or condition to attain the property tax investment?

KOZ/KOEZ

- The qualified business must get the certification and the annual renewal from DCED
- Resident property owner should “reinvest” up to 25% of the abated property tax

- Nonresident owner of residential property should “reinvest” 50% of the abated property tax

LERTA

- New construction or improvements of properties located in the deteriorated area

4. Abated real property, including schedule, caps, and other specifics.

KOZ/KOEZ

- Industrial/commercial/residential (all) property can be granted of exemption/abatement
- Land is not excluded
- 100% of real property tax exempted

LERTA

- Up to 100% of assessed value of industrial, commercial or any other business property in new construction or improvement
- Land is not excluded
- Maximum period is 10 years

5. Abated personal property.

No.

6. Who bears the cost?

The Local government.

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## Rhode Island

### Links:

State of Rhode Island General Laws Title 44: Taxation

<http://www.rilin.state.ri.us/Statutes/TITLE44/>

Section 44-3-9: Exemption or stabilization of taxes on property used for manufacturing, commercial, or residential purposes.

Section 44-3-10: Exemption of idle manufacturing or mill property

Section 44-3-29: Exemption and/or valuation freeze of wholesaler's inventory

### Contact:

POC: Harrington, Vin

[vharring@riedc.com](mailto:vharring@riedc.com)

## A. Introduction

Rhode Island offers various economic development incentives to business. They include investment tax credit, enterprise zone program, mill building tax incentive, and so on. These incentives are related to business corporation tax, taxation on banks, taxation on Insurance companies, and personal income tax. However, there are stand-alone local property tax abatement programs in Rhode Island.

Details of the programs are provided by ordinance of each town or city.

## B. Process of granting property tax abatement (formal)

Rhode Island has a local, discretionary award process.

### 1. Designation of a revitalization or redevelopment area.

§44-3-9: An area is not designated. Electors of any town or city can authorize their councils to exempt or stabilize amount of taxes to be paid.

§44-3-10: An area is not designated. Any city or town council may grant the exemption, with the approval of state tax administrator.

§44-3-29: An area is not designated. Any city or town council may grant exempt and/or freeze the valuation in stock in trade or inventory of wholesalers.

### 2. Formulation and adoption of a tax abatement agreement.

§44-3-9: After public hearings, at least 10 days' notice of which shall be given in a newspaper, the town/city council determines whether the exemption or stabilization of the amount of taxes will be granted.

§44-3-10: With the approval of state tax administrator, any city or town council can wholly or partially exempt from taxation. For this, the owner of the property should agree in writing with the tax administrator that the building(s) shall not be torn down, and personal property shall not be removed during the period exemption is granted.

§44-3-29: Any city/town may grant exemption. The city/town council may establish the application and/or verification procedure by ordinance.

3. Implementation, oversight and evaluation.

- *Implementation*

During the grant period, the property shall not be liable to taxation by the city or town.

- *Evaluation*

On or before the second Tuesday in January in each year, the state tax administrator shall deliver a “tax expenditure report” to the general assembly. The report shall include legislative history, legal reference, amount of revenues forgone with an index of the reliability, identification of the beneficiaries, and comparison with the other New England states, with emphasis on Massachusetts and Connecticut.

4. Termination, claw-back or sunset provisions.

§44-3-9: The exemption or stabilization referred above is valid so long as the property is used for the manufacturing or commercial, or residential purposes for which the exemption or stabilization was made.

- However, there is no distinct provision of termination, clawback, or sunset.

**C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

Yes. But only tangible property is taxed.

2. What is the purpose of the property tax abatement?

Nothing mentioned distinctively.

3. Is there a requirement or condition to attain the property tax investment?

§44-3-9: New location, construction, expansion, or improvement of the physical plant/buildings and relevant equipments can be qualified.

§44-3-10: Manufacturing or mill building should not have been used for manufacturing at least for 1 year.

§44-3-29: Sales exclusively to customers (retail sales only).

- But, relocation from one city or town in the state of Rhode Island shall not be deemed to permit exemption or stabilization.

4. Abated real property, including schedule, caps, and other specifics.

§44-3-9: Whole or part of the property used for manufacturing, commercial, or residential purposes can be exempted.

Period of the exemption/stabilization shall not exceed 20 years.

Land is not explicitly excluded.

§44-3-10: Only manufacturing property will be applied

Whole property, or part of it will be exempted.

Period of the exemption shall not exceed 1 year..

5. Abated personal property.

§44-3-9: Any personal property for manufacturing, commercial, or residential purposes is exempted in whole or in part.

§44-3-10: Personal property located in the manufacturing or mill building, in whole or in part.

§44-3-29: Stock in trade or inventory of wholesalers, in whole or in part.

Exemption/valuation freeze is granted for 25 years.

6. Who bears the cost?

Local government (No reimbursement from the state government)

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## South Carolina

### Links:

Code of Laws (Title 12. Taxation)

<http://www.lpittr.state.sc.us/code/tit12.htm>

The SC DOR

<http://www.lpittr.state.sc.us/code/t12c004.htm>

Enterprise Zone Act of 1995 (Chapter 10)

<http://www.lpittr.state.sc.us/code/t12c010.htm>

Assessment of Property Taxes (Chapter 37)

<http://www.lpittr.state.sc.us/code/t12c037.htm>

### Contacts:

SC Department of Revenue Property Tax Division

[propertytax@sctax.org](mailto:propertytax@sctax.org)

### A. Introduction

The State of South Carolina has an enterprise zone program which abates income taxes and a stand-alone property tax abatement program for industrial development. Herein we shall refer to the latter. By stand-alone we mean programs where property tax abatements are, or could be, the sole policy tool.

### B. Process of granting property tax abatements (formal)

South Carolina has a state, as-of-right or as-of-statute abatement program.

1. Designation of a revitalization or redevelopment area.

No areas are designated.

2. Formulation and adoption of a tax abatement agreement.

No agreement is reached, but rather the individual or entity must file timely and accurate property returns, and then apply for an exemption on a yearly basis before the SC DOR. This department determines whether the property qualifies for the exemption and notifies the appropriate county official. A refund is then claimed (before the appropriate county).

3. Implementation, oversight and evaluation.

No provision to this effect other than that the SC DOR will determine yearly if property qualifies for the exemption.

4. Termination, claw-back or sunset provisions.

No provisions to this effect.

### **C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

Yes.

2. What is the purpose of the property tax abatement?

Industrial development in general.

3. Is there a requirement or condition to attain the property tax investment?

- Establishment of new manufacturing facilities.
- Additions to existing manufacturing establishments if the addition is \$50,000 or more (includes additional machinery and equipment installed).
- Purchase of existing facilities when the facility and the jobs will be retained in the county (this is provided in a SC DOR revenue ruling).

4. Abated real property, including schedule, caps, and other specifics.

- The abatement is offered only to industrial property.
- Land is not explicitly excluded (In a ruling that extends the abatement to purchasers of existing business, land is explicitly included).
- Incentive is a 100% abatement on county property taxes for five years.

5. Abated personal property.

Only additional machinery and equipment is considered in the statute. Amount and time is same as for real property.

6. Who bears the cost?

Section 12-37-220(7) states that the exemption shall include only county taxes, explicitly excluding school and municipal taxes, which is usually about 1/3 of the total property tax liability; the county absorbs the entire loss of revenue.



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## South Dakota

### Links:

South Dakota Codified Laws

<http://legis.state.sd.us/statutes/index.cfm>

### Contacts:

Colleen Skinner

Property Tax Specialist

PH:(605) 773-5120

FAX: (605) 773-6729

[colleen.skinner@state.sd.us](mailto:colleen.skinner@state.sd.us)

## A. Introduction

South Dakota has a one same type of abatement or program that applies to different types of properties, some of which must be located in designated areas and others not. Relevant provisions of the South Dakota Codified Laws are the following: 10-6-35.1, 10-6-35.2, 10-6-35.21, 10-6-35.22, 10-6-35.24, 10-6-35.25, 10-6-35.4, 10-6-54, 10-6-55, 10-6-56, 10-6-66, 10-6-67, 11-7-2, 11-7-3, and 11-8-4.

## B. Process of granting property tax abatements (formal)

The state of South Dakota has a local discretionary process.

### 1. Designation of a revitalization or redevelopment area.

The board of county commissioners or, in lieu of it, the municipal governing body may designate specific areas, such as an “urban renewal area,” or a “redevelopment neighborhood” in slums or blighted locations. The abatement however, does not apply only to property within these areas.

### 2. Formulation and adoption of a tax abatement agreement.

The board of county commissioners or, in lieu of it, the municipal governing body may adopt a discretionary formula for assessed value. “However, if requested by the owner, this discretionary formula may not be applied.”

### 3. Implementation, oversight and evaluation.

Provisions regarding these issues were not found in the statutes.

### 4. Termination, claw-back or sunset provisions.

Provisions regarding these aspects were not found in the statutes.

### **C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

NO.

2. What is the purpose of the property tax abatement?

Economic development and redevelopment generally.

3. Is there a requirement or condition to attain the property tax investment?

The value of property must be increased by:

- \$30,000 or more in the case of new industrial structures and additions (its new industrial or commercial structures, additions, renovation or reconstruction in the case of a designated “urban renewal area.” The same threshold applies to new commercial structures and additions, and new commercial agricultural structures and additions.
- \$15,000 or more in the case of new structures or additions in a “redevelopment neighborhood.”
- \$10,000 or more in the case of new nonresidential agricultural structures and additions.

4. Abated real property, including schedule, caps, and other specifics.

The abatement applies to industrial, commercial, agricultural and residential property. The abatement implicitly does not apply to land (only new improvements). It is on assessed value and consists generally of freezing the post-construction base of the new improvements at the level immediately following construction, or freezing the during construction base of the improvements at the pre-construction level, or any combination thereof, for no more than five years.

Specifically, the statute provides that “the formula may include for any or all of the five tax years following construction all, any portion or none of the assessed valuation for tax purposes. (...). The assessed valuation during any of the five years may not be less than the assessed valuation of the property in the year preceding the first year of the tax years following construction.”

“Any structure that is partially constructed on the assessment date may be valued for tax purposes pursuant to this section and the valuation may not be less than assessed valuation of the property in the year preceding the beginning of construction.”

5. Abated personal property.

N.A.

6. Who bears the cost?

The state does not have a statewide levy.

The revenue loss is suffered at the local level, by all overlapping taxing jurisdictions, including school districts.

There is nothing provided in the statute to indicate that the state reimburses local governments in any way for revenue losses.

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## Texas

### Links:

Property Redevelopment Act

[http://www.window.state.tx.us/taxinfo/proptax/tc00/tc00\\_3b312.html](http://www.window.state.tx.us/taxinfo/proptax/tc00/tc00_3b312.html)

Real and personal property taxed

[http://www.window.state.tx.us/taxinfo/proptax/tc00/tc00\\_1c11.html](http://www.window.state.tx.us/taxinfo/proptax/tc00/tc00_1c11.html)

Exemptions

[http://www.window.state.tx.us/taxinfo/proptax/tc00/tc00\\_1c11b.html](http://www.window.state.tx.us/taxinfo/proptax/tc00/tc00_1c11b.html)

### Contact:

Patricia Bailey

Property Tax Division

Tx Comptroller of Public Accounts

1-800-252-9121 x34416

[Patricia.Bailey@cpa.state.tx.us](mailto:Patricia.Bailey@cpa.state.tx.us)

## A. Introduction

The State of Texas has both an enterprise zone program and a stand-alone property tax abatement program in “reinvestment zones” under the Property Redevelopment and Tax abatement Act.

However, designation of an area as an enterprise zone under the Texas Enterprise Zone Act constitutes designation of an area as a reinvestment zone. The incentives provided by the enterprise zone program are the state sales and use tax refund and a reduction in the franchise tax. Additionally however, property located in an enterprise zone would be eligible for the property tax benefits mentioned below for reinvestment zones. Lastly, and in the other direction, under Chapter 111 of the Tax Code certain persons paying property taxes to a school district on property located in a reinvestment zone are eligible for a refund of net state sales and use taxes imposed under Chapter 151 and net state franchise taxes imposed under Chapter 171 of the Tax Code.

## B. Process of granting property tax abatements (formal)

Texas has a local, discretionary award process.

1. Designation of a revitalization or redevelopment area.

The local taxing unit establishes guidelines and criteria governing tax abatement agreements and issues a resolution stating that it elects to be eligible to participate in tax abatement. The local taxing unit may then designate an area that complies with certain

requisites as a reinvestment zone, after conducting a public hearing (No mention of an appeal).

2. Formulation and adoption of a tax abatement agreement.

The local taxing unit may then enter into an abatement agreement with a property owner. The statute does not mention a document similar to the Indiana “statement of benefits.”

3. Implementation, oversight and evaluation.

Agreement provides for inspections to verify that improvements or repairs are made.

No provision for relocation (contrary to case of Indiana).

No mention of a sunshine provision to provide for publishing of a list of the authorized deductions, including name of beneficiary, amount and years of the deduction (contrary to case of Indiana).

No mention of evaluation of effectiveness of the program for redevelopment purposes.

4. Termination, claw-back or sunset provisions.

Termination or modification. If the owner does not comply with the agreement, it can be canceled or modified.

Sunset provision. A designation of a reinvestment zone expires after five years and may be renewed for a period of no more than five more years.

Claw-back provision. Agreement provides for the recapture of property tax revenue lost if improvements and repairs are not made according to the agreement.

**C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

Yes.

2. What is the purpose of the property tax abatement?

The purpose of the Texas reinvestment zones is also economic redevelopment in general.

3. Is there a requirement or condition to attain the property tax investment?

The owner is entitled to an exemption on condition that he or she makes specific improvements or repairs to the property (contained in the agreement).

4. Abated real property, including schedule, caps, and other specifics.

The abatement on real property is offered to industrial, commercial and residential property. Land is not explicitly excluded. A portion of the value of the real property is exempted for a period not to exceed 10 years. This portion is not to exceed the increase in value.

5. Abated personal property.

Same as for real property. Only additional personal property can be exempted and inventories or supplies are excluded.

6. Who bears the cost?

The tax abatement awarded by one jurisdiction does not affect the base of another overlapping taxing unit (with jurisdiction to tax the same property). When one taxing unit grants a tax abatement it must however notify this to other taxing units, which may also award an abatement under the same or other conditions (sections 312.2041 and 312.206).

There are no statewide mills, and the state does not reimburse localities for revenues losses.

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## Vermont

### Link:

LexisNexis Vermont Statutes

<http://198.187.128.12/vermont/lpext.dll?f=templates&fn=fs-main.htm&2.0>

Title32 Taxation and Finance: [Subtitle2 Taxation](#)

[Part2 Property Taxation](#)

: Chapter135. Education Property Tax: §5401, Definition/§5404(a) Tax Stabilization Agreement.

[Part3 Income and Franchise Taxes: Chapter151. Income Taxes: Subchapter 11E.](#)

[Economic Advancement Tax Incentives](#): §5930a. Vermont economic progress council.

### Contacts:

Fred Kenney

Executive Director

Vermont Economic Progress Council

Drawer 20, National Life Drive, 6th Floor

Montpelier, Vermont 05620

802 828-5256

802 828-3258 fax

777-8192 cell

[fred@thinkvermont.com](mailto:fred@thinkvermont.com)

## A. Introduction

The State of Vermont has the Economic Advancement Tax Incentive program. It includes several tax incentive sub-programs, and there are two stand-alone property tax abatement programs: Property Tax Stabilization Agreement and Construction in Progress Property Tax Exemption. Like other economic advancement tax incentive programs, Vermont Economic Progress Council (VEPC) administers these programs. Because these incentives are provided against the statewide education property tax, state government takes major role in the process. And also, local government may exempt business personal property from local taxation by an election (Title32, Subtitle2, part2, § 3803).

## B. Process of granting property tax abatements (formal)

Vermont has the joint discretionary award process of state and local government.

1. Designation of a revitalization or redevelopment area.

Area is not designated. Both are statewide programs.

## 2. Formulation and adoption of a tax abatement agreement.

- Both programs

- Local adoption of tax stabilization agreement should be the first step.  
Only after the municipality's approval of tax exemption on municipal property tax liability, VEPC can enter into the stabilization agreement for state tax liability.
- Then, a business or municipality may apply to the VEPC.
- After the application, the Council shall do "but for" test, which is the estimation of the proposed economic development with/without the incentive.
- Fiscal cost benefit analysis will be conducted to estimate its impact on statewide education tax revenue.

## 3. Implementation, oversight and evaluation.

- *Implementation*

When it is determined, VEPC shall provide the written notification of exemption, which contains the performance expectation of the award recipient.

The property shall not be in the education property tax grand list.

- *Oversight*

Before the end of each year, the award recipient should file a report with VEPC stating the amount of incentive, and detailing compliance of performance expectation.

- *Evaluation*

Municipality and the business involved annual reports are required by VEPC

Annually, VEPC shall report to the general assembly on the effects of the stabilization to education property tax grand list of municipality/state.

## 4. Termination, claw-back or sunset provisions.

When the applicant fails to comply with performance expectations; fails to supply correct information or annual report, economic incentive amount should be refunded, and the remaining incentive shall not be granted.

### **C. Eligibility and scope of the property tax abatement (substance)**

#### 1. Is personal property taxed?

Yes.

#### 2. What is the purpose of the property tax abatement?



## Economic development

### 3. Is there a requirement or condition to attain the property tax investment?

All applicants must be creating new jobs, meet the “but for” test, have a positive economic impact on the state (measured by the cost/benefit model), meet the guidelines, and;

#### Property Tax Stabilization Agreement

- Portion of state education tax exemption shall not be greater than the portion of municipality property tax liability.

#### Construction in Progress Property Tax Exemption

- Unoccupied new facilities/unoccupied facilities under renovation or expansion, less than 75% complete, and owned by a business that has approval of VEPC

### 4. Abated real property, including schedule, caps, and other specifics.

#### Property Tax Stabilization Agreement

- Industrial or commercial property that entered into economic development program may be exempted from education property tax grand list.
- Maximum period is 10 years

#### Construction in Progress Property Tax Exemption

- Real property, excluding land, shall be exempted.
- Exemption from the statewide education property tax (\$1.10 per \$100.00 property value).
- Not to exceed 2 year.

### 5. Abated personal property.

#### Property Tax Stabilization Agreement

Same with real property.

#### Construction in Progress Property Tax Exemption

Only real property is exempted.

### 6. Who bears the cost?

#### Property Tax Stabilization Agreement

State government (state education tax) and local government (municipal property tax)

#### Construction in Progress Property Tax Exemption

State government

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## Washington

### **Link:**

Revised Code of Washington (RCW)

Chapter 84.14: New and Rehabilitated Multiple Unit Dwellings in Urban Centers

<http://search.leg.wa.gov/wslrcw/RCW%20%2084%20%20TITLE/RCW%20%2084%20%2014%20%20CHAPTER/RCW%20%2084%20.%2014%20%20chapter.htm>

### **Contacts:**

Gary Grossmann

360.486-2147

[GaryG@DOR.WA.GOV](mailto:GaryG@DOR.WA.GOV)

## **A. Introduction**

The State of Washington has a program to make the value of new housing construction, conversion, and rehabilitation improvements be exempt from ad valorem property taxation. Besides of this, most of tax incentives are provided as tax deferral of sales/use tax or business and occupation (B&O) tax.

## **B. Process of granting property tax abatements (formal)**

Washington has a local, discretionary award process.

### 1. Designation of a revitalization or redevelopment area.

The governing authority of city or town (with a population of at least 50,000) may adopt a resolution of intention to designate an area and shall give notice of a hearing. Following the hearing, the governing authority may designate all or a portion of the area described in the resolution of intent as a residential targeted area.

### 2. Formulation and adoption of a tax abatement agreement.

- Owner of property may apply for the incentive program.
- The applicant must enter into a contract with the city approved by the governing body.
- The contract shall include the amount of the rehabilitation/construction expenditure, whether the other conditions will be met to the requirement, and a statement that the construction will be completed in 3 years.

### 3. Implementation, oversight and evaluation.

- Implementation
  - If application is approved, the city shall issue the owner of the property a conditional certificate of acceptance of tax exemption.
  - If denied by authorized administrative official, that official shall notify in writing the reason of denial.
- Oversight
  - Each year for a period of 10 years, the owner of tax exempted property shall file a report about occupancy and vacancy of the property; owner's certification that the property has not changed use
  - If the city (county) assessor discovers the change of use after the certification is granted, exemption shall be canceled.

4. Termination, claw-back or sunset provisions.

- Termination
  - If the multifamily developments are changed their use, the tax exemption must be canceled.
- Clawback
  - Real property tax will be levied the unqualified property, plus penalty.
  - Penalty will be calculated based on the difference between the property tax paid and the property tax that would have been paid if the value of nonqualifying improvement dated back to the date the improvement were converted to a nonmultifamily use.
- Sunset Provision
  - There is no sunset provision. While, the clawback applies to the tax levied at 2001 and thereafter.

**C. Eligibility and scope of the property tax abatement (substance)**

1. Is personal property taxed?

Yes

2. What is the purpose of the property tax abatement?

The purpose is to encourage increased residential opportunities in cities that are required to plan or choose to plan under the growth management act within urban centers. And it is also intended to stimulate the construction of new multifamily housing and the rehabilitation of existing vacant and underutilized buildings for multifamily housing in urban centers.

3. Is there a requirement or condition to attain the property tax investment?

- New multi-housing building, rehabilitation improvement of the existing structure that has been vacant for 12 months

-The new or rehabilitated multiple-unit housing should be located in a residential targeted area; meet the guidelines regarding height, density, public benefit features, number and size of proposed development, indicated necessary by the city; provide for a minimum of fifty percent of the space for permanent residential occupancy; be completed within three years from the date of approval of the application.

4. Abated real property, including schedule, caps, and other specifics.

- Exemption of the qualifying residential property from ad valorem property taxation for 10 successive years
- Land is excluded

5. Abated personal property.

No.

6. Who bears the cost?

Local government

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## West Virginia

Links:

Summary of Tax Credit Program

[http://www.state.wv.us/taxrev/97taxlaws/97tl\\_credits.pdf](http://www.state.wv.us/taxrev/97taxlaws/97tl_credits.pdf)

West Virginia Code, Chapter 11. Taxation

<http://www.legis.state.wv.us/legishp.html>

Contacts:

Rolland Phillips, Senior Manager

Retention and Expansion Representatives

[rphillips@wvdo.org](mailto:rphillips@wvdo.org)

### **A. Introduction**

In the state of West Virginia, there are two stand-alone property tax incentive programs: freeport tax exemption(W.Va code §11-5-13) and certified capital addition property incentive program(W.Va code §11-6F). In addition to these, a part of the business investment and jobs expansion credit (Super credit) is related to property tax abatement(W.Va code §11-13-3c)..

### **B. Process of granting property tax abatement (formal)**

Although county government administers the property tax, virtually all tax-related authorities are vested to the state tax commissioner.

1. Designation of a revitalization or redevelopment area.

All are statewide program, and an area is not designated.

2. Formulation and adoption of a tax abatement agreement.

#### Freeport Exemption

Process is the same with normal property taxation. Incentive is provided as an exemption from taxation, or reduced valuation of the property.

#### Capital Addition Property

When a person makes written applications to the state tax commissioner for designation of a property as certified addition property, the commissioner shall determine whether the property can be qualified.

#### Super Credit

When a person makes written application to the state tax commissioner and receives written acknowledgement from the commissioner, the credit will be allowed.

### 3. Implementation, oversight and evaluation.

#### Freeport Exemption

Nothing mentioned specially. It is processed in the same way with the normal property taxation.

#### Capital Addition Property

- When the property is certified as capital addition property, the state tax commissioner shall provide written determinations to the applicant and the county assessor.
- Annually, the state tax commissioner shall report all information on this program and recommendations to the joint committee on government, and to the governor.

#### Super Credit

Calculated “qualified investment” is total available credit. This credit is applied against 10% of state tax liabilities. State business tax is offset by the Super Credit in three-step process. First, up to 80% of Business & Occupation Tax, Telecommunications Tax, Business Franchise Tax, Corporation Net Income Tax, and Personal Income Tax is offset. Remaining amount is offset by property tax and unemployment tax up to 80%, and worker’s compensation fees.

### 4. Termination, claw-back or sunset provisions.

#### Freeport Exemption

As long as the property is located in the warehouse, property tax shall be exempted. (No clawback or sunset is mentioned)

#### Capital Addition Property

- When the property is disposed to unrelated third party, or manufacturing is ceased, incentive will be ended.
- This program will end in 2006. (No clawback is mentioned)

#### Super Credit

When “qualified investment” property is removed, and the created new jobs decreased into less than 50, full amount of the credit shall be recaptured.

If the property is out of service, and created new jobs are more than 50, partial recapture will be acted.

After partial recapture, created jobs are reduced into less than 50, the additional recapture will be acted to make full recapture.

## **C. Eligibility and scope of the property tax abatement (substance)**

### 1. Is personal property taxed?

Yes.

2. What is the purpose of the property tax abatement?

Economic development, in general. Especially, certified capital addition property program has the purpose of “tax base preservation and job creation/preservation attributable manufacturing facilities.

3. Is there a requirement or condition to attain the property tax investment?

Freeport Exemption

Tangible personal property should be in the process of the interstate commerce (finally, out of West Virginia). Inventories of natural resources are excluded.

Capital Addition Property

The property should be in the manufacturing process, and in two miles distance from pre-established “manufacturing” facilities, and the original cost of it should exceed \$50 million. Original cost of the pre-established facilities should exceed \$100 million, before the addition of the property.

Super Credit

Tangible personal property and real property with a remaining useful life of more than 4 years.

4. Abated real property, including schedule, caps, and other specifics.

Capital Addition Property

- The value of certified capital addition property (manufacturing) shall be 5% of the certified capital addition property’s original cost. The rest properties shall be valued as its salvage value (market value).
- Maximum period is 10 years.
- Land is included.

Super Credit

Calculation of the “qualified investment”

Useful Life	Applicable %	Min number of New Job	Applicable %
4 ~ 6 years	33.3 %	1,000	90%
6 ~ 8 years	66.6%	760	80%
8 ~ years	100%	520	70%
		280	60%
		50	50%
		10 (for small business)	30.5% for each job, less than 50

To determine total credit allowable, useful life condition % and job number condition % are multiplied to total capital investment amount.

5. Abated personal property.

Freeport Exemption

- Tangible personal property in manufacturing process.
- 20% exemption of assessed value of the property from ad valorem taxation.
- Maximum period is 5 years.

Capital Addition Property

Same to the real property.

Super Credit

Same to the real property.

6. Who bears the cost?

Local government