

Rethinking Property Tax Incentives for Business



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Policy Focus Report Series

The policy focus report series is published by the Lincoln Institute of Land Policy to address timely public policy issues relating to land use, land markets, and property taxation. Each report is designed to bridge the gap between theory and practice by combining research findings, case studies, and contributions from scholars in a variety of academic disciplines and from professional practitioners, local officials, and citizens in diverse communities.

About This Report

State and local governments across the United States use several types of property tax incentives for business, including property tax abatement programs, firm-specific property tax incentives, tax increment financing, enterprise zones, and industrial development bonds combined with property tax exemptions. The escalating use of property tax incentives over the last 50 years has resulted in local governments spending billions of dollars with little evidence of economic benefits.

This report provides an overview of use of property tax incentives for business and offers several recommendations. State and local governments should consider forgoing these often wasteful incentive programs in favor of other, more cost-effective policies, such as customized job training, labor market intermediaries, and the provision of business services. If ending property tax incentives is not feasible, state governments should consider a range of policy options, such as placing limits on their use, requiring approval by all affected governments, improving transparency and accountability, and ending state reimbursement for local property taxes forgone because of incentives. Local governments can avoid some of the pitfalls of business property tax incentives by setting objective criteria for the types of projects eligible for incentives, targeting incentives to mobile firms that export goods or services out of the region, limiting total spending on incentives, opening the process for decision making on incentives, and forging regional cooperative agreements.

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they are often given to firms that would have chosen the same location regardless of tax breaks, in which case they are a costly tool with no significant effect on economic development.

Tax incentives have the potential to achieve a variety of economic development goals, but overuse and poorly designed programs can leave localities with smaller tax bases and no improvement in their local economies. The dramatic growth in their use over the past 30 to 40 years and the long-term fiscal challenges facing many state and local governments suggest that policy makers need to rethink how they are using incentives. This report offers recommendations for how to increase the odds of realizing development goals with property tax incentives while minimizing the common pitfalls.

INCREASED USE OF PROPERTY TAX INCENTIVES

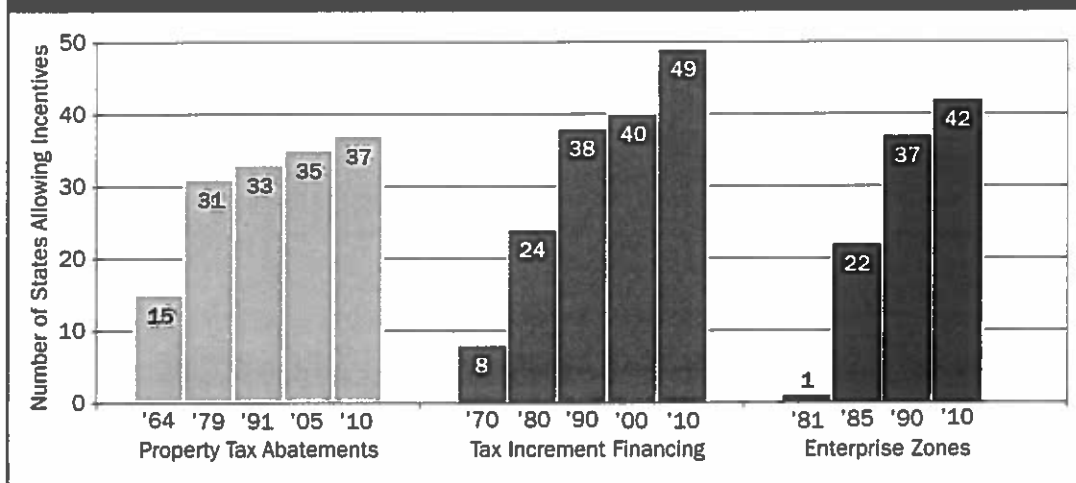
Like many other economic development tools, the use of property tax incentives has grown dramatically in recent decades, with the most rapid growth occurring in the

1970s and 1980s (figure 1.1). There are several reasons for this growth. At the root is the increased mobility of business over recent decades. Transportation and communications costs have declined dramatically; supply chain management has improved, and previously closed economies have opened up in Asia and other areas. As a result, firms are more sensitive to costs that vary by location, such as labor and taxes, and increased competition means that businesses ignoring these cost differences may risk bankruptcy (Davidson 2012). With greater mobility, the potential for incentives to alter firm location decisions has grown.

Competition to attract a smaller number of industrial facilities has placed pressure on state and local government officials to use all the tools at their disposal, including property tax incentives. Figure 1.2 shows that over the past three decades, the value of U.S. manufacturing output has been stagnant, growing only 4 percent since its 1978 peak compared to 89 percent growth for the economy as a whole. Manufacturing employment has declined 41 percent over this period.

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FIGURE 1.1
Increasing Use of Property Tax Incentives



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Note: Property tax abatements are stand-alone programs that are not part of broader economic development programs.

Sources: Appendix Tables A.1, A.2, and A.3; Kerth and Baxandall (2011); U.S. Department of Housing and Urban Development (1991); Wassmer (2009, 223-224).

TABLE A.1
State Property Tax Abatement Programs, 2010

State	Program Name ¹	Maximum Duration (Years)	Granting Authority ²						Who Bears Cost				Eligible Property					
			LG	ST	CO	AR	CI	D	LG	OG	ST	UN	I	C	R	R	D	
AL	Alabama Property Tax Abatements	10			X		X	X		X				X			X	
AK	Property Tax Exemption or Deferral for Economic Development	5+	X							X				X	X	X		
	Exemption or Deferral for Deteriorated Property	5-10								X								X
AZ	Environmental Technology Assistance Program	40				X								X				
CA	Economic Revitalization Manufacturing Property Tax Rebates	5	X					X	X					X				
	Capital Investment Incentive Program	15	X						X					X				
CO	Local Incentives for New Business Facilities	10	X		X		X	X	X		X			X	X			X
CT	Manufacturing and Machinery Equipment Exemption	5				X			X	X				X			X	X
	Abatement for Improvement of Property	2-7	X						X					X		X		
	Urban Reinvestment Abatement	5	X						X									X
DC	Real Property Tax Abatement for Commercial Properties	5				X			X					X	X		X	X
FL	Economic Development Tax Exemption	10				X			X					X				
	Qualified Target Industry Refund	4+		X					X		X			X				X
HI	Wasteland Development Program	5		X								X						X
	Exemption for Property Used in Manufacturing of Pulp and Paper	5				X						X	X					X
ID	Tax Cap on Property Value Exceeding \$800 Million	NS		X						X								X
	Small Employer Growth Incentive Exemption	NS			X					X								X
	New Capital Investment Incentive Act	NS		X						X								X
IL	Abatement for Commercial and Industrial Property	20+	X		X		X	X	X					X	X			
IN	Deduction for Rehab/Redevelopment in Economic Revitalization Areas	10	X							X				X	X	X		X
	Investment Deduction	3			X					X								X
IA	High Quality Jobs Program	20		X						X				X	X			
	Industrial Property Exemption	5			X		X					X		X	X		X	X
KS	Economic Development Property Tax Exemption	10	X	X						X				X	X		X	
KY	New or Relocating Manufacturing Exemption	5	X						X					X				
	City Tax Exemption	5					X		X									
	Moratorium of Property Assessment	5	X						X					X		X	X	
LA	Industrial Tax Exemption Program	15	X	X						X	X			X				
	Restoration Tax Abatement	10	X	X						X					X	X		X
ME	Business Equipment Tax Reimbursement	12		X							X			X	X			X
	Business Equipment Tax Exemption	NS		X					X		X			X	X			X
MD	Credit for Buildings Undergoing Renovation for Communications	10	X						X						X	X		X
	Credit for Businesses that Create Jobs	12	X		X				X									X
	Manufacturing Facilities Tax Credit	LO	X		X				X					X				X
	Credit for Property Used as a Publicly Sponsored Business	LO	X						X									X
	Commercial Waterfront Property Tax Credit	LO	X						X						X			X
	Vacant and Underutilized Commercial Buildings	LO	X		X				X					X	X			X
	Rehabilitated Property	10	X		X				X									X
MA	Economic Development Incentive Special Assessment	4	X	X					X					X	X			
MI	Industrial Facilities Tax Abatement Program	12	X							X	X			X				
	Obsolete Property Rehabilitation Districts	12	X	X						X				X	X			X
	Commercial Rehabilitation District	10	X							X				X				
	Commercial Redevelopment District	12	X							X				X				X
MN	General Abatement Authority	15	X						X					X	X	X	X	
	Economic Development Tax Abatement	10			X				X					X	X			
	Property Tax Exemption for Redevelopment Projects						X			X				X	X	X		
MO	Land Clearance for Redevelopment Abatement	10	X	X						X								X

Key to abbreviations on pages 68-69.

Criteria Firms Must Meet to Receive Abatements													Form of Abatement ¹					Tax Abated					Maximum Abatement	Termination; Clawback or Sunset							
AP	QU	PI	J	I	RL	W	LO	NB	SP	SE	ER	EX	CR	F	R	SA	O	RP	PP	IM	LE	S		T	CL	SU					
				X								X						X	X			X				100%			X		
			X								X	X					X		X	X							100%				
X												X					X	X									100%				
X																	X	X	X	X							5% AR	X			
			X			X													X								100%		X		
			X						X									X	X								100% of value > \$150M		X		
				X									X		X				X								50%				
												X							X								100%	X			
	X											X		X					X									X	X		
			X			X						X						X		X							50% VA	X	X		
X												?						X		X							100% VA				
			X								X	X						X	X	X							100% VA			X	
X			X												X			X	X								\$1.5 million/year				
X												X				X		X									N/A	X	X		
X												X						X	X								100%				
				X		X						X						X	X								100% of value > \$800M	X			
X			X	X								X						X									100%				
				X								X						X	X								100% of value > \$400M				
			X		X							?						X									100%				
X			X	X												X		X	X	X							100% VA	X			
X		X	X	X												X		X									75% of VA or \$2 million				
X		X	X	X		X						X						X		X							100% VA	X	X		
X												X						X		X							75% VA	X			
X	X		X									X						X	X								100%	X	X		
X								X				X						X	X								100%				
			X									X						X	X												
X		X			X							X						X	X	X							100% VA				
		X												X				X		X									X		
X												X						X									100%			X	
X				X								X						X									100%				
X		X	X									X						X									100%				
X		X	X									X						X									58.50%	X	X		
X												X						X									100%				
X												X						X									LO				
X							X					X						X									LO				
							X					X						X									LO				
		X					X					X						X		X							100% VA				
			X	X												X		X									100%				
X		X										X		X				X	X		X						50%	X			
X		X							X	X		X						X	X	X	X	X					Freeze	X		X	
												X						X	X	X		X					SA	X			
							X					X						X	X	X		X					SA	X			
												X						X	X								100%				
											X							X	X								SA				
X											X							X	X								SA				
X														X				X	X								100% VA				

TABLE A.1 (CONTINUED)

State Property Tax Abatement Programs, 2010

State	Program Name ²	Maximum Duration (Years)	Granting Authority ²							Who Bears Cost				Eligible Property				
			LG	ST	CO	AR	CI	O	LG	OG	ST	UN	I	C	H	R	O	
MS	Industrial Exemptions	10	X	X						X			X	X				
	Start-Up Exemptions	5				X						X				X	X	
MT	Property Tax Abatement for New or Expanding Firms	10	X							X				X				
	Local Option Abatement for Expanding Value Added Machinery and Equipment	7	X		X					X	X		X				X	
	Remodeling of Business Structures Abatement	5	X							X			X	X	X			
	New Industrial Property	3		X						X			X					
NE	Nebraska Advantage Act Tier 4, 5, and 6 Exemptions	10		X					X									
NV	Personal Property Tax Abatement for New or Expanding Businesses	10		X					X			X	X					
NY	Abatement and Exemption for Industrial and Commercial Property in NYC	19-25	X						X				X				X	
	Business Investment Exemption	10	X						X				X	X				
	Residential Commercial Urban Exemption	12	X						X					X	X		X	
	Food Retail Expansion to Support Health	25					X		X					X			X	
	Commercial Expansion/Revitalization Program	5					X		X					X			X	
ND	Property Tax Exemption for Improvements to Commercial Buildings	5			X					X				X	X			
	Exemption for New or Expanding Business Projects	5-20			X		X			X			X	X				
OK	Five Year Exemption for Manufacturing Facilities	5	X	X		X					X		X	X	X			
	Local Development Act	5-6	X							X			X	X	X			
OR	Strategic Investment Program	15	X	X					X		X		X	X			X	
	Construction in Process Program	2				X			X		X		X	X			X	
PA	Economic Revitalization Tax Assistance	10	X						X				X	X	X			
RI	Exemption for Manufacturing, Commercial, or Residential Property	20	X						X				X	X	X			
	Exemption of Idle Manufacturing or Mill Property	1	X						X								X	
	Exemption/Valuation Freeze of Wholesaler's Inventory	25	X						X								X	
SC	Manufacturing and Research and Development Exemption	5		X					X				X			X		
	Corporate Headquarters, Office, or Distribution Facilities Exemption	5		X					X				X	X	X		X	
SD	Property Tax Abatement for New or Expanding Firms	5	X		X					X			X	X	X		X	
	Exemption of Multi-Tenant Business Incubator	5+			X					X							X	
VT	Property Tax Stabilization Agreements	10	X	X					X		X		X	X			X	
	Construction in Progress Exemption	2	X	X							X		X	X			X	
VA	Exemption for Rehabilitation, Renovation, or Replacement of Commercial/Industrial Structures	15	X						X				X	X			X	
WA	Aerospace Industry Business and Occupation Tax Credit for Property Tax Paid	NS		X							X		X				X	
	Business and Occupation Tax Credit for Property Tax on Aluminum Smelter	NS		X							X		X				X	
WV	Exemption of Inventory/Warehouse Goods	20				X			X								X	
	Five-for-Ten Program	10		X					X								X	
	Business Investment and Jobs Expansion Credit	NS		X					X				X	X				
82 Programs in 37 States (Plus DC)			44	26	16	9	9	5	43	29	15	4	51	44	13	9	48	
Key		NS: Not specified LO: Determined locally	LG: Local government ST: State CO: County AR: As-of right CI: City O: Other						LG: Awarding local government OG: Overlapping governments ST: State UN: Unspecified				I: Industrial or manufacturing C: Commercial H: Housing or residential R: Research O: Other					

Note: See Appendix Notes on page 74.
Sources: Mikesell and Dalehite (2002); Significant Features of the Property Tax (2012); Various state sources and statutes.

Criteria Elements Must Meet to Receive Abatements													Form of Abatement					Tax Abated					Maximum Abatement	Termination; Clawback or Sunset		
AP	QU	PI	J	I	RL	W	LO	NB	SP	SE	ER	EX	CR	F	R	SA	O	RP	PP	IM	LE	S		T	CL	SU
X				X								X					X	X	X	X		X	100% VA or SA	X		
	X											X						X	X				100%			
				X				X				X						X	X				50%	X		
	X		X														X		X				SA			
		X										X						X	X	X			100% VA		X	
	X							X									X	X	X				3% Rate			
X			X	X								X							X				100%		X	
X			X			X		X				?							X				50%		X	
X		X										X						X		X			95% or 100% VA	X		
		X			X							X						X					50% VA			
X												X						X		X			100% VA			
	X											X		X				X					100%			
		X										X						X		X			100%			
X					X			X				X				X	X	X			X		100% VA	X		
X			X	X		X						X						X	X	X			100% VA	X	X	
X												X						X	X		X		100%			
X				X					X			X						X	X				100%		X	
X		X			X						X	X						X		X			100%		LO	
		X			X							X				X	X	X	X				100%		X	
	X						X					X						X	X				100%			
		X						X				X		X					X				100% or SA			
X	X	X			X							X						X	X				100%			
	X	X	X		X							X						X	X				100%			
X		X												X				X		X	X		Freeze			
	X											X						X					100%		X	
X			X									X						X	X				100%		X	X
X		X	X									X						X		X	X	X	100%		X	X
X	X	X										X						X					100% VA or 50% PC		LO	
X	X	X											X					X	X				100%			X
X	X												X					X	X				100%			X
	X											X							X		X		SA		X	
X			X	X									X					X	X				80%			X
36	22	23	22	17	8	6	5	5	4	4	2	50	12	8	5	5	11	70	46	24	10	3		29	15	6

AP: Application form or certification requirement
 QU: Property used for qualifying use
 PI: Property improvement, renovation, or rehabilitation
 J: Job creation or retention
 I: Investment
 RL: Relocation/Expansion
 W: Wage, benefit, or employment agreement
 LO: Determined locally
 NB: New business or expanded business
 SP: Substitute payment
 SE: Socioeconomic criteria
 ER: Export requirements

EX: Exemption
 CR: Credit
 F: Freeze
 R: Rebate
 SA: Special assessment
 O: Other

RP: Real property
 PP: Personal property
 IM: Improvements
 LE: Land excluded
 S: School or education tax

AR: Assessment ratio
 VA: Value added
 SA: Special assessment
 PC: Project cost

T: Termination
 CL: Clawback
 SU: Sunset
 LO: Local option

TABLE A.2

State Tax Increment Finance Programs, 2010

State	Program Name	Duration (Years)	Eligible Tax Revenues ¹										Requirements for District Creation ²										Approval Agencies ³				Public Hearing Required? ⁴	
			P	S	I	PI	EA	GR	O	B	BF	FS	CB	CP	PP	PB	DP	O	CT	CO	SB	ST	RA	TC	O	A	D	
AL	Tax Increment Districts	30	X										X				X	X							Y	Y		
AK	Debt for Improvement Area Projects	Unspecified	X												X										N	N		
AR	TIF for Community Redevelopment Districts	25	X								X							X	X						Y	Y		
CA	TIF for Community Redevelopment Project Areas	Unspecified	X																		X				Y	Y		
CO	Community Redevelopment	25-50	X	X							X					X	X								Y	N		
CT	TIF for Municipal Development Projects	40	X								X						X	X			X				Y	N		
DE	Municipal TIF District	30	X								X						X	X					X		Y	N		
DC	Tax Increment Financing		X	X							X						X	X							N	N		
FL	Community Redevelopment	7-40	X													X					X				Y	N		
GA	Tax Allocation Districts	Term of bonds	X	X												X	X				X				Y	N		
HI	Tax Increment Financing	Term of bonds	X									X													Y	Y		
ID	Revenue Allocation Areas	24	X								X						X				X				Y	N		
IL	Tax Increment Allocation Redevelopment	23	X	X												X	X						X		Y	N		
IN	Tax Increment Finance	25	X												X										Y	Y		
IA	Urban Renewal	20	X	X												X	X								Y	Y		
KS	Tax Increment Financing	20	X	X							X												X		Y	N		
KY	Kentucky Increment Financing	30	X	X							X												X		Y	Y		
LA	Tax Increment Development	30	X																				X		Y	N		
ME	Municipal Development District	30	X													X	X				X				Y	Y		
MD	Tax Increment Financing	Unspecified	X													X	X								Y	?		
MA	Economic Development Incentive Program	30	X																		X				Y	N		
MI	TIF Program	30	X																		X	X	X		Y	Y		
MN	Tax Increment Financing	26	X																		X			X	Y	N		
MS	Tax Increment Financing	30	X	X																	X	X			Y	Y		
MO	TIF for Redevelopment Areas	23	X	X							X										X	X			Y	Y		
MT	Tax Increment Finance	15-40	X								X					X	X						X		Y	N		
NE	TIF for Community Redevelopment Areas	15	X								X												X		Y	Y		
NV	Tax Increment Areas	30-45	X								X												X		Y	N		
NH	Municipal Economic Development and Revitalization Districts	Term of bonds	X																		X				Y	N		

