The Basics of Tax Abatement

By Mark Wickersham
Executive Director
Huntington County Economic Development

Several Indiana Communities have recently experienced controversies regarding a thing called property tax abatement. Seldom do business owners, service professionals or restaurants, for example, establish prices by concluding that "customer Joe Smith is wealthy, so he should pay more for his lunch than someone else ordering the same meal." In fact, most business owners might be excited if a wealthy person wants to spend money in their local establishment (community). The check won't bounce. The credit card isn't "hot." The cash is safe.

The public reacts negatively, however, if they believe a company is garnering favor at their expense or otherwise not paying their fair share. The public also reacts to the idea that a project will happen anyway so why offer an incentive?

Welcome to the world of economic development incentives.

Huntington County citizens can fortunately count on the integrity of our local officials and employers to exercise good judgment with abatements and our County is not a center of conflict as a result. We have a good process and our local employers have responded very positively.

Actually, anytime a company is requesting the approval of a property tax abatement, it should be cause to celebrate. It's good news. It means that a company is willing to consider investing money in Huntington County. The company will still have a significant liability associated with their investment even if an abatement is approved. The company simply doesn't have to pay as much, or as soon as they would without an abatement. They still have a liability which is why some communities call it "phase-in" rather than abatement.

It never hurts to remind ourselves about the significance of property tax abatement and how it helps our Community ***when properly administered***. Here are a few details to remember.

The concept of property tax abatement is not a new one in Indiana. The original law was approved over forty years ago by the Indiana General Assembly. At its most basic level, property tax abatement allows for the phase-in of the new tax liabilities resulting from employer investments. The General Assembly concluded during its 1977 debate that it's in the interests of the taxpayers and communities at large for businesses to be successful and that voters expect local government to somehow help create job opportunities.

More importantly, immediately after a company has spent a large sum of money to grow, is the worst time to significantly increase their tax liability – a liability created because they wanted to improve their business, hire more people, or otherwise improve their real estate. Again, the taxpayers and community at large benefit from the investment but the company may not be able to make the investment in the first place without help. Sometimes property tax abatement is the only way a company can afford to make the new investment.

Property tax abatement is ***not*** a cash award paid by the taxpayers to help a company. Nor does it reduce any current liabilities the company may have. It simply reduces their liability associated with new investments in the short term, when they can least afford it, and "phases-in" the tax liability over a period of time.

The approval of tax abatements by various governmental units does not result in budget outlays, however, some taxing units who want to increase their spending, occasionally express concerns that abatements slow the opportunity for increased governmental revenue which could support more spending. There is some merit to that argument, especially if the public desires the governmental units to spend more money. If companies are not able to grow, however, the original base value for taxation could become at risk. That would be bad for us all.

Abatements are based on actual performance. They are only relevant if the company actually makes the investment creating a larger assessed valuation. If a municipality offers an abatement but the company doesn't make the investment, the abatement simply "goes away." Again, there isn't a cash outlay from the taxpayers.

There is an annual compliance process during the life of the abatement requiring the beneficiary to annually disclose their progress toward the investments and job creation goals they disclosed when making the original application. If the company doesn't participate in the compliance process, the abatement simply "goes away." The municipality has an annual opportunity to decide if the abatement should continue.

The approval and annual compliance procedures can vary slightly from one municipality to another, but in Huntington County, the process takes place in public meetings either before the County Council, City Council in Huntington, or the various Town Boards in communities throughout the County. All of those groups are comprised of people we know and often live near.

Yes, it's easier if the Company is desirable but very simply cannot afford to invest in our Community unless an abatement is offered. And yes, it would be nice if the Company would be able to pay full freight from the beginning. And yes, it would be nice if taxes and budgetary expenses of governments were lower. It's often a "judgement call" whether a project would happen without help. That's why it's important that any offer include requirements for the Company to perform.

Anytime a Company is willing to invest in our Community it should be viewed as a cause for celebration not a chance to argue.

There are dozens of other details regarding property tax abatement or property tax "phase-in" but overall, the process is very helpful to our Communities ***if properly administered.*** Our local officials do a good job with this debate and taxpayers, voters and our clients are well served.

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Mark Wickersham is the Executive Director of Huntington County Economic Development, a 501 C 3 entity committed to promoting opportunities for job creation and capital investment within Huntington County. He formerly served as the Northeast Regional Director for the Indiana Economic Development Corporation and has served as a staff member for two different Members of Congress and has experience as a loan officer for an area community based bank.