**BACKGROUNDER**

**PROPERTY TAX ABATEMENT**

**What is Property Tax Abatement?**

Property tax abatement, sometimes referred to as property tax phase-in, is authorized under

Indiana Code 6-1.1-12.1-4.5. It was first enacted in Indiana in 1977 as a tool to encourage

economic growth.

At its most basic level, the concept of property tax abatement acknowledges **three fundamental**

**ideas:**

1. **Communities benefit from growth.** Knowing they benefit from the growth of jobs and capital investments made by private sector employers, Communities often adopt public policies designed to encourage such activities.
2. **Successful employers are Community assets**. Employers often experience cash-flow challenges immediately after making large new investments in payroll, equipment and real estate. Generally the worst time to increase an employer’s property tax liability is immediately after they have spent a large sum of money to hire more people, strengthen their production capacity or otherwise improve their real estate.
3. **Lost opportunity costs.** The only way a taxing entity truly “loses” is if the investment is not made at all. If an employer invests, new property tax revenue will be created. The question is how much and over what period of time? The details of an approved property tax abatement will answer those questions. If the employer chooses NOT to invest after property tax abatement has been approved, the impact is null and void. If they choose NOT to invest regardless of an abatement, the taxing entity receives no new revenue of any kind. Ideally, the “but for” concept creates the opportunity, meaning; the investment would not have been made at all

“but for” the approval of the property tax abatement. It is not however, prudent to place the investment “at risk” as a result of debating this point given that abatement is not a cash outlay.

Property tax abatement allows the phase-in of property tax liabilities (both real

and business personal property can be eligible) through annual incremental discounts in the

percentage of assessed valuation subject to property taxation. For example, in year one of a

ten year abatement, the discount is 100% of the liability. Traditionally, the amount of the

percentage then decreases by 10% annually. Ultimately, over time, as the asset is depreciated

by the employer, the amount of discounted property tax liability disappears.

Again, the process allows the tax liability to be “phased-in” over a period of years as the

employer’s investment creates more revenue.

**Key Points:**

1. Property tax abatement is NOT an entitlement.
2. Property tax abatements are considered incentives – not rewards. Application for consideration and approval of abatements must be completed PRIOR to installation of or construction of items associated with the investment.
3. Property tax abatement does NOT create a “budget outlay” from any governmental entity. It simply delays the impact of NEW revenue by “spreading it out” over a period of time.

Again, it is not an expense or outlay of actual cash and had the employer’s investment NOT occurred, no revenue could have been procured by the governmental entity.

1. Employers granted abatements continue to pay any property tax liabilities which were due prior to the abatement.
2. Property tax abatements are not permanent. At some defined point, the employer will incur 100% of the liability based on the assessed value and rates at the time.
3. Employers will gradually pay more property taxes even if abatement is approved. Units of government granting abatements generally receive new revenues associated with the employer’s investment, however, not as quickly as if the full liability were established. The risk is that an employer may not be able to make the investment if a full property tax liability is immediately assessed, thus no new investment and no new revenues to a unit of government.
4. Annual compliance is required during the entire life of the abatement. The C-F 1 (compliance form) is required to be filed annually and requires annual public review and approval.
5. Taxing entities desiring to deploy property tax abatement as an economic development tool

must create “Economic Revitalization Areas” or ERAs and only employers located in those

areas are eligible to request an abatement.

1. Retail and residential facilities are not eligible for property tax abatement through this process, however, other statutes may create incentives for such investments.
2. Waivers of Non-compliance. While rare, local units of government may, after conducting a public hearing, approve a waiver of non-compliance should an application for abatement not otherwise be eligible. Again, it is important to remember Property Tax Abatements are NOT entitlements.

**Other Information**

1. Deduction Schedules. The Indiana General Assembly has in recent years allowed local units

of government substantial flexibility to determine how to maximize opportunities created

by property tax abatement. Indiana has created a process known as “Super Abatements” which potentially allow a local unit of government the ability to in essence, allow an investment to be “free of property taxation entirely.” Municipalities may also “modify” abatement schedules, allowing a variety of deduction schedules.

1. Public Records. All requests for property tax abatement must be approved in public meetings by the relevant local unit of government which created the ERA and become a matter of public record.
2. Recent tax law changes may require local units of government to monetize the impact of the “discounts.”
3. The IRS under the Obama Administration was debating the idea of requiring employers to also monetize the impact of the “discounts” and report them federally as “un-realized” income, subject to federal taxation. This did not become law, however, employers should consider the topic prior to finalizing investment and tax planning strategies.

**How to apply.**

The application process begins with the completion of a Form SB-1 (Statement of Benefits) describing the investment. Separate forms are needed for Real Property Tax Abatement and Business Personal Property Tax Abatement.

Forms can be obtained via a local economic development organization, via the internet, or most tax preparation professionals. It is advisable to consult with the local economic development organization prior to officially filing any request for property tax abatement.