

TAX NOTES

A Growing Dilemma Over Tax Abatements

States struggle to keep economic development incentives viable amid budget tightening. **By Darlene Sullivan, Esq., CMI**

Policy makers have long used property tax abatements and incentives to draw investment, rehabilitation and other economic development to particular locations. While the economic effects of abatements and incentives are typically positive, officials facing budget deficits at state and local levels have begun to look for ways to hold onto more of their potential tax revenues while still enticing new business and development.

It is a difficult balancing act for lawmakers, and the changes they seek vary by state. For property owners and developers considering construction, expansion, or renovation of a new facility, now is the time to study any proposed changes to incentive rules and to ensure compliance with existing incentive agreements.

In Texas, state legislators are considering revisions to several economic development incentives the state has successfully used to attract new companies. Lee Higgins, president of Austin-based Business Economic Incentives LLC, fears that a major overhaul of business incentives offered by the state would slow economic growth in the state.

Smaller steps

To counterbalance a potential slowdown in economic growth in North Carolina, state officials are working to find ways to support projects that would not have qualified for state or local government support before the economic downturn.

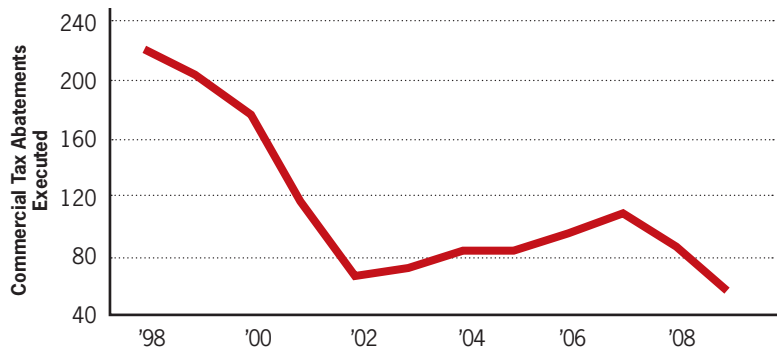
For instance, in better times, companies typically would have to create 50 to 100 jobs and commit to invest \$2 million to \$5 million in capital expenditures before a state or local agency would show much interest in supporting a project.

Now, a company can create as few as 20 new jobs and spend less than \$1 million on capital improvements and still gain the support of local government.

In addition, economic development

TAX ABATEMENTS DWINDLE IN TEXAS

The number of tax abatements granted each year in Texas has shrunk by about 75% over the past decade, the result of budget shortfalls at all levels of government.



Source: Texas Comptroller of Public Accounts

officials in North Carolina have shown flexibility and a willingness to discuss support for projects that entice existing employers to remain in the region, especially as companies are in the process of consolidating operations across the U.S.

In North Carolina, Gov. Bev Purdue schedules public announcements when companies add as few as 15 new jobs to show her commitment to economic development, says Craig Fisher, managing member in the Charlotte, N.C. office of Tax Incentives Consultants LLC.

Many state and local economic development officials are working with companies struggling to meet job creation numbers agreed to before the slump.

Flexible programs

In the Northeast, the economic downturn has limited the amount of incentives that states can offer, but government officials have been granted freedom to exercise more creativity with programs that promote economic development.

In Massachusetts, the Economic Development Incentive Program offers a negotiated state investment tax credit and municipal tax increment financing. Once highly utilized, the program has been capped at \$25 million annually as

of Jan. 1, 2010.

Massachusetts has increased flexibility for the investment tax credit to equal as much as 10% of construction and start-up costs for projects in locations designated for economic development. In areas of Massachusetts not designated as economic target areas, a project that creates 100 or more jobs also is eligible to receive a 10% investment tax credit.

Scot Butcher, managing member in the Boston office of Tax Incentives Consultants LLC, says the tax credit amount may be taken as credit against future taxes or collected as a refund. The tax credit can run as high as 40% for some manufacturing projects.

The trends in Texas, Massachusetts and North Carolina signify that tax abatements and incentives are still available to property owners. To take advantage of abatement laws in their region, owners need to understand the laws governing them and stay abreast of the changes that have occurred in these laws.



Darlene Sullivan is a partner with the Austin law firm of Popp, Gray & Hutcheson LLP, the Texas member of the American Property Tax Counsel (APTIC). She can be reached at darlene.sullivan@property-tax.com.



PROTECTING FINANCIAL TURF: Maintaining a property's agricultural status can cost a property owner a considerable sum in taxes, but navigating the rules can be difficult.