

TAX ABATEMENT

Tax abatement is a financing tool that reduces taxes or tax increases for owners of specific properties. Local governments offer the tax reduction to provide a financial incentive for a public benefit, such as creation of housing affordable to low- and moderate-income households. Tax abatements involve the county, city, or town’s taxing authority up to a maximum of the greater of \$200,000 or 10% of the net tax capacity of the project parcel(s).

Tax abatement may seem similar to another tax-based incentive, **Tax-Increment-Financing (TIF)**, but they are different tools. TIF allows financing based on the future tax increment, but the taxpayer still pays the full tax amount, while tax abatement allows the taxpayer to pay less in taxes. Furthermore, though tax abatement provides a smaller financial incentive than TIF, the regulations and requirements of abatement are less onerous.

Communities that offer tax abatements agree to eliminate tax increases or reduce property taxes to catalyze a particular public benefit. In your comprehensive plan’s implementation program, consider the use of tax abatement to encourage the kind of housing that would address your community’s identified needs. You should weigh the impact on future tax revenue against the benefits of any tax abatements, but keep in mind that abatements generally do not reduce tax revenue.

The chart below shows four potential strategies for using tax abatements for housing developments:

Types of Tax Abatements	Temporary Tax Abatement (for a term less than 15 years)	Permanent Tax Abatement (typically no more than 15 years)
<p>Partial Tax Abatements (an abatement less than the maximum allowed under state law)</p>	<p>A temporary, partial abatement can be used for a project needing a minimal level of public support and in its early years before the project stabilizes financially.</p>	<p>A permanent, partial tax abatement could assist a project that has a modest but long-term operating deficit and needs the abatement to help cover operating costs or to fund needed reserves.</p>
<p>Full Tax Abatements (the maximum abatements allowed under law)</p>	<p>A temporary, full tax abatement would assist a project facing difficulty in securing other funding due to concerns of its financial viability, but where positive cash flow will eventually offset any operating shortfalls.</p>	<p>A full, permanent tax abatement could help a project that would not be feasible “but for” the permanent and full abatement of certain taxes and where the public benefit from the abatement is significant.</p>

Municipalities can also defer abated taxes until a later date if they want to aid a project for a certain period but ultimately recoup the tax revenues. Consider making your implementation plan as specific as possible regarding the types of projects your municipality would consider supporting with tax abatement. For additional information about tax abatement, visit the [Urban Land Institute’s Housing Policy Toolbox](#).