

## Local Abatements May Cause Higher Property Tax Rates

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Communities are using tax abatements to spur business expansion or attract new firms, but the process may be the cause of higher property tax rates overall and cost millions in lost tax revenue, says a new report from Ball State University.

In "Local Tax Abatement," Ball State's Center for Business and Economic Research (CBER) casts significant doubt on the efficacy of Indiana's system of property tax abatements in creating jobs, increasing the tax base or controlling property tax rates.

"Our analysis found that either abatements are leading to higher taxes for other taxpayers within a county or that high existing property tax rates lead to heavier use of property tax abatements," said Michael Hicks, CBER director, who co-authored the study with Dagny Faulk, CBER's research director.

In Indiana, the state legislature has authorized several types of tax abatement for use by local governments. These include breaks on taxes qualifying firms pay when they improve real estate and personal property. There are also credits on personal income tax for firms investing in specific locations or activity.

"We found that the frequency of use of abatements also tends to lead to higher local property tax rates for existing taxpayers," Hicks said. "For example, counties employing abatements sparingly and infrequently tend to see lower taxes. Counties offering more generous abatements tend to have higher tax rates for other existing households and businesses."

The current research follows up a recently released report "An Analysis of State and Local Tax Incentives", which examined actual job creation effects of incentives offered through the Indiana Economic Development Corp. (IEDC) and local governments from 2005-2012.

The previous research found that local tax abatements in Indiana have been far less effective than state-level programs, with about \$30,000 in lost local tax revenue required for each new manufacturing job created, he said. The study found that local governments granted breaks on \$50.78 billion in property value through the study period, or about \$8.5 billion per year. At a 3 percent property tax rate, that is about \$253 million in lost property tax revenue per year, or about \$2.75 million per county per year.

"As we reported in our statewide assessment of incentives and abatements, it appears that local tax abatements perform poorly as tools for boosting employment in Indiana," Faulk said.

In the latest research, CBER provides more detail on that finding. "We report that since 2002, total abated property taxes in Indiana could have exceeded \$2 billion," Hicks said. "However, data on the actual lost revenue is not clearly reported in a central location."

The researchers recommend:

- a comprehensive review of data on local tax abatements that would provide more detailed information on the size and focus of these incentives
- data that is publicly available and in a centralized location
- a significant study of local tax abatements, which involves not only the types of aggregate estimates but also case studies of individual counties and projects

"Our findings suggest that, as a job creation tool, local tax incentives in Indiana appear to be minimally effective," Hicks said. "There also is not a strong relationship between abatements and the growth of assessed value over time. The implication is that, on average, the use of abatements as a tool for growing a property tax base is not particularly effective in the short to intermediate term."

"Simply, we believe the state legislature should take closer look at the use of tax abatements at the local level," Faulk said.