



Understanding Tax Abatement

What is tax abatement?

- Tax abatement is a *tool* for local governments to expand the economy. By encouraging new investment, tax abatement will increase or maintain the *basic* employment in the community, encourage redevelopment of deteriorated areas, and/or stimulate investment in specific areas of a community. Tax abatement is one of the *primary incentives* available to local government to promote economic development.

Who is eligible for tax abatement?

- Property owners in Economic Revitalization Areas (ERA) are eligible for tax abatements. To qualify, owners must make improvements to real property, install new manufacturing equipment, logistical equipment, information technology equipment, or equipment used in research and development activities devoted directly and exclusively to experimental or laboratory research and development. Tenants in leased facilities can benefit from tax abatement on real property; too, if the property owner applies for the abatement and all other requirements are met. Also, tenants can benefit from abatements on manufacturing equipment, logistical equipment, information technology equipment and/or research and development equipment.

How does tax abatement work?

- Property taxes are phased in based on the increased assessed value that results from a new investment. Due to tax abatement, property taxes cannot be lower than the prior year's taxes. The phase-in period is determined by the local governmental body (designating body) within the framework of the schedules listed in the Indiana State Statute (IC 6-1.1-12.1).
- New manufacturing equipment, logistical equipment, information technology equipment and/or research and development equipment options can have abatement terms from one to a maximum of ten years.
- New real estate investment options can have abatement terms from one to a maximum of ten years.

What is eligible for tax abatement?

- *Buildings:* Any new structure, building addition, or other improvement that increases the applicant's assessed value.
- *Manufacturing Equipment:* Any new equipment that is used in the direct production, manufacture, fabrication, assembly, extraction, mining, processing, refining, or finishing of other tangible personal property including, equipment used to dispose of solid waste or hazardous waste into energy or other useful products. Used equipment is eligible for abatement **unless** it has been previously taxed in Indiana.
- *Logistical Distribution Equipment:* Equipment consists of racking, scanning or coding, separators, conveyors, fork lifts or lifting equipment (including "walk behinds"), transitional moving equipment, or software for technology used in logistical distribution. This equipment must be used for the storage or distribution of goods, services or information. Equipment must have been acquired for the purposes stated previously and never before used by the owner for any purpose in Indiana.
- *New Information Technology Equipment:* Consist of equipment, including software, used in information processing, office automation, telecommunication facilities and networks, informatics, network administration, software development and fiber optics. Equipment must have been acquired for the purposes stated previously and never before used by the owner for any purpose in Indiana.
- *Research and Development Equipment:* Equipment consists of laboratory equipment, research and development equipment, computers and computer software, telecommunications equipment or testing equipment used in research and development activities devoted, directly and exclusively, to experimental or laboratory research and development of new products, new uses of existing products, or improving or testing existing products. Equipment must have been acquired for the purposes stated previously and never before used by the owner for any purpose in Indiana.
- *The assessed value that is eligible for abatement is the new assessed value that is created as a result of new investment. In any event, only the assessed value that is greater than the prior years' assessed value is abatable.*

What is not eligible to abate?

- Equipment that is not used directly in manufacturing, logistical, information technology or research and development, such as office furniture, warehouse equipment, etc.
- Equipment must have been acquired by its owner for approved uses and has never before been used by its owner for any purpose in Indiana.
- New research and development equipment does not include equipment installed in facilities used for, or in connection with, efficiency surveys, management studies, consumer surveys, economic surveys, advertising or promotion, or research in connection with literacy, history, or similar projects.

- Land
- Inventory
- Retail facility (unless it is located in an economic development target area established by a city or town).
- Residential facility (unless it is a multifamily facility that contains at least twenty percent (20%) of the units available for use by low and moderate income individuals; the facility is located in an economic development target area established by a city or town; or the area is designated a residentially distressed area).
- Package liquor store that holds a liquor dealer's permit (unless the business was eligible for a tax abatement under Indiana State Statute prior to July 1, 1995).
- Private or commercial golf course, country club, massage parlor, tennis club, hot tub facility, suntan facility, racetrack, racquet sport facility or any facility with the primary purpose of retail food and beverage service, or automobile sales or service.

What is the tax abatement process?

- The property where the investment is to occur is designated as an Economic Revitalization Area (ERA). The process requires a review and recommendation by either the economic development commission or redevelopment commission if either commission exists. If there is no commission, then application is submitted to the designating body. The next step requires two meetings by the designation body (town board, city council or county council). A Declaratory Resolution is approved at the first meeting and a Confirming Resolution I approved at the second meeting. The ERA designation generally occurs based upon an application submitted by a company who is requesting tax abatement. However, a local governing body can establish an ERA at its discretion to encourage development in designated parts of a community.
- The applicant submits a SB-1 (Statement of Benefits) outlining the benefits of the proposed development, new jobs, retained jobs, payroll, and investment.
- The local designating body must review the Statement of Benefits to determine whether an area should be designated as an ERA and whether a deduction should be allowed based upon the following findings.
- Whether the estimate of the value of the redevelopment or rehabilitation is reasonable for projects of that nature.
- Whether the estimate of the number of individuals who will be employed or whose employment will be retained can be reasonably expected to result from the proposed redevelopment or rehabilitation.

- Whether the estimated for the annual salaries of those individuals who will be employed or whose employment will be retained can be the proposed redevelopment or rehabilitation.
- Whether any other benefits about which information was requested can be reasonably expected to result from the proposed redevelopment or rehabilitation.
- Whether the total of the benefits is sufficient to justify the deduction.
- The local governing body determines the length of time to allow for the abatement plus any other restrictions they wish to require.
- Once the ERA is approved, the investment made, and the assessed value determined, the company must then apply for the deduction in assessed value.
- The Application for Deduction of Structures in Economic Revitalization Areas (Form 322 ERA/PP) must be filed with the local County Auditor before May 10 of the year in which addition to the assessed valuation is made or 30 days from the date on the Notice of Change in Assessment (Form #11). The Notice of Change in Assessment is normally sent in June or July and it reflects the assessment as of March 1st of that year. Due to this time frame, the actual application cannot be filed by May 10th but must be filed within 30 days of the notice. If the structure is partially completed by May 1st, a second filing is required the following year. In that case, the 10 year abatement would last 11 years.
- For Personal Property, the company must file Compliance with Benefits form (CF-1) once a year with the Township Assessor and the local designating body to show compliance with the Statement of Benefits.
- The CF-1 must be filed within 60 days after the end of each year in which the deduction is applicable for real estate improvements.
- The CF-1 must be filed with Form 103 ERA; 103 EL & 103 L between March 1 and May 15 of each year) unless a filing extension has been granted).
- With approval of the designating body, compliance information for multiple projects can be consolidated on one compliance form CF-1.

- The governing body must review the CF-1 and accept the status as being (1) in compliance or (2) determine that the property owner has not substantially complied with the statement of benefits and that the failure to do so was not caused by factors beyond the control of the property owner (such as declines in demand for the property owner's products or services). If the designating body determines that the property owner is not in compliance, then a written notice is sent to the property owner with an explanation of the reasons for the termination. The letter must also state the date, time and place for a hearing by the designating body for the purpose of further consideration of the property owner's compliance.
- For Real Estate, the company must file Compliance with Benefits form (CF-1) once a year with the Auditors office and the local designating body to show compliance with the Statement of Benefits.
- The CF-1 must be filed within 60 days after the end of each year in which the deduction is applicable for real estate improvements.
- If it is the first year for the abatement and the county has sent the company Form 11, the company will need to send Form 322 ERA within 30 days of the date of Form 11 to the auditor. If the Form 11 is received by the company before March 1st, the CF-1 must be filed with Form 322 ERA/ between March 1 and May 15 of each year) unless a filing extension has been granted).
- With approval of the designating body, compliance information for multiple projects can be consolidated on one compliance form CF-1.
- The governing body must review the CF-1 and accept the status as being (1) in compliance or (2) determine that the property owner has not substantially complied with the statement of benefits and that the failure to do so was not caused by factors beyond the control of the property owner (such as declines in demand for the property owner's products or services). If the designating body determines that the property owner is not in compliance, then a written notice is sent to the property owner with an explanation of the reasons for the termination. The letter must also state the date, time and place for a hearing by the designating body for the purpose of further consideration of the property owner's compliance.

Personal Property Tax Abatement

Property Tax Abatement in Indiana is authorized under Indiana Code 6-1.1-12.1-4.5 in the form of deductions from assessed valuation. A property owner who installs manufacturing, logistical, information technology and/or research and development equipment in a locally designated economic revitalization area (ERA) may apply to the local governmental body for property tax abatement. Only the increase in assessed value that occurs as a result of the investment is eligible for tax abatement.

Personal property abatement is a declining percentage of the assessed value of the newly installed equipment, based on the time period and percentage as determined by the local governing body. Used equipment can also qualify as long as such equipment has not previously been taxed in the State of Indiana. Please see section titled “What is not eligible to abate” for equipment that does not qualify for abatement.

Property owners must apply for designation to the local governing body, usually the Town Board, City Council, County Council, or the development or redevelopment commission having jurisdiction over the area.

(SOURCE: Indiana Code 6-1.1-12.1-4.5)

Real Property Tax Abatement

Property Tax Abatement in Indiana is authorized under Indiana Code 6-1.1-12.1 in the form of deductions from assessed valuation. A property owner who makes improvements to the real property in a locally designated economic revitalization area (ERA) may apply to the local governmental body for property tax abatement. Land does not qualify for abatement. Only the increase in assessed value that occurs as a result of the investment is eligible for tax abatement.

Real property abatement is a declining percentage of the increase in assessed value of the improvement based on one of the following time periods and percentages as determined by the local governing body.

Property owners must apply for designation to the local governing body, usually the Town Board, City Council, County Council, or the development or redevelopment commission having jurisdiction over the area.

(SOURCE: Indiana Code 6-1.1-12.1-3)

For More Information Contact:

Jessica Beste
Director
City of Bluffton / Wells County Economic Development
128 E Market Street
Bluffton, IN 46714
260-824-0510
jessica.beste@wellsedc.com
www.wellsedc.com