OLR RESEARCH REPORT

September 13, 2011 2011-R-0312

BUSINESS-RELATED PROPERTY TAX INCENTIVES

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You asked about (1) tax incentives that municipalities can offer to businesses, especially small businesses and (2) innovative programs in other municipalities across the country that target tax incentives to businesses to achieve policy goals, such as selling fresh produce in urban areas.

SUMMARY

State law requires towns to exempt taxes on certain real and personal property. This includes exemptions for manufacturing machinery and equipment, as well as new or expanded facilities for manufacturing or specified service businesses in designated economically distressed areas.

State law also gives towns the option of offering property tax exemptions, abatements, or fixed assessments for several specified purposes, including many business-related purposes. Generally, these exemptions are geared for specific activities or types of facilities, rather than for business size. Some of the incentives could apply to a wide range of businesses; others apply to only a narrow range of businesses or in narrow circumstances.

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There are also a wide variety of programs throughout the country requiring or allowing towns to offer tax incentives to businesses. We found a small number of programs designed to encourage the sale of fresh produce in cities or other areas underserved by large grocery stores. For example, New York City offers property tax exemptions and other benefits to encourage grocery stores selling fresh produce in designated parts of the city.

PROPERTY TAX INCENTIVES FOR BUSINESSES

Mandated Tax Exemptions

State law requires towns to exempt taxes on certain real and personal property. This includes exemptions targeted for specific types of businesses or organizations (e.g., hospitals, charities) or types of property or equipment (e.g., certain commercial trucks, mechanics' tools up to $500). For example, all towns must exempt businesses from paying property taxes on manufacturing machinery and equipment. There are also certain mandatory exemptions related to energy efficiency or environmental initiatives, which could benefit businesses.

Some of these mandatory exemptions are targeted to specific business incentive zones. For example, state designated enterprise zones, targeted investment communities (i.e., towns with enterprise zones), distressed municipalities, and other specified designated areas (e.g., enterprise corridor zones or the Bradley Airport Development Zone) must abate real and personal property taxes for manufacturers, financial service firms, and other specified businesses that build, expand, or rehabilitate a facility and install new or newly acquired machinery and equipment in it (CGS § 12-81 (59) and (60)). The exemption is generally for 80% of the improvement's value. For facilities located outside of an enterprise zone in a targeted investment community, the exemption varies depending on the amount of the investment in the facility, up to a maximum of 80% for investments over $90 million. The state generally reimburses the municipality for half of the property tax revenue it forgoes because of the exemption.

Towns must also fix the assessment for commercial and residential real property improvements (other than for manufacturing facilities) in enterprise zones, according to a seven-year schedule. The percentage of increase deferred is 100% for the first two years, 50% for the third year, and decreases by 10% in each of the remaining four years. The fixed assessment ends for residential rental properties renting to people above certain income limits. The state does not reimburse towns for this mandatory exemption (CGS § 32-71).

The law also provides for mandatory fixed assessments for commercial and residential property improvements in designated housing development zones, based on an 11-year schedule. However, no such zones have been designated (CGS § 8-380).

Optional Tax Incentives

In addition to these mandatory property tax exemptions, state law allows towns the option of offering tax incentives for a wide range of economic development purposes. Table 1 describes the various property tax benefits that municipalities may choose to adopt. There are three kinds of optional property tax benefits: exemptions, abatements, and fixed assessments. Exemptions reduce some or all of the taxable value of property; abatements cancel some or all of the tax due; and fixed assessments freeze the taxable value of a property for a set period, thus deferring some or all future tax increases. Most of these tax incentives require the municipality's legislative body, town meeting, or board of selectmen to decide whether to grant the incentive.

Please note that the table does not include incentives specifically geared to housing development or agriculture. It also does not include information on incentives related to energy efficiency, some of which could benefit businesses. If you would like information on such incentives, please let us know.

Table 1: Optional Municipal Property Tax Exemptions, Abatements, and Fixed Assessments for Economic Development

Description	Citation
Fixed assessment for office, retail, factories, and other major real estate developments. Amount and term depend on investment: 100% for 7 years for minimum $3 m investment, 100% for 2 years for minimum $500,000 investment, and 50% for 3 years for minimum $25,000 investment.	12-65b
Fixed assessments for machinery and equipment in manufacturing, biotechnology, and research and development facilities according to the schedule above	12-65h
Up to 100% abatement on business real or personal property tax if inability to pay taxes bars a corporation from receiving certain government loans	12-125
Additional abatements and tax deferrals for enterprise zone properties	32-71(e)
Seven-year, 100% real and personal property tax abatements for improvements in entertainment districts	32-76a
Up to 100% abatement for bankrupt railroad companies	12-124
Up to 100%, 10-year abatement for rehabilitated commercial or industrial property	8-296

Table 1: -Continued-

Description	Citation
Up to 100% abatement on personal property located in a damaged or destroyed building whose assessment the municipality has reduced	12-64a
100% tax or interest abatement for any year for a food manufacturing plant located on at least 100 acres and served by a regional sewer system whose treatment facility is in an adjacent town	12-81o
100% tax or interest abatement for any year on any amusement theme park of at least 200 acres which has operated for at least 100 years and is determined to be historic	12-81p
Up to 10-year abatement for all or part of the property taxes due on property owned by an entity that has been ordered to acquire a water company by the Department of Public Health (DPH) or Public Utilities Regulatory Authority (PURA). The abatement is for infrastructure improvements ordered by DPH or PURA, that are necessary to provide service.	12-81q
100% exemption for commercial fishing apparatus worth over $500 and subject to corporation tax	12-81s
Up to 100% exemption in any year on information technology personal property	12-81t
Up to 100%, seven-year exemption of taxes or interest on delinquent taxes, or fixed assessment, on abandoned or contaminated property slated for clean up and redevelopment	12-81r
Up to 100% abatement for any year for real or personal property of telephone, telegraph, radio and television broadcasting, cable television, or other communications companies	12-81u
100% abatement for any year on property of an electric cooperative organized under the state Electric Cooperative Act	12-81v
Up to 100% abatement for any year on new school buses	12-81y
Up to 50%, five-year abatement on increased value of industrial site or urban investment projects, if they qualify for state tax credits and do not qualify for any other property tax credits	12-81aa
Up to 100%, 20-year exemption for property developed under the Connecticut City and Town Development Act	7-498
100% exemption for improvements on or to landing area owned by a private airport if owners allow free take offs and landings	12-81(48)
Up to 100% exemption of the property a business uses to provide day care services to town residents and up to 10% of the other property. Not open to those in the business of building or operating day care facilities.	12-81n
100%, 15-year fixed assessments for Capital City and Adriaen's Landing projects	32-666a

PROGRAMS IN OTHER STATES AND CITIES

In other states, there are a variety of property tax incentive programs that municipalities can offer to encourage particular business activities or achieve particular policy objectives. Similar to Connecticut, most states offer tax incentives to encourage expansion by manufacturers or other businesses that will contribute significantly to the economy. Many states also offer various financial incentives for businesses that expand or invest in targeted areas, such as Connecticut's enterprise zones. These benefits often include various tax credits or exemptions, including property tax benefits. For example, New Jersey's Urban Enterprise Zone Program offers a variety of tax incentives to eligible businesses in a designated zone, including property tax exemptions. In addition to traditional tax exemptions and credits, the program allows eligible zone businesses to charge half the standard sales tax rate on certain purchases. A similar exemption is available for businesses in municipalities with business districts that are negatively impacted by the presence of two or more adjacent enterprise zones that charge the lower rate (N.J. Rev. Stat. § 52: 27H-60 *et seq.*; http://www.nj.gov/dca/affiliates/uez/).

Some cities also offer tax incentive programs to encourage business development. For example, New York City's Industrial and Commercial Abatement Program provides abatements of real property taxes for up to 25 years for eligible industrial and commercial buildings. The exemptions are for both new constructions and renovations. Eligibility requirements vary depending on the location in the city (http://www.nyfirst.ny.gov/resourcecenter/AgencyPrograms/Tax_Finance/NYC_ICAP.html).

As in Connecticut, the available incentives other states or cities offer sometimes vary depending on the scope of the investment or number of jobs created. For example, the Nebraska Advantage Act contains six tiers of benefits, including property tax exemptions and other tax incentives. Tier 6 projects (requiring a $10 million investment and 75 new jobs, or $100 million investment and 50 new jobs, by a non-retail business) receive a property tax exemption for all personal property at the project for up to 10 years, in addition to various other incentives (Neb. Rev. Stat. Ann. § 77-5701 *et seq.*; http://www.neded.org/business/start-a-business/financing-a-incentives/tax-incentives/advantage-incentives).

States and cities offer a variety of other property tax incentives to businesses to achieve policy goals. Some examples appear below.

Attracting Creative People

Baltimore offers a 10-year property tax credit for buildings located in a designated arts and entertainment district that are renovated for use by (1) a qualified residing artist or (2) an arts and entertainment enterprise (including both for-profit and non-profit entities dedicated to visual or performing arts). The amount of the credit varies on a sliding percentage scale (http://www.baltimorecity.gov/LinkClick.aspx?fileticket=JBc2U2nrlqw%3d&tabid=320).

Energy Efficiency

Several states and cities offer property tax incentives, as well as other benefits, to undertake various environmental initiatives, such as increasing energy efficiency or installing specified equipment. As in Connecticut, these include programs geared to businesses, homes, or both. The website www.dsireusa.org describes tax and other incentives the federal and state governments and utilities provide to promote energy efficiency and renewable energy. According to the website, over 30 states offer energy-related property tax incentives.

Access to Health Care

Kansas exempts from property taxes real property that a town leases to provide needed office space for doctors and certain other medical providers (http://www.ksrevenue.org/taxincent-proptaxabate.html#anchor1052174).

PROGRAMS TO ENCOURAGE GROCERY STORES IN UNDERSERVED AREAS

We found a small number of programs offering tax incentives and other benefits to encourage grocery stores or other food facilities to locate in underserved areas. We summarize these programs below. We also briefly discuss a program in Pennsylvania that offers grants and loans to encourage groceries in underserved communities.

District of Columbia FEED Act

In 2010, the D.C. City Council passed a law encouraging grocery stores and healthy food. Among other provisions, the Food, Environmental, and Economic Development in the District of Columbia Act of 2010 (FEED Act) requires the creation of a Grocery Store Development Program to encourage new or renovated grocery stores in eligible areas in D.C. and to create jobs for city residents.

The law allows a combination of incentives, including grants, loans, property tax exemptions, federal tax credits, other financial and technical assistance, and zoning flexibility. To be eligible, among other requirements, a store must agree to accept specified government benefits and sell fresh produce and healthy foods. Priority is given to stores in areas that are underserved by retail sellers of healthy food.

The legislation also created the Healthy Food Retail Program, providing similar benefits to corner stores, farmers markets, and other small food retailers who increase access to healthy foods in eligible areas (D.C. Code § 2-1212.01 *et seq.*).

Maryland Grocery Store Property Tax Credit

In 2010, Maryland passed a law allowing municipalities to give property tax credits to grocery stores located in designated low-income areas. To be eligible, at least 20% of the store's sales must comprise fresh produce, meats, and dairy products. Under the law, a municipality that chooses to grant such a credit can determine, among other things, additional eligibility criteria and the amount and duration of the credit (Md. Code Ann., Tax-Prop. § 9-254).

Michigan Commercial Rehabilitation Act

Michigan allows municipalities to provide up to a 10-year property tax exemption to property owners that rehabilitate commercial property for the primary purpose and use of a commercial business, retail food establishment, or multi-family residential facility. To qualify, the property must be in an established commercial rehabilitation district. Among other requirements, a qualified retail food establishment must (1) be located in an underserved or rural area and (2) offer for sale fresh fruits and vegetables, dairy products, and meat and poultry products meeting certain standards. An underserved area is one with (1) a low or moderate income census tract and a below average supermarket density, (2) a supermarket customer base with more than 50% living in a low income census tract, or (3) significant access limitations due to travel distance (Mich. Compiled Laws Serv. § 207.842 *et seq.*). More information is available here: http://www.michigan.gov/taxes/0,1607,7-238-43535_53197-213167--,00.html.

New York City FRESH program

New York City's Food Retail Expansion to Support Health (FRESH) program provides various benefits, including property tax incentives, to support local grocery stores in designated areas throughout the city. To be eligible for the program, stores must meet various requirements, such as providing at least 500 square feet of retail space for fresh produce and 30% of retail space for perishable goods.

Under the program, property tax incentives may include (all financial benefits are discretionary):

1. a 25-year land tax abatement, equal to $500 for each full-time equivalent employee; and

2. a 25-year stabilization of building taxes, based on the pre-improvement assessed value.

These benefits begin to phase out beginning in year 22, at 20% per year. Additional financial benefits under the program can include a (1) sales tax exemption for materials to construct, renovate, or equip facilities and (2) mortgage recording tax deferral for the project's financing. Various zoning incentives are also available.

More information about the program is available here: http://www.nyc.gov/html/misc/html/2009/fresh.shtml.

Philadelphia Fresh Food Financing Initiative

The Philadelphia Fresh Food Financing Initiative offers financing throughout Pennsylvania to encourage grocery stores to locate in underserved areas, specifically low-income neighborhoods in both cities and rural areas. The program is a partnership between the state and private institutions, including The Reinvestment Fund (a community development financial institution), The Food Trust (an organization advocating for healthier foods in underserved areas), and Urban Affairs Coalition (an organization creating opportunities for minority workers).

To qualify for a grant, a supermarket must be located in a low- to –moderate income area, or have a majority of its customers from a low-income area, and be in an underserved area.

More information is available at the following web sites: http://www.trfund.com/resource/downloads/Fresh_Food_Financing_Initiative_Comprehensive.pdf and http://www.thefoodtrust.org/php/programs/fffi.php.

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