

Tax Abatement 101

What: Financing tool established by local governments that reduces taxes or tax increases for owners of specific properties. This reduction in taxes provides financial incentive for construction or rehabilitation of housing projects.

How: Unlike tax increment financing that provides financing based on the future tax increment, tax abatement allows the taxpayer to pay less in taxes; typically a maximum of the greater of \$200,000 or 10% of the next capacity of the projects parcel(s).

Types of Tax Abatement:

Types of Tax Abatements	Temporary Tax Abatement (for a term less than 15 years)	Permanent Tax Abatement (typically no more than 15 years)
Partial Tax Abatements (an abatement less than the maximum allowed under state law)	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.	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.
Full Tax Abatements (the maximum abatements allowed under law)	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.	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.