

# Municipal Tax Abatements

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New Jersey municipalities can grant tax abatements, which allow for a significant reduction or elimination of property taxes paid to local government by certain types of development projects. Currently, New Jersey law gives municipalities broad discretion to grant tax abatements; the vast majority of abatements negotiated between municipalities and developers do not provide for any revenue to taxing entities other than the municipal government – such as counties, fire districts and boards of education. This is because existing state law does not require the municipality to distribute the revenue derived from abatements as they do regular property taxes collected from other properties with their borders.

The lack of limits placed on municipalities allows for potential abuses of their discretion to issue abatements, due to the significant control given to local land use and municipal officials over them. Additionally, despite economic benefits touted by abatement proponents, they can negatively impact local property tax revenue by creating budget shortfalls for other taxing entities that lose out on revenue from abatement agreements. They can also create unsustainable problems for the municipality’s tax base by shifting the tax burden elsewhere, resulting in an inevitable increase elsewhere.

## Types of Tax Abatements in New Jersey

There are two primary types of tax abatements authorized by state law that can be granted by municipalities in the state. Short-term abatements can last up to 5 years and can cover properties such as single and multi-family homes along with some types of commercial properties.

Long-term abatements can be granted for up to a maximum of 30 years, or shorter if the duration is capped by municipal ordinance.

## Payment in Lieu of Taxes (PILOT)

Common to both long-term and short-term abatements are payment in lieu of taxes (PILOT) agreements. These agreements, which are negotiated between the municipal governing body and the developer receiving the abatement, specify an annual service charge that will be paid to the municipality; this charge is typically far lower than regular property tax rates and not subject to yearly increases in rates faced by regular property taxpayers.

## Policy Implications

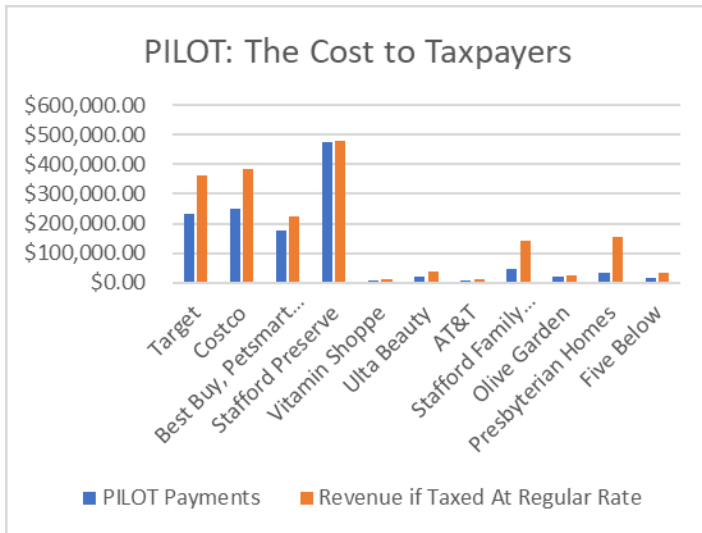
If the inherent inequities surrounding tax abatements are not addressed by state officials, the potential exists for significant shifts in the tax burden. Existing tax abatements granted by municipalities have deprived schools and counties of revenue, leading to painful tax increases elsewhere to make up for the shortfalls.

## Policy Recommendations

- State law governing tax abatements must be amended to provide a portion of PILOT revenue to taxing entities like school boards, counties and fire districts that currently miss out on tax revenue they would otherwise receive.
- Limits should be placed on the ability of municipalities to grant tax abatements to new development projects.
- Independent evaluation of costs / benefits should be required through the Local Finance Board before tax abatements can be granted to prevent municipal abuses of discretion or collusion.
- A centralized database of tax abatements should be created to promote transparency and allow public to understand their impact.

## Case Study: Stafford Township Landfill Redevelopment Project

The township council of Stafford Township (Ocean County) authorized the granting of long-term tax abatements to developer Walters Group to build a shopping complex, which resulted in a PILOT agreement with the developer. As a part of the agreement, the developer paid costs to close the landfill on the property. In 2016 alone, Stafford taxpayers subsidized the project to the tune of \$587,401.59 – the difference between the amount of money the township would have received if the retail stores were taxed at the municipality’s regular rate.



Source: Author

This difference in property tax revenue is not the only way that local property taxpayers will pay to subsidize abatements. Stafford has both a local elementary school district and is a member of the Southern Regional School District. Because Stafford’s abatement affects tax revenue of a regional district, all other sending districts of the regional school district are inevitably forced to make up the difference in revenue lost out to Stafford’s PILOT agreements.

## Conclusion

While tax abatements can be a valuable tool to encourage development and revitalize blighted areas, their unchecked use can cause revenue shortfalls to other taxing entities aside from the municipalities that benefit from them, presenting cause for concern. State reform and oversight of municipal abatements is essential to prevent long-term tax inequities and budget shortfalls, while ensuring that the public interest is served.

## References

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