

States, counties, and municipalities across the country aim to create thriving communities that offer opportunities for their residents in education, employment, housing, and many other areas. One way municipal leaders seek to ensure their communities thrive is through economic growth.

Many municipalities offer incentives, such as tax abatements, which provide a reduction or elimination of property taxes over a specific period of time to real estate developers to provide more housing options or businesses to provide more employment options and future revenue.¹ These incentives are utilized to entice companies to create new, or improve on existing, economic developments.²

Since property tax revenue remains the largest source for education funding in Connecticut (approximately 58 percent), tax abatements raise questions about the impacts of incentives on communities' abilities to fund their local public schools.³ This document helps address some of those questions by providing answers to frequently asked questions regarding tax abatements, including what tax abatements are and how they might be utilized.

Please note that this document is neither a statement in support, or in opposition to, tax abatements or other similar incentive programs.

What is a tax abatement?

Provided by municipalities, tax abatements are used to generate new business and employment opportunities for area residents by offering a reduction or elimination from taxes for a specified period of time for new or existing real estate, manufacturing machinery, and equipment.⁴ The ability for Connecticut municipalities to offer abatements is granted under state law. In Connecticut, if a property tax abatement is awarded for rehabilitating an existing structure, it must be used for one of the following purposes:

- Office space;
- Retail space;
- Permanent residential use;
- Rental residential use;
- Manufacturing;
- Warehouse, storage, or distribution;
- Structured multilevel parking for mass transit systems;
- Information technology;
- Recreation facilities;
- Transportation facilities; or
- Mixed-use development.⁵

How are tax abatements utilized in Connecticut?

In Connecticut, local municipalities may provide tax abatements to any person or business purchasing or leasing property or airspace. This is done by pausing any assessments of the property as well as any improvements made during one of the following specified time periods:

- A maximum of seven years for investing a minimum of \$3 million on improvements;
- A maximum of two years for investing a minimum of \$500,000 toward improvements;
- A maximum of three years for investing a minimum of \$10,000 and the value of the real property or air space is not greater than 50 percent of the increased assessment value; or
- Any time defined by an ordinance for the designated retail business.⁶

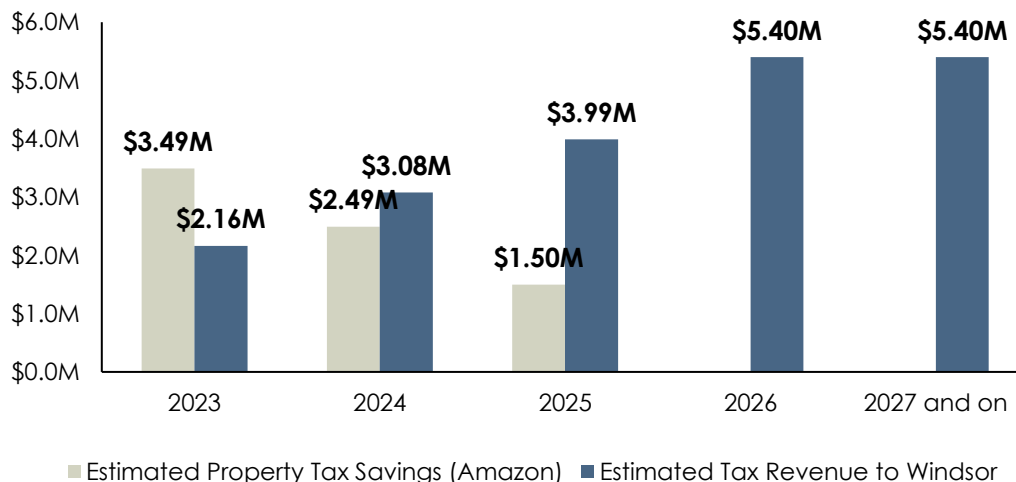
The section below provides an example of how Windsor, Connecticut utilized its tax abatement program for an Amazon Distribution Hub.

Example: Amazon Distribution Hub⁷

In June 2020, the Windsor Town Council voted to approve a reduced three-year 50 percent abatement in property taxes, and reduce building permit fees by 50 percent, for Amazon to build an 823,000 sq. ft. distribution hub on a former tobacco farm. The \$230 million fulfillment center was expected to bring in over 1,000 jobs. Through this deal, Amazon received \$7.48 million in property tax savings and \$1.3 million in permit reduction fees to build and operate the distribution center.

The Town of Windsor is projected to receive a total of \$10.52 million in property tax revenue from Amazon over the course of the three-year abatement period. Once the abatement period ends in fiscal year 2025, the Windsor is projected to receive \$5.4 million in annual revenue as displayed in Figure 1 below.

Figure 1: Projected Property Tax Savings and Revenue During and After Tax Abatement Between Amazon and the Town of Windsor⁸



What state-level tax abatement programs exist in Connecticut?

While many tax abatements are offered through local municipalities, the Connecticut State Department of Housing (DOH) offers a tax abatement program to privately owned nonprofits and limited dividend low- to moderate-income housing developments. The DOH provides reimbursements up to \$450 per unit for tax-abated properties to the property owners in order to aid in keeping rents low. This program is currently not accepting any new applicants.⁹

What data or information exists about tax abatements in Connecticut?

Many towns and cities across the state offer tax abatements, but information on how abatements are provided is still somewhat limited. There were no revenue and expenditure statements or disclosure requirements until Statement No. 77 was established by the Governmental Accounting Standards Board.^A Even with the disclosure requirements, challenges with disclosure still arise unless specified by state statute.¹⁰

Currently, Connecticut does not provide a statewide database for tracking and sharing tax abatement information. However, Good Jobs First, a national policy resource center, has compiled a national database of tax abatements broken out by states, counties, and municipalities. Good Jobs First reported that from 2017-2021, 110 tax abatements were offered across the state, which led to over \$1 billion in lost property tax revenue for municipalities.¹¹

How are tax abatements approved?

The process for approving tax abatements varies from town to town in Connecticut. However, each Connecticut municipality requires some form of an application that is reviewed before the abatement is approved or rejected. For example, the City of Hartford, which offers a 10-year abatement that may be renewed with the City's approval after a one-year gap following the contracted party's abatement period, requires the following:

1. Applicants for an abatement must review guidelines, prepare application information, and complete the application.
2. Applications move through a staff and committee review. Staff for the City of Hartford's Division of Housing review the requests and determine eligibility. If the application qualifies, staff then consult with the City Assessor to determine the property's assessed tax per unit.
3. Division of Housing staff then draft a proposal of analysis and recommendation that is presented to the Division of Housing Director for their review and approval.
4. Once the application is identified as complete, the Division of Housing Director prepares and provides a recommendation for the Director of Development Services. The application is then presented to the Committee on Abatement of Taxes and Assessments if approved.

^A For more information on Statement No. 77, please visit https://gasb.org/document/blob?fileName=gasbs77_final-%20Cropped.pdf.

5. If approved, the Division of Housing Director drafts and forwards a resolution for approving the abatement for the City Council agenda. In order for the abatement to be awarded, both the Committee and the City Council must approve.
6. Lastly, the tax abatement is implemented.^{12,B}

What impacts do tax abatements have on school funding?

The impact of tax abatements on school funding varies from state to state as well as from municipality to municipality.¹³ However, like Connecticut, all states depend on property taxes to help fund education. While the argument can be made that attracting new businesses and people to a town or city is important, the question becomes, at what cost? If a municipality provides a company an abatement to create new jobs, but there is no educated workforce to fill the positions available, is it beneficial to the town or city? These questions highlight the need to examine the impacts on school funding of tax incentive programs, such as tax abatements, which reduce or eliminate a business' property taxes for a period.

The premise of offering such incentives is often to foster economic growth within a community by creating new jobs or places to live.¹⁴ However, these incentives can have unintentional consequences. Since local property taxes account for nearly one-third of education funding, nationally, and 58 percent in Connecticut, reducing or eliminating property taxes to entice companies or homeowners to move to an area would mean lower property tax revenues for that municipality, which may lead to lower school funding.¹⁵ This has led to growing concerns about tax incentive programs.¹⁶

Education advocates, parents, and local leaders alike have raised questions about the benefit of tax abatements.¹⁷ One of which is whether those provided with temporarily reduced or eliminated taxes would have chosen to move to the area either way, and if the municipality did not need to offer the abatement. However, due to the number of "what if" questions that prevent definitive answers, the impact of abatements on education funding faces significant conceptual and practical challenges.¹⁸ This does not mean school districts have no recourse. In some states, statutes have been implemented to prohibit tax abatements of the school portion of property taxes, to give school boards a formal say in the tax abatement decision-making process, or to require school board approval of tax abatements.

^B For a more in-depth look at the City of Hartford's tax abatement process, please visit <https://www.hartfordct.gov/Government/Departments/DDS/DDS-Services/Tax-Abatement-Application>.

Endnotes

¹ Connecticut Department of Economic and Community Development. (n.d.). Municipal Tax Abatements. Retrieved from https://portal.ct.gov/DECD/Content/Business-Development/06_Tax_Incentives/Other-Tax-Abatements/Municipal-Tax-Abatements.

² Ibid.

³ School and State Finance Project. (2023). Role of Property Taxes. Retrieved from <https://schoolstatefinance.org/issues/property-taxes>.

⁴ Connecticut Department of Economic and Community Development. (n.d.). Municipal Tax Abatements. Retrieved from https://portal.ct.gov/DECD/Content/Business-Development/06_Tax_Incentives/Other-Tax-Abatements/Municipal-Tax-Abatements.

⁵ Ibid.

⁶ Ibid.

⁷ Cooper, J. (2020, June 16). Windsor greenlights \$8.8M in tax benefits for Amazon's planned \$230M distribution hub; construction to begin in July. *Hartford Business Journal*. Retrieved from <https://www.hartfordbusiness.com/article/windsor-greenlights-88m-in-tax-benefits-for-amazons-planned-230m-distribution-hub>.

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¹⁰ Wen, C. (2023). Do Economic Development Tax Abatements Affect School Finances? *Economic Development Quarterly*. <https://doi.org/10.1177/08912424231174836>

¹¹ Good Jobs First. (n.d.). Tax Break Tracker. Retrieved from <https://taxbreaktracker.goodjobsfirst.org>.

¹² City of Hartford, Connecticut. (n.d.). Tax Abatement Application. Retrieved from <https://www.hartfordct.gov/Government/Departments/DDS/DDS-Services/Tax-Abatement-Application>.

¹³ Wen, C. (2023). Do Economic Development Tax Abatements Affect School Finances? *Economic Development Quarterly*. <https://doi.org/10.1177/08912424231174836>

¹⁴ Sisson, P. (2021, March 31). What Corporate Tax Breaks Mean for School Funding. *Bloomberg*. Retrieved from <https://www.bloomberg.com/news/articles/2021-03-31/for-schools-corporate-tax-breaks-can-take-a-toll>.

¹⁵ Good Jobs First. (n.d.). Key Reforms: Protecting Schools. Retrieved from <https://goodjobsfirst.org/key-reforms-protecting-schools/>.

¹⁶ Wen, C. (2023). Do Economic Development Tax Abatements Affect School Finances? *Economic Development Quarterly*. <https://doi.org/10.1177/08912424231174836>

¹⁷ Sisson, P. (2021, March 31). What Corporate Tax Breaks Mean for School Funding. *Bloomberg*. Retrieved from <https://www.bloomberg.com/news/articles/2021-03-31/for-schools-corporate-tax-breaks-can-take-a-toll>.

¹⁸ Wen, C. (2023). Do Economic Development Tax Abatements Affect School Finances? *Economic Development Quarterly*. <https://doi.org/10.1177/08912424231174836>