

Tax Increment Financing – What You Need To Know

Tax increment financing or TIF, as it is more commonly known, is an economic development financing tool used to capture property tax revenue attributable to increases in assessed value (AV). Increases in AV occur when private development takes place in a defined geographical area designated by local government. When a TIF area is created the AV is frozen. As development occurs, the property taxes paid on the increase in the AV is captured and can be used to pay for infrastructure improvements, debt payments on bonds issued to facilitate the development, and a variety of other costs incurred to generate additional development in the designated area.

You Have Questions/We Have Answers

Under what conditions may a TIF district be established?

Essentially, there are two types of TIF districts – a “redevelopment area” and an “economic development area.” In establishing a redevelopment area, there must be a finding that the area is blighted and normal development would not occur without the creation of a TIF district. An end to growth, deterioration of improvements and substandard buildings are all factors that determine blight.

An economic development area can be established to promote economic development and to create or retain jobs.

How is the amount of the “tax increment” determined?

When a declaratory resolution is passed establishing a TIF district, the assessed value of the geographic area is frozen. When development occurs, the increase in the value of the area is multiplied by the tax rate. The difference between the property tax revenue collected on the base assessed value and the increase in the assessed value due to the development is the “increment.”

Is residential property included in calculating the “tax increment?”

For economic development areas established after 1995 and redevelopment areas established after 1997, residential assessed value is not captured as part of the increment.

Can TIF dollars be used for projects outside the TIF district?

Yes, but only projects located within, serving or benefiting the TIF district are eligible to be funded using TIF revenue.

What happens when a TIF district expires?

The incremental assessed value is added into the tax base. For example, when local government paid off the bonds used to help finance the Subaru-Isuzu project, \$80 million in AV was added into the local tax base.

Projects Utilizing TIF

<u>Location</u>	<u>Company</u>	<u>Investment</u>	<u>Jobs</u>
Spencer County	A.K. Steel	\$1.1 billion	450
Gibson County	Toyota	\$1 billion	2500
Perry County	Waupaca Foundry	\$170 million	625
Vigo County	Staples Distribution Center	\$33 million	500
Grant County	American Woodmark	\$9 million	325

Calculating Tax Increment (Example)

Current Net Assessed Value	\$5,776,000
Less: Base Net Assessed Value	(412,050)
Incremental Assessed Value	\$5,363,950
Multiply: Gross Tax Rate	7.2721
Gross Tax Increment	\$390,072
Less: PTRC	(57,586)
Less: Homestead Credit	(341)
Net Tax Increment	\$332,145