



Massachusetts Municipal Association

MMA BEST PRACTICES SERIES

Recommendations for Effective Local Government Administration and Management from MMA Policy Committees

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MMA Fiscal Policy Committee

Best Practice Recommendation: Tax Exemptions and Abatements for Economic Development Purposes

BEST PRACTICE: Adopt formal written policies and rules governing the evaluation and use of property tax reductions as incentives for economic development and growth.

The use of property tax exemptions, abatements and deferrals by cities and towns to spur economic activity is widespread and has increased substantially as a practice over the past decade. It is estimated that property tax abatements in 2015 totaled approximately \$12 billion nationwide.

In Massachusetts, cities and towns are allowed by law to provide property tax abatements through a variety of programs, including Tax Increment Financing (TIF), Special Tax Assessments (STA), District Improvement Financing (DIF), and the new Urban Center Housing Tax Increment Financing (UCH-TIF) Program. These programs can provide an incentive for investment that creates jobs and economic growth. These benefits may be offset by the loss of municipal revenues needed for public investment in services such as education and public safety. It is important for municipal officials to have policies to help balance these sometimes conflicting objectives.

Formal rules can be helpful in evaluating decisions to adopt particular property tax incentive programs, approve specific tax-benefit applications and monitor compliance.

The Government Finance Officers Association (GFOA) recommends that cities and towns “create a policy on the appropriate parameters for use of economic development incentives.” A policy should include goals and objectives for the use of incentives, the types of incentives available and any limitation on their use, and a clearly defined evaluation process.

Resources:

- From Government Finance Officers Association: www.gfoa.org/economic-development-incentive-policies
- From Lincoln Institute of Land Policy: www.lincolninst.edu/publications/articles/muni-finance-1