The Role of Economic Development in Communities:
A Public Information Series on the Value of Economic Development

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Article 7: The Basics About Abatements (Part 1 of 3)

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Let's start with some basic terms. First, a tax *abatement* is essentially a reduced valuation on real and qualifying personal property. So, when a company receives a 50% abatement, the taxable value on qualifying property is reduced by that amount.

Secondly, lets talk about the term "investment." I think we can all agree that you have to have capital to invest in order to have an "investment." It could be time, revenue, or something else of value. If you don't have it, you can't invest it. To that end, an abatement requires no investment by the county. They don't put any revenue into the abatement. It is based on future value. In this way, an abatement is a risk-free "investment." The county doesn't write a check, therefore they risk (invest) nothing.

"An abatement requires no investment by the county."

Third, let's talk about "qualifying property." When an abatement is extended to a company, it is based on only the qualifying property. By statute, the county cannot apply an abatement to land. In most every instance the property being developed for commercial use was under ag exemption when purchased. As a result, it always increases in value as the ag exemption is removed and the property is assessed at full value.

In addition, Waller County doesn't extend abatement to inventory. In many cases, the inventory values exceed the capital investment for the project. Since inventory is not included in the abatement, the county receives tax revenue from the ad velorum taxes on inventory. Combining the increase in land value and the tax revenue on inventory gives the county immediate tax revenue and return on "investment." This return is even stronger when the land use changes from ag to full value. In addition to the increased taxable value, the county gets the roll-back taxes associated with removing an ag exemption.

Finally, it's important to know that 100% is not 100%. As I have just discussed, there are many points at which the county collects taxes even if the company receives a "100%" tax abatement. It's only 100% on qualifying property. This means real property improvements and certain machinery and equipment.

In concluding our discussion here, tax abatement is a reduction on taxable value for qualifying property. By statute, an abatement cannot exceed 10 years. The county risks nothing since they don't invest anything. All property and equipment doesn't qualify for an abatement so 100% is not really 100%.

Stay tuned for the next part in this series on economic development. If you have any questions or feedback, please feel free to email me at vyokom@wallercounty.org.

About the Waller County Economic Development Partnership (WCEDP): The WCEDP is a Texas non-profit corporation with an IRS 501 (C) 6 tax designation. We are non-political and have a 24-member board, which includes representation from every community in Waller County that has an economic development program. To learn more, visit www.wallercounty.org.

Mission: The WCEDP is organized to operate a charitable service center to foster increased, environmentally balanced business commerce, positive growth, and overall cooperation and coordination for all communities throughout Waller County, Texas.

WALLER COUNTY
ECONOMIC DEVELOPMENT PARTNERSHIP