

Understanding Philadelphia's Contractor Property Tax Exemption and the Three 10 Year Property Tax Abatement Programs

CONTRACTOR'S 30 MONTH PROPERTY TAX EXEMPTION PROGRAM



Under the contractor's tax exemption program, the property owner may obtain a real estate tax exemption for up to 30 months from the date the building permit is issued for the increase in the assessed value of the property due to the improvements being made to the property.

The contractor's tax exemption program applies to developers who are building or rehabbing a residential property that will be leased or sold. Application to the contractor's tax exemption program must be made by December 31 of the year that the building permit is issued. Properties that are eligible under the contractor's tax exemption program include a dwelling unit in a single house, duplex, triplex, townhouse, row house, or multi-family building.

The tax exemption under this governmental program begins on the first day of the month after the building permit is issued by the city of Philadelphia's Department of Licenses and Inspections and concludes 30 months later or until the property is leased or sold, whichever comes first. You would use the same application as the 10 year tax abatement program and it should be filed at the same time as tax abatement application along with copies of the permits.

10 YEAR PROPERTY TAX ABATEMENT PROGRAMS

The tax abatement program provides for a real estate tax abatement for a period of 10 years for the increase in the property's assessed value based upon the improvements made to the property. The 10 Year tax abatement program is actually divided into three separate application processes depending upon how the property is being used—Section 19-1303(2) (Ordinance 961), 19-303(3) (Ordinance 1130) and 19-1303(4) (Ordinance 1456-A) of the Philadelphia Code.

What part of the tax abatement program a property owner should apply for depends upon whether the property is owner-occupied or an investment property, and, if the property is an investment property, whether the property is being rented or sold after the property improvements are completed, and, finally, whether the improvements to the property are being made to a vacant lot (i.e., new construction) or to an existing building structure.

Ordinance 961 offers a 10 year tax abatement in improvements made to *existing residential building structures* that will either be sold at the completion of the improvements or occupied by the property owner.

Ordinance 1456-A provides for a tax abatement for *new construction of residential properties* that will be sold upon completion. A dwelling unit in a single house, duplex, townhouse, row house and multi-family building qualify for a tax abatement under Ordinance 1456-A.

Under Ordinance 1130, property owners may obtain a tax abatement for improvements due to *rehabilitation of a preexisting building structure or new construction of commercial, industrial and any other business properties*, including rental residential properties. In other words, property owners who newly-build or improve existing commercial and industrial properties should apply for this governmental program.

Both Ordinance 1130 and Ordinance 1456-A require the submission of the tax abatement application within 60 days from the date the building permit is issued, while, on the other hand, the property owner is “asked” to submit the application under Ordinance 961 by Dec. 31 of the year that the building permit is issued.

To illustrate the benefit of the tax abatement programs, if the property owner increases the property’s assessed value from \$100,000 to \$250,000 through improvements made to the property and, assuming the property owner is eligible for both the contractor’s tax exemption and tax abatement programs, that increase in the property’s assessed value will be exempt or abated from real estate taxation for up to 12-and-a-half years. Under the city’s current real estate tax program, the real estate savings will be well over \$20,000.

Under all three 10 year tax abatement programs, the 10-year tax abatement does not begin until the year following the completion of the property improvements. What happens in many circumstances is that the city reassesses the property soon after the improvements are completed. If the reassessment occurs in the middle of the year in which the improvements are completed, the increase in real estate taxes will not be abated for that year and, thus, the property owner will have to pay this real estate tax increase for the remainder of that year until the tax abatement goes into effect the following year.

That is where the contractor’s tax exemption program comes in. Since the city is prohibited from collecting any increases in real estate taxes for the first 30 months after the building permit is issued, assuming the property improvements are completed well in advance of the expiration of this 30-month period of time, the property owner, if eligible for the contractor’s tax exemption program, will not have to pay for any increases in the assessed value of the property. This is why it really makes sense to apply for both the Contractor exemption and the 10 year property tax abatement at the same time and attach the building permits to each application.

If you have any questions or need help applying for any of the property abatement programs please call Gregory J. Spadea at 610-521-0604.