



Tax Abatements: Utilizing New Jersey's "PILOT" Programs

Client Advisories

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Attracting commercial, residential and industrial development to areas most in need of redevelopment or rehabilitation is often difficult so municipalities are increasingly utilizing New Jersey's Tax Abatement Programs, providing for Payments in Lieu of Taxes or "PILOTs" to help with community growth and progress in these areas. Under these PILOT programs, municipalities are authorized to grant developers exemptions from traditional property taxes for a set period of time to encourage them to make improvements to property, or to locate a project in a distressed or "blighted" area. Instead of property taxes, developers make an annual PILOT payment to the municipality. The PILOT payment is typically much less than traditional taxes, and is structured so that the municipality receives more of a benefit than it would from usual property taxes. Not only do these exemptions save a developer in real estate taxes, but they provide an increase in the fair market value of the property as a result of higher net operating income.

Long-term tax abatements (NJSA 40A:20-1) may last up to 30 years from completion of a project, are typically utilized for larger redevelopment projects, and require a municipality to declare an area as being in need of redevelopment. The PILOT is then set based on a percentage of project costs or revenue generated by the project, depending on the type of project. Short-term tax abatements (NJSA 40A:21-1) typically lasting five years are used to encourage rehabilitation of existing buildings and structures, but can also be used for larger scale new construction. The PILOT structure, again, greatly reduces the developer's tax burden, and results in significant savings over the term of the PILOT agreement. In determining whether to enter into an abatement agreement, it is important to consider, among other criteria, the type and size of the development, impact of local tax rate on the profitability of the project, and the fiscal benefit added to the community.

For more information about New Jersey's PILOT programs and how best to take advantage of them, contact [Jeffrey Gradone](#) in Archer's [Real Estate Tax Appeal Group](#) at 609-580-3708 or jgradone@archerlaw.com.

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