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## The Relationship between Tax Increment Finance and Municipal Land Annexation

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*Land Economics*, November 2009, 85 (4) 598-613; DOI: <https://doi.org/10.3368/le.85.4.598>

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### Abstract

We use detailed information from Wisconsin municipalities on annexation and tax increment finance (TIF) activity over the period 1990–2003 to determine whether TIF has encouraged annexation. Declaring a recently annexed area a TIF district increases the fiscal benefit of annexation since it allows the municipality to direct the incremental revenue increases from overlying governments to economic development activities within the newly formed TIF district. Our analysis suggests that TIF is responsible for as much as 119 square miles, or 54%, of all the land area annexed over the 1990–2003 period in Wisconsin. (*JEL O18, R14*)

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