

The Economics and Politics of Tax Increment Financing

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Abstract

ABSTRACT Tax Increment Financing (TIF) is a popular yet controversial tool that allows local governments to use property tax revenue to fund the public costs of economic development. Since TIF gives one local government the power to affect the tax bases of the overlapping jurisdictions, there is uncertainty and argument on the part of government officials and taxpayers as to who really finances the program. To evaluate the alternative contentions, this paper presents a general methodology that identifies which taxpayers in which locations fund the TIF's expenditures, and sets forward the conditions under which such a local economic development policy can be beneficial to taxpayers. The paper applies the model to study the TIF program currently active in downtown Des Moines, Iowa. The evidence indicates that the taxpayers in the entire metropolitan area subsidized the downtown activities in the early years, but now pay lower property tax rates due to the city's TIF-financed urban revitalization program.

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