Tax Increment Financing

"Harnessing future tax revenues to fund current public improvements"

Tax Increment Financing (TIF) is a technique used by the USVI government to finance development or redevelopment activities. It is a mechanism used to capture the future tax revenue benefits of real estate improvement to pay the present costs of public improvements.

TIF capitalizes a predetermined portion of the real property and gross receipts taxes to finance the necessary public infrastructure component of a TIF project. Tax-exempt bonds secured by that tax revenue fund the necessary highways, roads, traffic lights, storm drainage, sewer, streetlights, and various other public infrastructure that otherwise overburden budgets and make costs of development prohibitive. Upon payment of public infrastructure improvements, 100% of the new gross receipts tax revenue and real property tax revenue revert to the government.

There are two types of TIF:

- **Project based**: A single project on one or more pieces of land that uses TIF only for that project
- **District based**: Large area of land targeted and identified for redevelopment. Projects that develop within the district may be eligible to use TIF as a source of financing

Project Types: Tax Increment Financing may be used to finance a variety of costs and improvements pertaining to public infrastructure, land acquisition, demolition, utilities and projects such as:

- Sewer expansion and repair
- Water supply
- Street construction
- Affordable/low income housing
- Libraries and schools
- Traffic control
- Park improvements
- Parking structure
- Utility lines

EXAMPLE

- Existing property generates $1,000 a year in real estate taxes
- Government designates the property as a TIF district

- Tax base is frozen at $1,000 level
- Government conducts a feasibility study and “but for” test and agrees to TIF deal and issues tax-exempt bonds to finance proposed public infrastructure improvements
- Bonds are sold generating cash for project construction (Bonds are only one financing mechanism, may use others bridge loans, etc.)
- Once project is complete, new assessment is completed on property ($1,500 in taxes a year as indicated)
- Frozen property base ($1,000) continues to flow to pre-existing coffers (city, county, schools, states, etc.)
- Increment property tax (additional $500) plus the gross receipts tax, goes towards debt service on the bonds that were issued for the project
- Increment tax and the gross receipts tax are used to pay back bonds over time
- Once bonds are paid off the taxes are “unfrozen” and the full tax base generated from the new development goes to government coffers
- **THE KEY – No new taxes are requested, no existing taxes used in the financing of the project**

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Source URL (modified on 09/15/2016 - 4:39pm): http://usvieda.org/start-or-grow-business/financing-options/tax-increment-financing