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Philadelphia City Council Enacts Sweeping Changes to the Tax Abatement Program

Last year, Philadelphia City Council enacted changes to Philadelphia's residential tax abatement program via legislation that reduced the value of certain approved abatements by 10 percent per year, commencing with abatements applied for after December 31, 2020. However, the COVID-19 pandemic vastly changed the permitting and development process in Philadelphia, and nationwide, and Philadelphia's developers have anxiously awaited action from City Council to extend the December 31, 2020 deadline.

On December 10, 2020, Philadelphia City Council passed three key pieces of legislation that impact real estate development citywide. All developers should be aware of the substance and timing of the three bills:

EXTENSION OF RESIDENTIAL ABATEMENT BY ONE YEAR

Ordinance No. 200366

Delays the implementation of the phased reduction to the residential tax abatement for a period of one year. In Philadelphia, residential properties are eligible for an abatement of 100 percent of the value of improvements for 10 years. Recently enacted changes reduced the value of the abatement by 10 percent per year, for all abatement

applications filed after December 21, 2020. Bill 200366 extended the filing deadline to qualify for the existing (10 years, 100 percent improvement) abatement by one year to December 31, 2021. Thereafter, the phased reduction abatement structure would apply to abatement applications filed on or after January 1, 2022.

REDUCTION IN TAX ABATEMENT FOR COMMERCIAL AND INDUSTRIAL PROPERTIES

Ordinance No. 200653

Extends the phased abatement reduction structure to commercial properties. This ordinance calls for a 10 percent reduction of the 10-year tax abatement for the value of improvements on commercial and industrial properties for all abatement applications filed after December 31, 2021.

IMPOSITION OF CONSTRUCTION TAX

Ordinance No. 200556

This ordinance imposes a one percent tax on the cost of construction of residential improvements. Non-residential construction is not covered by the ordinance. Standard maintenance will not be considered an "improvement," and future regulations will further define the scope of the tax.

If enacted, the construction tax would apply to all building permits applied for after January 1, 2022.

The legislation will now be passed on to the mayor for his signature prior to being enacted. The Blank Rome [Real Estate Team](#) is monitoring this new legislation and is available to counsel developers regarding the scope of the new legislation and its impact on Philadelphia's development community.

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