From:	Debbie Tarry
To:	Chris Eggen; Jesse Salomon; Chris Roberts; Doris McConnell; Keith McGlashan; Shari Winstead; Will Hall
Cc:	John Norris; Dan Eernissee; Alicia McIntire; Carolyn Wurdeman
Subject:	RE: Impact fees #2
Date:	Wednesday, June 11, 2014 11:45:22 AM
Attachments:	image001.png

Chris –

Here is some information regarding your question. We got information both from Randy Young – who is helping us develop the concurrency and impact fee program and from a Financial Officer who works with development companies. Both support that for the owner/developer of a property that is required to pay impact fee – either the impact fee becomes a cost that they recapture during the sale of their development (i.e., a single family home) or becomes a capitalized cost, if they retain ownership such as a restaurant, that gets expensed over time on their taxes. Please let me know if you have any additional questions.

Response from Randy Young:

Impact fees are included in the sale price of the developed property. And most real estate development transactions involve mortgages because not many people can afford to pay cash for a new house, office building, apartment building, retail store, etc. Therefore, the cost of the impact fee is already financed over the life of the mortgage.

There is an up-front cost of the impact fee to the builder at the time the building permit is issued. Builders typically treat the impact fee like all other expenses (land, construction materials, labor, etc.) and use their construction financing to cover the cost during the period between permit issuance (including payment of impact fees) and the closing of the sale (when the builder gets paid for everything, including the impact fee).

Pierce County tried a deferred payment plan for parks impact fees back in the late 1980s or 1990s. The impact fee was not collected at the building permit, or at the closing, therefore it was not included in the mortgage. Instead, the impact fee was owed to the County over a period of 2 or 3 year. The County repealed it after building owners complained that the builders didn't disclose that there were deferred impact fee payment obligations. Furthermore, the County had lots of problems collecting the money. The County concluded that deferring the payments put the County in the business of being a lender, and it didn't have the skills or the procedures to perform that function.

Regarding income tax treatment of impact fees, the builder treats the impact fee the same as construction materials, subcontractor costs, etc. It is part of the cost of his or her product, and their income tax is only due on the net income (profit). For the buyer of the building, the impact fee is included in the total cost of the property, therefore it is effectively capitalized as part of the cost of the property. It has the same treatment on the owner's income taxes as the rest of the cost of property and mortgage.

Response from David Maag:

I think generally impact fees would have to be capitalized. If they are not for any specific on-site work being done, the cost could potentially be allocated pro-rata to different classes of assets (e.g. land improvements, equipment). This would allow the developer to depreciate a portion of them over shorter periods than the full 39 years that a new building is depreciated over.

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From: Chris Eggen
Sent: Tuesday, June 03, 2014 5:06 PM
To: Jesse Salomon; Chris Eggen; Chris Roberts; Doris McConnell; Debbie Tarry; Keith McGlashan; Shari Winstead; Will Hall
Subject: Impact fees #2

Sorry, I also meant to ask if impact fees for businesses and multifamily residential are deductible on income taxes.

Thanks, Chris Eggen