

# Tax Abatement Disclosures

## NCSL Executive Committee Taskforce on State and Local Taxation

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**November 20, 2015**

*The views expressed in this presentation are those of Mr. Mead. Official positions of the GASB on accounting matters are determined only after extensive due process and deliberation.*



# Overview

- About the GASB
- In Brief: What Is the GASB Requiring?
- Why Did the GASB Set Standards on Tax Abatement Disclosures?
- How Were the Standards Established?

# About the Governmental Accounting Standards Board

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GASB was created in 1984 by agreement between the Financial Accounting Foundation and:

- American Institute of CPAs
- Council of State Governments
- Government Finance Officers Association
- International City/County Management Association
- National Association of Counties
- National Association of State Auditors, Comptrollers and Treasurers
- **National Conference of State Legislatures**
- National League of Cities
- National Governors' Association
- U.S. Conference of Mayors

# Who Follows GASB Standards?

- 37 states require at least some of their political subdivisions to follow GASB standards
  - 34 states require some or all school districts
  - 29 states require some or all school counties
  - 28 states require some or all cities, towns, and other localities
  - Not sure about requirements for special districts
- Approximately 50,500 governments have outstanding municipal debt and the market prefers GAAP reporting
- Enforcement activities are performed by some states, but most enforcement comes down to the audit
  - Some governments hire a CPA firm
  - Others are audited by the state auditor or another auditor in government

# The Board

- Full-time chairman and six part-time members
  - Chair: Dave Vaudt, former Iowa state auditor
  - Vice-chair: Jan Sylvis, former Tennessee chief of accounts
  - Jim Brown, retired partner, BKD LLP
  - Brian Caputo, CFO & treasurer, City of Aurora, IL
  - Bill Fish, former chief investment officer, Chartis U.S.
  - Michael Granof, distinguished professor, University of Texas
  - David Sundstrom, auditor-controller/treasurer-tax collector, Sonoma County, CA

# In Brief: GASB Statement 77, *Tax Abatement Disclosures*

# Definition and Scope

- Does not include all transactions that reduce tax revenues
- Emphasis is on the substance of the arrangement meeting the definition, not on its name or form
- Would apply only to arrangements meeting this definition:
  - A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

# General Disclosure Principles

- A government would disclose separately (a) its own tax abatements and (b) tax abatements that are entered into by other governments and reduce the reporting government's taxes
- Disclose own tax abatements by major program
- Disclose those of other governments by the government and specific tax abated
- May disclose individual tax abatements above quantitative threshold established by the government
- Disclosure would commence in the period in which a tax abatement agreement is entered into and continue until the tax abatement agreement expires, unless otherwise specified

# Required Disclosures

Brief Descriptive Information	Government's Own Abatements	Other Government's Abatements
Name of program	✓	
Purpose of program	✓	
Name of government		✓
Tax being abated	✓	✓
Authority to abate taxes	✓	
Eligibility criteria	✓	
Abatement mechanism	✓	
Recapture provisions	✓	
Types of recipient commitments	✓	

# Required Disclosures

Other Disclosures	Government's Own Abatements	Other Government's Abatements
Dollar amount of taxes abated	✓	✓
Amounts received or receivable from other governments associated with abated taxes	✓	✓
Other commitments by the government	✓	
Quantitative threshold for individual disclosure	✓	✓
Information omitted due to legal prohibitions	✓	✓

# Why Did the GASB Issue Statement 77?

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# The Purpose of Financial Reporting

- Accounting and financial reporting standards provide governments guidance about how to report information that municipal bond analysts, citizen and taxpayer groups, legislatures, oversight bodies, and others need for:
  - Making decisions
  - Assessing government accountability

# The Purpose of Financial Reporting (continued)

- Among other things, financial reporting is intended to provide information about:
  1. Whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity)
  2. Whether a government complied with finance-related legal and contractual obligations
  3. Where a government's financial resources come from and how it uses them
  4. A government's financial position and economic condition and how they have changed over time

# The Need for Information about Tax Abatements

- Every year, tax abatements reduce the revenue of thousands of governments by billions of dollars
- Forgoing this revenue significantly affect judgments about interperiod equity, financial position, and so on
- External reporting of information about the effects of tax abatements is sporadic and insufficient to meet the information needs of the public
- Many tax abatements are not recorded at all in a government's accounting system because the taxes are never billed or collected – that means the numbers in the financial statements do not reflect those tax abatements

# What Statement 77 Is and Is Not

- Statement 77 requires the disclosure of information that is necessary to understanding the four purposes identified earlier
- Statement 77 is *not* intended to communicate about whether tax abatement agreements are good or bad deals
  - Some of the disclosures may be helpful to persons interested in evaluating the effectiveness of tax abatements, but the disclosures do not specifically address the issue

# Is Tax Abatement Information Appropriate for the Audited Financial Report?

- Conceptually, information reported in the financial statements and notes has to be essential to understanding a government's financial position or inflows and outflows of resources
- Research conducted by the GASB and others has found that information about tax abatements is considered to be extremely important – the Board's judgment is that certain information about tax abatements is essential

# How Did the GASB Develop the Tax Abatement Disclosure Standards?

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# Steps in the Development of Statement 77

- The GASB reviewed the extensive literature on tax abatements, examined information about tax abatement programs, and conducted interviews with government officials before deciding to consider setting standards
- The Board issued proposed standards in October 2014 for a public review period of 90 days
- 298 comment letters were received from individuals and organizations
  - More than half from citizens and citizen groups
  - Letters signed by state legislators from more than half the states
- Regular input from the Governmental Accounting Standards Advisory Council (includes NCSL)