

GASB In Focus

GASB Statement No. 77, *Tax Abatement Disclosures*

Many state and local governments currently have tax abatement programs in place—and their effects on those governments' financial health and ability to raise revenue can be substantial. However, because essential information on these agreements is not consistently or comprehensively available, it is difficult to discern the magnitude and nature of those effects from the governments' financial statements.

On August 14, the Governmental Accounting Standards Board (GASB) issued Statement No. 77, *Tax Abatement Disclosures*, establishing guidance requiring state and local governments to disclose key information about tax abatement agreements. The new guidance is intended to make the financial impact of these transactions readily transparent.

What Is a Tax Abatement?

Statement 77 applies to transactions that involve an agreement between one or more governmental entities and a business or individual. The governmental entities reduce (abate) the taxes the business or individual otherwise would owe. As part of the agreement, the business or individual promises to take a specific action that contributes to economic development or otherwise benefits the governments or their citizens.

Tax abatements often are provided by governments to induce businesses to relocate to or stay within the government's borders, or to increase or maintain a certain number of jobs.

What Is the GASB Requiring State and Local Governments to Disclose about Tax Abatements?

GASB Statement 77 requires governments that enter into tax abatement agreements to present the following information in the notes to their financial statements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The dollar amount by which tax revenues were reduced during the period as a result of tax abatement agreements
- Commitments made by a government, other than to reduce taxes, as part of a tax abatement agreement.

A reporting government also should disclose tax abatements

entered into by other governments, if those abatements reduce the reporting government's tax revenues. The information to be disclosed includes the names of the governments that abated the taxes, the specific taxes they abated, and the dollar amount of taxes abated.

Why Is the GASB Requiring These New Disclosures?

It is important to taxpayers, municipal bond analysts, legislators, and other users of governmental financial information to understand how resources flow into and out of a government each year and to evaluate its financial health. A key to both is identifying any factors that limit a government's ability to raise resources and, thereby, to meet its financial obligations. Tax abatements are effectively a limitation on revenue-raising ability because a government has agreed not to collect taxes that it otherwise would have been entitled to. However, the size of tax abatements, how frequently governments use them, or what provisions they contain are not currently evident from the financial statements or the notes.

The new disclosures will provide information that is inconsistently reported publicly at present. The GASB believes that information about the nature and magnitude of tax abatements will make these transactions more transparent and their impact on a government's financial health more evident.

Does the Statement Apply to All Programs That Reduce Taxes?

No, Statement 77 requires disclosures only about transactions that meet the definition of a tax abatement for financial reporting purposes. Tax abatements are one type of transaction broadly referred to as *tax expenditures*. Tax expenditures take a variety of forms and go by various names, such as tax credits, tax exemptions, and tax deductions. The key distinction between tax abatements and other tax expenditures, for the purposes of Statement 77, is that tax abatements result from a government agreement with a specific individual or entity that is entered into prior to the abatement recipient taking its promised action. Other types of tax expenditures—such as income tax deductions for

charitable donations or lower property taxes for senior citizens—are broadly available to anyone who meets certain criteria and are not based on individual agreements with a government. Consequently, they are not covered by the guidance.

Why Do Governments Have to Disclose Information about Other Governments' Tax Abatements?

The financial impact of tax abatements is not increased or decreased based on which government abated the tax revenues. Therefore, if a reporting government's tax revenues are reduced as a result of another government's tax abatements, it is equally relevant to understanding the reporting government's financial health.

Do Governments Have to Disclose Each of Their Tax Abatement Agreements Individually?

No. Disclosure of many individual tax abatements may not be practical. Under Statement 77, governments will disclose their

own tax abatement agreements arranged by major tax abatement program. Other government's tax abatements will be organized by the government entering into the agreement and the specific tax being abated. For both groups of tax abatements, a government may choose to disclose individual tax abatements that meet or exceed a quantitative threshold chosen by the government.

When Does Statement 77 Take Effect?

The requirements of Statement 77 are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

Statement 77 is available for download at no charge at www.gasb.org. Printed copies of the Statement will be available for purchase in late August 2015.

For more information about tax abatement disclosures, please visit the GASB's website at www.gasb.org.