



Statement No. 77

Tax Abatement Disclosures

Vermont House Ways & Means Committee
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The views expressed in this presentation are those of Mr. Mead. Official positions of the GASB on accounting matters are reached only after extensive due process and deliberation.



What Do Financial Statement Users Need to Know?

- In other words, why do governments prepare audited annual financial reports?
- People need information to make decisions, perform analyses, and assess government accountability
- Among other things, users need to know:
 - Where did a government's resources come from and what were they used for?
 - Did a government raise sufficient resources during the year to cover that year's costs (interperiod equity)?
 - Did a government's financial health (its financial position and economic condition) improve or deteriorate during the year, and why?
 - Did a government comply with finance-related legal and contractual requirements?

How Does that Relate to Tax Abatements?

- Tax abatements reduce the amount of revenue a government otherwise would receive, which is relevant to:
 - Evaluating revenue sources
 - Evaluating interperiod equity
 - Evaluating changes in financial position and economic condition
- Tax abatement agreements sometimes include government commitments to invest in infrastructure or perform other actions, which is relevant to confirming compliance with finance-related legal and contractual requirements
- As a result of the way most tax abatements work, they often are never recorded in a government's accounting system and, therefore, are not reflected in the financial statements

How Were Legislatures Involved in the Development of Statement 77?

- Legislators and legislative staff participated in the substantial research that preceded the beginning of standards setting
- In response to a proposed draft of the requirements, the GASB received 5 letters signed by legislators from 27 states—the comments in those letters were supportive of the proposal
 - Overall, the GASB received 298 letters, more than half of them from individual citizens—these letters were supportive, though they mostly called for a much broader scope that would capture more tax breaks and subsidies

What Transactions Should Be Reported?

Statement 77 applies only to transactions meeting this definition of a tax abatement:

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.

Scope: Substance over Form

- The Statement does not include or exclude transactions based on their form or name – governments should apply the criteria contained in the definition
- Key points:
 - A principal distinction between tax abatements and other tax expenditures is the existence of an agreement with an individual or entity
 - The agreement generally is in writing but not necessarily
 - The agreement may or may not be legally enforceable
 - The agreement must precede the reduction of taxes and the recipient's fulfillment of the promise to act
 - The tax reduction may occur before, during, or after fulfillment of the promise – as long as it occurs after the agreement has been entered into

General Disclosure Principles

- A government should disclose information separately for:
 - Its own tax abatements
 - Tax abatements that are entered into by other governments and that reduce the reporting government's tax revenues.
- Disclosure information may be presented for individual agreements or may be aggregated
 - For a government's own abatements: organized by major tax abatement program
 - For other government's abatements: organized by the governments entering into the abatements and the specific taxes being abated

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 | ✓ | ✓ |

Effective Date

- Fiscal years ending December 31, 2016 and later
- Fiscal years ending June 30, 2017 and later
- Early adoption is encouraged

For more information...

- The GASB's website is www.gasb.org
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