



January 20, 2015

Newly Proposed Tax Abatement Disclosures

GOVERNMENT, TAX

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The Governmental Accounting Standards Board (GASB) issued an Exposure Draft on tax abatement disclosures in October 2014. Changes to standards can affect many governmental entities and, as such, provide for a public comment period. The deadline for public comment on the proposed tax abatement disclosures ends on January 30, 2015, and all public comments must be submitted in writing by this date.

Government entities following GASB financial reporting standards could soon be required to disclose information relating to their current tax abatement programs. Tax abatement programs have become a popular mechanism for governments to incentivize companies to move operations and offices within their jurisdictions by reducing taxes in return for a promise or commitment relating to economic development. After hearing from many constituents that information was needed surrounding government tax abatement programs, GASB issued an Exposure Draft on Tax Abatement Disclosures in October 2014. The GASB Board has tentatively decided that governments should be required to disclose the following relating to their tax abatements:

Required Disclosures to Governments Tax Abatements:

1. General descriptive information, such as the purpose of the abatement program, the jurisdiction that the tax abatements agreements are entered into, eligibility criteria to receive the abatement, what taxes are abated, any commitments made by the recipients (for example, a promise to create a certain number of jobs), and any recapture provisions that allow the government to collect on previously abated taxes if the recipient fails to meet its commitment;
2. The number of new abatement agreements entered into during the year and total number of agreements in effect at the end of the reporting period;
3. The total dollar amount the government's tax revenues were reduced in the current period as a result of abatements; and
4. Any commitments made by the reporting government, beyond a reduction of taxes (for example, a commitment by the government to construct roadways around a new manufacturing plant).

It should be noted that governments that are impacted by tax abatement programs issued at higher levels of government would still be required to disclose relevant information regarding the abatement. For example, some counties can implement a tax abatement program that includes reductions of property taxes at the township or school district level. The township or school district would be required to disclose applicable information in regard to this tax abatement, even though they were not a party to the agreement.

The comment period for the Exposure Draft ends on January 30. Governments that

could be impacted by this potential disclosure requirement are encouraged to submit their written feedback to the GASB prior to this date. Tentatively, the disclosure requirements would be effective for fiscal years beginning after December 15, 2015, with earlier application encouraged.

The Exposure Draft on tax abatement disclosures was deliberated and issued by the GASB Board during my one-year Postgraduate Technical Assistanceship with the GASB. During my year working at the GASB, I had the privilege of working on the Leases and Fiduciary Responsibilities projects, which recently led to the issuance of Preliminary Views documents for both projects. I also helped conduct research for the Financial Reporting Model (Statement 34 Reexamination) pre-agenda research project. The assistanceship provided an incredible opportunity for me to gain an understanding of the standard-setting process, and how and why generally accepted accounting principles are issued for state and local governments.

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