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Statement No. 77 of the  
Governmental Accounting  
Standards Board

Tax Abatement Disclosures



**GOVERNMENTAL ACCOUNTING STANDARDS BOARD**  
OF THE FINANCIAL ACCOUNTING FOUNDATION

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## Summary

Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (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, and (4) a government's financial position and economic condition and how they have changed over time.

Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- 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 gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements
- The specific taxes being abated
- The gross dollar amount of taxes abated during the period.

## **Effective Date and Transition**

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

## **How the Changes in This Statement Improve Financial Reporting**

The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 3 discusses the applicability of this Statement.

Statement No. 77 of the  
Governmental Accounting  
Standards Board

Tax Abatement Disclosures

August 2015



**GOVERNMENTAL ACCOUNTING STANDARDS BOARD**

of the Financial Accounting Foundation

401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

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# Statement No. 77 of the Governmental Accounting Standards Board

## Tax Abatement Disclosures

August 2015

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# **Statement No. 77 of the Governmental Accounting Standards Board**

## **Tax Abatement Disclosures**

**August 2015**

### **INTRODUCTION**

1. State and local governments employ a variety of programs and policies that reduce the taxes an individual or entity otherwise would owe, with the intent of encouraging those individuals or entities to engage in certain behaviors such as constructing housing in a particular neighborhood or relocating or retaining a business within a government's geographic area. Certain of those programs and policies reduce tax revenues through agreements with individuals or entities, such as property tax abatements for businesses that build or expand office buildings.

2. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current-year revenues were sufficient to pay for current-year services, (b) compliance with finance-related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time.

### **STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING**

#### **Scope and Applicability of This Statement**

3. This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both

(a) agreements that are entered into by the reporting government and  
(b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The provisions of this Statement should be applied to all state and local governments subject to such tax abatement agreements.

4. For financial reporting purposes, a tax abatement is defined as:

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.

A transaction's substance, not its form or title, is a key factor in determining whether the transaction meets the definition of a tax abatement for the purposes of this Statement.

## **General Disclosure Principles**

5. Information about tax abatement agreements should be disclosed in notes to the financial statements according to the following general principles:

- a. Disclosures should distinguish between tax abatements resulting from (1) agreements that are entered into by the reporting government and (2) agreements that are entered into by other governments and that reduce the reporting government's tax revenues.
- b. Disclosure information for tax abatements may be provided individually or may be aggregated.
- c. Disclosure information for tax abatements resulting from agreements entered into by the reporting government (whether presented individually or in the aggregate) should be organized by each major tax abatement program, such as an economic development program or a television and film production incentive program.
- d. Disclosure information for tax abatements resulting from agreements entered into by other governments (whether presented individually or in the aggregate) should be organized by the government that entered into the tax abatement agreement and the specific tax being abated.

- e. Disclosure should commence in the period in which a tax abatement agreement is entered into and continue until the tax abatement agreement expires, except as specified in paragraph 7d.

## **Disclosure Requirements**

6. A government that chooses to disclose information about individual tax abatement agreements should present individually only those that meet or surpass a quantitative threshold selected by the government. Those agreements should be presented as set forth in paragraphs 5c and 5d.

7. Governments should disclose in the notes to financial statements the following information related to tax abatement agreements that they enter into:

- a. Brief descriptive information, including:
  - (1) Names, if applicable, and purposes of the tax abatement programs
  - (2) The specific taxes being abated
  - (3) The authority under which tax abatement agreements are entered into
  - (4) The criteria that make a recipient eligible to receive a tax abatement
  - (5) The mechanism by which the taxes are abated, including:
    - (a) How the tax abatement recipient's taxes are reduced, such as through a reduction of assessed value
    - (b) How the amount of the tax abatement is determined, such as a specific dollar amount or a specific percentage of taxes owed
  - (6) Provisions for recapturing abated taxes, if any, including the conditions under which abated taxes become eligible for recapture
  - (7) The types of commitments made by the recipients of the tax abatements.
- b. The gross dollar amount, on an accrual basis, by which the government's tax revenues were reduced during the reporting period as a result of tax abatement agreements.
- c. If amounts are received or are receivable from other governments in association with the forgone tax revenue:
  - (1) The names of the governments
  - (2) The authority under which the amounts were or will be paid
  - (3) The dollar amount received or receivable from other governments.
- d. If the government made commitments other than to reduce taxes as part of a tax abatement agreement, a description of:
  - (1) The types of commitments made

(2) The most significant individual commitments made.

Information about a commitment other than to reduce taxes should be disclosed until the government has fulfilled the commitment.

- e. If tax abatement agreements are disclosed individually, a brief description of the quantitative threshold the government used to determine which agreements to disclose individually.
- f. If a government omits specific information required by this Statement because the information is legally prohibited from being disclosed, a description of the general nature of the tax abatement information omitted and the specific source of the legal prohibition.

8. Governments should disclose in the notes to financial statements the following information related to tax abatement agreements that are entered into by other governments and that reduce the reporting government's tax revenues:

- a. Brief descriptive information, including the names of the governments entering into the tax abatement agreement and the specific taxes being abated
- b. The gross dollar amount, on an accrual basis, by which the reporting government's tax revenues were reduced during the reporting period as a result of tax abatement agreements
- c. If amounts are received or are receivable from other governments in association with the forgone tax revenue:
  - (1) The names of the governments
  - (2) The authority under which the amounts were or will be paid
  - (3) The dollar amount received or receivable from other governments
- d. If tax abatement agreements are disclosed individually, a brief description of the quantitative threshold the reporting government used to determine which agreements to disclose individually
- e. If a government omits specific information required by this Statement because the information is legally prohibited from being disclosed, a description of the general nature of the tax abatement information omitted and the specific source of the legal prohibition.

9. Governments that are legally prohibited from disclosing specific information required by this Statement may omit that information, subject to the requirements of paragraphs 7f and 8e.

10. Tax abatement agreements that are entered into by a government's discretely presented component units and that reduce the government's tax revenues should be disclosed according to the provisions of paragraph 7 if the

government concludes that the information is essential for fair presentation (based on the application of Statement No. 14, *The Financial Reporting Entity*, as amended). Otherwise, such tax abatements should be disclosed according to the provisions of paragraph 8.

## **EFFECTIVE DATE AND TRANSITION**

11. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. This Statement applies to notes to the financial statements for all periods presented. If application for prior periods presented is not practical, the reason for not applying this Statement to prior periods presented should be disclosed.

**The provisions of this Statement need  
not be applied to immaterial items.**

*This Statement was issued by unanimous vote of the seven members of the Governmental Accounting Standards Board.*

David A. Vaudt, *Chairman*  
Jan I. Sylvis, *Vice-Chairman*  
James E. Brown  
Brian W. Caputo  
William W. Fish  
Michael H. Granof  
David E. Sundstrom



## Appendix A

### BACKGROUND

A1. In early 2008, stakeholders asked the GASB to develop standards requiring governments to disclose information about tax abatements. The Board added the subject to the GASB's technical plan as a potential standards-setting topic in August 2008.

A2. In June 2010, the GASB awarded a Gil Crain Memorial Research Grant to three academics (Crain grantees) who proposed to conduct research on (a) the prevalence of tax abatements in state and local governments, (b) the state of external reporting by governments of information about the tax abatements they have agreed to, and (c) the needs of citizens, taxpayer groups, municipal bond analysts, and other users of governmental financial information regarding tax abatements. The Crain grantees' research entailed a summation of the academic literature on tax abatements; a review of relevant state statutes; a search of the websites of county governments known to have entered into tax abatement agreements for information reported about those abatements; and a survey of citizen and taxpayer groups, county legislators, and municipal bond analysts regarding the tax abatement information they consider most important to making decisions and assessing government accountability. The Crain grantees identified 44 states with statutes authorizing governments to enter into tax abatement agreements, 6 of which contained requirements related to some form of reporting on those agreements. The survey resulted in responses from 38 members and staff of citizen and taxpayer groups, 68 county board members, and 114 municipal bond analysts.

A3. The members of the Governmental Accounting Standards Advisory Council (GASAC) considered the subject of tax abatement disclosures as part of their annual discussion of the GASB's technical plan priorities. The members rated tax abatement disclosures in the top 10 of all pre-agenda research topics and potential standards-setting topics included in the GASB's technical plan between 2009 and 2011. At their March 2012 meeting, the GASAC members identified the topic as fourth highest in priority.

A4. In April 2012, the Board initiated pre-agenda research activities related to tax abatement disclosures. The GASB updated the Crain grantees' literature review and collected information about the number and magnitude of tax

abatements nationwide. In 2013, employing the list of tax abatement information items identified as most important to users by the Crain grantees, the GASB interviewed officials from 78 governments regarding the availability of the information. If the information was not readily available, the interviewees were asked about the effort that would be required to collect it. The results of the research conducted by the GASB and the Crain grantees were reported to the Board in December 2013.

A5. In December 2013, the Board added a project on Tax Abatement Disclosures to the practice-issues portion of the GASB's current technical agenda. Deliberations for the project began in April 2014.

A6. In October 2014, the Board issued an Exposure Draft, *Tax Abatement Disclosures*. The Board received 298 responses to the Exposure Draft from organizations and individuals. As discussed throughout Appendix B, comments and suggestions from those sources contributed to the Board's deliberations in developing the requirements of this Statement.



## Appendix B

### BASIS FOR CONCLUSIONS

B1. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

#### Scope of This Statement

B2. Governmental programs employed to lower the taxes of broad classes of taxpayers, or the taxes of individuals or entities based on the performance of specific actions, are broadly referred to as *tax expenditures*. Tax expenditures include tax exemptions, tax deductions, and tax abatements, among other programs. Governments exempt certain individuals, entities, or activities from taxation. Common examples of *tax exemptions* include the exclusion of income earned on municipal bonds from income taxes and the full or partial exemption of senior citizens and military veterans from property taxes. Governments also allow individuals or entities to deduct certain items from their tax liabilities or from the amount that is being taxed. Common examples of *tax deductions* include income tax deductions for charitable giving and programs that allow homeowners to deduct a portion of the cost of installing energy-efficient features from the amount of income tax they owe.

B3. The intention of this Statement is to specifically address a subset of tax expenditures commonly referred to as *tax abatements*, rather than to encompass all forms of tax expenditures. The Board considered a variety of features that might distinguish tax abatements from other types of tax expenditures. The Board identified three features that, in combination, set tax abatements apart from tax expenditures in general: the purpose of tax abatements, the type of revenue they reduce, and the existence of an agreement (as described in paragraphs B9–B11) with a specific individual or entity as the basis for the abatement. This Statement applies to transactions that include all of those

features and refers to them as tax abatements for the purposes of financial reporting. However, this Statement does not apply to transactions that are called “tax abatements” in practice if they lack one or more of those three essential features.

B4. Many respondents to the Exposure Draft recommended that the Board include a much broader range of transactions in this Statement. Some recommended expanding the scope to incorporate all tax expenditures. Others proposed including all forms of assistance to businesses—such as grants, loans, and transfers of capital assets, in addition to tax reductions. Some called for disclosure of campaign contributions to a government’s elected officials from the recipients of such assistance. The Board concluded that expanding the Statement to such a degree would present many practical difficulties in terms of defining the types of transactions to include and organizing the information in a manner that would be meaningful to users. Broad-based tax expenditure programs are more accurately characterized as aspects of a government’s overall tax policy than as individual decisions to accept less tax revenue for something of value from an individual or entity. Assistance of the kinds mentioned by the respondents are recorded in a government’s accounting system, unlike most tax abatement agreements, although they may not be readily identifiable in the financial statements. The Board considered the request to provide information on campaign contributions but determined that such disclosures were outside the scope of the Board’s authority.

B5. Other respondents to the Exposure Draft requested that the Board consider including specific types of programs—such as tax increment financings, payments in lieu of taxes, or as-of-right agreements—in the scope of the Statement. The Board believes that some of those transactions may meet the definition of a tax abatement and, therefore, should be disclosed according to this Statement. However, the determination of whether a transaction meets the definition of a tax abatement should be based on the substance of the transaction, rather than on its form or label. Consequently, this Statement’s scope does not include or exclude any specifically titled transaction or program in order to avoid inappropriately including transactions that do not meet the definition of a tax abatement or excluding those that do.

B6. The standards focus on the amount of tax revenue not collected as a result of tax abatement agreements, which is informative about a government’s economic condition and, therefore, highly relevant to the objectives of financial reporting. Some respondents to the Exposure Draft expressed concern that by omitting information about economic benefits or other outcomes, the tax abate-

ment disclosures may be misleading or incomplete. The Board concluded that it was not an objective of the Statement to provide information needed to evaluate the effectiveness of tax abatement programs and, therefore, did not modify the disclosure requirements to include information about the benefits of these programs. Generally, any favorable financial outcomes resulting from a government's tax abatement programs will be reflected in the recognized tax revenues and reported in the financial statements.

## **Purpose of Tax Abatements**

B7. Tax abatements typically are utilized as part of economic development programs to achieve goals such as (a) increasing the property or other tax base; (b) addressing cost disadvantages; (c) revitalizing distressed local economies; (d) retaining or attracting jobs, companies in particular industries, or a specific company; or (e) increasing the number of persons employed by existing employers. One might characterize these purposes in general as economic development. However, tax abatements also are used for other purposes that otherwise benefit a government or its citizens, such as historical preservation, environmental incentives, brownfield cleanup, and housing construction.

## **Revenues Reduced by Tax Abatements**

B8. Tax abatements are primarily viewed in the context of reducing *tax revenues*. The Board is aware of programs similar in many respects to tax abatements that reduce revenues other than taxes. For instance, some public utilities grant reductions of customer charges to businesses. The Board notes, however, that a key difference between abatements that reduce tax revenues and those that reduce revenues from customer charges is that the former involve nonexchange transactions, whereas the latter involve exchange transactions. A nonexchange transaction does not involve an equal exchange of value between willing parties; the amount of taxes paid, for example, is unrelated to the amount of services a taxpayer receives from the government. Consequently, an agreement to abate an individual or entity's taxes in return for the performance of a beneficial action is a discrete transaction apart from the transaction in which the government taxes the individual or entity. Conversely, in the case of an agreement that reduces charges to a customer, the Board views the reduction as a part of the exchange transaction, rather than a separate transaction.

## Existence of an Agreement

B9. Perhaps the most important feature of tax abatements, for the purposes of this Statement, is the existence of an agreement between the government and an individual or entity. Tax abatements (as defined in this Statement) result from an identifiable agreement between a government and a specific individual or entity. Tax abatement agreements consist of at least two components—a promise by the government to reduce the individual’s or entity’s taxes and a promise from the individual or entity to subsequently perform a certain beneficial action.

B10. Tax abatement agreements may be in writing or may be implicitly understood by the government and the individual or entity. Such agreements may not be legally enforceable, but the Board does not believe that legal enforceability is an essential feature. For instance, many tax abatement programs do not include provisions for recapturing abated taxes if the individual or entity does not fulfill its promise; limiting the scope of this Statement to tax abatement agreements that are enforceable in this manner would exclude many of these transactions.

B11. Implicit in the notion that tax abatements are based on an agreement is the expectation that the agreement precedes the reduction of taxes and the fulfillment by the individual or entity of the promise to act. Certain tax expenditure programs that exhibit the features of a tax abatement—they reduce taxes, encourage beneficial actions by individuals or entities, and may be based on an agreement—are, nevertheless, excluded from the scope of this Statement because the government does not commit to abate taxes until *after* the individual or entity has already performed the activity for which the government is providing the tax abatement. Most often, such programs do not involve an agreement; an individual or entity performs the required activity (such as installing energy-efficient home features), applies for the tax reduction, and is approved by the government. However, even when an agreement exists, such programs more closely resemble broad tax exemptions and deductions rather than individual tax abatement agreements. Some respondents noted that in some cases there may not be a meaningful distinction between the effects on a government’s finances of programs in which the agreement precedes recipient performance and those in which recipient performance precedes the agree-

ment. However, the Board concluded that the timing provision offers the necessary demarcation between transactions included in the scope of this Statement and a much broader class of tax expenditures, which is beyond the scope of this Statement.

## **Other Features Considered**

B12. The Board considered three other potential distinguishing features of tax abatements—terminology, the mechanism used to reduce taxes, and the breadth and applicability of the program. A variety of labels are used to identify tax reduction programs—exemptions, deductions, credits, rebates, and abatements foremost among them. These labels are used interchangeably to describe similar transactions; very different transactions also may be described using the same label. Consistent with other GASB pronouncements, the Board concluded that this Statement should focus on the substance of the transactions rather than on their form or label.

B13. The mechanisms employed by tax abatement programs also vary. Typically, a recipient of a tax abatement receives a tax bill—most often for property taxes—that already is net of the abated amount. Sometimes property tax abatements involve a reduction of the taxable assessed value of property or a rebate of tax payments made by a taxpayer but, most commonly, they are a direct reduction in the tax obligation. Unlike property taxes, the actual reduction of other types of tax revenues (such as corporate income and sales tax revenues) necessarily takes place later in the fiscal year because the amount owed is not known until then.

B14. As previously stated, tax exemptions and tax deductions tend to be available to a larger number of individuals and entities than tax abatements. However, the Board concluded that being less broadly available is not a suitable distinguishing feature of tax abatements because there is no objective measure of breadth or applicability that would serve to definitively separate tax abatements from other tax expenditures.

## **Definition of a Tax Abatement**

B15. Based on the aforementioned considerations, the Board defined a tax abatement (for financial reporting purposes) as resulting 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 other-

wise 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. The scope of this Statement is limited to transactions that meet this definition.

B16. Based on comments from respondents to the Exposure Draft regarding the proposed definition's reference to taxpayers, the Board modified the language from the Exposure Draft to identify the recipient of a tax abatement as an "individual or entity" instead. This revision clarifies that (a) the recipient can be a business or other type of entity, not only a person; (b) the recipient may not be a current taxpayer at the time the agreement is entered into, such as in a business relocation agreement; and (c) the recipient may be a remitter of taxes, rather than the obligor of the tax, such as a retail business in a sales tax diversion agreement.

## **General Disclosure Principles**

B17. The number of tax abatement agreements to which a government is a party may vary widely from government to government. As mentioned in Appendix A, the GASB interviewed 78 government officials involved in tax abatement programs as a part of the research that preceded this Statement. The number of tax abatement agreements in effect for the governments represented by these persons ranged from 5 or fewer (24 percent of the governments) to more than 200 (almost 13 percent of the governments). For this and other reasons, the Board believes that it is necessary to establish certain provisions to guide the disclosure of information about tax abatements. These principles relate to (a) whether the reporting government was a party to the tax abatement agreement, (b) the level of disclosure detail, and (c) the periods for which disclosures should be made.

## **Governments Involved in the Agreement**

B18. A government's tax revenues may be reduced not only as a result of tax abatement agreements it enters into but also as a result of tax abatement agreements entered into by other governments. For instance, certain local governments provide abatements that reduce not only their own tax revenues but also the tax revenues of school districts within their geographic area. The Board considered whether a government should be required to disclose information about tax abatement agreements to which it was not a party. Some

respondents to the Exposure Draft questioned the relevance of tax abatement information when the reporting government has no involvement in the agreement. Some respondents also expressed concern that the information required by this Statement may be difficult to obtain from other governments. The Board concluded that users of governmental financial statements need information about limitations on the ability of governments to raise revenues (as described in paragraphs B25–B27), some of which are the product of tax abatements. The effect of the reduction in tax revenues on a government’s financial health is not diminished or exacerbated based on which government abated the tax revenues. If information on tax revenue reductions resulting from tax abatements entered into by other governments were not disclosed in the reporting government’s notes, a financial statement user may have no indication of the existence of those abatements. Even if the user were aware of their existence, the effort required for the user to obtain information from each government that entered into an abatement could be overwhelming. Therefore, this Statement requires disclosure of information about tax abatement agreements regardless of whether the reporting government was involved in the agreement. The Board did determine, however, that the source of the abatement may be relevant to what information about tax abatements is necessary and the level of detail of the disclosures. Consequently, this Statement requires that information about a government’s own tax abatement agreements be disclosed separately from information about abatements resulting from agreements entered into by other governments.

## **Level of Disclosure Detail**

B19. The volume of tax abatement agreements entered into by some governments necessitates consideration of the appropriate level of detail for disclosure of information about those agreements. Notes to financial statements should provide a sufficient amount of essential information to the users of financial statements without presenting so much detail that the understandability of the information (and, thereby, its usefulness) is diminished. A government could individually disclose information about, for example, 5 or 10 tax abatement agreements, but individual disclosure of 50 agreements might be overwhelming. Consistent with previous pronouncements, such as Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, this Statement allows governments to present information about individual tax abatement agreements or to aggregate larger numbers of similar agreements.

B20. The Board was concerned that, given the option to present information about some tax abatement agreements individually, some disclosures could be based on considerations that are not relevant to financial statement users. Therefore, the Board decided to require that *all* individual tax abatement agreements that exceed a quantitative threshold determined by the government be included in the disclosure, if the government decides to disclose any agreements individually. The determination of the quantitative threshold is a matter of professional judgment and could, for example, be a percentage of the total amount of taxes abated or a specific dollar amount. A government may disclose some of its own tax abatement agreements individually but may not do so for other governments' tax abatement agreements, or vice versa. If a government discloses both its own tax abatements and those of other governments individually, it may apply the same quantitative threshold or different quantitative thresholds. To assist users in understanding how the government decided which agreements to disclose individually, this Statement requires a brief description of each quantitative threshold that the government used.

B21. The Board also considered what degree of aggregation would be most appropriate. The Board believes that aggregating all tax abatement agreements would significantly reduce the usefulness of the disclosures. The Board concluded that aggregating disclosures by major program—such as for a government that has tax abatements that are granted (a) for more than one purpose or (b) by more than one division within the government—is an acceptable approach for a government's own tax abatement agreements that makes disclosure more manageable but retains sufficiently useful detail. For instance, a county government might disclose information separately for tax abatements it entered into to induce relocation of businesses to an economic development zone, abatements under a program to attract television and movie productions, and all other abatements. This Statement requires that any agreements disclosed individually by that county be presented within their respective major tax abatement program.

B22. The Board concluded that disclosure by major program is less relevant to the reporting government for tax abatement agreements that are entered into by other governments and that reduce the reporting government's tax revenue. If a government is not a party to the agreement that requires it to forgo tax revenues, the reason for the abatement is not particularly relevant because the government did not offer the abatement. Additionally, it may be difficult for the reporting government to obtain the necessary information from the government that entered into the tax abatement agreement. Therefore, this Statement requires less information to be disclosed about tax abatement agreements



entered into by other governments (discussed further in paragraph B46) and does not require that information to be disclosed by major program. Rather, the Board concluded that the information should be organized by the government that entered into the tax abatement agreement and the specific tax that is being abated. If a reporting government discloses the tax abatement agreements of other governments individually, they are required to be organized in the same manner.

## **Periods When Disclosure Should Occur**

B23. The Board considered whether disclosures about tax abatement agreements should be made in each year that the agreement is in effect or only in the initial year of the agreement. The Board concluded that the disclosures required by this Statement continue to be equally or nearly equally as important in subsequent years as in the first year they are presented. Furthermore, the Board believes that the cost of implementing the requirements of this Statement will diminish in subsequent years. Therefore, it is the Board's view that as long as a tax abatement agreement remains in effect—and, therefore, continues to affect a government's finances—the disclosure is necessary.

## **Disclosure Requirements**

B24. The pre-agenda research described in Appendix A identified the information about tax abatements that users consider to be most important. The research also gathered input about the present availability of that information to governments and the effort that would be required to collect the information if not already in hand. In addition to considering the findings of this research and the feedback received on the Exposure Draft, the Board deliberated whether information about tax abatements was necessary to meet the objectives of financial reporting set forth in the GASB's conceptual framework.

## **Tax Abatement Information and the Conceptual Framework**

B25. Paragraphs 77–79 of Concepts Statement No. 1, *Objectives of Financial Reporting*, include four objectives that are relevant to tax abatements: (a) determining whether current-year revenues were sufficient to pay for current-year services (interperiod equity), (b) compliance with finance-related legal and contractual obligations, (c) providing information about sources and uses of financial resources, and (d) providing information about the financial

position and economic condition of a governmental entity. Interperiod equity is defined in paragraph 61 of Concepts Statement 1 as “whether current-year revenues are sufficient to pay for the services provided that year and whether future taxpayers will be required to assume burdens for services previously provided.” Assessing interperiod equity depends on information about (among other issues) limitations on the ability of governments to raise revenues. The Board believes that information about agreements that reduce the amount of tax revenue that a government can raise is relevant to understanding current-year revenues.

B26. Some tax abatement agreements contain commitments for the government to perform activities other than to reduce taxes, such as constructing streets and other infrastructure around a new office complex for which a property tax abatement has been provided. The Board believes that demonstrating compliance with finance-related legal or contractual requirements includes providing information about whether a government has met its other commitments under tax abatement agreements. The Board notes that the government’s compliance with its obligation to reduce taxes will be reflected in the amount of the reduction in its tax revenues.

B27. Some respondents to the Exposure Draft questioned whether the proposed disclosure requirements meet the objectives of financial reporting by state and local governments. The Board concluded that information about limitations on tax revenues is important to understanding sources and uses of financial resources. Tax abatement agreements reduce the amount of financial resources that otherwise would flow into a government. Furthermore, information about tax abatements is relevant to assessments of financial position and economic condition in at least two ways. First, information about resource inflows has been identified in research by the GASB and others as being highly important to analyzing financial position and economic condition. Second, commitments of a government other than to reduce taxes could represent actual or contingent obligations that would be relevant considerations when analyzing the financial position and economic condition of that government.

B28. Relevance to one or more of the objectives of financial reporting may not be sufficient, on its own, to justify requiring that a particular piece of information be reported in the notes. Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, emphasizes the essentiality of information to a user’s understanding of financial position and inflows and outflows of resources. Some respondents to the Exposure Draft did not believe that the proposed information about

tax abatement agreements is essential and, therefore, recommended that it be (a) reported as required supplementary information, (b) presented as supplementary information (such as in the statistical section), or (c) not reported at all. The pre-agenda research and the comments of other stakeholders in response to the Exposure Draft informed the Board's analysis of whether potential disclosures about tax abatements would provide information that is essential. The users that participated in the research identified the following information as highly important and, therefore, essential as defined in the GASB's conceptual framework: general descriptive information about tax abatement agreements, names of tax abatement recipients, amount of taxes abated, duration of tax abatements, other commitments made by a government in a tax abatement agreement, commitments made by the recipient of the tax abatement, recipient compliance with such commitments, and provisions for recapturing abated taxes.

## **Brief Descriptive Information**

B29. There is considerable precedent for requiring disclosure of general descriptive information about a transaction or group of transactions. For example, paragraph 40 of Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires descriptive disclosures about an employer's pension plan. Similar disclosures are required in the GASB's pronouncements on derivative instruments, service concession arrangements, and nonexchange financial guarantees. The Board believes that the substantial variety in tax abatement programs from government to government supports the notion that brief descriptive disclosures are essential to users wishing to examine and draw conclusions about the other tax abatement information that governments are required to disclose under this Statement. The Board believes that the descriptive information required by this Statement should allow users to assess in a more cost-effective way the effects of providing abatements, rather than analyzing each abatement individually. This is particularly true when governments regularly offer a large number of tax abatements each year under formal programs rather than periodically on a case-by-case basis. This information should be readily available to governments and, therefore, cost little to disclose.

## **Name of the Recipient**

B30. Users participating in the pre-agenda research rated the name of the tax abatement recipient as important information, though slightly less important than other information about tax abatements. Numerous respondents to the

Exposure Draft also emphasized the importance of the recipient's name. Citizens have a demonstrable interest in whether tax abatement recipients have fulfilled the promises they made in return for paying lower taxes; knowing the names of the recipients would be valuable to verifying recipient performance. This information should be readily available; if a government has reduced an individual or entity's tax bill, it is implicit that the government has a record of the recipient's name. However, the Board does not believe that disclosure of a tax abatement recipient's name fulfills any of the objectives of financial reporting. Furthermore, disclosure of the name of the recipient would necessitate individual disclosure of all tax abatement agreements, which may not be practical and may adversely affect the usefulness of the disclosure. Therefore, the Board concluded that the name of the recipient should not be required as a disclosure.

### **Number of Tax Abatement Agreements**

B31. The Board proposed in the Exposure Draft the disclosure of the number of tax abatement agreements entered into during and in effect at the end of a reporting period. In its redeliberations, the Board observed that other Statements generally have not required disclosure of the number of transactions. Although information of this type provides additional context to the disclosures, the Board concluded that the number of tax abatement agreements is not essential to a user's understanding of financial position or inflows and outflows of resources, as described in Concepts Statement 3. The Board also noted that gathering this information from other governments could increase the time and effort needed to prepare the disclosure. Therefore, the Board determined that disclosing the number of tax abatement agreements entered into and in effect at the end of the reporting period should not be required by this Statement.

### **Amount of Taxes Abated**

B32. The pre-agenda research and comments received in response to the Exposure Draft established that the amount of the reduction in tax revenues, including tax revenues in future years, is highly valuable to users. The amount of the reduction in tax revenues for the reporting period is readily available to a large majority of the governments represented in the research. The Board concluded that the amount of the reduction in tax revenues is the information about tax abatements that is most essential to analyzing interperiod equity, sources and uses of resources, financial position, and economic condition. Consequently, this Statement requires disclosure of the amount of the reduction in tax revenues during the reporting period.

B33. Some respondents to the Exposure Draft asked for clarification related to the appropriate basis of accounting to be used in disclosing the amount of tax revenue forgone as a result of tax abatement agreements. The Board agreed that it was necessary to provide this guidance so that governments do not present tax abatement information using the cash basis of accounting, which is not in conformity with generally accepted accounting principles. The difference between revenue recognition under the accrual and modified accrual bases of accounting is the concept of availability. The concept of availability determines whether an inflow can be used to satisfy a liability in the current period. The Board believes that availability is not relevant to disclosing the amount of forgone revenue due to tax abatements. For most tax abatement agreements, once taxes are abated, a government has no expectation of a resource inflow related to the abated amount ever occurring. Therefore, the Board concluded that the appropriate presentation of amounts of tax revenue forgone under this Statement is the accrual basis of accounting.

B34. Some tax abatement agreements contain provisions that a government make payments to other governments affected by the agreements to mitigate the loss of their tax revenue. Certain respondents to the Exposure Draft raised questions about how these associated payments should be reflected in the disclosures. The Board determined that information related to the source and nature of these payments is essential to a user's understanding of the impact of the tax abatement agreements on the reporting government's ability to raise revenues. However, that value would be lost if the amount of taxes abated during the reporting period were reported net of any of these payments. Consequently, this Statement requires governments to disclose the gross amount of the reduction in their tax revenues, as well as the amounts, if any, received or receivable from other governments, in association with the lost tax revenue. Furthermore, the reporting government should identify the government that provided or will provide those types of payments and the authority under which the payments were or will be made.

B35. The Board also considered requiring disclosure of the amount remaining to be abated in future years under existing tax abatement agreements. Some respondents to the Exposure Draft cited the importance of that information. That information would be particularly relevant to assessments of economic condition, which is concerned in part with a government's ability to meet its financial obligations as they come due. However, the Board is concerned that developing that information would require specific guidance regarding how to

measure the future amounts, which is outside the scope of this Statement. Therefore, the Board concluded that this Statement should not require disclosure of future amounts to be abated under existing agreements.

## **Duration of Tax Abatements**

B36. Many users participating in the pre-agenda research and some stakeholders who commented on the Exposure Draft identified the date of tax abatement agreements and their duration as important information. They are interested in how much longer a government will be reducing the taxes of the recipients. This information is readily available to the governments represented in the research. The Board considered several relevant items that could be disclosed, including the date the tax abatement agreement was entered into, the date the agreement would end, the full term of the agreement, and the remaining term of the agreement. The Board concluded that the remaining term of the agreement (in years) would be most directly informative. However, when the Board considered how the general disclosure principles would affect disclosure of this information, it was concerned about how useful the information would be to users. The Board believes that disclosure of the remaining term would be highly useful when provided for individual abatement agreements. However, to the extent that the disclosure aggregates a significant number of abatement agreements, the disclosure of the remaining term would necessarily become less specific and, therefore, less valuable. Furthermore, the less uniform the terms of a government's tax abatements—for example, terms that range from 3 to 20 years, as opposed to a standard length of 5 years—the less useful the Board believes an aggregated disclosure would be. The Board examined several approaches to presenting aggregated information about the duration of tax abatements but ultimately concluded that the disclosure should not be required.

## **Other Commitments Made by a Government**

B37. A tax abatement agreement may contain provisions beyond the government's promise to forgo tax revenues and the promise made by the abatement recipient. As previously noted, the government may make other commitments to an abatement recipient such as a promise to improve infrastructure around the location to which the recipient has agreed to move its business. Users participating in the pre-agenda research rated other commitments made by

governments as important information. Many respondents to the Exposure Draft supported that view. The research suggests that such information is readily available to governments that provide tax abatements.

B38. The Board believes that commitments made by governments as part of a tax abatement agreement may, in some circumstances, be considered a finance-related legal or contractual requirement. The provision of information about such obligations is a part of the financial reporting objective related to evaluating financial position and economic condition. The requirement to disclose construction and other significant commitments in paragraph 158 of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, conceivably could capture such commitments resulting from tax abatement agreements. However, there is no guidance that specifically addresses tax abatement agreement commitments and, therefore, this Statement specifically requires disclosure of a government's commitments other than to reduce taxes.

B39. The Board concluded that information about commitments a government makes in a tax abatement agreement (other than to reduce taxes) is most useful if it is disclosed in two ways. A government should disclose the types of other commitments that it has made, if any, in the tax abatement agreements in effect as of the end of the reporting period and individually disclose its most significant specific commitments, if any.

B40. As previously explained, this Statement requires that tax abatement disclosures continue until a tax abatement agreement has ended. However, the Board does not believe that disclosures of a government's other commitments continue to be useful after a government has fulfilled its commitment. Therefore, this Statement makes an exception to the general disclosure principle and specifies that disclosure of other commitments made by a government in a tax abatement agreement should cease after the terms of the commitment have been met.

## **Commitments Made by a Tax Abatement Recipient**

B41. As defined in this Statement, a necessary component of a tax abatement agreement is a promise from the recipient to subsequently perform a specific action in order to lower its tax obligation. Both the pre-agenda research and some respondent comments to the Exposure Draft indicate that users are keenly interested in (a) whether the tax abatement is justified by the promised

return from the recipient of the abatement and (b) whether the recipient has fulfilled its promise. The Board believes the commitments a government receives from the recipients are relevant information for assessing the sources and uses of resources.

B42. This Statement requires disclosure of the types of commitments made by the recipients of tax abatements. However, the disclosure is limited to commitments made by recipients in tax abatement agreements entered into by the reporting government. If a reporting government's tax revenues are reduced under an agreement entered into by another government, any commitment made by the recipient under the agreement is being made to the other government, not the reporting government. Furthermore, it may be relatively more difficult for the reporting government to obtain information about commitments made in another government's tax abatement agreements than it would be to obtain other information about those agreements, such as the amount of taxes abated.

B43. A natural extension of the disclosure of recipient commitments is disclosure of recipient compliance with those commitments. Many respondents to the Exposure Draft stated that recipient compliance should be a part of the disclosure of tax abatement information. Some respondents believe that information about recipient compliance is essential to understanding the effects of entering into a tax abatement agreement. Other respondents stated that tax abatement disclosures also need to address the results of the agreements in terms of the benefits that result from the recipient performing on its promise. The Board is concerned about the availability of information about recipient performance. If a tax abatement agreement calls for relocation to an economic development area, compliance may be relatively easy to ascertain. However, for other types of recipient commitments—such as promises to create or retain a certain number of jobs—information on compliance may not be readily available to the reporting government. The Board also observes that whether a tax abatement recipient fulfills the promise it made in a tax abatement agreement is a matter of compliance by the recipient, not by the reporting government. As a result, the Board concluded that this Statement should not require information about recipient compliance.



## **Recapture Provisions**

B44. Tax abatement agreements may contain provisions that allow for the government to recapture previously abated taxes when the recipient fails to meet its obligations. The Board considered three types of information regarding recapture or “clawback” provisions: the circumstances under which a government may recapture abated taxes, the amount of abated taxes recaptured during the reporting period, and the amount of abated taxes eligible to be recaptured as of the end of the reporting period but not yet recaptured. The Board believes that information about recapture provisions is highly relevant to the same objectives of financial reporting that are met through the disclosure of the amount of the reduction in tax revenues. Many respondents to the Exposure Draft stated their support for disclosing that information. This Statement, therefore, requires disclosure of the provisions, if any, for recapturing abated taxes, including the conditions under which recapture is allowed.

B45. Although the Board did not propose disclosure of the amount of abated taxes recaptured during the reporting period or the amount of abated taxes eligible to be recaptured as of the end of the reporting period but not yet recaptured, respondents to the Exposure Draft requested that the Board require disclosure of that information. An important impetus for the requirement in this Statement to disclose the amount of the reduction in tax revenues is that the reduction in revenue typically is not reflected in the amounts recognized in the financial statements. The Board observes that amounts recaptured during the year would be recognized as revenue in resource flows statements; amounts eligible for recapture would be recognized as receivables in statements of financial position. Though these amounts may not be separately distinguishable, the fact that they are accounted for and reported in the financial statements led the Board to decide not to require their disclosure.

## **Information about Tax Abatement Agreements That Are Entered into by Other Governments**

B46. In the Exposure Draft, the Board proposed requiring that essentially the same information be disclosed for the reporting government’s own tax abatement agreements and for tax abatement agreements that are entered into by other governments and that reduce the reporting government’s tax revenues. Based in part on the feedback received on the Exposure Draft regarding the usefulness of the proposed disclosures related to tax abatement agreements that are entered into by other governments, the Board concluded that many of

the proposed disclosures are less meaningful to the objectives of financial reporting when the reporting government is not actually involved in the agreement. The key information from the reporting government's perspective is the impact of those agreements on its tax revenues. Additionally, the Board recognized that there may be practical difficulties and cost considerations relating to obtaining the information that would have been required for other governments' tax abatement agreements. Therefore, this Statement requires the disclosure of substantially less information about tax abatement agreements entered into by other governments. The information required to be disclosed includes the amount of the tax revenue forgone by the reporting government; the amounts received or receivable from other governments in association with the forgone tax revenue, including the names of the governments providing the payments and the authority under which the payments were or will be made; the names of the governments that entered into the agreements; and the specific taxes that were abated. The tax abatements of other governments also are subject to the disclosure requirements related to the threshold used to determine which agreements should be disclosed individually and legal prohibitions against disclosure of tax abatement information.

## **Confidential Information**

B47. Some respondents to the Exposure Draft expressed concerns that the disclosure of tax abatement information, even if presented in an aggregated form, could violate legal prohibitions against disclosing the confidential taxpayer information or confidentiality provisions in the tax abatement agreements. The Board believes that the types of information required and the aggregated presentation of the disclosures would, in most cases, obscure the identity of an individual tax abatement recipient. However, the Board also acknowledges it is possible that the circumstances of some governments could legally prevent them from disclosing specific information, particularly governments with one or a few agreements. Therefore, this Statement allows a government to omit specific information that it is legally prohibited from disclosing. This Statement requires the government to describe the general nature of the tax abatement information omitted and the source of the legal prohibition so that users will understand what information is missing and why that information is missing.

## **Component Units**

B48. A respondent to the Exposure Draft recommended that the Statement explicitly address how governments should disclose tax abatement information related to component units that abate their primary government's taxes. For example, there are instances in which a separate legal entity is established by a primary government for the purpose of deploying economic development strategies, including tax abatements, for the benefit of the government's jurisdiction or the larger region in which the government operates. The Board believes that the more limited disclosures for the tax abatements of other governments may fall short of what users consider is essential information related to those component units, especially when the component units' actions with respect to tax abatements could be considered to be virtually the actions of the primary government itself. For those reasons, the Board concluded that governments should use professional judgment to determine whether the tax abatement information related to the discretely presented component unit is essential for fair presentation based on the application of Statement No. 14, *The Financial Reporting Entity*, as amended. If the disclosure is determined to be essential to fair presentation, this Statement requires primary governments to disclose the same information about the discretely presented component unit's tax abatement as primary governments would report for their own tax abatements. Otherwise, the same information should be disclosed about discretely presented component unit tax abatement agreements that would be presented for tax abatements entered into by other governments. Information about tax abatements that are entered into by a primary government's blended component units and that reduce the primary government's tax revenues should be disclosed in the same manner as the primary government's own tax abatements.

## **Considerations Related to Benefits and Costs**

B49. The overall objective of financial reporting by state and local governments is to provide information to assist users (the citizenry, legislative and oversight bodies, and investors and creditors) in assessing the accountability of governments and in making economic, social, and political decisions. One of the principles guiding the Board's setting of standards for accounting and financial reporting is the assessment of expected benefits and the perceived costs. The Board strives to determine that its standards (including disclosure require-

ments) address an essential user need and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit.

B50. Present and potential users are the primary beneficiaries of improvements in financial reporting. Persons within governments who are responsible for keeping accounting records and preparing financial statements, as well as managers of public services, also benefit from the information that is collected and reported in conformity with GASB standards. The costs to implement the standards are borne primarily by governments and, by extension, their citizens and taxpayers. Users also incur costs associated with the time and effort required to obtain and analyze information to meaningfully inform their assessments and decisions.

B51. The Board's assessment of the expected benefits and perceived costs of issuing new standards is unavoidably more qualitative than quantitative because no reliable and objective method has been identified for quantifying the value of improved information in financial statements. Furthermore, it is difficult to accurately measure the costs of implementing new standards until implementation has actually taken place. Nonetheless, the Board undertakes this assessment based on the available evidence regarding expected benefits and perceived costs with the objective of achieving an appropriate balance between increasing benefits and minimizing costs.

B52. The Board assessed the expected benefits and perceived costs of this Statement's requirements at two levels—for individual decisions and for the entirety of the Statement. Throughout its deliberations, the Board specifically considered the relative expected benefits and perceived costs of individual decisions and also considered information gathered related to tax abatements from the pre-agenda research and the respondent feedback from the Exposure Draft. For example, the Board took into account the results of interviews with government officials involved in tax abatements regarding the present availability of information about tax abatements and the estimated effort that would be necessary to collect information that is not already in hand.

B53. Certain decisions made by the Board in developing this Statement were intended to minimize the cost of compliance with the standards. For instance, the Board decided to allow governments to aggregate disclosures for similar tax abatements. The Board eliminated many of the disclosures that were proposed in the Exposure Draft for tax abatement agreements that are entered into by other governments and that reduce the reporting government's tax revenues.

Finally, the Board allowed for information about tax abatements entered into by other governments to be presented in the aggregate, organized by the name of government and the specific tax being abated.

B54. The Board also considered the aggregate expected benefits and perceived costs associated with the entirety of the requirements of this Statement. The Board believes that the prevalence of tax abatements among state and local governments and the magnitude of the dollars involved underline the importance of information about these agreements to assessments of interperiod equity, sources and uses of resources, financial position, and economic condition. In light of the inconsistency of publicly reported information about tax abatements, the Board believes that the expected benefits of the disclosure requirements of this Statement will be significant. In addition, the Board believes that much of the information necessary for the required disclosures is already available to governments or would not require extensive effort to obtain. Furthermore, the Board believes that the costs associated with implementation of this Statement will be largely limited to the initial period of implementation.

## **Effective Date**

B55. Some respondents to the Exposure Draft expressed concerns about the proposed effective date of the Statement and requested that the effective date be delayed. Those respondents noted that governments that have a large number of tax abatement agreements may need additional time to accumulate the information from various sources in order to prepare the disclosures. The Board observed that the pre-agenda research indicated that the information required by the Statement either is already accessible or readily available, according to the government officials that were interviewed. It is possible that information related to tax abatement agreements entered into by other governments and that reduce the reporting government's tax revenues could take longer than assembling information the preparer already possesses. However, the Board concluded that an effective date of periods beginning after December 15, 2015, allows sufficient time for implementation. Some governments may wish to implement earlier than the effective date. Accordingly, this Statement encourages early application.



## Appendix C

### ILLUSTRATIONS

C1. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the policies or practices shown. Application of the provisions of this Statement may require assessment of facts and circumstances other than those illustrated here. Existing standards may require disclosures in addition to those illustrated. In some instances, amounts that may be considered immaterial are used to illustrate specific requirements or alternatives. No inferences about determining materiality should be drawn from these illustrations.

#### Example 1—Small Government with Few Abatements

##### Facts and Assumptions

Sample Village negotiates property tax abatement agreements on an individual basis. The Village has tax abatement agreements with five entities as of June 30, 20X7:

<b>Purpose</b>	<b>Percentage of Taxes Abated during the Fiscal Year</b>	<b>Amount of Taxes Abated during the Fiscal Year</b>
Grocery store chain purchases empty building and opens store	40%	\$ 97,500
Relocate hardware store	50	13,225
Retain health and fitness facility	30	5,100
Increase size and employment of restaurant/catering business	50	21,750
Open gas station and convenience store	40	8,905

Each agreement was negotiated under a state law (the Economic Development Opportunity Act of 20X1) allowing localities to abate property taxes for a variety of economic development purposes, including business relocation, retention, and expansion. The abatements may be granted to any business located within or promising to relocate to a local government's geographic area. Localities may grant abatements of up to 50 percent of annual property taxes through a direct reduction of the entity's property tax bill. The state law does not provide for the recapture of abated taxes in the event an abatement recipient does not fulfill the commitment it makes in return for the tax abatement.

The Village has not made any commitments as part of the agreements other than to reduce taxes. The Village is not subject to any tax abatement agreements entered into by other governmental entities. The Village has chosen to disclose information about some of its tax abatement agreements individually. It established a quantitative threshold of 10 percent of the total dollar amount of taxes abated during the year.

## **Illustrative Disclosure**

### **Note X. Tax Abatements**

The Village enters into property tax abatement agreements with local businesses under the state Economic Development Opportunity Act of 20X1. Under the Act, localities may grant property tax abatements of up to 50 percent of a business' property tax bill for the purpose of attracting or retaining businesses within their jurisdictions. The abatements may be granted to any business located within or promising to relocate to the Village.

For the fiscal year ended June 30, 20X7, the Village abated property taxes totaling \$146,480 under this program, including the following tax abatement agreements that each exceeded 10 percent of the total amount abated:

- A 40 percent property tax abatement to a grocery store chain for purchasing and opening a store in an empty storefront in the business district. The abatement amounted to \$97,500.
- A 50 percent property tax reduction for a local restaurant increasing the size of its restaurant and catering facility and increasing employment. The abatement amounted to \$21,750.



## **Example 2—Large Government with Many Abatements, including Abatements of Other Governments**

### **Facts and Assumptions**

Model County provides tax abatements under six programs: the Residential Improvement Program, the Office of Film and Television Production Incentives, the Economic Assistance Initiative, the High-Tech Investment Program, the Competitive County Credit, and the Renewable Energy Incentive.

- The Residential Improvement Program provides property tax abatements to encourage improvements to single-family and multiple-unit dwellings. The Program is established under the auspices of a state statute (Code 14, Section 201.1) empowering cities and counties to establish such programs. The abatements equal 100 percent of the additional property tax resulting from the increase in assessed value as a result of the improvements, are administered as a reduction in the tax bill, and last for 3 years (or fewer, if the property is sold). Abatements are obtained through application by the property owner prior to commencing the improvements and require subsequent provision by the owner of proof that the improvements have been made. Because taxes are not abated until after the improvements have been made, there are no provisions for recapturing abated taxes. No other commitments were made by the County as part of those agreements.
- The Office of Film and Television Production Incentives tax abatements are intended to attract television, movie, and commercial productions. These abatements are granted pursuant to an ordinance enacted by the County Board of Supervisors (County Economic Development Act of 20X3). Production companies can apply for a refund of sales taxes on qualifying spending within the County. Production companies' County corporate income tax liabilities are reduced by the amount of qualifying spending, up to 100 percent of the taxes owed. Production companies apply to the Office for admittance into the program in advance of commencing production. Qualifying spending is limited to three years from the date of admittance. Because taxes are abated after the qualifying spending has taken place, there are no provisions for recapturing abated taxes. No other commitments were made by the County as part of those agreements.
- The Department of Economic Assistance operates three tax abatement programs: the Economic Assistance Initiative, the High-Tech Investment Program, and the Competitive County Credit. The Department's tax abatement programs were created through the passage of an ordinance by the

County Board of Supervisors (County Economic Development Act of 20X3). The agreements entered into by the Department include clawback provisions should the recipient of the tax abatement fail to fully meet its commitments.

- The Economic Assistance Initiative offers individual incentive packages to attract new businesses to the County. Abatements may be granted to any business agreeing to relocate to the County. In addition to property tax abatements for the property constructed or purchased by the new or relocated businesses, the Department also arranges for construction of certain infrastructure features that are ancillary to newly constructed facilities. One agreement involving the relocation and new construction of the central headquarters of a major corporation included a substantial commitment from the County to construct a new exit on County Highway 84 and connecting roadways. The magnitude of the County's commitments in other agreements is relatively insignificant and is generally consistent across agreements. The maximum property tax abatement is the equivalent of a 75 percent reduction of the assessed value of the property.
- The High-Tech Investment Program offers reductions in business income taxes to attract businesses in technology industries to move to the County High-Tech Industry Park (CHIP). Abatements may be granted to any technology company agreeing to move into CHIP. The abatement is administered as a credit on a company's County income tax return and equals 25 percent of the company's corporate income tax liability. The abatement begins in the year when the company begins its relocation to CHIP. No other commitments were made by the County as part of those agreements.
- The Competitive County Credit offers reductions in business income taxes to attract and retain jobs. Abatements may be granted to any business agreeing to remain in the County or to relocate to the County. The abatement is administered as a credit on a business' County income tax return and is effective beginning in the year of the agreement (for job retention) or the year when the business begins its relocation to the County (for job attraction). The amount of the abatement is based on the number of jobs retained or attracted. No other commitments were made by the County as part of those agreements.
- The Environmental Conservation Department administers the Renewable Energy Incentive to encourage businesses to invest in solar, wind, and other sources of clean, efficient energy. The program also covers investments in energy-efficient vehicles such as hybrid, electric, and alternative-fuel cars and ancillary facilities, such as charging stations. Those abatements are

provided under the authority of the State of Example’s Environmental Protection Division. Companies can apply for a refund of sales taxes on spending related to renewable energy. Companies also can apply for a credit against their County corporate income tax liability for eligible spending, up to a maximum of \$100,000. Companies are required to apply to the Department prior to eligible spending. Because taxes are abated after the qualifying spending has taken place, there are no provisions for recapturing abated taxes. No other commitments were made by the County as part of those agreements.

Information relevant to the disclosure of those programs for the fiscal year ended December 31, 20X1 is:

<u>Tax Abatement Program</u>	<u>Amount of Taxes Abated during the Fiscal Year (in thousands)</u>
Residential Improvement Program	\$ 32,912
Film and Television Production Incentives	
Sales Tax	13,435
Corporate Income Tax	12,479
Department of Economic Assistance	
Economic Assistance Initiative	18,566
High-Tech Investment Program	9,578
Competitive County Credit	11,159
Renewable Energy Incentive	
Sales Tax	8,157
Corporate Income Tax	4,619

The County also is subject to tax abatements granted by (1) the Regional Economic Development Corporation (REDC), an entity created by the County and seven other counties in the western part of the State of Example, and (2) the State of Example through its Business Relocation and Development

Authority (BRDA) and the Thriving State Economy Initiative (TSEI). These programs have the stated purpose of increasing business activity and employment in the region and the state, respectively.

Under the REDC program, companies from outside the region can apply for a sales tax exemption on eligible spending related to relocating to one of the member counties. Companies accepted into the program document the sales taxes paid on eligible spending and receive a rebate, up to a maximum of \$150,000. Under the state programs, companies promise to expand or maintain facilities or employment in the state, to establish a new business in the state, or to relocate an existing business to the state. Economic development agreements entered into by the BRDA and by the state through TSEI can include the abatement of state, county, local, and school district taxes, in addition to other assistance. In the case of the County, state-granted abatements have resulted in reductions of property taxes, which the County administers as a temporary reduction in the assessed value of the property involved. The abatement agreements stipulate a percentage reduction of property taxes, which can be as much as 100 percent. Information relevant to disclosure of those programs for the fiscal year ended December 31, 20X1 is:

<u>Tax Abatement Program</u>	<u>Amount of Taxes Abated during the Fiscal Year (in thousands)</u>
State of Example:	
Business Relocation and Development Authority	\$ 15,325
Thriving State Economy Initiative	13,021
Regional Economic Development Corporation	7,657

The state reimburses county and local governments for one-third of the reduction in their tax revenues under these agreements, pursuant to their current biennial budget appropriation.

## Illustrative Disclosure

### Note Y. Tax Abatements

As of December 31, 20X1, the County provides tax abatements through six programs—the Residential Improvement Program, Film and Television Production Incentives, the Economic Assistance Initiative, the High-Tech Investment Program, the Competitive County Credit, and the Renewable Energy Incentive:

- The Residential Improvement Program provides property tax abatements to encourage improvements to single-family and multiple-unit dwellings, under State Law, Code 14, Section 201.1. Abatements are obtained through application by the property owner, including proof that the improvements have been made, and equal 100 percent of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient's tax bill.
- Under the County Economic Development Act of 20X3, two divisions of the County government administer tax abatements:
  - The Office of Film and Television Production Incentives provide abatements of the County's sales and corporate income tax to attract television, movie, and commercial productions. Production companies apply to the Office for admittance into the program in advance of commencing production. Production companies can apply for a refund of sales taxes on qualifying spending in the county within three years of the date of admittance. Production companies' county corporate income tax liabilities also are reduced by the amount of qualifying spending, up to 100 percent of the taxes owed.
  - The Department of Economic Assistance administers three tax abatement programs: the Economic Assistance Initiative (EAI), the High-Tech Investment Program (HTIP), and the Competitive County Credit (3C). The agreements entered into by the Department include clawback provisions should the recipient of the tax abatement fail to fully meet its commitments, such as employment levels and timelines for relocation.
    - EAI offers individual incentive packages to attract new business to the county. Abatements may be granted to any company agreeing to relocate to the County or to establish a new business in the County. The Department abates up to 75 percent of the property tax bills through a reduction in the assessed value of the facilities that the new or relocating businesses construct or purchase. The Department also arranges for the county to construct certain infrastructure features that are ancillary to newly constructed facilities. One agreement involving the construction of a new office building for the central

headquarters of a major corporation included a substantial commitment from the County to construct a new exit on County Highway 84 and connecting roadways and ancillary features between the highway and the building.

- HTIP offers reductions in business income taxes to attract businesses in technology industries to move to the County High-Tech Industry Park (CHIP). Abatements may be granted to any technology company agreeing to move into CHIP. The abatement is administered as a credit on a company's County income tax return and equals 25 percent of the company's corporate income tax liability. The abatement begins in the year when the company begins its relocation to CHIP.
- 3C offers reductions in business income taxes to attract and retain jobs. Abatements may be granted to any business agreeing to remain in the County or to relocate to the County. The abatement is a credit on a company's County income tax return and is effective beginning in the year of the agreement (for job retention) or the year when the business begins its relocation to the County (for job attraction). The amount of the abatement is based on the number of jobs retained or attracted.
- The Environmental Conservation Department administers the Renewable Energy Incentive to encourage businesses to invest in solar, wind, and other sources of clean, efficient energy. The program also covers investments in energy-efficient vehicles such as hybrid, electric, and alternative-fuel cars and ancillary facilities, such as charging stations. These abatements are provided under the authority of the State of Example's Environmental Protection Division. After their application and acceptance into the program, companies can file for two types of tax abatements: a refund of sales taxes on spending related to renewable energy; and a credit against their County corporate income tax liability for eligible spending, up to a maximum of \$100,000.

<b><u>Tax Abatement Program</u></b>	<b><u>Amount of Taxes Abated (in thousands)</u></b>
Residential Improvement Program	\$ 32,912
Film and Television Production Incentives	
Sales Tax	13,435
Corporate Income Tax	12,479
Economic Assistance Initiative	18,566
High-Tech Investment Program	9,578
Competitive County Credit	11,159
Renewable Energy Incentive	
Sales Tax	8,157
Corporate Income Tax	4,619

*State of Sample Tax Abatements*

County property tax revenues were reduced by \$28,346,000 under agreements entered into by the State of Sample. Under the State's biennial budget for fiscal years 20X1–20X2, the state reimburses the County for one-third of the reduction in tax revenues. The County received \$9,449,000 in County fiscal year 20X1.

*Regional Economic Development Corporation (REDC) Tax Abatements*

Under agreements entered into by REDC, County sales tax revenues were reduced by \$7,657,000.





## Appendix D

### CODIFICATION INSTRUCTIONS

D1. The sections that follow update the June 30, 2015 *Codification of Governmental Accounting and Financial Reporting Standards* for the effects of the provisions of this Statement. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the Codification.

\* \* \*

#### NOTES TO FINANCIAL STATEMENTS

#### SECTION 2300

Sources: [Add the following:] GASB Statement 77

.107 [Insert new subparagraph iii as follows and add GASBS 77, ¶5–¶10 to the sources of the paragraph:]

iii. Tax abatements. (See Section T10, “Tax Abatements.”)

\* \* \*

[Insert new section as follows; change *Statement* to *section* and update cross-references throughout:]

#### TAX ABATEMENTS

#### SECTION T10

Source: GASB Statement 77

#### Scope and Applicability of This Section

.101–.102 [GASBS 77, ¶3 and ¶4]

.103–.108 [GASBS 77, ¶5–¶10, including headings.]

