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Bert T. Edwards, CPA, CGFM, CGMA
3 Briarcliffe Court
Ocean View, Delaware 19970-9013
(302) 527-2181 berttedwards@mediacomb.net

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Director of Research and Technical Activities – Project No. 19-20E
Governmental Accounting and Standards Board
401 Merritt 7 – P.O. Box 5116
Norwalk, CT 06856-5116

Dear Director:

I am providing comments on the Exposure Draft *Tax Abatement Disclosures* (the "ED"), dated October 20, 2014. I am a semi-retired CPA; I worked in the Washington, DC, office of Arthur Andersen & Co during 1961 through retirement in 1994 when I was the world-wide industry head of Andersen's government, higher education and nonprofit industry practices, then was a consultant to domestic CPA firms and instructor for AICPA seminars and an international consultant for The World Bank and USAID in Hanoi, Vietnam, Berlin, Moldova and West Bank/Palestine on national government issues during 1994-98, then appointed by President Clinton/confirmed by the U.S. Senate as Assistant Secretary/CFO of the U.S. State Department during 1998-2001, and finally during 2001-2010 was Executive director in the Office of the Secretary of the Interior resolving successfully the long-standing individual Indian trust litigation. While at Andersen, I responded for about 10 years on every GASB due process document on behalf of my firm.

My comments follow.

Overall Comment

I strongly support the objectives of the proposed Standard in the ED. However, I am disappointed in confining the Standard solely to *tax abatements* as opposed to a wider category of disclosures of tax *expenditures*. Far more state and local governments' revenues are "lost" via *tax expenditures* than *tax abatements*.

There is a very thin line separating these two sources of foregone revenues, and I suspect that GASB may have to further expand its explanations of what disclosures are included and what are not. For example, a real estate tax abatement for a defined number of years in exchange for enlarging a current facility or building a new one, say for a total of $1 million, or a grant to the same firm of $1 million in a per capita payments for the additional employees the facility employs. The District of Columbia has a "package"of alternative incentives available to private sector firms locating in a specific area of the city or engaging in a specific new industry (*e.g.*, technology); depending on the choice selected by the private firm (usually it would select the one with the earliest and highest amount of funding), there might be either a *tax abatement* which would be subject to the disclosures in the proposed Standard in the ED or merely a *tax expenditure* not necessarily subject to the Standard in the ED.

GASB may want to refer to the website for the U.S. Office of Management and Budget for the Congressionally-mandated listing of each *tax expenditure* permitted under the IRS Code for both individuals and corporations in the form of exemptions, deductions, credits and any other form of reduced taxes. This is an incredible list in which the "lost revenue" for each of the literally hundreds of examples for a complete source of these items. Unfortunately, for years the Congress has done little about this list, which accompanies the annual President's Budget submitted in February each year, and its existence is not widely known.

Specific Comments

(1) Page iii, third paragraph, last sentence – The word "agreement" is vague here. I suspect the majority of *tax abatements* are the result of existing or newly-enacted laws or newly-promulgated regulations in which there may not be an "agreement", but entered into by the government official administrating the incentive program and not necessarily reduced to writing, *e.g.*, filing a tax return and taking a deduction from assessed taxes for a described project purportedly subject to the incentive program.

(2) Page 1, Introduction, paragraph 2 – I again raise the issue whether every *tax abatement* will result in a reduction "in tax revenues." *E.g.*, a new facility may well require new road infrastructure, which a county government promises to build at its cost, extensive cost for utility extensions to serve the facility, which may be provided for free by the water/sewer independent governmental entity serving a number of counties and a private electric/gas utility (the county may reimburse some or all of these costs), and "free" unemployment taxes paid to the state under its separate incentive plan; this deal would certainly require mandated expenditures, which may well be greater than the real estate abatement. No matter how one looks at this type of total incentive plans, the new facility not only costs governmental entities funds "up front" and also will reduce current year and future years' real estate tax revenues. The eventual GASB Standard should explain how to disclose such transactions.

(3) Page 2, General Disclosure Principles, item 5.b., and Page 8, Level of Disclosure Detail, paragraph B16 – For complex reporting entities, *e.g.*, New York State, part (2) may involve substantial disclosures due to the numerous component units many of which have substantial activities related to both *tax abatements* and *tax expenditures*.

(4) Page 5, Purpose of Tax Abatements, paragraph B4 – Here, the ED introduced the "fuzziness" between *tax abatements* and *tax expenditures* with "economic development" in the form of "…historical preservation, environmental incentives, brownfield cleanup and housing construction." There may well be more, *e.g.*, construction of public, charter or private K-12 schools and higher education facilities, rapid transit, bridges, seaports and airports, even Federal government facilities to attract the expected additional employment.

(5) Page 6, Revenues Reduced by Tax Abatements, paragraph B6 – See (1) above for incentives not subject to a written agreement.

(6) Page 7, Other Features Considered, paragraph B10 – Here in southern Delaware where I now reside, the assessed value of property is determined by County-wide periodic assessments. Sussex County assesses taxes for its own jurisdiction and other jurisdictions within the County, *e.g.*, towns and numerous school districts. Since my wife and I have no children in the schools, we actually receive a semi-annual check for half of the school tax assessed and paid earlier to the County.

In many jurisdictions, there are "reverse" *tax abatements* in the form of "payments in lieu of taxes voluntarily paid by religious congregations, nonprofits, certain businesses and others not required to pay real estate taxes, but which wish to "pay their share" of public safety and other governmental services; this situation, commonly referred to as "PILOTS" may be worth of mention somewhere in the proposed Standard.

I would be happy to discuss with the GASB staff any of above the comments.

Very truly yours,

/s/

Bert T. Edwards