Letter of Comment No. 186
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WISCONSIN DEPARTMENT OF
ADMINISTRATION

January 16, 2015

GASB
Attn: Director of Research and Technical Activities
Project No. 19-20E
Email: director@gasb.org

Dear Mr. Bean:

Thank you for the opportunity to comment on the GASB Exposure Draft (ED), *Tax Abatement Disclosures*. The Wisconsin State Controller's Office is responsible for preparing the State of Wisconsin's Comprehensive Annual Financial Report (CAFR).

Although we believe GASB's goal with the proposed statement is well intended, we do not believe it is consistent with GAAP-based financial reporting. As a result, the statement should not be implemented.

The inclusion of disclosures for tax abatements is not consistent with the framework of GAAP. This framework emphasizes the basic elements of financial statements (assets, liabilities, net position, inflows, outflows, deferred inflows, and deferred outflows). The existence of those elements is inherent to the financial statements, including the note disclosures. However, rather than focusing on the existence of an element, the proposed standard requires the disclosure of inflows that did not occur. It is unclear the particular financial statement element a "nonexistent inflow" comprises. As a result, the proposed standard weakens the elemental framework developed for GAAP reporting.

Disclosure of nonexistent inflows introduces a "what if" approach to GAAP financial statements. This approach provides information on what would have, or might have, occurred had governing officials acted differently. It is a fundamental modification from measuring, reporting, and disclosing financial activity on an actual or historical basis. While there are certain "what if" disclosures currently included in the CAFR, they are based on the occurrence of an event and specific to an element. For example, disclosures related to litigation are essential to users' understanding because it is reasonably possible that a liability (a financial statement element) will result if an existing lawsuit filed against a government is not successfully defended.

From a GAAP-reporting perspective, there is little to distinguish between inflows given up due to tax abatements versus inflows given up for other reasons e.g. reduced tax rates. In both cases past decisions by governing officials impact current year inflows. Providing a disclosure on a particular program, such as tax abatements, may by itself appear useful to users of the financial statements. However, that information would be far from complete because many decisions affecting inflows, and all other financial statement elements, are made over time. Disclosing the impact of tax abatements while *not* disclosing the impact of other decisions, such as a change in tax rates, may lead users to incorrect conclusions. Importance is attached to information included in GAAP-based statements by virtue of its presence. Its primacy may be unintentionally inflated if a broad understanding is lacking or if other information is not also available in the disclosure. This is not to suggest that GASB should greatly expand GAAP disclosure requirements. Rather, it demonstrates GAAP disclosures are not always the

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appropriate means for attempting to convey the impact of past decisions in a meaningful way. We believe budgetary-based, strategic planning, or other informational documents more appropriately provide and convey the impact of tax abatements.

To be reliable nothing material should be omitted from the information necessary to faithfully represent the underlying events or conditions. While forgone inflows would be disclosed under the proposed standard, information pertaining to the existence of other inflows, or conditions that may result from tax abatements, would not be disclosed. We understand there may be challenges in obtaining measurable and reliable information for economic development programs. Without it, however, the information would be incomplete.

The ED indicates the requirements of the proposed statement would improve financial reporting by giving users of financial statements information that generally is not publicly reported at present. In fact, that appears to be a strong justification for including tax abatement information in GAAP financial statements. However, the ED did not specify why GAAP financial statements are the best place for presenting the information. Further, paragraph B43 indicates that much of the information necessary for the disclosures is "already available to governments or would not require extensive effort to obtain". This suggests the information *is* available via other documents e.g. budget-based documents, non-GAAP annual reports, meeting minutes, and other records.

As noted in GASB Concepts Statement 1, "financial reporting is only one source of information needed by users to make decisions about state and local governments. To make decisions, users need to combine the information provided by financial reporting with other pertinent information." It further states, "certain information is better provided by financial statements; other information is better provided…by financial reporting outside the financial statements. In many cases, users of financial reports also need to consult other sources to completely satisfy their information needs." It appears the proposal's motivation is, perhaps, on convenience of information rather than suitability to the CAFR. While we understand and support the desire for convenience, it should not outweigh other characteristics essential to upholding the essence of the CAFR.

Finally, there are practical limitations to what is proposed. Paragraphs B6 and B7 speak to the existence and legal enforceability of tax abatement agreements. The Board believes that a written agreement is not necessary but rather that an implicit understanding between a government and taxpayer satisfies the requirement for disclosure. This is speculative, and impractical, in that preparers would have to ascertain the taxpayer's understanding. In addition, we believe it not unusual for tax abatement agreements to have confidentiality clauses that may present obstacles in preparing the disclosures.

If you have questions on our comments, please contact me at 608-266-3052.

Sincerely,

Cindy Simon

Cindy Simon, CPA
Director of Financial Reporting
Wisconsin Department of Administration

cc: Jeff Anderson, Wisconsin Deputy State Controller
Kim O'Ryan, NASACT