



Illinois Government Finance Officers Association  
Technical Accounting Review Committee (TARC)  
800 Roosevelt Road, Building C Suite 312  
Glen Ellyn, Illinois 60137

January 23, 2015

Mr. David Bean  
Director of Research and Technical Activities  
Governmental Accounting Standards Board  
Project No. 19-20E

Comments Regarding Exposure Draft Tax Abatement Disclosures

Dear Director:

Thank you for the opportunity to respond to the Exposure Draft (ED) on Tax Abatement Disclosures. This letter serves as the Illinois Government Finance Officers Association's (IGFOA) Technical Accounting Review Committee's (TARC) response to this Exposure Draft.

The TARC has reviewed and discussed this ED and would like to offer several comments and suggestions:

1. The TARC does not believe that the ED provides useful information to the users of financial statements in terms of accurately disclosing the costs and benefits of tax abatements as defined in the exposure draft. The ED notes in paragraph 1 that tax abatements often are provided as an incentive for "current and potential taxpayers to engage in certain behaviors such as constructing housing in a particular neighborhood or relocating a business..." and that in paragraph 4 of the ED it is acknowledged that many of these incentives exist which contribute "...to economic development or otherwise benefits the governments or the citizens of those governments."

Tax abatements are often granted by local governments as one part of a broader set of strategic policy decisions for the furtherance of economic development, redevelopment or retention objectives. The benefits of tax abatements often have both monetary and other benefits to a government and community that are complex. Although the ED in paragraph 6.a.(6) provides that the note disclosure should include information on "...types of commitments made by the recipients of the tax abatements," it does not provide for the disclosure of the actual or expected economic benefits to the government, economic benefits to other governments serving the development, or the tangible and intangible benefits to the general community that relate to the tax abatement agreement.

Disclosure of a tax abatement in the current format of the ED may perceive that the government has restricted its ability to raise revenue when in fact the opposite is true. In other situations, a government may offer a tax abatement in order to prevent the loss of a major employer, business or other member of the community. These actions to prevent such a loss have very significant monetary and non-monetary benefits to the community that, if not articulated, can lead to inaccurate conclusions about the financial impact of the tax abatement when reading the disclosure. For these reasons, TARC believes that the ED provides an inaccurate and incomplete disclosure. It is possible that the ED if modified to allow for more descriptive information might be able to more fully describe the benefits of tax abatements. However, inclusion as currently proposed in the ED in the notes to the financial statements would lead to challenges in applying auditing procedures to this type of information. As stated later in this letter, TARC believes that the type of information being required in this ED would be better suited to the statistical section of the CAFR, or as discussion in management's discussion and analysis (MD&A).

2. TARC also does not agree with the ED's requirement that disclosure of agreements entered into by other governments that reduce the reporting government's tax revenues should be required. This would place an unnecessary burden on the reporting government to discover information on actions taken that are beyond the control of the reporting government, and present challenges to auditors opining on them. Actions are often taken by other governments which result in a reduction of revenues, or increase in expenses to the reporting government such as a reduction in shared revenues, statutory changes in pension benefits, changes in property tax codes, actions which increase unfunded mandates, etc. These types of actions by other governments, if significant, are best left to describe and discuss in other areas of a financial report such as the Letter of Transmittal of a CAFR, or other periodic reports a government might prepare for its constituents such as popular annual financial reports, budgets or other long-term financial planning documents.
3. The TARC understands the importance of disclosing and making available information on a government's policy decisions in furtherance of its economic development objectives. TARC notes that transparency and accountability in government is increasingly being demanded and legislated through Freedom of Information Act (FOIA) requirements, disclosure of documents, agendas and minutes on websites and requirements that information be posted to state agency websites as well. For example, Illinois Compiled Statutes (Public Act 097-0976 now requires all local governments to electronically report sales tax agreements (see the following link as an example) <http://www.revenue.state.il.us/LocalGovernment/RebateSharing.htm>, which may not be covered by the ED if these are considered shared revenues to the local government, not derived tax revenues or imposed nonexchange revenues. Annual reports and detailed information on the status of tax-increment financing districts and agreements for the abatement or rebate of taxes are also required in many states (also not covered by the ED). Citizens have increasingly demanded that this type of accountability be legislated. TARC believes that the current amount of information available and accessible by taxpayers and financial report users does not provide justification for the ED requirements and does not represent a significant enhancement to the information currently available.
4. The TARC believes that the ED does not accomplish its objectives of providing adequate disclosure of tax abatements in the proposed disclosures, and may actually prove misleading to users of financial reports. If, however, the GASB decides that information of the type proposed by this ED should be a part of financial reporting, TARC believes that a more appropriate location for the required

information would be in the statistical section of the financial report, especially in the context of a government's ability to raise rates and revenue capacity. Inclusion in this section would provide a local government with greater ability and flexibility to provide context regarding tax abatement agreements into which a government has entered.

As another alternative, such information could also be provided for in management's discussion and analysis (MD&A) which, again, would provide the government with greater ability and flexibility to provide context.

5. Although TARC believes that the ED should not be approved, other areas of improvement to the ED would be for a reporting unit to be able to disclose the monetary cap and/or time cap that may exist on a tax abatement for a given reporting period. Disclosure of monetary caps and/or time cap would provide a better indication of a government's potential financial impact of a tax abatement agreement. In addition, TARC feels that the ED should more clearly define what constitutes a tax revenue and whether or not this definition includes shared revenues as defined by GASB Statement No 33, *Accounting and Financial Reporting for Nonexchange Transactions* and GASB Statement No. 36 *Recipient Reporting for Certain Shared Nonexchange Revenues*.
6. TARC notes that the Board discussed the requirement of reporting entities to disclose commitments as part of paragraph 158 of NCGA Statement 1 and acknowledged in B30 of the ED that disclosure of significant tax abatement agreements may capture such information. TARC believes that the requirement to disclose significant commitments already provides a sufficient mechanism for the disclosure of such in the audited notes to the financial statements.
7. Many times a government will enter into an agreement that contains confidentiality provisions between the government and the taxpayer, or state or other laws contain non-disclosure provisions. Information required to be disclosed under this ED could be in direct conflict with confidentiality agreements.

TARC has thoughtfully considered this ED and this response and appreciates the opportunity to provide feedback. If you have any questions or require further information, please contact me at (630) 897-8228 x225 or via email at [bhannah@vil.north-aurora.il.us](mailto:bhannah@vil.north-aurora.il.us)

Sincerely,

Bill Hannah  
Chairperson, IGFOA Technical Accounting Review Committee