



Washington State Auditor Troy Kelley

January 27, 2015

Via Electronic Mail

Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Response to GASB Exposure Draft – *Tax Abatement Disclosures*

The Washington State Auditor's Office appreciates the opportunity to give input on the GASB's proposed standards on Tax Abatement Disclosures (Project No. 19-20E).

Tax expenditures (as described in paragraph B2-B3 of the proposed standard) are an increasingly important topic of public concern. Of note, tax expenditures are not currently a financial reporting element - neither an expense, deferred inflow nor liability (GASBCS 4).

While we commend the Board for considering this important topic, the proposed standard does not establish a conceptual framework for reporting tax expenditures. Instead, it requires disclosure of only a certain type and form of abatement. For this reason, we believe the proposed standard will not achieve its stated objectives and should therefore be re-considered.

We do not believe financial reporting objectives described in paragraph 2 are achieved with the proposed standard for the following reasons:

- (1) The impact of abatements on the government's financial position and economic condition is subject to the circumstances of the abatement as well as numerous assumptions. The decision-usefulness of the information is therefore highly suspect.
- (2) Users would not understand the scope and amount of revenues forgone, since the majority of tax expenditures would not be subject to disclosure. We are therefore concerned the proposed disclosure may be more misleading than enlightening. The proposed standard uses the term "tax abatement" more narrowly than is used in practice, as mentioned in paragraph B3, which may mislead users about the presence of the majority of tax expenditure programs that are not subject to disclosure.
- (3) The stated need of users is inconsistent with the narrow focus of the proposed standard. If financial statement users truly need information about limitations on a government's

ability to raise resources, we are unclear how this need could be met by disclosures isolated to only those abatements falling within the scope of the proposed standard.

- (4) Objectives are predicated on the assumption that the ultimate financial effect of the abatement will be negative, contrary to the transaction's intended purpose. This assumption seems inappropriate as a basis for financial reporting standards.

In other words, the proposed standard appears based on the view that this type and form of tax expenditure is universally non-performing. To that view, we note that information about a government's performance to assess program effectiveness is a function of service efforts, costs and accomplishments reporting (GASBCS 1.42), not financial reporting.

In absence of a comprehensive conceptual framework for tax expenditures, we are also concerned about inconsistency and cost in implementation. For example, the definition of tax abatements in paragraph 4 seems dependent on a subjective facts-and-circumstances interpretation, particularly given the lack of definition for "otherwise benefits the governments or the citizens" and comments in B7 that obscure the definition of an agreement. Also, paragraph 5.b requires disclosure by all governments affected by the abatement, rather than limiting the requirement to only the government that entered into the agreement. This would require every taxing district to be aware of abatement actions at city, county and state levels and individually map affects to their taxing district. We are particularly concerned about the cost and value of this provision and the potential for disagreement among affected governments on applicability and materiality of transactions.

We strongly suggest the Board re-consider the proposed standard. If the standard is intended as financial information, the Board should first address the conceptual framework for tax expenditures generally. If the standard is intended as performance information, it should be included in service efforts and accomplishments (SEA) reporting standards rather than in financial reporting standards.

Thank you for the opportunity to provide our comments. Any inquiries may be directed to me at (360) 902-0375 or barb.hinton@sao.wa.gov.

Sincerely,



Barb Hinton
Deputy Director of Quality Assurance