



House of Representatives

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STANDING
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January 27, 2015

Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, Connecticut 06856-5116

Dear Mr. Bean:

GASB's decision to require more transparency with regard to the tax breaks issued to corporations is a timely and important measure. While offering incentives to spur business growth is vital to state and local governments, it is equally important that the full cost of such inducements be available to the public. Decisions to reduce corporate taxes, though at times advisable and responsible for a net benefit to a state or locality, must be subject to stringent oversight accomplished through public disclosure.

GASB's draft standards provide a groundbreaking and critical path; however, they are limited in their effect by a notable few reporting exclusions. Through loopholes in the existing draft, certain forms of economic development tax abatements would not be disclosed in the state's reporting. Of particular impact in Georgia is the exclusion of tax *diversions* from GASB's draft definition of "tax abatements." The draft states that the "Board defines a tax abatement (for financial reporting purposes) as resulting from an agreement between one or more governmental entities and a taxpayer in which (a) *one or more governmental entities promise to forgo revenues from taxes for which the taxpayer otherwise would have been obligated* and (b) the taxpayer 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" [emphasis added].

Given that wording, *tax diversions* may not meet the GASB's draft definition of *tax abatements*. However, as noted by the Georgia Budget and Policy Institute's public comment on this issue, rather than lowering the tax obligation of the corporation directly, tax diversions instead allow corporations to retain a certain portion of the taxes they would otherwise be obligated to remit on behalf of third parties. The two types of tax diversions are (1) personal income tax diversions and (2) sales tax diversions. The former are particularly popular in Georgia. Six types of personal income tax diversions now exist here, which create credits for job creation, film

production and research and development. These six abatements cost Georgia a total of \$250 million each year. Sales tax diversions impose a less hefty cost to Georgia's state coffers now but could become much more costly in the future, due to the Georgia Tourism Development Act of 2013. While I am strongly in favor of both measures and support their impact on job growth in Georgia, the obligation for accountability must also be met when making such decisions. Absent a revision to include these types of structures, they will remain opaque to the public and, to some extent, to future policymakers.

GASB's draft standards, while laudable, must include both personal income and sales tax diversions within the definition of "tax abatements." Government accountability is imperative, especially where the government agrees to forego important and substantial sources of public funding. The language of the definition of tax abatement, if supplemented as articulated by the Georgia Budget and Policy Institute, would capture this important source of tax abatement in Georgia: "(a) one or more governmental entities forgo revenues from taxes which the taxpayer otherwise would have been obligated to pay, *or which the taxpayer otherwise would have been obligated to remit to the relevant government*" [added language italicized].

Thank you for your time and consideration - and for your work to bring increased government accountability to a thus-obscured area of the government's accounting practices.

Sincerely,

A handwritten signature in black ink, appearing to read "Stacey J. Abrams". The signature is fluid and cursive, with the first name "Stacey" being the most prominent.

Stacey Abrams