



The Commonwealth of Massachusetts
House of Representatives
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Re: Project No. 19-20E

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

Dear Mr. Bean:

I am writing to comment on GASB's *Exposure Draft on Tax Abatement Disclosures*. I applaud GASB's goal of increasing transparency in tax expenditures, but I have suggestions to strengthen the proposed rules for tax abatement disclosures, discussed below.

For the last six years, I have served as House Chairman of the Joint Committee on Revenue in the Massachusetts legislature. In 2012, I was a member of the state's Tax Expenditure Commission, which studied tax spending in Massachusetts. The Commission concluded, among other things, that the state's tax expenditures "are large compared both with Massachusetts tax revenues collected and with other states' tax expenditures in proportion to their revenues." It is of special importance to my state, therefore, that GASB's new disclosure rules provide as much useful information as possible to voters and their elected officials. With that in mind, I propose the following to strengthen the rules proposed in the *Exposure Draft*:

1. *Require deal-specific, company-specific disclosure*: It is vital to remember that the true policy makers are the voters of a city, town, or state that elect people like me to serve on their behalf. In order to hold their elected officials truly accountable for any tax abatement agreement, voters need specific information on the particular companies that benefit from tax abatements, as well as a full and accurate accounting of the costs of each specific tax abatement agreement. Often, large companies leverage enormous tax benefits by promising a city economic development and good jobs. However, the tax revenue forgone in such deals may come at the expense of voters' other priorities.

For example, Boston has entered into many multi-million dollar tax abatement agreements over the last decade even as it has strived to improve its public schools, transit, and social services. While these agreements may have provided economic benefits to the city and state, it is ultimately the voters who must decide if the economic benefits of these deals justified the forgone revenues that might have been spent on schools or transit—something that cannot happen without specific details of the individual deals and the companies that benefited from them. I urge you to

require that as much specific information be disclosed on any tax abatement as is feasible, in order to enhance public discourse.

2. *Require future-year liability disclosure:* Voters cannot fully weigh the costs and benefits of a tax abatement deal unless the disclosure includes an accurate picture of that deal's future costs. I am concerned that the proposed rules in the *Exposure Draft* will inadvertently result in the public receiving a limited snapshot of a tax abatement's costs, rather than a full, long-term account of forgone revenue.

In 2010, for example, the Commonwealth and the City of Boston provided a \$38.5 million subsidy package to Liberty Mutual as part of the company's plan to construct a new headquarters in downtown Boston. Elements of this deal, including \$16 million in local property tax abatements spread out over 20 years, will limit future resources available for the public good for decades to come. Please consider requiring the disclosure of all reasonably foreseeable future costs of any tax abatement agreement under the new GASB disclosure rules so that voters will know its true costs.

3. *Clarify that disclosure includes all costs associated with similar tax abatement agreements:* GASB's new rules should include a broader definition of tax abatements in order to more fully capture the diverse scope of tax agreements governments enter into with businesses. For example, in Massachusetts our Film Tax Credit and Research Tax Credit *each* result in about \$70 million to \$80 million in annual forgone revenue. These lucrative agreements for businesses would not be captured in GASB's rules as proposed in the *Exposure Draft* because they are performance-based incentives in which the businesses' taxes are not abated until *after* they have performed the required activity.

However, the Film Tax Credit and Research Tax Credit are otherwise nearly identical to other forms of tax abatements that would be disclosed under the *Exposure Draft*. If GASB omits these performance-based incentives from its new disclosure rules, it may well inadvertently create a loophole whereby governments and businesses will intentionally dodge the new disclosure rules by structuring subsequent tax abatements to take place only after a promised activity is performed. The cost to the taxpayers will be the same, but the transparency will be gone.

Because the tax abatement agreements into which a government may enter can vary widely in their structure while still having substantial, direct impacts on the government's fiscal health, it is important that GASB's definitions and disclosure rules cover the full array of such possible agreement structures and costs.

Thank you for your work to bring increased transparency to tax expenditures. I appreciate your time and consideration.

Sincerely,



Representative Jay R. Kaufman