

January 30, 2015

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

Dear Mr. Bean:

Thank you for the opportunity to present our firm's views on the Governmental Accounting Standards Board (GASB) Exposure Draft (ED), *Tax Abatement Disclosures* [Project No. 19-20E].

### **GENERAL COMMENTS**

Generally, we believe that the disclosures proposed by this ED will be useful to financial users. However, we have the following specific concerns and questions:

- We believe that the GASB should provide further guidance, either in the standard itself or the Basis for Conclusions, regarding which type of tax-related agreements are within the scope of this standard. Specifically, many governmental entities utilize tax increment financing (TIF). Typically, the arrangement for a TIF is that (1) bonds are issued in order to fund a redevelopment project; (2) a baseline for sales tax and property tax revenues is established prior to the start of the project; (3) any additional sales tax or property tax revenues collected above this baseline for a certain number of years after the project commences are specifically set aside for the payment of the bonds.

Our understanding is that a TIF project like the one described above would not fall within the scope of the standard, since it does not represent an abatement of taxes but sets them aside for a specific purpose. However, it is similar to a tax abatement as described in the standard in that it impacts tax revenue, is entered into for economic development purposes, requires the taxpayer to take a specific action, and information on the number and type of such agreements entered into by a government is currently not readily available. Thus, we believe it would be helpful for the GASB to specifically address whether TIF arrangements and similar tax arrangements are within the scope of the standard, as it is likely that this will result in confusion in practice.

- The effective date for the proposed standard is for fiscal years beginning after December 15, 2015, which means it will be effective for December 31, 2016 year ends. That won't leave very much time between when the final standard is issued and when it becomes effective. For governments that have a lot of these agreements (paragraph B13 of the Basis of Conclusions indicates 13% of governments have over 200), it may take a long time to aggregate the information necessary for these disclosures. Thus, we recommend that the standard be effective for fiscal years beginning after December 15, 2016.
- As discussed in the Government Finance Officers Association's comments in response to the ED, many governments may be prohibited by non-disclosure agreements with the companies involved or by state law from disclosing the information regarding tax abatements required by this standard. Thus, we anticipate that many governments will be resistant to having this information disclosed in their footnotes.

## COMMENTS ON SPECIFIC PARAGRAPHS

**B2.** This paragraph discusses several types of broad tax exemptions that are excluded from the scope of this standard. We believe this paragraph should also specifically mention that property owned by a not-for-profit organization such as a university or hospital is exempt from property taxes, but that is a broad exemption not included in the scope of this standard. The exemption of such property from property taxes is a significant source of lost revenue for many governments, and consequently is a sensitive political issue in many parts of the country. Because this exemption may also be entangled in the public mind with tax abatements for for-profit organizations, it would be helpful if the GASB specifically clarified that this exemption is excluded from the scope of the standard.

**B8.** This paragraph clarifies that a tax abatement agreement, for the purposes of this standard, must be in place **before** the taxpayer takes the action required, not after (as in the case of the energy-efficient home example discussed above). This is an important point and thus we believe this paragraph should be moved out of the Basis of Conclusions to the standard itself. Additionally, we believe GASB should provide further clarity or examples as to what is meant by the "activity for which the government is providing the tax abatement" as discussed in this paragraph. For example, if a developer takes certain action to progress a project such that it may not be economically feasible to turn back, but hasn't signed a binding agreement or undertaken any development activity and as such, would go forward with the development without government assistance, would this be construed as the developer already having started to perform this activity before the tax abatement agreement is in place?

Thank you for considering our input on this Exposure Draft. We would be happy to discuss these comments with you at any time.

Sincerely,

RubinBrown LLP