



COMMONWEALTH of VIRGINIA

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218
(804)225-3350

March 6, 2015

Director of Research and Technical Activities
Project No. 19-20E
director@gasb.org

To Whom It May Concern:

We appreciate the opportunity to respond to the exposure draft of the Governmental Accounting Standards Board (GASB) proposed statement: *Tax Abatement Disclosures*. While we agree that making tax abatement information available to the public and continuing to strive for transparency is important, we do not believe the financial statements are the most appropriate medium for these disclosures. Specifically, we believe the requirements in the exposure draft stretch the traditional concept of public accountability, from a financial reporting perspective, and in some cases, as described below, do not coincide with the basic characteristics of financial reporting.

From an audit perspective, we believe these disclosures would be difficult to verify. Verification is an essential component of reliability in financial reporting. For example, it may be difficult for auditors to evaluate and validate the completeness of tax abatement information received from governments, which is cause for concern when auditors evaluate whether they have obtained sufficient audit evidence to provide an opinion on information presented in the financial statements. Additionally, many tax abatement agreements are confidential, so the details of those agreements may not be readily available to auditors and, in some cases, may not be appropriate to disclose in financial statements.

We also do not believe the suggested disclosures in the financial statements give taxpayers a complete picture of the financial effects of the tax abatements. The Board has clearly recognized that governments historically grant tax abatements in response to a promise to take a specific action that benefits the government or its citizenry. Despite recognizing that there is a benefit; however, the Board has elected to require disclosure only of the associated costs. We agree that benefits to the government or its citizenry deriving from a tax abatement agreement

may vary significantly and often are not quantifiable, and; therefore, should not be included in financial reporting. However, we also believe that disclosing the costs of a very specific segment of tax reductions without also discussing the potential benefits fails to faithfully represent the underlying events and conditions of the tax abatements and may mislead report users. For example, a government may stipulate in a tax abatement agreement that a company produce a certain number of jobs in order to receive an abatement and the projected tax revenue from those jobs may exceed the forgone revenue abated. In such a circumstance, the disclosures required in this exposure draft may mislead a report user as it pertains to the effect of the abatement and the government's future ability to raise resources and meet its financial obligations.

We also believe the timing and amount of future revenue reduction is perhaps as useful information as the forgone revenue in the current period and GASB's decision explained in paragraph B26 to exclude "disclosure of the amounts remaining to be abated in future years under existing tax abatement agreements" is contradictory to an anticipated result of the ED that "users would be better equipped to understand (1) how tax abatements affect the government's future ability to raise resources and meet its financial obligations." We recognize that arrangements may exist where future abatements may be difficult to reliably quantify and; therefore, agree with the Board's decision to exclude them from disclosure. However, this is another example demonstrating the limitations of historical financial reporting as an appropriate avenue for providing a complete picture of the nature and magnitude of tax abatements, including as it pertains to economic condition.

For these reasons, we do not believe that financial statements are a good medium for disclosing tax abatement information. However, if GASB is intent that financial statements are the best means of disclosure for tax abatements we urge further consideration of the following items:

The limitation of the exposure draft to only tax abatements where a "promise from the recipient to subsequently perform a beneficial action in order to lower its tax obligation" excludes other forms of economic incentive programs that may also affect revenue of the government such as fee rebates. This also excludes any agreement to abate taxes for a period where there is no expectation for a subsequent action. If GASB is intent on using the financial statements as the vehicle of disclosing this type of information, it seems arbitrary and potentially misleading for GASB to limit the applicability and scope of this standard to the one revenue stream as defined in the ED.

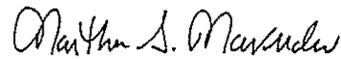
We believe that the tax abatement amounts that were recaptured and/or eligible for recapture for the reporting period should be disclosed in the financial statements. The Board notes that the amounts recaptured during the year would be recognized as revenues in resource flows statements and amounts eligible for recapture would be recognized as receivables in statements of financial position, but concedes that these recaptured amounts may not be separately distinguishable to financial statement users. If the Board's purpose for this ED is to

provide more transparency to citizens, then abatement amounts recaptured during the reporting period should be explicitly disclosed.

Lastly, we think the term "taxpayer" in the ED should be clarified as stated in the "Definition of a Tax Abatement," paragraph. The term "taxpayer" could be interpreted as excluding those entities where all corporate taxes are abated for a specific time period, which could occur for an entity new to the governmental jurisdiction that will not pay taxes until after complete abatement of taxes ends, and therefore is not yet a taxpayer.

We appreciate the efforts of the Governmental Accounting Standards Board and the opportunity to provide our comments. Should you have any questions or need additional information concerning our response, please contact me or Zach Borgerding at (804) 225-3350.

Sincerely,



Martha S. Mavredes
Auditor of Public Accounts

ZLB/clj