



Exposure Draft

October 20, 2014

Comments Due: January 30, 2015

Proposed Statement
of the Governmental Accounting Standards Board

Tax Abatement Disclosures

This Exposure Draft of a proposed Statement of Governmental Accounting Standards is issued by the Board for public comment. Written comments should be addressed to:

Director of Research and Technical Activities
Project No. 19-20E

Governmental Accounting Standards Board

TAX ABATEMENT DISCLOSURES

WRITTEN COMMENTS

Deadline for submitting written comments: January 30, 2015

Requirements for written comments. Comments should be addressed to the Director of Research and Technical Activities, Project No. 19-20E, and emailed to director@gasb.org or mailed to the address below.

OTHER INFORMATION

Public hearing. The Board has not scheduled a public hearing on the issues addressed in this Exposure Draft.

Public files. Written comments will become part of the Board's public file and are posted on the GASB's website.

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<p style="text-align: center;">Notice to Recipients of This Exposure Draft</p>

The Governmental Accounting Standards Board (GASB) is responsible for developing standards of state and local governmental accounting and financial reporting and other accounting and financial reporting communications that will (1) result in useful information for users of financial reports and (2) guide and educate the public, including issuers, auditors, and users of those financial reports.

The due process procedures that we follow before issuing our standards and other communications are designed to encourage broad public participation in the standards-setting process. As part of that due process, we are issuing this Exposure Draft setting forth a proposed Statement that would establish requirements for disclosing information about tax abatements in the notes to the financial statements.

We invite your comments on all matters in this proposed Statement. Because this proposed Statement may be modified before it is issued as a final Statement, it is important that you comment on any aspects with which you agree as well as any with which you disagree. To facilitate our analysis of comment letters, it would be helpful if you explain the reasons for your views, including alternatives that you believe the GASB should consider.

All responses are distributed to the Board and to staff members assigned to this project, and all comments are considered during the Board's deliberations leading to a final Statement. When the Board is satisfied that all alternatives have adequately been considered, and modifications have been made as appropriate, a vote is taken on the Statement. A majority vote is required for adoption.

Summary

Financial statements prepared by state and local governments according to generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time.

Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this proposed Statement defines a tax abatement as resulting from an agreement between a government and a taxpayer in which the government promises to forgo tax revenues and the taxpayer promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Although many governments offer tax abatements, little information is publicly available regarding the provisions of tax abatement agreements or the magnitude of the effect those agreements will have on a government's ability to raise resources in the future. This proposed Statement would require governments that are subject to tax abatement agreements to disclose the following:

- General descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The number of tax abatement agreements entered into during the reporting period and the total number in effect as of the end of the period
- The dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

This proposed Statement would require disclosures of tax abatement information to distinguish between a reporting government's own tax abatement agreements and those entered into by other governments that reduce the reporting government's tax revenues. For its own tax abatements, the reporting government would be able to disclose tax abatement information for individual tax abatement agreements or aggregate the information by major tax abatement program. Tax abatement agreements of other governments that affect the reporting government could be combined.

Effective Date and Transition

The requirements of this proposed Statement would be effective for financial statements for fiscal years beginning after December 15, 2015. Earlier application would be encouraged.

How the Changes in This Proposed Statement Would Improve Financial Reporting

The requirements of this proposed Statement would improve financial reporting by giving users of financial statements information that generally is not publicly reported at present. Disclosure of information about the nature and magnitude of tax abatements would make these transactions more transparent to the financial statement user. As a result, 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 and (2) the impact those abatements have on the government's financial position and economic condition. The Board believes the expected benefits from these proposed standards would outweigh the costs associated with applying them, and those costs would be largely limited to the initial year of implementation.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 3 discusses the applicability of this Statement.

Proposed Statement of the Governmental Accounting Standards Board

Tax Abatement Disclosures

October 20, 2014

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Proposed Statement of the Governmental Accounting Standards Board

Tax Abatement Disclosures

October 20, 2014

INTRODUCTION

1. State and local governments employ a variety of programs and policies that reduce the taxes an individual or business otherwise would owe, with the intent of encouraging current and potential taxpayers to engage in certain behaviors such as constructing housing in a particular neighborhood or relocating a business to a government's geographic area. Certain of these programs and policies reduce tax revenues through agreements with taxpayers, such as property tax abatements for businesses that build new or expand existing office buildings.

2. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) sources and uses of financial resources, (b) compliance with finance-related legal or contractual requirements, (c) whether current-year revenues were sufficient to pay for current-year services, and (d) financial position and economic condition.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

3. This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements entered into by the reporting government and (b) agreements entered into by other governments that reduce the reporting government's tax revenues. The provisions of this Statement should be applied to all state and local governments subject to such tax abatement agreements.

4. As used in this Statement, a tax abatement results 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.

General Disclosure Principles

5. Information about tax abatement agreements should be disclosed in notes to the financial statements according to the following general principles:
- a. Disclosure information for similar tax abatements may be provided individually or may be aggregated.
 - b. Disclosures should distinguish between tax abatements resulting from (1) agreements entered into by the reporting government and (2) agreements entered into by other governments that reduce the reporting government's tax revenues, unless otherwise specified by this Statement.
 - c. Disclosure information for tax abatements resulting from agreements entered into by the reporting government should be organized by each major tax abatement program, such as an economic development program or a television and film production incentive program.
 - d. Disclosure information for tax abatements resulting from agreements entered into by other governments may be aggregated as if for a single program.
 - e. Disclosure should commence in the period in which a tax abatement agreement is entered into and continue until the tax abatement agreement expires, unless otherwise specified by this Statement.

Notes to the Financial Statements

6. Governments should include the following information about tax abatements in the notes to the financial statements:
- a. General descriptive information, including:
 - (1) Name and purpose of the tax abatement program(s), and the specific taxes being abated
 - (2) The authority under which tax abatement agreements are entered into
 - (3) The criteria that make a recipient eligible to receive a tax abatement
 - (4) The mechanism by which the taxes are abated, including:
 - (a) How the tax abatement recipient's taxes are reduced, such as through a reduction of assessed value or a refund of taxes paid
 - (b) How the amount of the tax abatement is determined, such as a specific dollar amount or a specific percentage of taxes owed
 - (5) Provisions for recapturing abated taxes, if any, including the conditions under which abated taxes become eligible for recapture
 - (6) For tax abatement agreements entered into by the reporting government, the types of commitments made by the recipients of the tax abatements.
 - b. The number of tax abatement agreements entered into during the reporting period and the total number of tax abatement agreements in effect as of the end of the reporting period
 - c. The dollar amount by which the reporting government's tax revenues were reduced during the reporting period as a result of tax abatement agreements
 - d. A description of (1) the types of commitments other than to reduce taxes, if any, made by the reporting government in the tax abatement agreements and (2) the most

significant individual commitments other than to reduce taxes, if any, made by the reporting government in tax abatement agreements. Information about a commitment other than to reduce taxes should be disclosed until the reporting government has fulfilled the commitment.

EFFECTIVE DATE AND TRANSITION

7. The requirements in this Statement are effective for financial statements for reporting periods beginning after December 15, 2015. Earlier application is encouraged. This Statement applies to notes to the financial statements for all periods presented. If application for all prior periods presented is not practical, the reason for not applying this Statement to prior periods presented should be explained.

<p>The provisions of this Statement need not be applied to immaterial items.</p>

Appendix A

BACKGROUND

A1. In early 2008, the GASB was asked to develop standards requiring governments to disclose information about tax abatements. The Board added the subject to the GASB's technical plan as a potential standards-setting topic in August 2008.

A2. In June 2010, the GASB awarded a Gil Crain Memorial Research Grant to three academics (Crain grantees) who proposed to conduct research on (a) the prevalence of tax abatements in state and local governments, (b) the state of external reporting by governments of information about the tax abatements they have agreed to, and (c) the needs of citizens, taxpayer groups, municipal bond analysts, and other users of governmental financial information regarding tax abatements. The Crain grantees' research entailed a summation of the academic literature on tax abatements, a review of relevant state statutes, a search of the websites of county governments known to have entered into tax abatement agreements for information reported about those abatements, and a survey of citizen and taxpayer groups, county legislators, and municipal bond analysts regarding the tax abatement information they consider most important to making decisions and assessing government accountability. The Crain grantees identified 44 states with statutes authorizing governments to enter into tax abatement agreements, 6 of which contained requirements related to some form of reporting on those agreements. The survey resulted in responses from 38 members and staff of citizen and taxpayer groups, 68 county board members, and 114 municipal bond analysts.

A3. The members of the Governmental Accounting Standards Advisory Council (GASAC) considered the subject of tax abatement disclosures as part of their annual discussion of the GASB's technical plan priorities. The members rated tax abatement disclosures in the top 10 of all pre-agenda research topics and potential standards-setting topics included in the GASB's technical plan between 2009 and 2011. At their March 2012 meeting, the GASAC members identified the topic as fourth highest in priority.

A4. In April 2012, the Board initiated pre-agenda research activities related to tax abatement disclosures. The GASB updated the Crain grantees' literature review and collected information about the number and magnitude of tax abatements nationwide. Employing the list of tax abatement information items identified as most important to users by the Crain grantees, in 2013 the GASB interviewed officials from 78 governments regarding the availability of the information and, if the information was not readily available, the effort that would be required to collect it. The results of the research conducted by the GASB and the Crain grantees were reported in December 2013.

A5. In December 2013, the Board added a project on Tax Abatement Disclosures to the practice-issue portion of the GASB's current technical agenda. Deliberations for the project began in April 2014.

Appendix B

BASIS FOR CONCLUSIONS

B1. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

Scope of This Statement

B2. Governmental programs employed to lower the taxes of broad classes of taxpayers, or the taxes of individual taxpayers based on the taxpayers performing desired actions, are broadly referred to as *tax expenditures*. Under this general rubric, governments exempt certain taxpayers or activities from taxation. Common examples of *tax exemptions* include the exclusion of income earned on municipal bonds from income taxes and the full or partial exemption of senior citizens and military veterans from property taxes. Governments also allow taxpayers to deduct certain items from their tax liabilities or from the amount that is being taxed. Common examples of *tax deductions* include income tax deductions for charitable giving and programs that allow homeowners to deduct a portion of the cost of installing energy-efficient features from the amount of income tax they owe.

B3. The intention of this Statement is not to encompass all forms of tax expenditure but to specifically address a subset of those transactions commonly referred to as *tax abatements*. The Board considered a variety of features that might distinguish tax abatements from other types of tax expenditures. The Board identified three features that, in combination, set tax abatements apart from tax expenditures in general: the purpose of tax abatements; the type of revenue they reduce; and the existence of an agreement with a specific taxpayer as the basis for the abatement. This Statement applies to transactions that include all of these features and refers to them as tax abatements for the purposes of financial reporting. However, this Statement does not apply to all transactions that are called "tax abatements" in practice.

Purpose of Tax Abatements

B4. Tax abatements typically are utilized as part of economic development programs to achieve goals such as (a) increasing the property or other tax base; (b) addressing cost disadvantages; (c) revitalizing distressed local economies; (d) retaining or attracting jobs, companies in particular industries, or a specific company; and (e) increasing the number of persons employed by existing employers. One might characterize these purposes in general as economic development. However, tax abatements also are used for purposes as varied as historical preservation, environmental incentives, brownfield cleanup, and housing construction.

Revenues Reduced by Tax Abatements

B5. Tax abatements are primarily viewed in the context of reducing *tax revenues*. The Board is aware of programs similar in many respects to tax abatements that reduce revenues other than taxes. For instance, some public utilities grant reductions of customer charges to businesses. The Board notes, however, that a key difference between abatements that reduce tax revenues and those that reduce revenues from customer charges is that the former involve nonexchange transactions, whereas the latter involve exchange transactions. In the case of an agreement that reduces charges to a customer, the Board views the reduction as a part of the exchange transaction.

Existence of an Agreement

B6. Perhaps the most important feature of tax abatements, for the purposes of this Statement, is the existence of an agreement between the government and a taxpayer. Tax abatements (as defined in this Statement) result from an identifiable agreement between a government and a specific taxpayer (either an individual or an entity). Tax abatement agreements consist of at least two components—a promise by the government to reduce the taxpayer’s taxes and a promise from the taxpayer to subsequently perform a certain beneficial action.

B7. Tax abatement agreements may be in writing or may be implicitly understood by the government and the taxpayer. Such agreements may not be legally enforceable, but the Board does not believe that legal enforceability is an essential feature. For instance, relatively few tax abatement programs include provisions for recapturing abated taxes if the taxpayer does not fulfill its promise; limiting the scope of this Statement to tax abatement agreements that are enforceable in this manner would exclude most of these transactions.

B8. Implicit in the notion that tax abatements are based on an agreement is the expectation that the agreement precedes the reduction of taxes and the fulfillment of the taxpayer’s promise to act. Certain tax expenditure programs that exhibit the features of a tax abatement—they reduce taxes, encourage beneficial actions by taxpayers, and may be based on an agreement—are, nevertheless, excluded from the scope of this Statement because the government does not commit to abate taxes until *after* the taxpayer has already performed the activity for which the government is providing the tax abatement. Most often, such programs do not involve an agreement; a taxpayer performs the required activity (such as installing energy-efficient home features), applies for the tax reduction, and is approved by the government. However, even when an agreement exists, such programs more closely resemble broad tax exemptions and deductions rather than individual tax abatement agreements.

Other Features Considered

B9. The Board considered three other potential distinguishing features of tax abatements—terminology, the mechanism used to reduce taxes, and the breadth and applicability of the program. A variety of labels are used to identify tax reduction

programs—exemptions, deductions, credits, rebates, and abatements foremost among them. These labels are used interchangeably to describe similar transactions; very different transactions also may be described using the same label.

B10. The mechanisms employed by tax abatement programs also vary. Typically, a recipient of a tax abatement receives a tax bill—most often for property taxes—that is already net of the abated amount. Sometimes property tax abatements involve a reduction of the taxable assessed value of a taxpayer’s property or a rebate of tax payments made by the taxpayer but, most commonly, they are a direct reduction in the taxpayer’s tax obligation. Unlike property taxes, the actual reduction of other types of tax revenues (such as corporate income and sales tax revenues) necessarily takes place later because the amount owed by the taxpayer is not known in advance. Consistent with other GASB pronouncements, the Board believes this Statement should focus on the substance of the transactions rather than on their form or label.

B11. As previously stated, tax exemptions and tax deductions tend to be available to a larger number of taxpayers than tax abatements. However, the Board does not believe that being less broadly available is a suitable distinguishing feature of tax abatements because there is no objective measure of breadth or applicability that would serve to definitively separate tax abatements from other tax expenditures.

Definition of a Tax Abatement

B12. Based on the aforementioned considerations, 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. The scope of this Statement is limited to transactions that meet this definition.

General Disclosure Principles

B13. The number of tax abatement agreements to which a government is a party may vary widely from government to government. As mentioned in Appendix A, the GASB interviewed 78 government officials involved in tax abatement programs as a part of the research that preceded this standards-setting project. The number of tax abatement agreements in effect for the governments represented by these persons ranged from 5 or fewer (24 percent of the governments) to more than 200 (almost 13 percent of the governments). For this and other reasons, the Board believes that it is necessary to establish certain provisions to guide the disclosure of information about tax abatements. These principles relate to (a) whether the reporting government was a party to the tax abatement agreement, (b) the level of disclosure detail, and (c) the periods for which disclosures should be made.

Governments Involved in the Agreement

B14. A government's tax revenues may be reduced not only as a result of tax abatement agreements it enters into with taxpayers, but also as a result of tax abatement agreements entered into by other governments. For instance, certain local governments with the power to do so provide abatements that reduce not only their own tax revenues but also the tax revenues of school districts within their geographic area. The Board considered whether a government should be required to disclose information about tax abatement agreements to which it was not a party. Some may argue that a government should not be held responsible for tax abatements that it did not agree to. However, users of governmental financial statements need information about limitations on the ability of governments to raise revenues (as described later), some of which are the product of tax abatements. The effect of the reduction in tax revenues on a government's financial health is not diminished or exacerbated based on which government abated the tax revenues. Therefore, this Statement requires disclosure of information about tax abatement agreements regardless of whether the reporting government was involved in the agreement. The Board did conclude, however, that the source of the abatement may be relevant to how the information is disclosed. Consequently, this Statement requires that information about a government's own tax abatement agreements be disclosed separately from information about abatements resulting from agreements entered into by other governments.

Level of Disclosure Detail

B15. The volume of tax abatement agreements entered into by some governments necessitates consideration of the appropriate level of detail for disclosure of information about those agreements. Notes to the financial statements should provide a sufficient amount of essential information to the users of financial statements without presenting so much detail that the understandability of the information (and, thereby, its usefulness) is diminished. Whereas a government could individually disclose information about, for example, 5 or 10 tax abatement agreements, individual disclosure of 100 agreements might be overwhelming. Consistent with previous pronouncements, such as Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, this Statement allows governments to present information about individual tax abatement agreements or to aggregate larger numbers of similar agreements.

B16. The Board considered what degree of aggregation would be most appropriate. The Board believes that aggregating all tax abatement agreements would significantly reduce the usefulness of the disclosures. The Board concluded that aggregating disclosures by major program—such as for a government that has tax abatements that are granted (a) for more than one purpose or (b) by more than one division within the government—is an acceptable approach that makes disclosure more manageable but retains sufficiently useful detail. For instance, a county government might disclose information separately for tax abatements granted to induce relocation of businesses to an economic development zone, abatements granted under a program to attract television and movie productions, and all other abatements. However, the Board concluded that disclosure by major program is less relevant to the reporting government for tax abatement agreements of other governments.

If a government is not a party to the agreement that requires it to forgo tax revenues, the reason for the abatement is not particularly relevant because the government did not offer the abatement. Additionally, it may be difficult for the reporting government to obtain the necessary information from the government that entered into the tax abatement agreement. Therefore, this Statement does not require that information about tax abatement agreements entered into by other governments be disclosed by major program.

Periods When Disclosure Should Occur

B17. The Board also considered whether disclosures about tax abatement agreements should be made in each year that the agreement is in effect or only in the initial year of the agreement. The Board concluded that the disclosures required by this Statement continue to be equally or nearly equally as important in subsequent years as in the first year they are presented. Furthermore, the Board believes that the cost of implementing the requirements of this Statement will diminish in subsequent years. Therefore, it is the Board's view that as long as a tax abatement agreement remains in effect—and, therefore, continues to affect a government's finances—financial statement users need the information the disclosures contain.

Notes to the Financial Statements

B18. The pre-agenda research described in Appendix A identified the information about tax abatements that users consider to be most important. The research also gathered input about the present availability of this information to governments and the effort that would be required to collect the information if not already in hand. In addition to considering the findings of this research, the Board deliberated whether information about tax abatements was necessary to meet the objectives of financial reporting set forth in the GASB's conceptual framework.

Tax Abatement Information and the Conceptual Framework

B19. Paragraphs 77–79 of Concepts Statement No. 1, *Objectives of Financial Reporting*, include four objectives that are relevant to tax abatements: (a) determining whether current-year revenues were sufficient to pay for current-year services (interperiod equity), (b) compliance with finance-related legal and contractual obligations, (c) providing information about sources and uses of financial resources, and (d) providing information about the financial position and economic condition of a governmental entity. Interperiod equity is defined in paragraph 61 of Concepts Statement 1 as “whether current-year revenues are sufficient to pay for the services provided that year and whether future taxpayers will be required to assume burdens for services previously provided.” Assessing interperiod equity depends on information about (among other issues) limitations on the ability of governments to raise revenues. The Board believes that information about agreements that reduce the amount of tax revenue that a government can raise is relevant to understanding current-year revenues.

B20. Some tax abatement agreements contain commitments for the government to perform activities other than reduce taxes, such as constructing streets and other

infrastructure around a new manufacturing plant for which a property tax abatement has been provided. The Board believes that demonstrating compliance with finance-related legal or contractual requirements encompasses providing information about whether a government has met its other commitments under tax abatement agreements. However, the government's compliance with its obligation to reduce taxes will be reflected in the amount of the reduction in its tax revenues.

B21. The Board concluded that information about limitations on tax revenues is important to understanding sources and uses of financial resources. Tax abatement agreements reduce the amount of financial resources that otherwise would flow into a government. Furthermore, information about tax abatements is relevant to assessments of financial position and economic condition in at least two ways. First, information about resource inflows has been identified in research by the GASB and others as being highly important to analyzing financial position and economic condition. Second, commitments of a government other than to reduce taxes could represent actual or contingent obligations that would be relevant considerations when analyzing the financial position and economic condition of that government.

B22. Relevance to one or more of the objectives of financial reporting may not be sufficient, on its own, to justify requiring that a particular piece of information be reported in the notes. Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, emphasizes the essentiality of information to a user's understanding of financial position and inflows and outflows of resources. The pre-agenda research informed the Board's analysis of whether potential disclosures about tax abatements would provide information that is essential. The users that participated in the research identified the following information as highly important and, therefore, potentially essential as defined in the GASB's conceptual framework: general descriptive information about tax abatement agreements, names of tax abatement recipients, amount of taxes abated, duration of tax abatements, other commitments made by a government in a tax abatement agreement, commitments made by the recipient of the tax abatement, recipient compliance with such commitments, and provisions for recapturing abated taxes.

General Descriptive Information

B23. There is considerable precedent for requiring disclosure of general descriptive information about a transaction or group of transactions. For example, paragraph 37 of Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires descriptive disclosures about an employer's pension plan. Similar disclosures are required in the GASB's pronouncements on derivative instruments, service concession arrangements, and nonexchange financial guarantees. The Board believes that the substantial variety in tax abatement programs from government to government supports the notion that descriptive disclosures are essential to users wishing to examine and draw conclusions about the other tax abatement information that governments are required to disclose under this Statement. The Board believes that the descriptive information required by this Statement should allow users to assess the effects of providing abatements in a more cost effective way than analyzing each abatement individually. This is particularly true when governments

regularly offer a large number of tax abatements each year under formal programs rather than periodically on a case-by-case basis. This information should be readily available to governments and, therefore, cost little to disclose.

Name of the Recipient

B24. Users participating in the pre-agenda research rated the name of the tax abatement recipient as important information, though slightly less important than other information about tax abatements. Citizens have a demonstrable interest in whether tax abatement recipients have fulfilled the promises they made in return for paying lower taxes; knowing the names of the recipients would be valuable to verifying recipient performance. This information should be readily available; if a government has reduced a taxpayer's bill, it is implicit that the government has a record of the recipient's name. However, the Board does not believe that disclosure of a tax abatement recipient's name fulfills any of the objectives of financial reporting. Furthermore, disclosure of the name of the recipient would necessitate individual disclosure of all tax abatement agreements, which may not be practical and may adversely affect the usefulness of the disclosure. Therefore, the Board concluded that the name of the recipient should not be required as a disclosure.

Amount of Taxes Abated

B25. The pre-agenda research established that the amount of the reduction in tax revenues, including tax revenues in future years, is highly valuable to users. The amount of the reduction in tax revenues for the reporting period is readily available to a large majority of the governments represented in the research. The Board concluded that the amount of the reduction in tax revenues is the information about tax abatements that is most essential to analyzing interperiod equity, sources and uses of resources, financial position, and economic condition. Consequently, this Statement requires disclosure of the amount of the reduction in tax revenues during the reporting period.

B26. The Board also considered requiring disclosure of the amount remaining to be abated in future years under existing tax abatement agreements. This information would be particularly relevant to assessments of economic condition, which is concerned in part with a government's ability to meet its financial obligations as they come due. However, the Board is concerned that developing this information would require specific measurement guidance, which is outside the scope of this project. Therefore, the Board decided not to require disclosure of future amounts to be abated under existing agreements.

Duration of Tax Abatements

B27. The users participating in the pre-agenda research identified the date of tax abatement agreements and their duration as important information. They are interested in how much longer a government will be reducing the taxes of the recipients. This information is readily available to the governments represented in the research. The Board considered several relevant items that could be disclosed, including the date the tax abatement agreement was entered into, the date the agreement would end, the full term of

the agreement, and the remaining term of the agreement. The Board concluded that the remaining term of the agreement (in years) would be most directly informative.

B28. The Board initially decided to propose requiring disclosure of the remaining term of tax abatement agreements (in years). However, when the Board considered how the general disclosure principles would affect disclosure of this information, it was concerned about how useful the information would be to users. The Board believes that disclosure of the remaining term would be highly useful when provided for individual abatement agreements. However, to the extent that the disclosure aggregates a significant number of abatement agreements, the disclosure of the remaining term would necessarily become less specific and, therefore, less valuable. Furthermore, the less uniform the terms of a government's tax abatements—for example, terms that range from 3 to 20 years, as opposed to a standard length of 5 years—the less useful the Board believes an aggregated disclosure would be. The Board examined several approaches to presenting aggregated information about the duration of tax abatements but ultimately concluded that the disclosure should not be required.

Other Commitments Made by a Government

B29. A tax abatement agreement may contain provisions beyond the government's promise to forgo tax revenues and the promise made by the abatement recipient. As previously noted, the government may make other commitments to an abatement recipient such as a promise to improve infrastructure around the location to which the recipient has agreed to move its business. Users participating in the pre-agenda research rated other commitments made by governments as important information. The research suggests that this information is readily available to governments that provide tax abatements.

B30. The Board believes that commitments made by governments as part of a tax abatement agreement may, in some circumstances, be considered a finance-related legal or contractual requirement. The provision of information about such obligations is a part of the financial reporting objective related to evaluating financial position and economic condition. The requirement to disclose construction and other significant commitments in paragraph 158 of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, conceivably could capture such commitments resulting from tax abatement agreements. However, there is no guidance that specifically addresses tax abatement agreement commitments and, therefore, this Statement specifically requires disclosure of a government's commitments other than to reduce taxes.

B31. The Board concluded that information about commitments a government makes in a tax abatement agreement (other than to reduce taxes) is most useful if it is disclosed in two ways. A government should disclose the types of other commitments that it has made, if any, in the tax abatement agreements in effect as of the end of the reporting period. This disclosure is made more informative by also individually disclosing a government's most significant specific commitments, if any.

B32. As previously explained, this Statement requires that tax abatement disclosures continue until a tax abatement agreement has ended. However, the Board does not believe

that disclosures of a government's other commitments continue to be useful after a government has fulfilled its commitment. Therefore, this Statement makes an exception to the general disclosure principle and specifies that disclosure of other commitments made by a government in a tax abatement agreement should cease after the terms of the commitment have been met.

Commitments Made by a Tax Abatement Recipient

B33. As defined in this Statement, a necessary component of a tax abatement agreement is a promise from the recipient to subsequently perform a beneficial action in order to lower its tax obligation. The pre-agenda research indicates that users are keenly interested in (a) whether the tax abatement is justified by the promised return from the recipient of the abatement and (b) whether the recipient has fulfilled its promise. The Board believes the commitments a government receives from the recipients are relevant information for assessing the sources and uses of resources.

B34. This Statement requires disclosure of the types of commitments made by the recipients of tax abatements. However, the disclosure is limited to commitments made by recipients in tax abatement agreements entered into by the reporting government. If a reporting government's tax revenues are reduced under an agreement entered into by another government, any commitment made by the recipient under the agreement is being made to the other government, not the reporting government. Furthermore, it may be relatively more difficult for the reporting government to obtain information about commitments made in another government's tax abatement agreements than it would be to obtain other information about those agreements, such as the amount of taxes abated.

B35. A natural extension of the disclosure of recipient commitments is disclosure of recipient compliance with those commitments. If a tax abatement agreement calls for relocation to an economic development area, compliance may be relatively easy to ascertain. However, when a recipient commits to create or retain a certain number of jobs, information on compliance may not be readily available to the government granting the abatement. The Board observes that whether a tax abatement recipient fulfills the promise it made in a tax abatement agreement is a matter of compliance by the recipient, not by the reporting government. As a result, this Statement does not require disclosure of information about recipient compliance.

Recapture Provisions

B36. Tax abatement agreements may contain provisions that allow for the government to recapture previously abated taxes when the recipient fails to meet its obligations. The Board considered three types of information regarding recapture or "clawback" provisions: the circumstances under which a government may recapture abated taxes, the amount of abated taxes recaptured during the reporting period, and the amount of abated taxes eligible to be recaptured as of the end of the reporting period but not yet recaptured. The Board believes this information is highly relevant to the same objectives of financial reporting that are met through the disclosure of the amount of the reduction in tax

revenues. This Statement, therefore, requires disclosure of the provisions, if any, for recapturing abated taxes, including the conditions under which recapture is allowed.

B37. An important impetus for the requirement in this Statement to disclose the amount of the reduction in tax revenues is that the reduction in revenue is not explicitly reflected in the amounts recognized in the financial statements. The Board observes that amounts recaptured during the year would be recognized as revenue in resource flows statements; amounts eligible for recapture would be recognized as receivables in statements of financial position. Though these amounts may not be separately distinguishable, the fact that they are accounted for and reported in the financial statements led the Board to decide not to require their disclosure.

Considerations Related to Benefits and Costs

B38. The overall objective of financial reporting by state and local governments is to provide information that assists users (the citizenry, legislative and oversight bodies, and investors and creditors) in assessing the accountability of governments and in making economic, social, and political decisions. One of the principles guiding the Board's setting of standards for accounting and financial reporting is the assessment of expected benefits and perceived costs. The Board strives to determine that its standards (including disclosure requirements) address a significant user need and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit.

B39. Present and potential users are the primary beneficiaries of improvements in financial reporting. Persons within government who are responsible for keeping accounting records and preparing financial statements, as well as managers of public services, also benefit from the information that is collected and reported in conformity with GASB standards. The costs to implement the standards are borne primarily by governments and, by extension, their citizens and taxpayers. Users also incur costs associated with the time and effort required to obtain and analyze information to meaningfully inform their assessments and decisions.

B40. The Board's assessment of the expected benefits and perceived costs of issuing new standards is unavoidably more qualitative than quantitative because no reliable and objective method has been identified for quantifying the value of improved information in financial statements. Furthermore, it is difficult to accurately measure the costs of implementing new standards until implementation has actually taken place. Nonetheless, the Board undertakes this assessment based on the available evidence regarding expected benefits and perceived costs with the objective of achieving an appropriate balance between increasing benefits and minimizing costs.

B41. The Board assessed the expected benefits and perceived costs of its proposed requirements at two levels—for individual decisions and for the entirety of the Statement. Throughout its deliberations, the Board specifically considered the relative expected benefits and perceived costs of individual decisions and also considered information gathered related to tax abatements from the pre-agenda research. For example, the Board

took into account the results of interviews with government officials involved in tax abatements regarding the present availability of information about tax abatements and the estimated effort that would be necessary to collect information that is not already in hand.

B42. Certain decisions made by the Board in developing this Statement were intended to minimize the cost of compliance with the standards. For instance, the Board decided to allow governments to aggregate disclosures for multiple similar tax abatements. The Board also allowed for information about tax abatements entered into by other governments to be presented as a single, aggregated disclosure.

B43. The Board also considered the aggregate expected benefits and perceived costs associated with the entirety of the requirements in this Statement. The Board believes that the prevalence of tax abatements among state and local governments and the magnitude of the dollars involved underline the importance of information about these agreements to assessments of interperiod equity, sources and uses of resources, financial position, and economic condition. In light of the lack of publicly reported information about tax abatements, the Board believes that the expected benefits of the disclosure requirements in this Statement will be significant. In addition, the Board believes that much of the information necessary for the required disclosures is already available to governments or would not require extensive effort to obtain. Furthermore, the Board believes that the costs associated with implementation of this Statement will be largely limited to the initial period of implementation.

Appendix C

ILLUSTRATIONS

C1. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the policies or practices shown. Application of the provisions of this Statement may require assessment of facts and circumstances other than those illustrated here. Existing standards may require disclosures in addition to those illustrated. In some instances, amounts that may be considered immaterial are used to illustrate specific requirements or alternatives. No inferences about determining materiality should be drawn from these illustrations.

Example 1—Small Local Government

Facts and Assumptions

Sample Village negotiates property tax abatement agreements on an individual basis. The Village has tax abatement agreements with five taxpayers as of June 30, 20X7, one of which it entered into during the reporting period:

Purpose	Abatement		Entered into during Reporting Period?
	Percentage	Dollar Amount	
Grocery store chain purchases empty building and opens store	40%	\$ 97,500	Yes
Relocate hardware store	40	13,225	No
Retain health and fitness facility	30	5,100	No
Increase size and employment of restaurant/catering business	50	21,750	No
Open gas station and convenience store	40	8,905	No

Each agreement was negotiated individually with the recipient under a state law allowing localities to abate property taxes for a variety of economic development purposes, including business relocation, retention, and expansion. The abatements may be granted to any business located within or promising to relocate to a local government's geographic area. Localities may grant abatements of up to 50 percent of annual property taxes through a direct reduction of the taxpayer's property tax bill. The state law does not provide for the recapture of abated taxes in the event an abatement recipient does not fulfill the commitment it makes in return for the tax abatement.

The Village has not made any commitments as part of the agreements other than to reduce taxes. The Village is not subject to any tax abatement agreements entered into by other governmental entities. The Village has chosen to disclose information about its tax abatement agreements individually.

Illustrative Disclosure

As of June 30, 20X7, the Village has property tax abatement agreements with five local businesses under the state Economic Development Opportunity Act of 20X1. Under the Act, localities may grant property tax abatements of up to 50 percent of the taxpayer's property tax bill, for the purpose of attracting or retaining businesses within their jurisdictions. The abatements may be granted to any business located within or promising to relocate to the Village.

During the fiscal year, the Village granted a 40 percent property tax abatement to a grocery store chain for purchasing and opening a store in an empty storefront in the business district. The abatement amounted to \$97,500 for the fiscal year ended June 30, 20X7. The other four tax abatement agreements in effect as of the end of the fiscal year were as follows (all amounts are for the fiscal year ended June 30, 20X7):

- A 40 percent property tax reduction to a hardware store for moving into the Village (\$13,225)
- A 30 percent property tax reduction to retain a health and fitness facility in the Village (\$5,100)
- A 50 percent property tax reduction for a local restaurant increasing the size of its restaurant and catering facility and increasing employment (\$21,750)
- A 40 percent property tax reduction for a business opening a new gas station and convenience store in the Village (\$8,905).

Example 2—Large County Government

Facts and Assumptions

Model County provides tax abatements under three programs: Residential Improvement Program, Film and Television, and Economic Assistance.

- The Residential Improvement Program provides property tax abatements to encourage improvements to single-family and multiple-unit dwellings. The Program is established under the auspices of a state statute empowering cities and counties to establish such programs. The abatements equal 100 percent of the additional property tax resulting from the increase in assessed value as a result of the improvements, are administered as a reduction in the tax bill, and last for 3 years (or fewer, if the property is sold). Abatements are obtained through application by the property owner prior to commencing the improvements and require subsequent provision by the owner of proof that the improvements have been made. Because taxes are not abated until after the improvements have been made, there are no provisions for recapturing abated taxes. No other commitments were made by the County as part of these agreements.
- Office of Film and Television tax abatements are intended to attract television, movie, and commercial productions. These abatements are granted pursuant to an ordinance enacted by the County Board of Supervisors. Production companies can apply for a refund of sales taxes on qualifying spending within the County. Production companies' County corporate income tax liabilities are reduced by the amount of qualifying spending, up to 100 percent of the taxes owed. Production companies apply to the Office for admittance into the program in advance of commencing production. Qualifying spending is limited to three years from the date of admittance. Because taxes are abated after the qualifying spending has taken place, there are no provisions

for recapturing abated taxes. No other commitments were made by the County as part of these agreements.

- The Department of Economic Assistance offers individual incentive packages to attract new businesses to the County. The Department's tax abatement program was created through the passage of an ordinance by the County Board of Supervisors. Abatements may be granted to any business agreeing to relocate to the County. In addition to property tax abatements for the property constructed or purchased by the new or relocated businesses, the Department also arranges for construction of certain infrastructure features that are ancillary to newly constructed facilities. One agreement involving the relocation and new construction of the central headquarters of a major corporation included a substantial commitment from the County to construct a new exit for the nearby highway and connecting roadways. The magnitude of the County's commitments in other agreements is relatively insignificant and is generally consistent across agreements. The maximum property tax abatement is the equivalent of a 75 percent reduction of the assessed value of the property. The agreements entered into by the Department include clawback provisions should the recipient of the tax abatement fail to fully meet its commitments.

Information relevant to disclosure of these programs includes the following:

Tax Abatement Program	Number of Abatements during the Fiscal Year	Number of Abatements as of the End of the Fiscal Year	Amount of Abatements during the Fiscal Year (in thousands)
Residential Improvement Program	1,175	2,765	\$ 12,912
Film and Television	51	123	
Sales Tax			3,435
Corporate Income Tax			2,479
Economic Assistance	13	53	8,566

The County also is subject to tax abatements granted by the state government through its Business Relocation and Development Authority and the Thriving State Economy Initiative, both of which have the stated purpose of increasing business activity and employment in the state. Businesses promise to expand or maintain facilities or employment in the state, to establish a new business in the state, or to relocate an existing business to the state. Economic development agreements entered into by the Authority and by the state through the Initiative can include the abatement of state, county, and local taxes, in addition to other assistance. In the case of the County, state-granted abatements have resulted in reductions of property taxes, which the County administers as a temporary reduction in the assessed value of the property involved. The abatement agreements stipulate a percentage reduction of property taxes, which can be as much as 100 percent. Information relevant to disclosure of these programs includes the following:

Tax Abatement Program	Number of Abatements during the Fiscal Year	Number of Abatements as of the End of the Fiscal Year	Amount of Abatements during the Fiscal Year (in thousands)
Business Relocation and Development Authority	5	27	\$ 5,325
Thriving State Economy Initiative	6	22	3,021
Total	11	49	\$ 8,346

The state reimburses county and local governments for one-third of the reduction in their tax revenues under these agreements. The agreements do not include provisions for recapturing abated taxes. None of the agreements include other commitments for the County.

Illustrative Disclosure

As of December 31, 20X1, the County provides tax abatements through three programs (dollars in thousands):

- The Residential Improvement Program provides property tax abatements to encourage improvements to single-family and multiple-unit dwellings, under State Law, Code 14, Section 201.1. Abatements are obtained through application by the property owner, including proof that the improvements have been made, and equal 100 percent of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatements is deducted from the recipient's tax bill. The County abated property taxes of \$12,912 under this program during the fiscal year. The County granted 1,175 abatements during the fiscal year, and 2,765 abatements continued in effect as of December 31, 20X1.
- Under the County Economic Development Act of 2003, two divisions of the County government administer tax abatements:
 - The Office of Film and Television provides abatements of the County's sales and corporate income tax to attract television, movie, and commercial productions. Production companies apply to the Office for admittance into the program in advance of commencing production. Production companies can apply for a refund of sales taxes on qualifying spending in the county within three years of the date of admittance. Production companies' county corporate income tax liabilities are reduced by the amount of qualifying spending, up to 100 percent of the taxes owed. The Office approved 51 applications during the fiscal year, and 123 abatements continued in effect as of December 31, 20X1. Sales tax revenues refunded during the fiscal year totaled \$3,435. The reduction in corporate income tax revenues amounted to \$2,479.
 - The Department of Economic Assistance offers individual incentive packages to attract new business to the county. Abatements may be granted to any company agreeing to relocate to the County or to establish a new business in the County. The Department abates up to 75 percent of the property tax bills through a reduction in the assessed value of the facilities that the new or relocating businesses construct or purchase. The Department also arranges for the county to construct certain infrastructure features that are ancillary to newly constructed facilities. One agreement involving the construction of a new office building for the central headquarters of a major corporation included a substantial commitment from the County to construct a new exit on County Highway 84 and connecting roadways and ancillary features between the highway and the building. The agreements entered into by the Department include clawback provisions should the recipient of the tax abatement fail to fully meet its commitments, such as employment

levels and timelines for relocation. The Department granted abatements as part of 13 incentive packages during the fiscal year, and 53 abatements continued in effect as of December 31, 20X1. Property tax revenues abated under this program during the fiscal year totaled \$8,566.

State Government Tax Abatements

County property tax revenues were reduced by \$8,346 under agreements entered into by the state through the Business Relocation and Development Authority and the Thriving State Economy Initiative, for the purpose of increasing business activity and employment in the state. The state programs specify a percentage reduction in property taxes for the recipients, up to 100 percent. The County provides the abatements by temporarily reducing the assessed value of the property involved. The state reimburses the County for one-third of the reduction in tax revenues. As of December 31, 20X1, 49 state abatement agreements were with county businesses; 11 of the abatements were entered into during the fiscal year.

Appendix D

CODIFICATION INSTRUCTIONS

D1. The sections that follow update the June 30, 2014, *Codification of Governmental Accounting and Financial Reporting Standards*, for the effects of the provisions of this Statement. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the Codification.

* * *

NOTES TO FINANCIAL STATEMENTS

SECTION 2300

Sources: [Add the following:] GASB Statement XX

.107 [Insert new subparagraph hhh as follows:]

hhh. Tax abatements. (See paragraphs .132–.135.) [GASBS XX, ¶3–¶6]

[Insert new paragraphs .132–.135 as follows, including headings:]

Tax Abatements

.132–.135 [GASBS XX, ¶3–¶6, including headings; change *Statement* to *section*.]