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Attachments: [image001.gif](#)

## PROJECT PAGES



### Tax Abatement Disclosures

**Project Description:** The objective of this project would be to consider developing disclosure guidance for governments that have granted tax abatements. For purposes of this project, tax abatements are a reduction of or exemption from taxes, offered by a government to a specific taxpayer, typically for the purpose of spurring economic development. The project would not consider guidance for programs that reduce the tax liabilities of broad classes of taxpayers, such as senior citizen or veterans, and which are not the product of individual agreements with each taxpayer. The project also would not consider issues related to recognition.

Status: Added to Current Agenda: December 2013

[Project Plan](#)

[Recent Minutes](#)

[Initiative Board Decisions to Date](#)

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## TAX ABATEMENT DISCLOSURES—PROJECT PLAN

**Background:** Tax abatement programs are highly prevalent in the U.S.—governmental entities in 44 states currently have them. The results of external research conducted under a Gil Crain Memorial Research Grant from the GASB suggest that tax abatements are an issue of concern among citizen groups, county board members, and municipal bond analysts, and that each group desires to receive information about the level of abatement activity and the results of the abatement programs. However, the researchers found relatively few states (six) with statutes requiring any level of external reporting after tax abatements are granted. These findings indicate that there is an important information need that is largely unmet.

These academics found that 44 states have statutes regarding programs in line with the definition of a stand-alone property tax abatement program. (This is consistent with a 2007 study that concluded governments in 42 states are allowed by their states to offer tax abatements.<sup>1</sup>) However, they identified just six states with statutes addressing reporting requirements. Fourteen states addressed accountability for abatement programs in their statutes by including provisions for benefit recovery (clawbacks) in instances of nonperformance by the recipient of the abatement. It may be possible that more states require reporting or impose consequences for nonperformance in policies and procedures outside their statutes.

Constituents have periodically raised the possibility of a pronouncement requiring governments to disclose additional information about tax abatements. At present, generally accepted accounting principles do not require state and local governments to disclose information related to tax abatements.

In September 2013 the project staff conducted interviews and received feedback from 78 individuals responsible for keeping records on tax abatements within governments that had been identified as authorizing stand-alone tax abatements. This research indicates that governments generally do keep records on the type of information identified by users as being necessary for their decision-making and assessment of a government's accountability of stand-alone tax abatements that have been authorized.

*User needs:* The survey of users was conducted by the academics awarded the Gil Crain grant was administered to staff and members of citizen groups, municipal bond analysts, and county board members.

One portion of the survey offered statements about tax abatement programs drawn from the literature and asked respondents to rate their agreement or disagreement with the statement on a five-point scale (1 = strongly disagree, 5 = strongly agree). The statements specifically relevant to financial reporting were:

Governments should report annually on tax abatement agreements outstanding.  
Legislators (for example, county commissioners or county board members) involved in granting tax abatements should receive timely reports comparing expected performance to actual performance.  
Citizens and other interested parties should have access to annual reports comparing expected performance to actual performance for all tax abatement agreements outstanding.  
Information about taxes recovered through recapture provisions should be reported to legislators who grant tax abatements.  
Information about taxes recovered through recapture provisions should be accessible to citizens and other interested parties on an annual basis.

Overall, the level of agreement in each of the three groups of users was very high on all five of these statements. Citizen group members and staff particularly agreed with statements a, b, and c. The highest level of agreement among county board members was with statement b. Municipal bond analysts most strongly agreed with a, c, and d.

Bond analysts were asked to rate how often they consider five issues related to tax abatements when analyzing municipal securities on a five-point scale:

Revenues forgone through property tax abatements

Expected and actual outcomes related to existing property tax abatements

Taxes recovered through recapture provisions when abatements recipients fail to meet conditions in the tax abatement agreements

The degree to which a government uses property tax abatements to attract new businesses or to retain and expand existing businesses

The degree to which a government uses tax incentives to encourage economic development.

Four of the five factors—1, 2, 4, and 5—linked to tax abatements were identified by bond analyst respondents as being considered somewhat regularly.

The surveys of all three user groups asked them to rank the importance of seven items that could be reported by governments about tax abatements they have granted:

i. Name of recipient

ii. Date abatement was granted

iii. Amount of tax abatement in the current year

iv. Length of tax abatement and projected abatement amounts in future years

v. Commitments made by the government (e.g., infrastructure improvements)

vi. Contractual promises made by the recipient (if any)

vii. Recipient's compliance with contractual promises.

All three groups rated the importance of items iii–vii highly. Citizen respondents rated i and ii highly as well, and county board member respondents rated those items nearly as high. Citizen respondents rated items iv–vii particularly highly. Those items also were the most highly rated among county board member respondents. The highest-ranked items among bond analyst respondents were iii and iv.

Accounting and Financial Reporting Issues: The project will consider the following issues:

What information about tax abatements, if any, should be disclosed in the notes?

What tax abatement information do governments currently have available?

What costs, if any, might a government incur to collect information about tax abatements?

Project History:

Research agenda approved: April 2012

Added to current technical agenda: December 2013

Task force established? No

Deliberations began: April 2014

Current Developments: At its May 2014 meeting, Board began deliberations regarding the types of information about tax abatements that governments should be required to disclose in the notes to their financial statements. The Board considered four potential disclosures:

the name of the recipient

the amount of abatements in the current year

the amount of abatements remaining in future years

the duration of abatements.

The Board tentatively decided not to propose disclosure of the name of the recipient or the amount of abatements remaining in future years. The Board tentatively decided to propose requiring disclosure of the amount of taxes abated in the current year and the duration of abatements. The Board tentatively agreed that the duration disclosure would take the form of the remaining years on the agreement(s).

The discussion of potential disclosure requirements continued at the July 2014 meeting. The Board tentatively decided to

propose disclosure of other commitments made by governments as part of tax abatement agreements, commitments made by recipients, provisions that allow for recapture, and general descriptive information. The general descriptive information tentatively would include:

the name and purpose of the program(s), and the taxes being abated

the authority under which tax abatements are granted

the criteria, if any, that make a recipient eligible to receive a tax abatement

the manner in which the taxes are abated, including how the amount of abatement is determined and how the taxes are reduced

the number of abatements granted during the reporting period and the total number of abatements in effect as of the date of the financial statements.

The Board tentatively decided not to propose disclosure of recipient compliance with their commitments.

The Board also deliberated the level of detail at which governments should disclose information about their tax abatements. The Board tentatively decided that the reporting government should disclose tax abatement information disaggregated between its own agreements and those of other governments. The Board tentatively decided to propose that governments be given the option to disclose information individually or in the aggregate. Further, the Board tentatively decided that a reporting government should present agreements by major program for its own abatements and in the aggregate for the abatements of other governments.

Regarding the number of tax abatement agreements (level of detail), the Board tentatively decided to propose that the amount of taxes abated in the current year be disclosed by major program for the reporting government's own tax abatement agreements and in the aggregate for tax abatement agreements of other governments. The Board also tentatively decided a disclosure of the years remaining on a tax abatement would no longer be proposed due to concerns about the practicality of disclosing the information and its usefulness when aggregated.

The Board also tentatively decided to propose that the following tax abatement disclosures—other commitments made by the reporting government, commitments made by recipients, information about provisions for recapturing abated taxes, and general descriptive information—should adhere to three general disclosure principles tentative agreed to at the July meeting.

The Board tentatively decided to propose that the reporting government should disclose the types of commitments it has made—other than to reduce taxes—as part of tax abatement agreements, and describe the most significant individual commitments. The Board tentatively decided to propose that governments disclose the types of commitments made by tax abatement recipients, by major program for a government's own abatements. The Board tentatively decided not to propose this disclosure for the tax abatement agreements of other governments.

The Board tentatively decided to propose that the tax abatement disclosures should be included as recurring notes to the financial statements as long as the agreements remain in effect, with one exception: The disclosure of other commitments made by a government would cease after the government has fulfilled its commitment.

At its August 2014 meeting, the Board discussed transition, effective date, and overall cost-benefit considerations. The Board also reviewed a first draft of the standards section of an Exposure Draft and illustrations.

Work Plan:

*Board Meetings*

*Topics to be Considered*

November 2014-January 2015:

Comment period.

March-June 2015:

Redeliberate issues based on respondent feedback.

July 2015:

Review preballot draft of final Statement.

August 2015: (T/C):

Review ballot draft and issue final Statement.

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