

Transparency & Disclosures: Tax Abatements Go Viral with GASB 77

By Miller Edwards

Introduction and Overview

In GASB's 15th year during the summer of 1999, GASB issued **Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*** which was considered to be the ultimate "be all, end all" standard for governmental financial reporting. During 2015 and early 2016, GASB issued another nine (9) pronouncements bringing the grand total up to 80 pronouncements representing 46 new standards since June of 1999. As you can see, GASB is having a great deal of fun, and based on their current projects and initiatives, the party does not appear to be ending anytime soon.

In August of 2015, GASB issued **Statement No. 77, *Tax Abatement Disclosures*** which is the subject of today's newsletter. Statement No. 77 is effective for financial statements for periods beginning after December 15, 2015, meaning for fiscal year ending December 31, 2016 forward. There are no amounts to record in financial statements, but there could be amounts to be disclosed. This statement is all about "transparency".

What are Tax Abatements?

For financial reporting purposes, this statement defines tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. Agreements can be formal or informal. Agreements have to precede the promise, construction or expansion. If taxes are abated and taxpayer has to do nothing in return, then this is considered to be a gift of the government, and no disclosures are required.

Tax abatement disclosures apply to non-exchange transactions such as property taxes, income taxes, sales taxes, etc. Such disclosures do not apply to exchange transactions that proprietary or enterprise operations may grant as reductions of customer charges.

Tax abatements are widely used by state and local governments, particularly to encourage economic development. Common purposes of tax abatement programs include:

- Increase property or tax base;
- Revitalize distressed local economies
- Retain or attract jobs, and, or companies;
- More jobs at an existing employer;
- Historical preservation;
- Brownfield cleanup; and
- Housing construction.

Our Resources

As always, we are available as a resource to you as questions arise.

Please contact any of our governmental partners and managers, at 1-800-277-0050 for assistance.

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What is Disclosed, and By Who?

This statement requires disclosure of tax abatement information about: (1) a reporting government's own tax abatement agreements; and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the specific 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 gross 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.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements.
- The specific taxes being abated.
- The gross dollar amount of taxes abated during the period.
- Amounts received or receivable from other governments in association with the foregone tax revenue.

These disclosures can be organized individually, or by governments that entered into the agreements, and the specific tax being abated.

Governments are allowed to determine and set a quantitative threshold (or scope) for reporting the tax abatement disclosures, and such levels of reporting are required to be disclosed and consistently applied from year to year. Professional judgment may center on percentage of total taxes abated or specific dollar amount abated. Ultimately, materiality is an overall key element for consideration of any disclosure.

Tax abatement agreements entered into in the past which are currently effective need to be considered until such agreements expire.

Governments that are legally prohibited from disclosing specific information required by Statement No. 77 may omit that information subject to certain requirements of the standard.

What is the Source of Such Information?

Reflecting on the nature of tax abatement agreements, some of these agreements begin with the respective states and then trickle down to the local governments. One thing for sure, there is no one method for governments to enter into tax abatement agreements. Some agreements are entered into and authorized by state governmental entities, and others go the path of local governing boards for counties, cities, boards of education, development authorities, redevelopment authorities, industrial authorities, and tax assessor's offices.

No one government administers local tax abatement agreements the same. Meaning, you have to visit with various officials in your community to determine the best source of the required information.

In Conclusion

This pronouncement may not require reporting amounts in the financial statements, but it is going to be of great interest to many respective parties. This standard has the potential to be problematic. Go ahead and make contact with your auditor and other interested governments in your community, and begin the process of aggregating the required information. Hopefully, once this standard is adopted in year 1, the succeeding years will be a little easier to report.

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Aiken, SC	Chamblee, GA	Fayette Co. BOE	Kennesaw, GA	Paulding Co., GA
Albany, GA	Charleston, SC	Fayetteville, GA	Knoxville-Knox Co. Public Bldg. Auth.	Peachtree City, GA
Alpharetta, GA	Charleston Water System	Floyd Co., GA	Lancaster Co., SC	Pensacola, FL
Americus, GA	Cherokee Co., GA	Forest Park, GA	Lee Co. Schools	Perry, GA
Athens-Clarke Co, GA	Clayton Co., GA	Forsyth Co., GA	Liberty Co., GA	Riverdale, GA
Atlanta Public Schools	Clayton Co. BOE	Fulton Co. BOE	Longboat Key, FL	Rockdale Co., GA
Austell, GA	Clayton Co. Water Authority	Ga. Environmental Finance Auth. (GEFA)	Macon Water Auth.	Rockmart, GA
Ball Ground, GA	Clayton Co., GA	Ga. Ports Authority	Marco Island, GA	Rome, GA
Barrow Co., GA	Cobb Co. Marietta Water Authority	Griffin, GA	Marietta City Schools	Roswell, GA
Beaufort, SC	Cobb Co. Schools	Gwinnett Co., GA	Milledgeville, GA	Sandy Springs, GA
Bibb Co. BOE	College Park, GA	Haines City, FL	Milton, GA	Spalding Co., GA
Bradenton, FL	Colleton Co., SC	Hamilton Co., TN	Monroe, GA	Suwanee, GA
Bristol, TN	Conyers, GA	Henry Co. Water Authority	Mount Pleasant Waterworks	Union City, GA
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	Dunwoody, GA	John's Creek, GA	Oconee Co., SC	
	Fairburn, GA		Palmetto, FL	