



GASB 77
— MODE —
**Tax abatement
disclosures**
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Introductions

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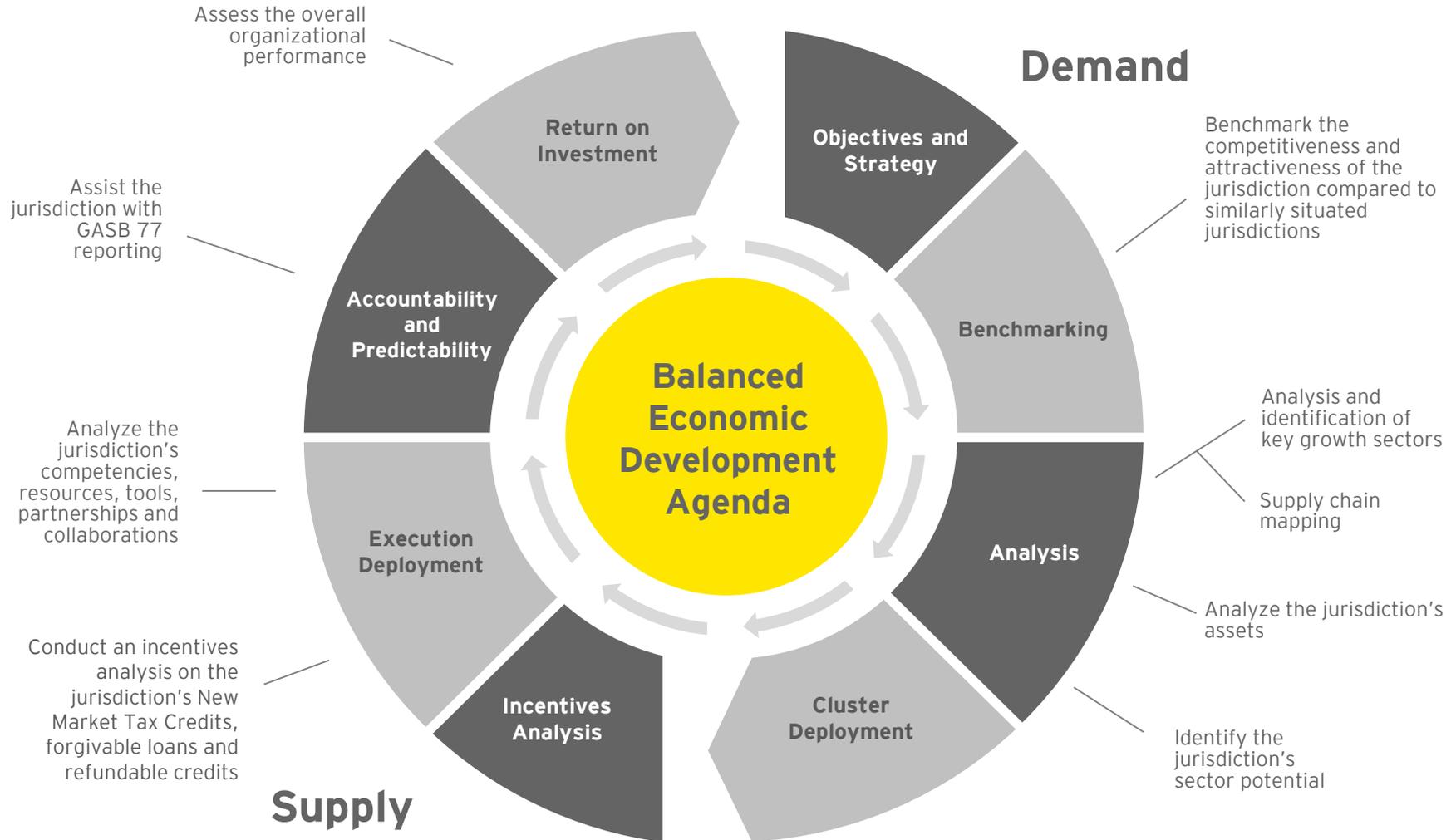
Today's agenda

- The technical stuff
- Observations
- Reporting considerations
- Ohio's Programs

The technical stuff

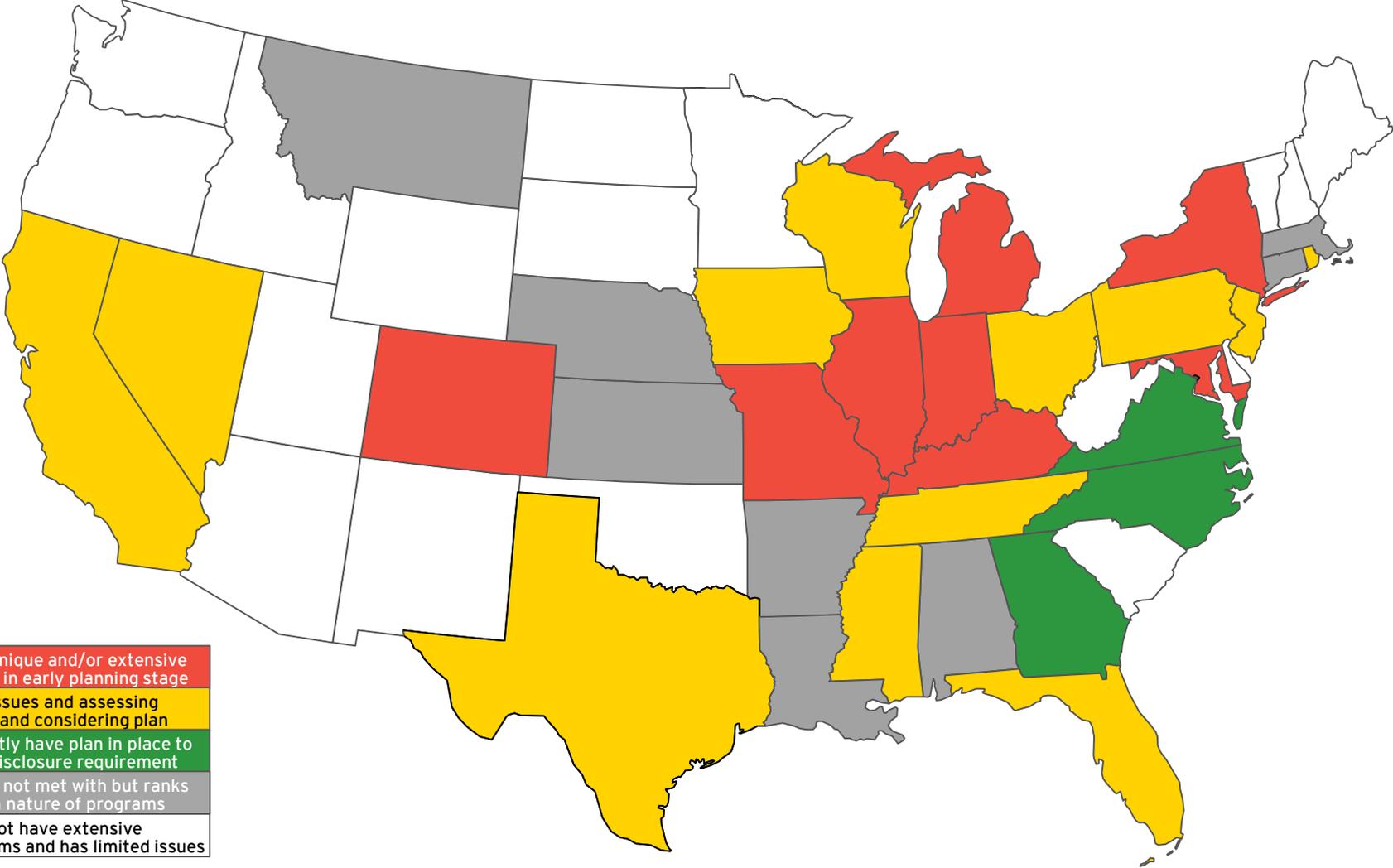


A balanced economic development agenda



Market intelligence

EY research and meeting feedback



Tax abatement disclosures

- ▶ **What?** The Governmental Accounting Standards Board (GASB) issued Statement 77, which requires disclosures about a government's tax abatement agreements
- ▶ **Why?** Information about revenues that governments forgo is essential to understanding financial position and economic condition, interperiod equity, sources and uses of financial resources, and compliance with finance related legal or contractual requirements
- ▶ **When?** Effective for periods beginning after December 15, 2015*

* Applies to notes to the financial statements for all periods presented

Statement No. 1, *Objectives of Financial Reporting*

- ▶ **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

What is a tax abatement?

- ▶ A reduction in tax revenues that results from an **agreement** between one or more governments and an individual or entity in which:
 - ▶ One or more governments **promise to forgo tax revenues** to which they are otherwise entitled.
 - ▶ The individual or entity **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.

Statement 77 scope

Applicable to transactions that include three key characteristics:

1. Purpose

- ▶ Utilized as part of economic development programs OR
- ▶ Programs that benefit a government or its citizens

2. Revenues are reduced

- ▶ Non-exchange transaction: lacks an equal exchange of value between willing parties

3. Existence of an agreement

- ▶ A promise by the government to reduce the individual's or entity's taxes and a promise from the individual or entity to subsequently perform a certain beneficial action

Challenge your readiness

Seek honest answers to tough questions

1. Do you know the universe of tax abatements offered in your state, county, and local municipalities and districts?
2. What is the accessibility of your tax abatement data? Where is it? Is it consolidated or decentralized?
3. Have you reached out to the agencies that need to give you the data? Is it electronic? Is it in hard copy? What was the turn-around time?
4. Will you need to submit an inquiry to GASB for opinions on some of your more complex agreements?
5. Are you prepared to document why some agreements were deemed NOT to apply?
6. Has your auditor spoken to you about his/her independence issues?
7. What resources can you allocate to comply with GASB 77?

Observations



Attributes of a tax abatement

- ▶ Tax abatement vs. general tax expenditure programs
 - ▶ Tax expenditure programs may include exemptions, deductions, credits, rebates, loans, transfers of capital assets
 - ▶ Less emphasis on overall tax policy
 - ▶ More emphasis on individual decisions to accept less revenue for something of value from an individual or entity
- ▶ Substance over form determination
- ▶ May or may not include tax increment financings, payments in lieu of taxes, or as-of-right agreements

The primary focus is on the amount of revenue not collected as a result of the tax abatement agreements

Agreements by governments

In the notes to financial statements, governments should disclose the following information related to tax abatement agreements they enter into:

- ▶ Brief descriptive information, including:
 - ▶ Names and purposes of the tax abatement programs
 - ▶ Specific taxes being abated
 - ▶ Authority under which tax abatement agreements are entered into
 - ▶ Criteria that make a recipient eligible to receive a tax abatement
 - ▶ Mechanism by which the taxes are abated
 - ▶ Provisions for recapturing abated taxes
 - ▶ Types of commitments made by the recipients of the tax abatements

Implementation success factors

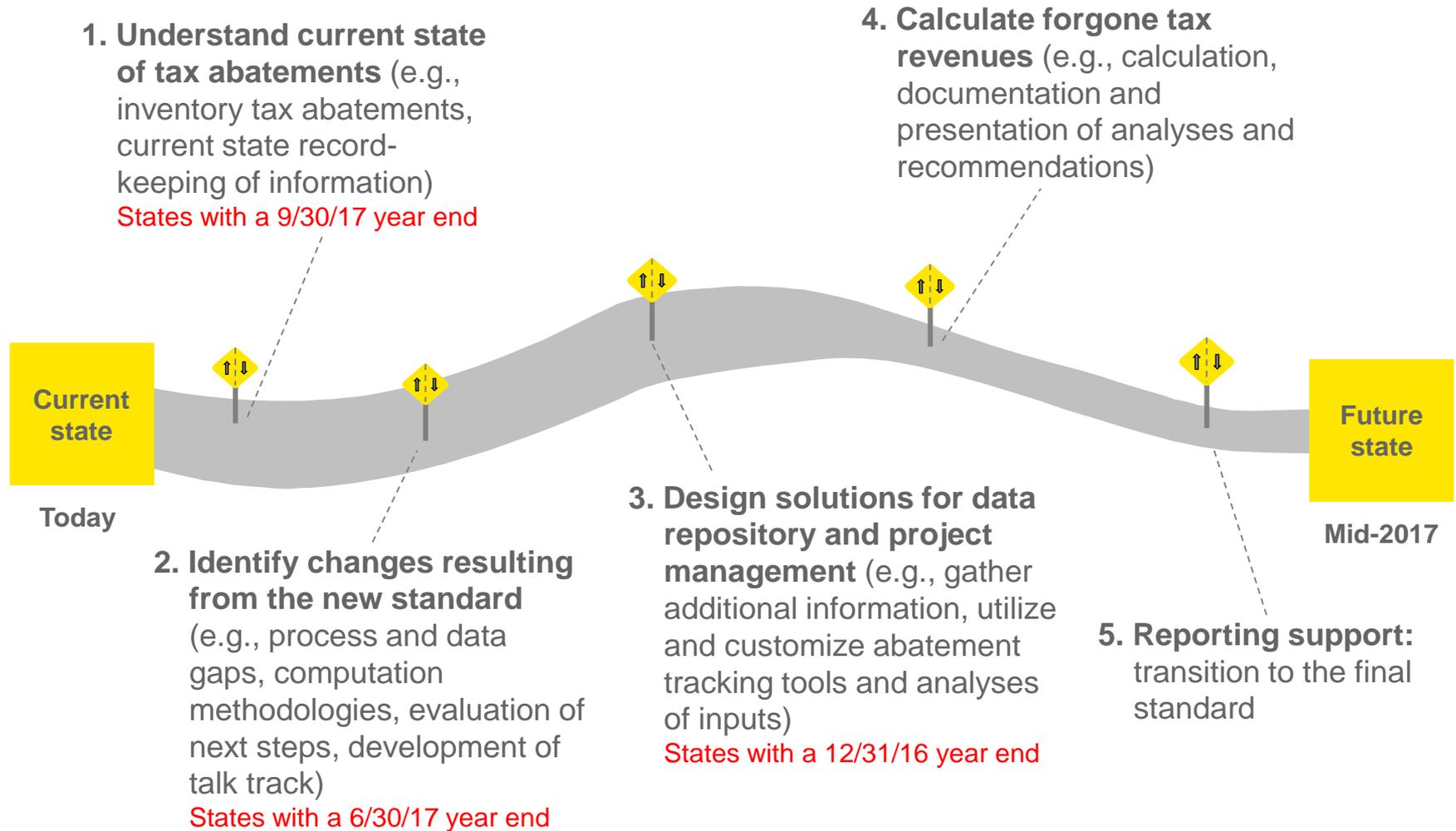
- ▶ Advanced development and initiation of an implementation plan
- ▶ Thorough evaluation of ALL tax abatements
- ▶ Securing available and knowledgeable resources
- ▶ Early and structured communications with stakeholders
- ▶ Planning and coordination with other connected governmental units
- ▶ Evaluation of technology needs and solutions
- ▶ Economic impact analyses

Implementation and compliance challenges

- ▶ Computation of the tax revenue forgone
- ▶ Differing level of record keeping and/or incomplete records due to disparate locations
- ▶ Coordination of required information
- ▶ Level of detail in disclosure and initial presentation
- ▶ Computation of tax revenue forgone for other government units
- ▶ Subjective computations

Time is of the essence

GASB 77 is effective for periods starting after December 15, 2015



Sample RFP questions we have seen

- ▶ Provide assistance with the Implementation of GASB statement 77 Tax Abatement Disclosures to include:
 - ▶ Review of current tax credit programs and agreements, and tax abatement programs and agreements to determine applicability.
 - ▶ Provide a template for the review of future agreements to determine if disclosure is required.
 - ▶ Provide a template of disclosure wording.
 - ▶ Train staff on the use of templates and applicability of the statements including:
 - ▶ The definition of full accrual for property tax revenue which is foregone and how it relates to the deferred inflow of resources recorded in the CAFR full accrual statements.
 - ▶ The definition of full accrual for income tax revenue which is foregone and how it relates to the City's fiscal year for reporting the calendar year reporting of income.
 - ▶ The definition of full accrual for income tax credits with regards to when the agreement is signed, the tax credit is determined, the credit is utilized, and the credit expires.

Continued

Sample RFP questions we have seen

- ▶ Provide Income Tax Division with recommendations and assistance with the new tax system to ensure the collection of appropriate data for the tax credits to ensure compliance with accounting standards.
- ▶ Work with the Department of Community and Economic Development to develop a program or spreadsheet to track tax abatements, complete necessary calculations and format the data in a useful manner.

Risk of delay or non-compliance

- ▶ Audit implications
 - ▶ Risk of restatement (additional cost and public scrutiny issues)
- ▶ Bond rating implications
 - ▶ May decrease or be re-evaluated if tax abatements are not correctly reported
- ▶ Covenants related to bonds or debt instruments
 - ▶ May require compliance with GASB standards
- ▶ Public scrutiny
 - ▶ Additional attention if not fully disclosed
 - ▶ May be the first time this level of detail is reported in the aggregate
 - ▶ Insufficient ability to craft positive message regarding the impact of abatements

GASB 77 – increasing the profile of financial statements

Watch dogs scrutinizing GASB 77 disclosures

- ▶ It is late 2016: Do you know where your state is on GASB 77 corporate welfare data? (10/16)

“The new standard will cause about 50,000 tax-collecting local governmental bodies to compute and report how much revenue they lose each year on tax breaks, starting with calendar 2016 financial statements and beyond.”

- ▶ <http://www.goodjobsfirst.org/blog/it-late-2016-do-you-know-where-your-state-gasb-77-corporate-welfare-data>

- ▶ New York City publishes first tax abatement report under GASB 77 (11/7/16)

“The report shows that over the past two years, 14 programs have led to a total of more than \$5.5b in forgone revenue. The vast majority of that came from programs administered by the city itself, with state-run programs accounting for about \$675m in forgone revenue.”

- ▶ <http://www.taxnotes.com/state-tax-notes/accounting-periods-and-methods/new-york-city-publishes-first-tax-abatement-report-under-gasb-77/2016/11/07/18657886>

- ▶ New government data to reveal how tax breaks for businesses leave K-12 school funding out to dry (11/16/16)

“This new data will also shine a light on inequities in education, allowing new critical examination of whether tax breaks that fill corporate coffers come is proportionately at the expense of the most disadvantaged school districts.”

- ▶ <http://www.goodjobsfirst.org/blog/new-government-data-reveal-how-tax-breaks-businesses-leave-k-12-school-funding-out-dry>

- ▶ Disclosing the Costs of Corporate Welfare (1/4/17)

“So getting the new Statement No. 77 data into spreadsheet form to be analyzed is going to be tedious in most states. But two years from now, there will be an entire new cottage industry—composed of activists, academics, and journalists—issuing powerful analyses with it.”

- ▶ http://prospect.org/article/disclosing-costs-corporate-welfare?utm_source=Prospect+article+on+GASB+77+1-4-2017&utm_campaign=Prospect+article+on+GASB+77+1-4-2017&utm_medium=email

Reporting considerations



General disclosure principles

- ▶ Disclosures should distinguish between tax abatements resulting from:
 - a) Agreements that are entered into by the reporting government, and
 - b) Agreements that are entered into by other governments and that reduce the reporting government's tax revenues
- ▶ Tax abatement disclosure information may be provided individually or in the aggregate
- ▶ Should be organized by each major tax abatement program
- ▶ Disclosure should begin in the period in which a tax abatement agreement is entered into and continue until the tax abatement agreement expires
 - ▶ If a government made commitments other than to reduce taxes, disclosure should continue until the government has fulfilled the commitment

What is not required for disclosure?

- ▶ Information that is legally prohibited from disclosure
 - ▶ However, must describe the general nature of information omitted and the source of the legal prohibition
- ▶ Names of tax abatement recipients
- ▶ The number of tax abatement agreements entered into and in effect at the end of the reporting period
- ▶ Future amounts to be abated under existing agreements
- ▶ Duration of tax abatements
- ▶ Recipient compliance with commitments
- ▶ Amount of abated taxes recaptured during the reporting period or eligible for recapture as of the end of the reporting period

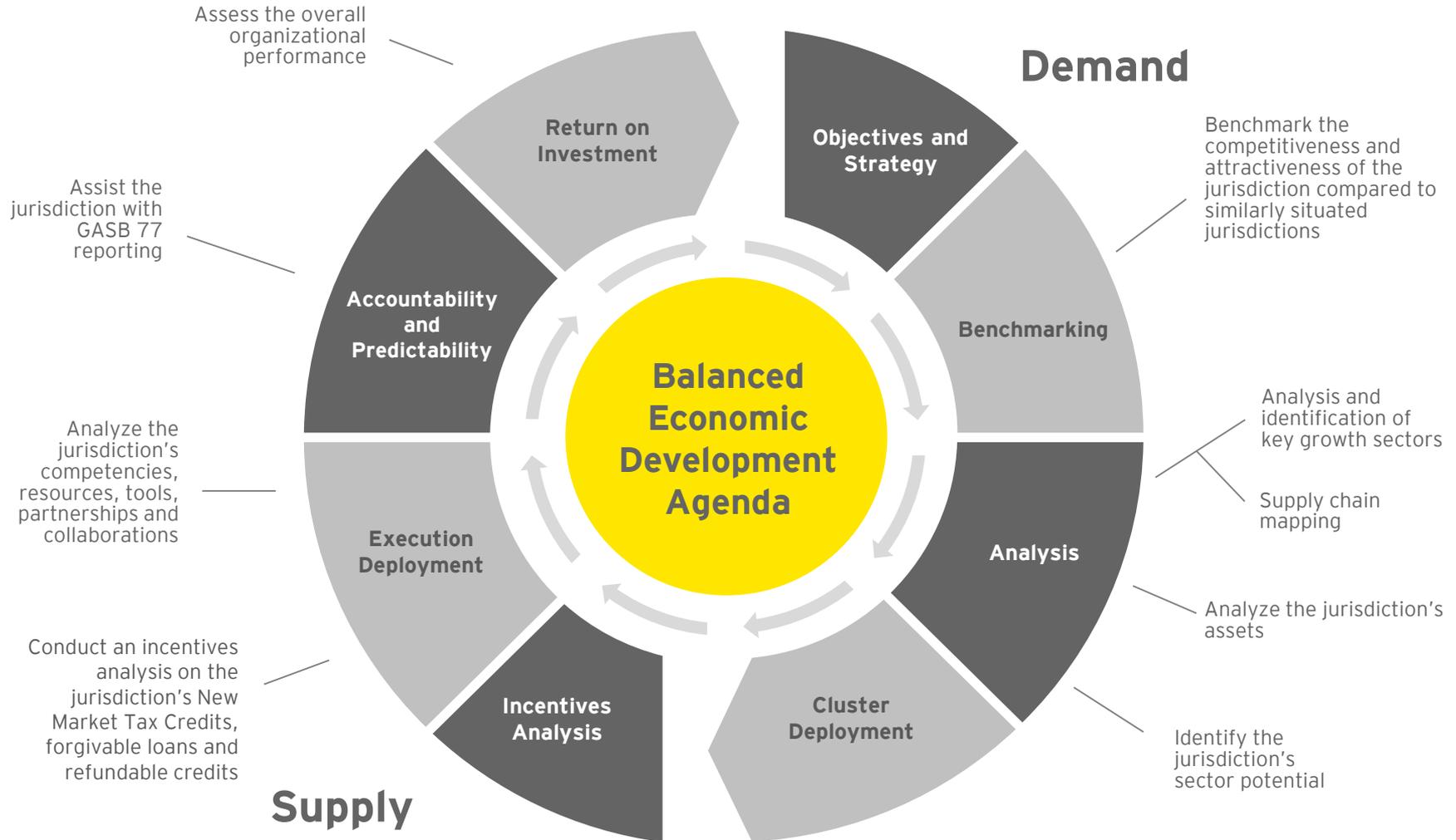
Ohio's Programs



Typical Ohio Local Incentives Programs

- ▶ Property Tax Abatements
- ▶ Job Creation Tax Credits
- ▶ Enterprise Zone
- ▶ Community Reinvestment Area Programs
- ▶ Loan Programs
- ▶ Port Authorities
- ▶ Tax Increment Financing Districts
- ▶ Business Improvement Districts

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Q&A



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The better the question. The better the answer.
The better the world works.

