



**Government Finance Officers Association**

203 North LaSalle Street, Suite 2700

Chicago, IL 60601-1210

312.977.9700 *fax:* 312.977.4806

December 16, 2014

Mr. David R. Bean  
Director of Research and Technical Activities  
Project No. 19-20E  
Governmental Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Mr. Bean:

We are writing to you on behalf of the Government Finance Officers Association of the United States and Canada (GFOA) in response to the Governmental Accounting Standards Board's (GASB) Exposure Draft (ED), *Tax Abatement Disclosures*. This response was prepared jointly by the GFOA's standing Committees on Accounting, Auditing, and Financial Reporting (CAAFR), and Economic Development and Capital Planning (CEDCP).

GFOA supports the motivation behind the exposure draft on tax abatements. Public disclosure of economic development incentives such as tax abatement programs does provide additional information as to how a government conducts its financial business. However, we do not believe that the proposed standard will contribute to this desired outcome. The ED states that by following its proposed guidance a financial statement user would be better equipped to understand the following, which would lead to improved financial reporting:

- 1) How tax abatements affect the government's future ability to raise resources and meet its financial obligations; and
- 2) The impact abatements have on a government's financial position.

GFOA believes that neither of these statements will be accomplished by this proposal. Including only a disclosure about the abated tax revenue, without any mention of the return on investment analysis that preceded it or a discussion of the benefits expected as part of this agreement, would mislead, rather than inform, the users of government financial statements. In many cases governments enter into agreements containing tax abatements that incentivize and facilitate additional growth that, but for the agreement, would not occur. If governments were to follow the proposed guidance, the disclosure would report that the government had lost revenue and, therefore, had a diminished ability to meet its obligations, when in reality, the potential for the opposite is true. While we appreciate concerns regarding the auditability of this more positive information, disclosing anything less is representationally unfaithful and disserves financial statement users.

Additionally, GFOA believes that implementation of these standards will create significant challenges for many state and local governments. For example, governments may also be prevented from disclosing the amount abated by a non-disclosure agreement with the taxpayer or by law. In addition, income tax abatements would require disclosure, contrary to state law, of what is often considered confidential information. For governments with few abatements, simply disclosing the



aggregate abatements would also mean disclosing this confidential information.

As stated earlier, GFOA understands the value in disclosing economic development incentives, including tax abatements, to the public. However, GFOA disputes that little information is publicly available on these programs. State and local governments prioritize their community goals and objectives, including those on economic development incentives, during their budget process. They present balanced budgets, which take into account these tax incentives, during budget forecasting and subsequent budget adoption. Additionally, some governments are required to file specific economic development reports with their states, which provide another publicly available disclosure. The budget, required economic development reports, and annual economic development reports often provide complete disclosure of both the incentive costs and their anticipated benefits.

While the treatment of tax abatements in the budget document, economic development document or another annual report could likely be improved to provide greater transparency, we strongly believe that these documents are the appropriate place for such information. Including tax abatement disclosures in an entity's financial statements would: 1) be difficult for many governments to implement due to the sheer volume of information; and 2) provide a misleading impression of the overall impact of a government's tax abatement programs by not taking into account the anticipated return on investment. GFOA urges GASB not to proceed with the requirements of this ED, which we believe are more appropriately displayed in budget or economic development documents.

If you have any questions regarding our position, please contact the GFOA's Director of Technical Services, Stephen J. Gauthier (312/917-6101; fax 312/977-4806; e-mail: [sgauthier@gfoa.org](mailto:sgauthier@gfoa.org)).

Sincerely yours,

William Hall, chair  
Committee on Accounting, Auditing, and Financial Reporting

Gary Donaldson, chair  
Committee on Economic Development and Capital Planning