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GASB 77: Tax Abatement Disclosures

October 7, 2016

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Agenda

- Overview of the new standard
- Required Disclosures
- Questions and Answers



Overview of the New Standard

GASB 77 – Tax Abatement Disclosures

- Effective date
 - Issued August 2015
 - Provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015. (12/31/2016, 6/30/2017, 9/30/2017)
- Objectives
 - To improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present.
 - To allow users to be better equipped to understand:
 - (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and
 - (2) the impact those abatements have on a government's financial position and economic condition.

GASB 77 – Tax Abatement Disclosures

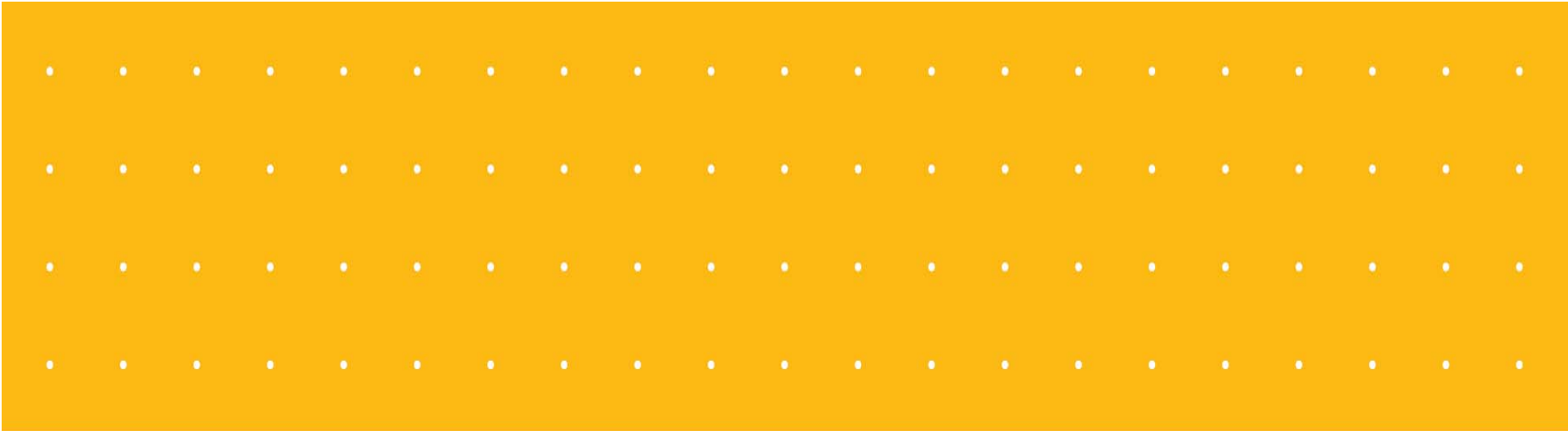
- Definition

- Tax abatement

- A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) 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.

GASB 77 – Tax Abatement Disclosures

- 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 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. The provisions of this Statement should be applied to all state and local governments subject to such tax abatement agreements.



Required Disclosures

GASB 77 – Tax Abatement Disclosures

- Required Disclosures – Tax Abatements *THEY* Enter Into

- Brief descriptive information, including:

- (1) Names, if applicable, and purposes of the tax abatement programs
- (2) The specific taxes being abated.
- (3) The authority under which tax abatement agreements are entered into.
- (4) The criteria that make a recipient eligible to receive a tax abatement.
- (5) 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
 - (b) How the amount of the tax abatement is determined, such as a specific dollar amount or a specific percentage of taxes owed.
- (6) Provisions for recapturing abated taxes, if any, including the conditions under which abated taxes become eligible for recapture.
- (7) The types of commitments made by the recipients of the tax abatements.

GASB 77 – Tax Abatement Disclosures

- Required Disclosures – Tax Abatements *THEY* Enter Into (Continued)
 - The gross dollar amount, on an accrual basis, by which the government's tax revenues were reduced during the reporting period as a result of tax abatement agreements.
 - If amounts are received or are receivable from other governments in association with the forgone tax revenue:
 - (1) The names of the governments
 - (2) The authority under which the amounts were or will be paid
 - (3) The dollar amount received or receivable from other governments.

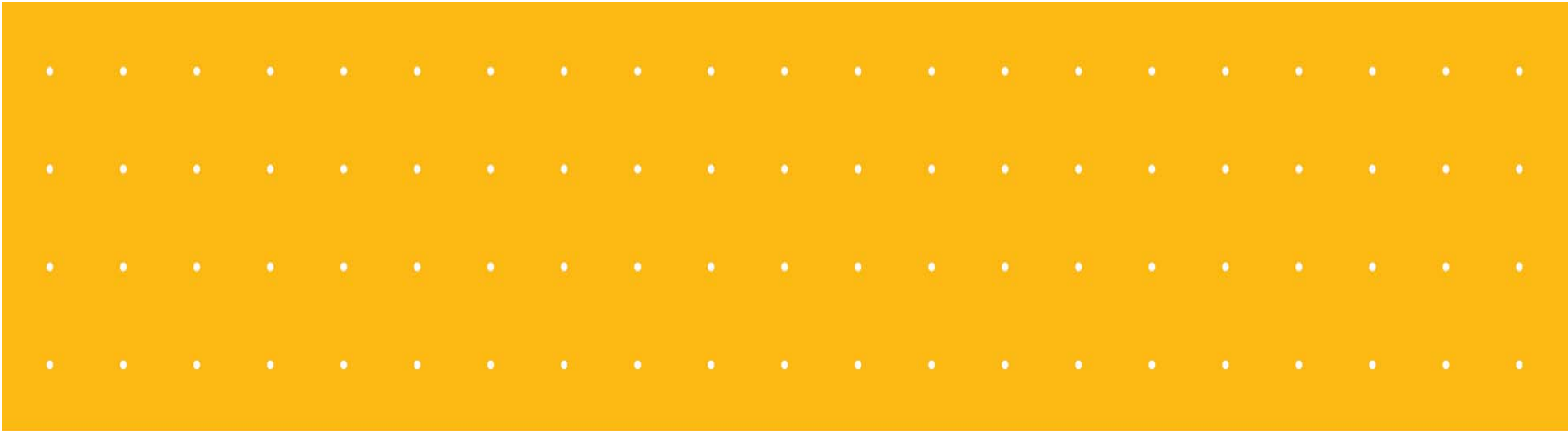
GASB 77 – Tax Abatement Disclosures

- Required Disclosures – Tax Abatements *THEY* Enter Into (Continued)
 - If the government made commitments other than to reduce taxes as part of a tax abatement agreement, a description of:
 - (1) The types of commitments made
 - (2) The most significant individual commitments made. Information about a commitment other than to reduce taxes should be disclosed until the government has fulfilled the commitment.
 - If tax abatement agreements are disclosed individually, a brief description of the quantitative threshold the government used to determine which agreements to disclose individually.
 - If a government is legally prohibited from disclosing specific information, a description of the general nature of the tax abatement information omitted and the specific source of the legal prohibition.

GASB 77 – Tax Abatement Disclosures

- Required Disclosures

- Tax abatement agreements that are entered into by a government's discretely presented component units and that reduce the government's tax revenues should be disclosed according to the provisions on slides 8 through 12 (as if the government had entered into the agreement) if the government concludes that the information is essential for fair presentation (based on the application of Statement No. 14, The Financial reporting Entity, as amended). Otherwise, such tax abatements should be disclosed according to the provision on slides 13 and 14 (as if the agreements are entered into by other governments).



Questions & Answers

GASB 77 – Tax Abatement Disclosures

- Question 1

- Q - A government utilizes tax increment financing (TIF) to encourage economic development. The provisions of the TIF agreement are (a) bonds are issued by the government to finance infrastructure improvements in a specific geographic area; (b) a baseline for sales tax revenues for the geographic area, including the proposed development, is established prior to the start of the project; and (c) the additional sales tax revenues above the baseline are specifically set aside for the payment of the bonds. Do the requirements of Statement No. 77, *Tax Abatement Disclosures*, apply to this TIF agreement?

GASB 77 – Tax Abatement Disclosures

- Question 1

- Q - A government utilizes tax increment financing (TIF) to encourage economic development. The provisions of the TIF agreement are (a) bonds are issued by the government to finance infrastructure improvements in a specific geographic area; (b) a baseline for sales tax revenues for the geographic area, including the proposed development, is established prior to the start of the project; and (c) the additional sales tax revenues above the baseline are specifically set aside for the payment of the bonds. Do the requirements of Statement No. 77, *Tax Abatement Disclosures*, apply to this TIF agreement?
- A - No. This arrangement does not meet the definition of a tax abatement under Statement 77 for several reasons. It is not an agreement with an individual or entity. Consequently, there are no individuals or entities that are required to perform any actions. Furthermore, the TI agreement does not result in a reduction of the government's tax revenues.

GASB 77 – Tax Abatement Disclosures

- Question 2
- Q - A state government shares a portion of the gas tax it collects with local governments. The state also enters into tax abatement agreements with companies that allow the companies to retain a portion of the gas taxes they collect in return for installing safer and more ecologically sensitive equipment. Those tax abatements reduce the amount of gas tax revenue that the state receives, and therefore, the amount that the state shares with local governments also is reduced. Assuming that the agreements otherwise qualify as a tax abatement under Statement 77, are both the state and local governments required to disclose information about these tax abatements?

GASB 77 – Tax Abatement Disclosures

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- Q - A state government shares a portion of the gas tax it collects with local governments. The state also enters into tax abatement agreements with companies that allow the companies to retain a portion of the gas taxes they collect in return for installing safer and more ecologically sensitive equipment. Those tax abatements reduce the amount of gas tax revenue that the state receives, and therefore, the amount that the state shares with local governments also is reduced. Assuming that the agreements otherwise qualify as a tax abatement under Statement 77, are both the state and local governments required to disclose information about these tax abatements?

- A - No. The state government would disclose information about those tax abatements because its gas tax revenues have been reduced. However, the local governments would not disclose information about the tax abatement agreements because the local government revenue that is reduced is shared revenue, which is not considered to be tax revenue.

GASB 77 – Tax Abatement Disclosures

- Question 3

- Q - A government with 25 tax abatement agreements identifies 3 major tax abatement programs that encompass 20 of those agreements. Is the government required to disclose information about the five tax abatement agreements not included in the major programs?

GASB 77 – Tax Abatement Disclosures - Example

•**Note X. Tax Abatements**

The Village enters into property tax abatement agreements with 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 a business' 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.

For the fiscal year ended June 30, 20X7, the Village abated property taxes totaling \$146,480 under this program, including the following tax abatement agreements that each exceeded 10 percent of the total amount abated: 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.

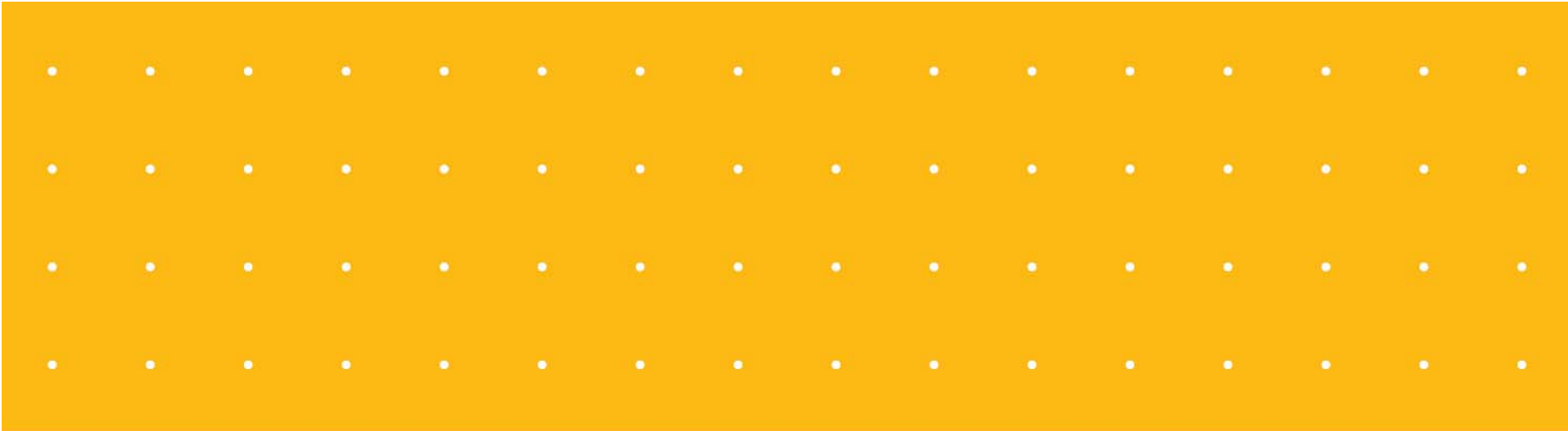
- A 50 percent property tax reduction for a local restaurant increasing the size of its restaurant and catering facility and increasing employment. The abatement amounted to \$21,750.

GASB 77 – Tax Abatement Disclosures

- Question 3

- Q - A government with 25 tax abatement agreements identifies 3 major tax abatement programs that encompass 20 of those agreements. Is the government required to disclose information about the five tax abatement agreements not included in the major programs?

- A - Yes. Information about those five agreements should be disclosed. If the tax abatement agreements for the three major programs are reported in the aggregate for each program, the remaining five tax abatement agreements should be reported in the aggregate. If, however, a government applies a quantitative threshold to disclose individually some or all of the tax abatement agreements in the three major programs, the same quantitative threshold should be applied to the remaining five tax abatement agreements.



Questions

Thank you

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