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New Rule Could Require Governments to Report Tax Incentives as Lost Income.

Corporate tax incentives have become an increasingly popular way for state and local governments to try to attract new businesses. Now those subsidies could begin affecting governments' budgetary bottom lines, under an accounting change being considered that would require reporting those incentives as lost income in annual financial reports.

On Friday, the Governmental Accounting Standards Board (GASB) issued for public comment proposed rules for requiring state and local governments for the first time to disclose information about property and other tax abatement agreements. If approved, the new disclosures could shed light on a previously murky area of government finance and provide hard data on information that has often been assembled piecemeal, if at all. Stakeholders have until Jan. 30, 2015 to comment.

"This is huge," said Greg LeRoy, executive director of Good Jobs First, a policy center that advocates for transparency in economic subsidies. "If you care about school finance or smart growth or regionalism or land use in general, this data will enable you to figure things out that were unthinkable before."

Many state and local governments currently have tax abatement programs in place, and the impact of those abatements can be substantial. But there's no way to know the magnitude or the nature of those programs just by looking at government financial statements. Efforts to track such data in the past have been initiated by third-party organizations like Good Jobs First or by media outlets. In 2012, The New York Times reported that state, county and city incentives total some $80.4 billion every year. Texas led the nation in incentives, according to the Times, offering around $19 billion annually.

"Tax abatements can significantly reduce the amount of revenue a government receives," said GASB Chair David A. Vaudt in a statement. "But in many cases, little is known publicly about their total size or their terms and conditions. What the Board has proposed would make the financial impact of these transactions much more transparent."

The proposed tax abatement disclosure requirements would include:

• The tax being abated

• Criteria that must be met for the taxpayer to be eligible for the abatement

• Provisions for recapturing abated taxes

• The types of commitments made by tax abatement recipients

• Number of tax abatement agreements

• Dollar amount of taxes abated

• Other commitments made by a government, such as to build infrastructure assets.

LeRoy said that data could have the biggest implications for school districts, which in most cases are funded by property taxes. Under the proposed disclosure requirements, part of property tax abatements whould show up as lost income for districts. Good Jobs First has released its own analysis of the requirement's implications.

"Schools are obviously the biggest losers when councils grant property tax abatements and tax increment financing agreements," LeRoy said. "Typically about half of that money would have gone to school districts."

Also of note is the provision requiring governments to report the criteria that businesses must meet for the abatement and how governments will get that money back if the goals aren't achieved, commonly referred to as clawback provisions. That requirement "puts this on the forefront of disclosures," said Justin Marlowe, a Governing contributor and a public finance professor at the University of Washington's Evans School. "The fact that they're going to make entities disclose whether they've ever done a clawback is really big and will reveal something about that jurisdiction from a policy standpoint that might not otherwise be clear."

A change of this magnitude is sure to meet resistance. GASB, established in 1984, has a history of stirring the pot with its proposed accounting standards — so much so that it was the subject of a 2009 Journal of Financial Management article that outlined the board's increasingly tumultuous role in government accountability in accounting. And in 2007, the Government Finance Officers Association went so far as to try and abolish GASB and transfer the board's responsibilities to the organization that sets accounting standards for the private sector.

Marlowe predicts strong pushback from those who would argue that reporting tax abatements isn't an accounting issue – that policymakers think of these decisions as investments, rather than a drain on finances. "But I think what GASB is saying is that state governments and others have had plenty of chances now to put this out there," Marlowe said. "A lot of what the GASB has done recently is say, 'Look, no one else is stepping up. If we have to be the ones, than that's what has to be done.'"

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