Mixed Reviews on Disclosing Tax Incentives.

While most favor increasing transparency in tax incentives, some of the biggest players in state and local government have spoken out against the latest proposal.

Back in the last century, actors, playwrights and producers of Broadway shows would linger on opening night in the famous restaurant, Sardi's, awaiting the newspaper reviews. While there are minimal similarities between the board members of the Governmental Accounting Standards Board (GASB) and the cast of My Fair Lady, they do have one thing in common: When the board decides to move forward on a project and issues a draft for public comment, there's a great deal of anticipation awaiting the thoughts of a variety of individuals and organizations with strong opinions about GASB's proposals.

The organization has recently been through that process with its recent proposal for governments to share data about tax incentive programs. GASB is the rule-making body for local government public disclosure in America. Its pronouncements form the backbone of generally accepted accounting principles.

"This proposal is trying to fill a pretty important hole in terms of understanding governments' finances," said Dean Mead, GASB's research manager. "Tax abatements are very widespread and involve a tremendous amount of money. But they're not apparent on the face of the financial statements."

According to a recent brief by the Pew Charitable Trusts, GASB is seeking required disclosure of "the purpose of the incentive," "the amount of revenue forgone during the financial reporting period," "the total number of incentives in effect and awarded during the reporting period," and "provisions for recapturing abated taxes."

Given all the interest in recent years in the use of tax incentives to attract or retain business, it seemed to us, since the proposal was first released in October, that this was a winner. We anticipated some problems for smaller governments with tight budgets that might have difficulty complying, but that's the case with most GASB proposals.

Now, back to Sardi's. The period of time for comment letters has just ended, and we've gone through two hundred plus notes sent to GASB. The vast majority of them were in favor of the proposal — some even wanted more disclosure. Then there were the comments from some of the biggest and most respected membership organizations in state and local government. A note from five of them — the Government Finance Officers Association, the International City/County Management Association, the National League of Cities, the National Association of Counties and the U.S. Conference of Mayors — indicated support for the goals of the proposal but objected the proposal itself.

The major objection cited in the comment letter was that "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" would be troublesome and would only provide "part of the story and would mislead, rather than inform, the users of government financial statements."

It's an interesting point, but the "benefits expected" from tax abatements often turn out to be far more optimistic than the benefits actually achieved. It's not uncommon for a company to promise far more job creation than actually materializes, for example. There's a real danger that mixing real forgone revenues with hoped-for savings would leave users with the false impression that tax incentives are always a worthwhile investment. Perhaps the additional disclosure could come after the fact; when the returns the state gets for its abatements have been realized in reality — not just in plan.

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