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3 Things the New Tax Incentive Disclosures Rule Won't Reveal.

Kraft Heinz announced this month that it's closing six plants across North America and eliminating 2,600 jobs. That's bad news for several states, except, perhaps, Iowa, which was able to negotiate a deal with the company to keep about a third or 1,400 jobs at its Davenport plant in exchange for more than $20 million in state and local subsidies.

It's hard in deals like these to definitively say who the winner is, particularly when Iowa's tax incentive package includes money for job retention even though the state is losing nearly 1,000 jobs. But a new rule could change that. Starting next year, Iowa and other governments have to start tracking, tallying up and reporting the tax incentives awarded on their annual financial statements as lost tax revenue. The new rule, mandated by the Governmental Accounting Standards Board (GASB), is a big step toward disclosing what has been a relatively difficult area of public finance to measure.

But there are at least three key areas the rule doesn't cover, starting with who gets the money. When it files its 2017 financial report, Iowa won't have to identify Kraft Heinz by name because the new rules only require voluntary disclosure of subsidy recipients. GASB thinks the reporting would be burdensome for reporting entities, especially if they've given out numerous awards.

But critics disagree, arguing that governments should at least be required to disclose the names of the largest recipients. One reason for this is that many believe subsidies don't generally help small, homegrown businesses flourish. That belief and the increasing occurrence of so-called mega deals between states and companies, led the advocacy group Good Jobs First to conduct a survey on how some states spend certain types of tax incentives. The survey showed that an average of 70 percent of deals states reached were with large businesses (those with more than 100 employees). Those deals represented 90 cents of every $1 in incentives a state doled out.

Greg LeRoy, Good Jobs First's executive director, says the survey gives ammunition to businesses owners who are tired of seeing their states spend money to keep or woo big business. "We're not saying don't spend money on economic development," LeRoy said. "But we've heard overwhelmingly that small business owners don't want them to allocate money in same way."

Another area the rules ignore involves how rebates are spent. Take film tax credits. While they're on the way out in many states, they remain a robust business in Massachusetts. The Bay State reasons that film tax credits attract productions that employ local workers — a boon for small businesses. But a recent examination by the Boston Herald revealed a stunning black market of sorts for Massachusetts' film tax credits. At least $335 million of the state's film tax credits were actually sold off to corporations and individuals who had little to do with the movie that won the tax credit in the first place.

So how does that work? The film tax credit is a 25 percent refund filmmakers earn if they spent at least $50,000 in Massachusetts. Many projects ultimately don't end up owing enough in state taxes to use the entire credit, so instead they transfer it to someone else who needs it. In other words, a filmmaker who earns, say, a $1 million credit can sell it to a broker for $900,000. The broker then sells it to a corporation for $920,000. The broker earns a $20,000 profit and the corporation gets a $1 million credit it can claim on its taxes. At least a dozen other states, according to the Herald, have transferable film tax credits.

Finally, a point of ire for some governments is that they have to report their subsidies as lost income. While GASB reasons that doing so gives a better picture of a government's overall financial health, the requirement will likely negatively affect a government's bottom line. While governments also report the criteria that businesses must meet for their abatement, it doesn't reflect potential income on a balance sheet. "I think a lot of governments are afraid it's only going to tell half the story," said Ted Williamson, a partner in RubinBrown's Public Sector Services Group.

The rule applies to fiscal years that begin after Dec. 15. Most governments start their new fiscal years on July 1 so the first disclosures would go out in financial reports issued in 2017.

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