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3 Steps Economic Developers Should Take to Prepare for GASB 77 Tax Abatement Disclosures.

State and local governments will soon begin disclosing financial information about tax abatements in their annual financial reports. As a reminder, the Governmental Accounting Standards Board (GASB) last year approved Statement No. 77, Tax Abatement Disclosures, which establishes guidance requiring state and local governments to disclose certain information about tax abatement agreements for periods beginning after December 15, 2015.

Economic development organizations should consider taking these three steps now to help their communities comply with disclosure rules.

1. Determine which tax incentives meet the criteria for disclosure

This rule applies only to tax abatements – it does not include all tax breaks, nor does it include other types of incentives. It is not limited to business attraction tax abatements. GASB Statement 77 defines a tax abatement as:

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 forego 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.

It is critical to note that “a transaction’s substance, not its form or title” determines whether the transaction meets the definition. In other words, it doesn’t matter what it’s called or the form it takes: if it fits the criteria, it needs to be disclosed.

However, data may be aggregated by program. Individual transactions may be, but do not need to be, disclosed.

2. Reach out to your government’s finance staff to begin sharing information

Complying with GASB 77 will likely require cooperation between the economic development organization and the government’s finance staff because, in many cases, neither will have all the information necessary to determine the financial disclosure.

The Government Finance Officers Association has similarly recommended that, “finance staff initiate communication and develop/maintain relationships with its entity’s economic development partners and/or budgetary officials charged with initiating, developing and affirming tax abatement to ensure the proper flow of information.”

3. Consider how to supplement the limited information that will be provided in the financial disclosures

The disclosure rules focus on the costs, but not the expected benefits, of tax abatements. Accordingly, it will become important for economic developers to use other outlets to provide context and detail on the reasons for the tax abatement agreements and the anticipated outcomes. At a minimum, economic development organizations should prepare to respond to questions post-disclosure about how and why incentives were used. A better strategy would be to develop additional reports or material to be reviewed alongside the financial disclosures to convey how those funds are designed to achieve the community's economic development goals.

I've written previously on the specifics of the standard, including what needs to be disclosed and what does not, so I won't repeat that here, but you can follow [this link](#) to the blog post or [this link](#) to the GASB standard itself.

Smart Incentives

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