GASB 77 Background

- Local governments employ a variety of programs and policies that reduce the taxes an individual or entity otherwise would owe, with the intent of encouraging certain behaviors, such as constructing housing in a particular neighborhood or relocating/retaining business.

GASB 77 Background

- Will make tax abatement transactions more transparent.
- Will provide financial statement users with the information necessary to assess how tax abatements affect financial position and results of operations, including the ability to raise resources in the future.
GASB 77 Background

• Provides a definition of tax abatements which is for financial reporting purposes only.
• Identifies required note disclosure related to tax abatements.

GASB 77 Background

• GASB 77 disclosure focuses on the amount of tax revenue not collected as a result of the tax abatement agreement not the economic benefit received.
• Evaluate the government's economic condition not the effectiveness of tax abatement programs.

Tax Abatement Definition

• A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which
Tax Abatement Definition

• (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and

Tax Abatement Definition

• (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.

Tax Abatement Definition

• The transaction’s substance, not its form or title, is a key factor in determining whether the transaction meets the definition of a tax abatement.
Existence of an Agreement

• Tax abatements result from an identifiable agreement between a government and a specific individual or entity.

Existence of an Agreement

• There are two components to the agreement:
  – Promise by the government to reduce taxes
  – Promise by the individual to subsequently perform a certain beneficial action

Existence of an Agreement

• The agreement may be in writing or may be implicitly understood by the government and the individual or entity.
Forgo Tax Revenue

• Specific to tax revenue
• Taxes are a non-exchange transaction
• The abatement is a separate transaction
• For an exchange transaction, the reduction is part of the exchange

Forgo Tax Revenue

• If there is a tax abatement agreement at the State level to forgo gas tax money, the local government would not disclose information about the tax abatement agreement because the local government revenue that is reduced is shared revenue, which is not considered to be tax revenue.

Individual or Entity

• Tax abatements are agreements with individuals or entities. If there are no individuals or entities required to perform an action, there is no GASB 77 abatement.
Individual or Entity

- The recipient can be a business or other type of entity, not just a person.
- The recipient might not be a current taxpayer, such as a business relocation agreement.
- The recipient may be a remitter of taxes, such as a retail business (sales tax diversion agreement).

Agreement Precedes Reduction

- GASB 77 requires the agreement precede the performance of the required action by the individual or entity.

Agreement Precedes Reduction

- Excludes tax deductions, exemptions or credits which often relate to a taxpayer’s past actions.
- For example
  - charitable donations
  - Income earned on municipal bonds.
  - Senior citizen or veterans exemptions
Transaction’s Substance

• A transaction entitled TIF or Payment in Lieu of Taxes does not automatically include or exclude the transaction from the requirements of GASB 77.

Disclosure Principles

• Disclosures should distinguish between:
  – Agreements entered into by the reporting government and
  – Agreements entered into by other governments

Disclosure Principles

• Disclosures for tax abatements may be provided individually or may be aggregated.
Disclosure Principles

• Agreements entered into by the reporting government should be organized by major tax abatement program.

Disclosure Principles

• Agreements entered into by another government should be organized by the government that entered into the tax abatement agreement and the specific tax being abated.

Disclosure Principles

• Disclosure should generally commence in the period in which a tax abatement agreement is entered into and continue until the tax abatement agreement expires.
Note Disclosure

• Brief descriptive information:
  – Name and purpose of abatement
  – Specific taxes being abated
  – Authority for the abatement *
  – Eligibility requirements *
  – Mechanism by which taxes are abated *
  – Recapture provision *
  – Commitments made by the recipient *

Note Disclosure

• Gross dollar amount (accrual basis) by which the government’s tax revenues were reduced during the reporting period.

Note Disclosure

• Amounts received or receivable from other governments in association with the foregone tax revenue.
Note Disclosure

• Any other commitments made by the government. *

Note Disclosure

• If tax abatements are disclosed individually, a brief description of the quantitative threshold the government used to determine which agreements to disclose individually.

Note Disclosure

• If information is omitted because it is legally prohibited from being disclosed, include a description of the general nature of the omitted information and the specific source of the legal prohibition.
Note Disclosure

• All preceding information is required when the reporting government entered into the agreement.
• Items with an (*) indicate disclosures not required when the abatement is entered into by another government.

Effective Date

• Effective for periods beginning after December 15, 2015.

Questions?
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Columbus, Ohio 43215
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Dave Thompson: (513) 361-8563 or
(614) 728-6475
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Columbus, Ohio 43215
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E-mail: contactus@ohioauditor.gov
www.ohioauditor.gov
Statement No. 77 of the Governmental Accounting Standards Board

Tax Abatement Disclosures

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION
Example 2-Large Government with Many Abatements, including Abatements of Other Governments

Facts and Assumptions

Model County provides tax abatements under six programs: the Residential Improvement Program, the Office of Film and Television Production Incentives, the Economic Assistance Initiative, the High-Tech Investment Program, the Competitive County Credit, and the Renewable Energy Incentive.

- The Residential Improvement Program provides property tax abatements to encourage improvements to single-family and multiple-unit dwellings. The Program is established under the auspices of a state statute (Code 14, Section 201.1) empowering cities and counties to establish such programs. The abatements equal 100 percent of the additional property tax resulting from the increase in assessed value as a result of the improvements, are administered as a reduction in the tax bill, and last for 3 years (or fewer, if the property is sold). Abatements are obtained through application by the property owner prior to commencing the improvements and require subsequent provision by the owner of proof that the improvements have been made. Because taxes are not abated until after the improvements have been made, there are no provisions for recapturing abated taxes. No other commitments were made by the County as part of those agreements.

- The Office of Film and Television Production Incentives tax abatements are intended to attract television, movie, and commercial productions. These abatements are granted pursuant to an ordinance enacted by the County Board of Supervisors (County Economic Development Act of 20X3). Production companies can apply for a refund of sales taxes on qualifying spending within the County. Production companies’ County corporate income tax liabilities are reduced by the amount of qualifying spending, up to 100 percent of the taxes owed. Production companies apply to the Office for admittance into the program in advance of commencing production. Qualifying spending is limited to three years from the date of admittance. Because taxes are abated after the qualifying spending has taken place, there are no provisions for recapturing abated taxes. No other commitments were made by the County as part of those agreements.

- The Department of Economic Assistance operates three tax abatement programs: the Economic
Assistance Initiative, the High-Tech Investment Program, and the Competitive County Credit. The Department's tax abatement programs were created through the passage of an ordinance by the County Board of Supervisors (County Economic Development Act of 20X3). The agreements entered into by the Department include clawback provisions should the recipient of the tax abatement fail to fully meet its commitments. - The Economic Assistance Initiative offers individual incentive packages to attract new businesses to the County. Abatements may be granted to any business agreeing to relocate to the County. In addition to property tax abatements for the property constructed or purchased by the new or relocated businesses, the Department also arranges for construction of certain infrastructure features that are ancillary to newly constructed facilities. One agreement involving the relocation and new construction of the central headquarters of a major corporation included a substantial commitment from the County to construct a new exit on County Highway 84 and connecting roadways. The magnitude of the County's commitments in other agreements is relatively insignificant and is generally consistent across agreements. The maximum property tax abatement is the equivalent of a 75 percent reduction of the assessed value of the property.

- The High-Tech Investment Program offers reductions in business income taxes to attract businesses in technology industries to move to the County High-Tech Industry Park (CHIP). Abatements may be granted to any technology company agreeing to move into CHIP. The abatement is administered as a credit on a company's County income tax return and equals 25 percent of the company's corporate income tax liability. The abatement begins in the year when the company begins its relocation to CHIP. No other commitments were made by the County as part of those agreements.

- The Competitive County Credit offers reductions in business income taxes to attract and retain jobs. Abatements may be granted to any business agreeing to remain in the County or to relocate to the County. The abatement is administered as a credit on a business' County income tax return and is effective beginning in the year of the agreement (for job retention) or the year when the business begins its relocation to the County (for job attraction). The amount of the abatement is based on the number of jobs retained or attracted. No other commitments were made by the County as part of those agreements.

- The Environmental Conservation Department administers the Renewable Energy Incentive to encourage businesses to invest in solar, wind, and other sources of clean, efficient energy. The program also covers investments in energy-efficient vehicles such as hybrid, electric, and
alternative-fuel cars and ancillary facilities, such as charging stations. Those abatements are provided under the authority of the State of Example's Environmental Protection Division. Companies can apply for a refund of sales taxes on spending related to renewable energy. Companies also can apply for a credit against their County corporate income tax liability for eligible spending, up to a maximum of $100,000. Companies are required to apply to the Department prior to eligible spending. Because taxes are abated after the qualifying spending has taken place, there are no provisions for recapturing abated taxes. No other commitments were made by the County as part of those agreements.

Information relevant to the disclosure of those programs for the fiscal year ended December 31, 20X1 is:

<table>
<thead>
<tr>
<th>Tax Abatement Program</th>
<th>Amount of Taxes Abated during the Fiscal Year (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential Improvement Program</td>
<td>$32,912</td>
</tr>
<tr>
<td>Film and Television Production Incentives</td>
<td></td>
</tr>
<tr>
<td>Sales Tax</td>
<td>13,435</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>12,479</td>
</tr>
<tr>
<td>Department of Economic Assistance</td>
<td></td>
</tr>
<tr>
<td>Economic Assistance Initiative</td>
<td>18,566</td>
</tr>
<tr>
<td>High-Tech Investment Program</td>
<td>9,578</td>
</tr>
<tr>
<td>Competitive County Credit</td>
<td>11,159</td>
</tr>
<tr>
<td>Renewable Energy Incentive</td>
<td></td>
</tr>
<tr>
<td>Sales Tax</td>
<td>8,157</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>4,619</td>
</tr>
</tbody>
</table>

The County also is subject to tax abatements granted by (1) the Regional Economic Development Corporation (REDC), an entity created by the County and seven other counties in the western part of the State of Example, and (2) the State of Example through its Business Relocation and Development Authority (BRDA) and the Thriving State Economy Initiative (TSEI). These programs have the stated purpose of increasing business activity and employment in the region and the state, respectively.
Under the REDC program, companies from outside the region can apply for a sales tax exemption on eligible spending related to relocating to one of the member counties. Companies accepted into the program document the sales taxes paid on eligible spending and receive a rebate, up to a maximum of $150,000. Under the state programs, companies promise to expand or maintain facilities or employment in the state, to establish a new business in the state, or to relocate an existing business to the state. Economic development agreements entered into by the BRDA and by the state through TSEI can include the abatement of state, county, local, and school district taxes, in addition to other assistance. In the case of the County, state-granted abatements have resulted in reductions of property taxes, which the County administers as a temporary reduction in the assessed value of the property involved. The abatement agreements stipulate a percentage reduction of property taxes, which can be as much as 100 percent. Information relevant to disclosure of those programs for the fiscal year ended December 31, 20X1 is:

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<tr>
<th>Tax Abatement Program</th>
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<td>State of Example:</td>
<td></td>
</tr>
<tr>
<td>Business Relocation and Development Authority</td>
<td>$15,325</td>
</tr>
<tr>
<td>Thriving State Economy Initiative</td>
<td>13,021</td>
</tr>
<tr>
<td>Regional Economic Development Corporation</td>
<td>7,657</td>
</tr>
</tbody>
</table>

The state reimburses county and local governments for one-third of the reduction in their tax revenues under these agreements, pursuant to their current biennial budget appropriation.
Illustrative Disclosure

Note Y. Tax Abatements

As of December 31, 20X1, the County provides tax abatements through six programs-the Residential Improvement Program, Film and Television Production Incentives, the Economic Assistance Initiative, the High-Tech Investment Program, the Competitive County Credit, and the Renewable Energy Incentive:

• The Residential Improvement Program provides property tax abatements to encourage improvements to single-family and multiple-unit dwellings, under State Law, Code 14, Section 201.1. Abatements are obtained through application by the property owner, including proof that the improvements have been made, and equal 100 percent of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient's tax bill.

• Under the County Economic Development Act of 20X3, two divisions of the County government administer tax abatements: - The Office of Film and Television Production Incentives provide abatements of the County's sales and corporate income tax to attract television, movie, and commercial productions. Production companies apply to the Office for admittance into the program in advance of commencing production. Production companies can apply for a refund of sales taxes on qualifying spending in the county within three years of the date of admittance. Production companies' county corporate income tax liabilities also are reduced by the amount of qualifying spending, up to 100 percent of the taxes owed.

• - The Department of Economic Assistance administers three tax abatement programs: the Economic Assistance Initiative (EAI), the High-Tech Investment Program (HTIP), and the Competitive County Credit (3C). The agreements entered into by the Department include clawback provisions should the recipient of the tax abatement fail to fully meet its commitments, such as employment levels and timelines for relocation. EAI offers individual incentive packages to attract new business to the county. Abatements may be granted to any company agreeing to relocate to the County or to establish a new business in the County. The Department abates up to 75 percent of the property tax bills through a reduction in the assessed value of the facilities that the new or relocating businesses construct or...
purchase. The Department also arranges for the county to construct certain infrastructure features that are ancillary to newly constructed facilities. One agreement involving the construction of a new office building for the central headquarters of a major corporation included a substantial commitment from the County to construct a new exit on County Highway 84 and connecting roadways and ancillary features between the highway and the building.

- HTIP offers reductions in business income taxes to attract businesses in technology industries to move to the County High-Tech Industry Park (CHIP). Abatements may be granted to any technology company agreeing to move into CHIP. The abatement is administered as a credit on a company's County income tax return and equals 25 percent of the company's corporate income tax liability. The abatement begins in the year when the company begins its relocation to CHIP.

- 3C offers reductions in business income taxes to attract and retain jobs. Abatements may be granted to any business agreeing to remain in the County or to relocate to the County. The abatement is a credit on a company's County income tax return and is effective beginning in the year of the agreement (for job retention) or the year when the business begins its relocation to the County (for job attraction). The amount of the abatement is based on the number of jobs retained or attracted.

- The Environmental Conservation Department administers the Renewable Energy Incentive to encourage businesses to invest in solar, wind, and other sources of clean, efficient energy. The program also covers investments in energy-efficient vehicles such as hybrid, electric, and alternative-fuel cars and ancillary facilities, such as charging stations. These abatements are provided under the authority of the State of Example's Environmental Protection Division. After their application and acceptance into the program, companies can file for two types of tax abatements: a refund of sales taxes on spending related to renewable energy; and a credit against their County corporate income tax liability for eligible spending, up to a maximum of $100,000.
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### State of Sample Tax Abatements

County property tax revenues were reduced by $28,346,000 under agreements entered into by the State of Sample. Under the State’s biennial budget for fiscal years 20X1-20X2, the state reimburses the County for one-third of the reduction in tax revenues. The County received $9,449,000 in County fiscal year 20X1.

### Regional Economic Development Corporation (REDC) Tax Abatements

Under agreements entered into by REDC, County sales tax revenues were reduced by $7,657,000.