

REPORTING

Note X – Tax Abatement

INSTRUCTIONS TO PREPARER

The GASB Statement 77, Tax Abatement Disclosures is effective for years ended December 31, 2016 and after. This disclosure is required only if the programs and policies affects **taxes** collected by the city/county/district. Any agreements that contribute to economic development or otherwise benefit a city/county/district but do not involve tax reduction are not a subject of this disclosure.

The disclosure is required not only for the agreements that are entered into by the reporting city/county/district, but also that are entered into by other governments (e.g., state, etc.) and that reduce the reporting city/county/district's tax revenues.

What's a tax abatement?

Governments offer various programs to lower taxes such as tax exemptions, deductions, rebates and abatements. Under the GASB Statement 77, tax abatements have a narrow definition:

Tax abatement is 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 forgo 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.*

This definition does not include programs that reduce the tax liabilities of broad classes of taxpayers (such as senior citizen exemptions) or are not the product of individual agreements with each taxpayer. The program label is not important; it's the substance of the agreement that counts. The key is whether it meets the above definition.

The agreement may be in writing, or it may be implicitly understood. But there must be an identifiable agreement between a government and a specific individual or entity.

What needs to be disclosed?

For the complete list of disclosure requirements see paragraphs 5 through 10 the GASB Statement 77, Tax Abatement Disclosures and the table below. Also, see appendix C of the Statement for illustrations. The government should report information about its own agreements separately from the agreements of other governments. Governments are not required to present information if they are legally prohibited from doing so, but that fact must be disclosed.

The Department of Revenue has posted tax abatement information applicable to local governments to its website. It is available at <https://dor.wa.gov/doing-business/information-local-governments/governmental-accounting-standards-board-gasb-statement-no-77>. This data includes state imposed sales taxes and state and county property taxes. Local governments still need to ensure proper disclosure of any other abatement arrangements as required by the GASB Statement 77.

The following is a brief summary of required disclosures. See [GASB Statement 77](#) for more information:

Brief Descriptive Information:	Government's Own Abatements	Other Government's Abatements
Name of Program	X	
Purpose of Program	X	
Name of Government		X
Tax Being Abated	X	X
Authority to Abate Taxes	X	
Eligibility Criteria	X	
Abatement Mechanism	X	
Recapture Provisions	X	
Types of Recipient Commitments	X	
Dollar Amount of Taxes Abated	X	X
Amounts Received or Receivable from Other Governments Associated with Abated Taxes	X	X
Other Commitments by the Government	X	
Quantitative Threshold for Individual Disclosure	X	X
Information Omitted due to Legal Prohibitions	X	X

What if tax revenues reduced under a tax abatement agreement are recovered from other tax payers?

In some cases where there is a tax abatement, there is no overall reduction of tax revenues to the government because the tax burden is shifted to other properties to recover it. Governments have questioned whether this is still considered a tax abatement that needs to be reported under [GASBS 77](#). Per GASB, the answer is yes. The GASB has added a new Q&A to the 2017 update to the [Comprehensive Implementation Guide](#) to clarify this.

4.39. Q – A government enters into an agreement with a manufacturing company in which the company agrees to relocate to the government's jurisdiction and the government agrees to not levy taxes on the manufacturing company's office building for a period of 10 years. The government is subject to a property tax cap that limits the growth of its total property tax levy to 2 percent per year. The full amount allowed under the cap is levied on properties that are not subject to the agreement. Therefore, the government does not expect that overall tax revenues will be reduced. Does this agreement have the characteristic described in paragraph 4 of [Statement No. 77, Tax Abatement Disclosures](#), that tax revenues are reduced as a result of the government promising to forgo tax revenues to which it is otherwise entitled?

A – Yes. As part of the agreement, the government promises to forgo tax revenues in relation to the individual or entity in the agreement. To qualify as a tax abatement agreement that is subject to [Statement 77](#), it is not necessary that the government forgo tax revenue in the aggregate. The fact that the government in this example may effectively recoup the tax revenue associated with the agreement from other taxpayers is not relevant to determining whether the agreement meets the definition of a tax abatement. If the agreement meets the other criteria in the definition of a tax abatement, the tax abatement should be disclosed in accordance with the requirements of [Statement 77](#).