



North Carolina Office of the State Controller

Financial Reporting Update

GASB 77 – Tax Abatement Disclosures – Effective for FY 2017

July 28, 2016

In August 2015, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 77, *Tax Abatement Disclosures*. GASB 77 addresses the disclosures of programs and policies of state and local governments that reduce tax revenues through agreements made with individuals or entities where the individual or entity promises to take a specific action that contributes to the economic development of the government. GASB 77 applies to the State primary government (e.g., the Department of Commerce). It does not apply to universities, community colleges, or other component units, since they do not levy taxes.

Governments employ programs to lower the taxes of broad classes of taxpayers or the taxes of individuals or entities based on the performance of specific actions. These are broadly referred to as tax expenditures. Tax expenditures include tax exemptions, tax deductions, and tax abatements. GASB 77 specifically addresses the third category, tax abatements, and does not encompass all forms of tax expenditures. The Board considered a variety of features that distinguish tax abatements from other types of tax expenditures. The following three features, in combination, set tax abatements apart from other types of tax expenditures: 1) the purpose of the tax abatement (economic development, or otherwise benefits the government or its citizens, such as historical preservation), 2) the type of revenue the abatements reduce (tax revenues), and 3) the existence of an agreement with a specific individual or entity as the basis for the abatement (the agreement may be in writing or may be implicitly understood by the government and the individual or entity).

GASB 77 is effective for the fiscal year ending June 30, 2017. The objective of the statement is to provide financial statement users with the essential information about the nature and magnitude of the reduction in tax revenues through the tax abatement programs. This will allow financial statement users to better assess 1) whether current-year revenues were sufficient to pay for current-year services, 2) compliance with finance-related legal or contract requirements, 3) where a government's financial resources come from and how it uses them, and 4) financial position and economic condition of the government and how that economic and financial position has changed over time.

GASB 77 defines tax abatements for financial reporting purposes 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 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.” (GASB 77, paragraph 4)



Emphasis should be placed on the agreement meeting the definition above, and not on the name or form of agreement. Tax abatement agreements may be in writing or may be implicitly understood by the government and the individual or entity. Such agreements may not be legally enforceable, but GASB does not believe that legal enforceability is an essential feature.

Tax abatement disclosures can be provided individually or in aggregate. The agreements should be organized by each major tax abatement program such as economic development program or a television and film production incentive program. Agencies should begin disclosing agreements in the period in which a tax abatement agreement is entered into and continue until the tax abatement expires.

The reporting entity must disclose the following information for any tax abatement agreements it holds.

- 1) Brief descriptive information
 - a. Name of the program and purpose of the program
 - b. Tax being abated
 - c. Authority to abate taxes
 - d. Eligibility criteria
 - e. Abatement mechanism
 - f. Recapture provisions
 - g. Types of recipient commitments
- 2) Gross dollar amount of taxes abated or reduced during the period, on an accrual basis, as a result of the agreement.
- 3) Commitments made by the government, other than to abate taxes, as part of a tax abatement agreement, such as build infrastructure assets.
- 4) Brief description of quantitative threshold the government used to determine which agreements to disclose individually.
- 5) If the government is legally prohibited from disclosing the specific information about the tax abatement agreement, a description of the general nature of the tax abatement information omitted and the specific source of the legal prohibition.

A new CAFR package worksheet will be developed for GASB 77 in the 2017 CAFR package.

To gain additional understanding of GASB 77, please refer to the following resources:

- 1) The GASB webpage from which to access a PDF file of GASB Statement No. 77, GASB Implementation Guide No. 2016 – 1 (GASB 77 guidance begins on page 21 of Implementation Guide, questions 4.77 through 4.83.), as well as other GASB pronouncements - [GASB Pronouncements](#)
- 2) GASB News Release - [GASB Statement Requires Governments to Disclose Information on Tax Abatements](#)
- 3) GASB In Focus - [GASB Statement No. 77, Tax Abatement Disclosures](#)

Thank you for your time and attention to this important change. OSC will continue to provide updates as the standard is implemented. Questions regarding this specific update should be directed to Elizabeth Colcord at 919-707-0526 or Elizabeth.Colcord@osc.nc.gov.