

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. 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.