January 13, 2015

Sent via email to: director@gasb.org

RE: Project No. 19-20E

Director
Governmental Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Dear GASB Director:

We write in support of GASB’s Exposure Draft on Tax Abatement Disclosures.

We also write to suggest several improvements in the scope and quality of disclosure data that your final standard will call for, and to suggest that certain kinds of economic development tax expenditures be clearly included in your definition of “tax abatements.”

We bring to this comment our diverse academic disciplines: economics, law, urban planning, public policy, business, labor education, political science, journalism and sociology. As noted in our signature lines, we have taught, published and/or consulted in economic development. We believe that government has a legitimate role in economic development and that tax expenditures can sometimes be effective tools, but we also believe that such expenditures should be transparent to taxpayers, policymakers and investors.

Regarding the specific improvements we recommend in the Exposure Draft:

Future-Year Disclosures: We recommend that GASB require tax abatement future-year obligations to also be disclosed. We believe that such information often already exists: in fiscal notes, development agreements, and/or legislative authorizations. We know that some jurisdictions have made enormous long-term tax abatement obligations that will affect their fiscal capacity for decades. Given that GASB has set out standards for long-term infrastructure depreciation and public employee pensions and other benefits, it is only consistent that tax abatement disclosures also enable an accurate analysis of future spending on economic development.

Recipient-Specific Disclosures: We recommend that GASB require recipient-specific disclosures of tax abatements. This is desirable for several reasons. If a jurisdiction has allocated the bulk of its abatements to a concentrated and small number of recipients, that is a salient fact for risk analysis. If a jurisdiction has invested heavily in low-impact projects (e.g., call centers or retailing), that is a salient fact. If a jurisdiction has made a disproportionate set of abatements to a narrow segment of employers, that is a salient fact.
Tax Increment Financing: We know from our own research and talking with local community organizations, administrators and elected officials that TIF is a costly tax expenditure that can have a major direct or indirect impact on the financial condition of cities, counties and school districts. For this reason, it would be a grave oversight if TIF were not explicitly covered by GASB’s tax abatement standard. Simply because TIF is not facially a tax reduction does not mean it should elude your definition of tax abatements.

Personal Income and Personal Sales Tax Diversions: In some states, recipients are allowed to effectively keep taxes that would otherwise be remitted by the recipients on behalf of other parties, such as employees or consumers. We recommend that GASB include such diversions in its standard tax abatement definition. They reduce government revenue for an economic development purpose, pursuant to an agreement with a taxpayer; it just so happens that a third party (another taxpayer) is the original source of the lost tax revenue. That is no reason to exclude such expenditures.

We look forward to researching and teaching about the data that your new standard will generate. Indeed, the GASB’s new standard will enable a new wave of scholarship about public finance and economic development that will greatly enrich learning and benefit the American public. This is truly a historic development, and we applaud your undertaking it.

Sincerely,

(Names listed alphabetically. Employers and other affiliations listed for identification only; the views expressed here should not be construed as views of such institutions and are attributable only to the signatories.)

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Selected by State Tax Notes as State Tax Person of the Year for 2013. Selected by the Council on State Taxation for its 2014 Excellence in State Tax Award.)

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