



January 29, 2015

Mr. David R. Bean  
Director of Research and Technical Activities  
Project No. 19-20E  
Governmental Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Mr. Bean:

The American Institute of Certified Public Accountants (AICPA) has reviewed the Governmental Accounting Standards Board (GASB) Exposure Draft (ED), *Tax Abatement Disclosures*, and is pleased to offer its comments. Overall, we disagree with the main premise of the ED which would require governments to disclose information about tax abatement agreements in the notes to the financial statements. Instead, we believe such information would be more appropriately communicated to users as part of a government's statistical section. The following section of this letter includes the rationale for our position. The final section of this letter includes one additional point that we believe the GASB should clarify before moving forward.

#### **SIGNIFICANT COMMENT**

Our disagreement with the Board's conclusion that tax abatement information should be disclosed in the notes to financial statements is based on the definitions contained in GASB Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports*. Paragraphs 35-38 of Concepts Statement No. 3 discuss notes to the financial statements and include the following important points:

*Notes to financial statements are integral to financial statements and are essential to a user's understanding of financial position or inflows and outflows of resources... In this context, "essential to a user's understanding" means so important as to be indispensable to a user (a) with a reasonable understanding of government and public finance activities and of the fundamentals of governmental financial reporting and (b) with a willingness to study the information with reasonable diligence. The use of professional judgment may be necessary for making a determination about whether an item of information is "essential to a user's understanding."*

Concepts Statement No. 3 also discusses supplementary information as another means of communication. Paragraph 46 of Concepts Statement No. 3 defines supplementary information as follows:

*Supplementary Information (SI) is supporting information that is useful for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context.*

In our view, tax abatement information more closely aligns to the definition of supplementary information. That is, we believe the information is useful for placing the basic financial statements in an appropriate economic context and not “integral” or “essential.” Paragraph B22 of the ED indicates that the users participating in GASB’s pre-agenda research believed that tax abatement information was “highly important” and that feedback was the basis for the Board’s conclusion to categorize the information as “essential.” Even considering that user feedback, when we evaluate the proposed tax abatement information against the communication definitions in Concepts Statement No. 3, we conclude that the supplementary information categorization is the best fit.

If the Board accepts our recommendation to consider the information as supplementary information, we believe the Board should amend GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1*, and suggest it be included in the revenue capacity section of the statistical section since the proposed tax abatement information will assist users in understanding and assessing the factors affecting a government’s ability to generate its own-source revenues as discussed in paragraph 6b of GASB Statement No. 44. This will also assist in evaluating how the government’s financial position and economic condition have changed over time, as the statistical section generally provides a 10-year history.

#### **OTHER COMMENT**

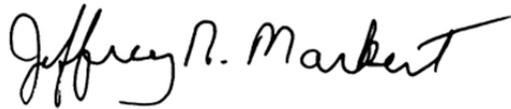
Regardless of how GASB categorizes the information (i.e., note disclosure or supplementary information), we are concerned that the ED does not adequately define tax abatement situations in which shared revenues are the source of the abated revenue. The ED appears to define tax abatement revenues as only those revenues meeting the definition of derived tax revenues or imposed nonexchange revenues contained in GASB Statement No 33, *Accounting and Financial Reporting for Nonexchange Transactions*, but excludes shared revenues at the local government level as these are defined as voluntary or government-mandated nonexchange transactions pursuant to GASB Statement No 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*. Many local governments consider these shared revenues, especially sales tax revenues, to be their own derived revenues. We recommend that GASB clarify whether shared revenues that are abated are intended to be included in the scope of this ED.

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The AICPA appreciates the opportunity to comment on the ED. This comment letter was prepared by members of the AICPA's State and Local Government Expert Panel and was reviewed by representatives of the Financial Reporting Executive Committee who did not object to its issuance. Representatives of the AICPA would be pleased to discuss these comments with you at your convenience.

Sincerely,



Jeffrey N. Markert  
Chair  
AICPA State and Local Government  
Expert Panel



Mary M. Foelster  
Director  
AICPA Governmental Auditing and  
Accounting

cc: State and Local Government Expert Panel  
Jim Dolinar  
Dan Noll