

Office of Statewide Reporting and Accounting Policy

State of Louisiana

Division of Administration

JOHN BEL EDWARDS
GOVERNOR



JAY DARDENNE
COMMISSIONER OF ADMINISTRATION

June 14, 2017

OSRAP MEMORANDUM 17-23

TO: Fiscal Officers
All State Entities

FROM: Afranie Adomako, CPA
Director

SUBJECT: Implementation of Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosure* (Effective FY 2017)

In August 2015, GASB issued Statement No. 77 (GASB 77), *Tax Abatement Disclosures*, which establishes financial reporting standards for tax abatement agreements entered into by state and local governments. Tax abatements are widely used by state and local governments to encourage economic development. GASB 77 focuses on the amount of tax revenue that is not collected as a result of tax abatement agreements, and is aimed at informing the public about how these tax abatements affect governments.

Tax Abatements as defined for purposes of GASB 77 include the following three elements.

1. An identifiable agreement between one or more governments and an individual or entity.
 - ❖ The agreement should include a promise by the government to reduce the individual's or entity's taxes and a promise from the individual or entity to perform a certain beneficial action.
 - ❖ The agreement may or may not be a written agreement, and it may or may not be legally enforceable.
 - ❖ The agreement precedes the reduction of taxes and the fulfillment by the individual or entity of the promise to perform the beneficial action.
2. A reduction of a government's tax revenues that the government would otherwise be entitled to receive.
 - ❖ The method of the reduction of the tax revenues will vary. For example, a tax payer with a tax abatement may receive a tax bill that is net of the abated amount, or there could be a reduction of the taxable assessed value of a property or there could be a direct reduction in the tax obligation. The reduction of some types of tax revenues

takes place later in the fiscal year because the amount owed is not known until later such as with income and sales tax revenues.

3. A contribution to economic development or a benefit to the governments or the citizens of those governments.
 - ❖ Economic development programs are designed to achieve goals such as:
 - increasing the property or other tax base
 - revitalizing local economies
 - retaining or attracting jobs, companies in particular industries, or a specific company
 - increasing the number of persons employed by existing employers
 - ❖ Other purposes that benefit a government or its citizens, such as:
 - historical preservation
 - environmental incentives
 - brownfield cleanup
 - housing construction

GASB 77 applies to transactions that include all three of these elements and refers to them as tax abatements for purposes of financial reporting. This statement does not apply to transactions that lack one or more of these three elements. **A transaction's substance, not its form or title, is a key factor in determining whether the transaction meets the definition of a tax abatement for purposes of GASB 77.**

GASB Statement No. 77 requires disclosure of tax abatement information for (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments that reduce the reporting government's tax revenues. Governments that are legally prohibited from disclosing specific information required by GASB 77 may omit that information, however, a description of the general nature of the tax abatement information omitted and the specific source of the legal prohibition must be disclosed.

Information about tax abatements agreements should be disclosed in notes to the financial statements. Note disclosures are required in the period in which a tax abatement agreement is entered into and continue until the tax abatement agreement expires. If a government made commitments other than to reduce taxes as part of a tax abatement agreement, a description of the types of commitments should be made, as well as, a description of the most significant individual commitments made. Information about a commitment other than to reduce taxes should be disclosed until the government has satisfied the commitment.

GASB statement 77 is effective for reporting periods beginning after December 15, 2015 which would include fiscal years ending 12/31/16 and 6/30/17. For additional information, including the complete GASB 77 statement, see the [GASB's website](#). You may also contact Ms. Tonia Jackson at (225) 342-8090 or via email at Tonia.Jackson@la.gov with any questions.

AA:tj