

Are You Sure We Don't Have Tax Abatements?

Author : Gregory Allison

Categories : [Appraisal](#), [Assessment](#), [Budgeting](#)

Date : October 10, 2016

Tax Abatement, visual by Ruth Lerner

I'm here to help alleviate fears. In August 2015, the Governmental Accounting Standards Board (GASB) issued [GASB Statement No. 77, Tax Abatement Disclosures](#). The guidance, which if it were applicable to North Carolina governments, would be effective for fiscal year end June 30, 2017. The requirements are relatively simple – if a government has any tax abatement agreements, as defined in the standard, there are certain note disclosure requirements that must be made regarding the agreement(s). A tax abatement is defined in the standard as follows:

...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 forego tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or citizens of those governments.

Whew! That is a lot of words for something that does not apply to local governments in North Carolina! So why am I dredging this up again (more on that in a second)? I actually wrote a blog

for the School of Government's [Community and Economic Development blog](#) that was posted on January 16, 2016, and was entitled [What are Tax Abatements and What Must State and Local Governments Disclose in Financial Reporting?](#) There I described, in glorious detail, how tax abatements were defined, what the reporting requirements of the standard were and how it would not be effective for local governments here (with some very few possible exceptions that are completely unusual cases – we always have to hedge a bit!). But, without repeating the blog here, it was made clear that *as currently defined*, the North Carolina Constitution prohibits such arrangements.

So, again, why am I bringing this up again? We are still getting questions regarding certain arrangements that local governments across the state may have entered into for economic development incentive purposes that, to some, look and smell like a tax abatement. In fact, I am aware of some professional presentations that have been made at national conferences that suggest that some of these arrangements are really abatements. Let's look at an example of what gets questioned.

One relatively common arrangement we see in North Carolina is where a local government may enter into an economic development incentive arrangement with a new or even existing corporate citizen. For example, assume that the local government offers to provide a funding incentive to a new company by agreeing to pay a certain amount at a future date, contingent upon the company creating 50 or more new full-time jobs in the community within an agreed-upon timeframe. The amount may or may not be similar to the actual amount of property tax that the company pays. But that is the catch! The company still has to pay its property tax when it is due! Local governments may *not* forgive that, waive it, etc. because the North Carolina Constitution does not give them that authority. But, you ask, what about the fact that one year down the road, that same company may get an amount similar (or even the same) back as an incentive payment for meeting their obligation? So what? First, the tax was *not* an abatement as currently defined. Secondly (and just as importantly), the latter payment is a separate budget appropriation that has full transparency by being vetted and approved during that process.

So, we do not have the disclosure requirements as per GASB Statement No. 77 to be concerned about. Of course, that does not prohibit a government from disclosing as much information about any economic development incentive arrangements as they desire. And, while the voluminous note disclosures are typically not considered a riveting read (unless one has no life), public officials may believe it is information that should be highlighted. That is perfectly fine...but it is not required.