



## Statewide Accounting Policy & Procedure

<b>Accounting Manual Reference:</b> Section: Financial Accounting and Reporting Policies & Procedures Sub-section: Special Accounting Transactions Policy Title: Tax Abatements	<b>Effective Date:</b> 07/01/2016 <b>Revision Date:</b> 07/01/2021
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### **Accounting Policy Summary:**

Tax abatements are used by state and local governments, particularly to encourage economic development. Certain information relating to tax abatement agreements should be disclosed in the notes to the financial statements prepared in conformity with generally accepted accounting principles (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB), unless legally prohibited.

### **Accounting Policy and Requirements:**

Tax abatements generally reduce tax revenues, and are distinguished from other broader tax exemptions, based on the purpose of tax abatements, the type of revenue they reduce, and the existence of an agreement. Tax abatement agreements consist of at least two components: (1) a promise by the government to reduce the individual's or entity's taxes and (2) a promise from the individual or entity to subsequently perform a certain beneficial action.

Tax abatements disclosures provide additional information relating to: (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. However, specific information relating to tax abatement agreements may be omitted from the notes to financial statements if there are legal prohibitions.

### **General Accounting Procedures:**

The following procedures are used by organizations in the State of Georgia reporting entity to meet the requirements for statutory and GAAP reporting purposes.

### **Statement Presentation and Disclosure Requirements**

Tax abatement disclosures should distinguish between tax abatements resulting from agreements that are entered into by the state government and agreements that are entered into by other governments which then reduce the reporting government's tax revenues. Information may be presented individually or in aggregate and should be organized by each major tax abatement program.

Brief descriptive information relating to tax abatement agreements required to be disclosed, include such information as:

- Names, if applicable, and purposes of the tax abatement programs.
- Specific taxes being abated.
- Authority under which tax abatement agreements are entered into.
- Criteria that make a recipient eligible to receive a tax abatement.
- Mechanism by which the taxes are abated.
- The gross dollar amount, on an accrual basis, by which the government's tax revenues were reduced.

However, if the organization is restricted by legal prohibitions, information on tax abatement agreements should not be disclosed in the notes to the financial statements. Instead, the general nature of the tax abatement information omitted, and the source of the legal prohibition should be disclosed in the notes.

**Authority:**

- Official Code of Georgia Annotated (OCGA) 50-5B-3 – Duties of the state accounting officer include:
  - Prescribing state-wide accounting policies, procedures, and practices;
  - Prescribing the manner in which disbursements shall be made by state government organizations;
  - Developing processes and systems to improve accountability and enhance efficiency for disbursement of funds and management of accounts payable;
  - Determining the proper classification for accounting and reporting purposes of all assets, liabilities, revenues, expenditures, fund balances, funds, and accounts in compliance with legal requirements and generally accepted accounting principles and prescribe a uniform classification of accounts and other accounting identifiers which shall be used by all state organizations.
- OCGA 50-5B-4(b) – Duties of the state agencies with respect to SAO.
  - All organizations of state government and all officers, agents, and employees thereof shall conform to and comply with the rules, regulations, policies, procedures, and forms devised, promulgated, and installed by the state accounting officer.
- OCGA §48-2-15 – Office of deputy state revenue commissioner
- OCGA §48-7-60 – Confidentiality of tax information; exceptions; authorized inspection by certain officials; conditions; furnishing information to local tax authorities; conditions; furnishing information to nonofficials; conditions; effect of Code section.
- GASB 77, *Tax Abatement Disclosures*
- 26 U.S.C §6103 – Confidentiality and disclosure of returns and return information.

**Applicability:**

This accounting policy applies to all Organizations included in the State of Georgia reporting entity. The term 'organization of state government' shall mean, without limitation, any agency, authority, department, institution, board, bureau, commission, committee, office, or instrumentality of the State of Georgia. Such term shall not include any entity of local government, including, but not limited to, a county, municipality, consolidated government, board of education, or local authority, or an instrumentality of any such entity. At these reporting organizations, all personnel with accounting and financial reporting responsibilities

should be knowledgeable of this policy. Refer to the *Management Responsibilities* policy for a summary of general financial reporting responsibilities.

**Definitions:**

***Tax Abatement*** - 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.