New accounting standards may not yield specific information on state and local economic projects as some have touted.

The standards, set by the Governmental Accounting Standards Board, encourage – but do not require – state and local governments to report individual tax abatement deals.

The standards allow governments to report the total amount of tax abated by category. There is no requirement to list the number of abatement deals, whether the companies have complied with their portion of the deal or when the tax abatement expires.

Even if a state or local government opts to disclose individual deals, they set their own thresholds for disclosure.

While the accounting board says aggregating all tax abatement agreements “would significantly reduce the usefulness of disclosures,” state and regional officials interviewed by The Herald said they would likely opt for a total amount abated rather than individual entries.

Kevin Yokim, the finance director in Florence County who has been closely studying the standards, said listing tax abatement individually could affect local economic development efforts.
But State Comptroller Richard Eckstrom said even if there are only a few abatements to report – and that information could identify specific taxpayers – “that’s the risk we have to take.” Still, Eckstrom said he is sensitive to the balance between full disclosure and “imperiling the success of our economic development efforts.”

Eckstrom’s office supervises state spending, keeps the state’s books and maintains accounting controls over state agencies. It also offers accounting advice to state agencies and local governments.

The intent of the standards, said the accounting board, is not to provide a comprehensive look at incentives or to determine the effectiveness of a tax abatement but to show how abating taxes affect a government’s financial position.

If an economic deal is successful, the tax revenue it generates would be included in a county’s revenue statement but not specifically broken out, according to the accounting board.

As an accounting standard, what is disclosed will be in a footnote to an annual audit. To counter the impact the footnote – which could have a large number of abated tax revenue – government officials could include the benefits of their economic development efforts in the management letter that accompanies an audit.

So far, the recently released standards are causing confusion, not clarity, among local officials such as treasurers, auditors, administrators and economic developers as they try to determine what they are required to do. State agencies such as the departments of revenue and commerce are also studying the issue.

“The deeper you get into the standard, it becomes less and less clear,” said Robert Croom, deputy counsel for the S.C. Association of Counties. The association, along with the S.C. Department of Revenue, is expected to hold workshops to help county officials understand what is required.

**Interpreting the standard**

The Herald asked GASB officials whether tax increment financing agreements – such as the one for the proposed development of Rock Hill’s Knowledge Park – would be covered by the new standard. A reference in the statement says that tax increment financing agreements could be covered.
Eckstrom interprets the standard differently. Because tax increment financing arrangements are intergovernmental – the Knowledge Park one involves Rock Hill, the Rock Hill school district and York County – and not specific deals, they would not meet the standard, he said.

In an email to The Herald, GASB said of tax increment financing arrangements, “if they don’t meet the definition in the statement, they are not covered.”

The GASB statement says, “for financial reporting purposes, a tax abatement is defined as:

“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.

“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 the purposes of this statement.”

**Exempt tax credits**

Another email covered the variety of tax credits the state offers as economic development incentives. The job development credit rebates a portion of an employee’s withholding tax back to the employer. Jobs tax credits can reduce a company’s state corporate income tax by 50 percent. Companies that use the port of Charleston can get tax credit against income taxes or withholding taxes if their cargo volume increase by 5 percent a year.

These and similar credits available to all companies are “generally exempt” from the new standards, but there are “narrow circumstances” when the new standard would apply, according to GASB.

“For a credit available to everyone to apply under (the standard), it would have to be that the recipient would have to apply for something before being able to take advantage of it. Short of that, (the standard) would not apply,” according to GASB.

A couple of things are clear.
Fee-in-lieu agreements and special source revenue credits are covered under the standard. In a fee agreement a county agrees to reduce a business’ property tax over a period of time. The fee agreement often sets the property tax rate for the life of the agreement, usually 20 years.

In York County there are more than 60 such agreements. The county could not provide an exact number to The Herald.

A special source revenue credit is a rebate of a percentage of the fee agreement payments for a negotiated period of time.

Both incentives are usually based on projected investment and the number of jobs the company will create. They are the primary tool of county economic developers.

Both agreements reduce the amount of tax collected from a company. According to the new standard, counties will be required to report the purpose of the incentive, the criteria for awarding it and amount of revenue forgiven. If a government gives the company grants to buy or improve land or other direct financial incentives these must be disclosed in the audit footnote. State grants to counties to build roads or other infrastructure improvements most also be included in the footnote.

‘Good first step’

The standards will apply to South Carolina and local governments audits for the 2016-2017 fiscal year that ends June 30, 2017. Audits are generally released months after the fiscal year ends.

Burnie Maybank, a former director of the S.C. Department of Revenue and now an attorney specializing in economic development, said the standards might yield little results for the amount of time they require.

Eckstrom, who has advocated for more transparency in all government finances, said the standards are a good first step.

“What did you give, what you get is not the primary purpose of GASB,” Eckstrom said, “But over time disclosure should improve. The standards reflect a reasonable way, and they are more than what you have seen in the past.”

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