

January 20, 2015

Director

Governmental Accounting Standards Board

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RE: Project No. 19-20 E

New Mexico Voices for Children (NMVC) is a member organization of the State Priorities Project, an initiative of the Center on Budget and Policy Priorities. NMVC appreciates the opportunity to comment on the proposed statement of the Governmental Accounting Standards Board regarding Tax Abatement Disclosures.

NMVC understands that:

‘For financial reporting purposes , this proposed Statement defines a tax abatement as resulting from an agreement between a government and a taxpayer in which the government promises to forgo tax revenues and the taxpayer promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.’

The definition of ‘tax abatement’ would apparently include several very important tax abatement programs in New Mexico. Two of these programs are the County and Municipal Industrial Revenue bond programs, which bundle tax-exempt financing with property tax exemption. The County Industrial Revenue Bond (IRB) program is authorized by Chapter 3 Section 32 NMSA 1978 and the Municipal Industrial Revenue bond program is authorized by Chapter 4 Section 59 NMSA 1978. The private-activity bonds issued by the local governments are exempt from taxation and the properties purchased with the proceeds of the bonds are owned by the local governments and are therefore exempt from property taxation.

This exemption from property taxation impacts the financial health of the local government and can impose a significant burden on the remaining taxpayers in the local government area. The erosion of the property tax base can necessitate increasing other taxes, especially sales taxes, as in the current situation of Bernalillo County, the New Mexico’s most populous county. The county and municipal bond programs are operated by local governments and there is currently no centralized repository of information on IRBs issued by local governments in New Mexico. A GASB requirement that local government bonding-abatement programs be subject

to financial disclosure would be an important contribution to governmental transparency in the state of New Mexico, which is a primary goal of NMVC.

Similar considerations apply to Tax increment Development Districts under the Tax Increment Law Chapter 3–60A Sections 19 through 25 NMSA 1978. Because of the necessity for a TIF agreement between a government and a developer (indeed, they require an enactment by the state Legislature for each new district) we would expect that TIDDs would be covered by the proposed GASB standards. However, because tax increment financing is not facially a tax reduction but instead a diversion of taxes that directly benefits only one or more designated taxpayer(s) we are concerned that the wording of your abatement definition would miss covering TIDDs.

Since tax abatement agreements may be in writing or may be implicitly understood by the government and the taxpayer, the proposed definition of a tax abatement would apparently cover virtually all existing economic development abatements under the disclosure requirements of the Statement of Governmental Accounting Standards. That is because economic development tax abatement programs in New Mexico are administered under the Tax Administration Act (Chapter 7 Taxation NMSA 1978) and the administration of the economic development incentives is typically through filing a form developed by the Taxation and Revenue Department. The following economic development abatements are examples of abatements authorized by statute and administered directly under provisions of the Tax Administration Act. These abatements given are given as illustrations, and are not an exhaustive list of all of the abatements offered by the state of New Mexico under its varied and far-flung tax abatement programs. Because the benefits of these and many other economic development abatements are provided under a tax abatement agreement that is implicitly understood by the government and the taxpayer, the proposed standards would require that these economic development abatements be disclosed. Several of the following representative economic development tax credits have been claimed by only a few taxpayers: Rural Job Tax Credit (11 claimants); Investment Credit 9102 claims; Laboratory Partnership with Small Business (7 claims); Affordable Housing Tax Credit (9 claims). This shows that there is an implicitly understood agreement between these few taxpayers and the government agency.

Representative Economic Development Abatements in New Mexico
Fiscal year 2012

	Number of Applicants	Estimated Cost
Venture Capital Investments	63	\$382,000
Rural Jobs tax Credit	11	\$226,000
Film Production Tax Credit	41	\$9,494,000
Investment Credit	102	\$1,468,000
Laboratory Partnership	7	\$4,383,000
Technology Jobs Tax Credit	286	\$6,695,000

High Wage Jobs Tax Credit	242	\$24,200,000
Research and Development	9	\$56,100

Source: New Mexico Tax Expenditure Study 2013, New Mexico Tax Dept.

In summary, the proposed standards would help to illuminate the area of county and municipal industrial revenue bonds. The proposed standards would hopefully improve the transparency of Tax Increment Financing. In addition the economic development tax abatements administered under the state's Tax Administration Act would apparently be covered given the presence of an implicit agreement. These would all be a positive steps from the point of view of NMVC.