

Discussant Comments:

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The Relevance and Pricing of Non-Income Tax Relief

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Financial Reporting and Auditing Session

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Overview of the Paper

- *Research question:* Do non-income tax relief awards provide economically important information about future firm performance and expected returns?

Overview of the Paper

- *Findings:*

- ◆ Firms with the most non-income tax relief have significantly higher future performance than those with the least.
- ◆ The market appears to significantly underweight the information in these awards.
- ◆ Increased voluntary financial statement disclosure about non-income tax improves the pricing of non-income tax relief.
- ◆ Non-income tax relief awards reflect local jurisdictions' ability to uncover economically important information about future firm performance.

Overview of the Paper

- Timeliness of the topic: Non-income tax relief continues to expand as governments (U.S., state, and local) vie for increases in jobs and infrastructure in the locales.

Gov. Rick Snyder on Wednesday signed into law a package of bills aimed at fostering job creation in the state.

*Snyder officially signed the “**Good Jobs for Michigan**” legislation at a field on Hamlin near Adams. City officials said the field of 100 acres was once a softball center and is currently available for development.*

“We didn’t have a tool for larger company opportunities,” Snyder said. “And in some cases, we weren’t put on the list for consideration. By having this tool in our tool box, we’ll now be much more in consideration and have many more opportunities.”

Overview of the Paper

- The nature and size of the non-income tax relief often is not reported by either the government or the recipient.

NOW IT CAN BE TOLD: *The incentive packages that states, cities and counties were offering Amazon to host its second headquarters have been largely veiled in secrecy. But the company's decision to split the HQ, and its 50,000 jobs, between Arlington's Crystal City and Long Island City in Queens has pulled the veil back a bit. To wit: The state of New York will provide \$1.2 billion in tax credits and a \$325 million capital grant; the company also plans to apply for up to \$1 billion in other incentives through NYC programs, POLITICO New York's Dana Rubinstein reported. In Virginia, state and county officials will fork over \$573 million in cash grants, the Technology team's Steven Overly reported. Tennessee will provide a \$21.7 million tax credit to offset franchise and excise taxes for an "Operations Center of Excellence" in Nashville, the company said in a blog post announcing the deals.*

Overview of the Paper

The tax incentive offered by New York will come in the form of a refundable tax credit “calculated as a percentage of the salaries Amazon expects to pay employees over the next 10 years, which equates to \$48,000 per job for 25,000 jobs with an average wage of over \$150,000,” Amazon said. Arlington’s cash grant will come from expected growth in revenue from its hotel room tax. The city will also “dedicate an estimated \$28 million based on 12% of future property tax revenues earned from an existing Tax Increment Financing (TIF) district for on-site infrastructure and open space” in Crystal City, Amazon said. The company offered no explanation for the wide difference in incentives between the two cities, though it presumably has to do with higher taxes and other expenses in New York City.

Overview of the Paper

While New York and Virginia officials hailed Amazon's decision as an economic coup for their regions, naysayers came out of the woodwork. "The arrangements have drawn the ire of Amazon critics including incoming Rep. Alexandria Ocasio-Cortez, whose district neighbors Long Island City," Steven reported. "Amazon is a billion-dollar company," she tweeted late Monday night. "The idea that it will receive hundreds of millions of dollars in tax breaks at a time when our subway is crumbling and our communities need MORE investment, not less, is extremely concerning to residents here."

POLITICO's Morning Tax, 11/14/18

Overview of the Paper

- The Challenge: Governments and aid recipients are not required to disclose non-income taxes (relief).
- Income tax relief is required to be reported in the financial statements as part of the rate reconciliation (credits) or in the tax footnote (see Chow, Hoopes, and Maydew, 2018).

Agilent enjoys tax holidays in several different jurisdictions, most significantly in Singapore. The tax holidays provide lower rates of taxation on certain classes of income and require various thresholds of investments and employment or specific types of income in those jurisdictions. The tax holidays are due for renewal between 2018 and 2023. As a result of the incentives, the impact of the tax holidays decreased income taxes by \$93 million, \$86 million, and \$65 million in 2017, 2016, and 2015, respectively. The benefit of the tax holidays on net income per share (diluted) was approximately \$0.29, \$0.26, and \$0.19 in 2017, 2016 and 2015, respectively.

Overview of the Paper

- Corporations may voluntarily report the non-income taxes they pay in their financial statements (often after they are accused of not paying income taxes).

October 9, 2018, Daily Tax Report

Unions accuse Chevron of ‘massive’ tax avoidance via the Netherlands

“Chevron fully complies with all tax laws in the jurisdictions in which the company operates,” Chevron spokeswoman Sally Jones said.

A major complaint expressed by the OECD and the European Commission, is the Dutch finance ministry’s practice of granting “advance rulings”, or agreeing in advance with large corporations on how a given structure will be taxed.

Overview of the Paper

Taxes Other Than on Income

	Year ended December 31		
	2017	2016	2015
United States			
Excise and similar taxes on products and merchandise	\$ 4,398	\$ 4,335	\$ 4,426
Import duties and other levies	11	9	4
Property and other miscellaneous taxes	1,824	1,680	1,367
Payroll taxes	241	252	270
Taxes on production	206	159	157
Total United States	6,680	6,435	6,224
International			
Excise and similar taxes on products and merchandise	2,791	2,570	2,933
Import duties and other levies	45	33	40
Property and other miscellaneous taxes	2,563	2,379	2,548
Payroll taxes	137	145	161
Taxes on production	115	106	124
Total International	5,651	5,233	5,806
Total taxes other than on income	\$ 12,331	\$ 11,668	\$ 12,030

Overview of the Paper

- Should non-income tax relief be required to be reported?

FASB Proposed Accounting Standard Update (November 12, 2018)

Government Assistance (Topic 832) – Disclosures by Business Entities about Government Assistance

... increase transparency about government assistance arrangements including (1) the types of arrangements, (2) the accounting for government assistance, and (3) their effect on an entity's financial statements. ... Requiring disclosures about government assistance in the notes to financial statements could improve the information that is provided to users when analyzing an entity's financial results and prospects for future cash flows.

Overview of the Paper

40 Comment Letters

39 opposed

1 in favor (Good Jobs First)

Reasons for opposition

Cost exceeds benefits

Sensitive nature of the negotiations

What forms of government assistance are covered?

Overview of the Paper

*The terms and conditions of government assistance agreements are established through **private negotiations** between companies interested in making capital investments and their government counterparties. Negotiations are competitive with both parties seeking the strongest results at the lowest possible cost, and multiple companies frequently bid for the same incentives.*

*Providing public funds or other benefits to businesses is an inherently sensitive matter. Government officials have traditionally been reluctant to publicly disclose information about their incentive packages to **avoid public backlash from constituents** who may disagree with policies underlying the incentive packages. Officials are also wary of setting a precedent other businesses could use against the government in future negotiations. Businesses have likewise preferred to keep the terms and conditions of incentive arrangements confidential out of concerns that their competitors could use the information to demand similar incentive packages, or other jurisdictions could use the information to establish a baseline of incentives a business is willing to accept for a given level of investment.*

TEI letter

Overview of the Paper

Ford Motor Company (“Ford”), is a global automotive industry leader based in Dearborn, Michigan. ... We have negotiated with several governments and as a result, have received a variety of benefits that have taken various forms.

Negotiating favorable terms with governments and municipalities is no different from negotiating favorable terms with customers and suppliers. Many government assistance programs, or “incentives,” are designed to encourage capital investment or to provide additional employment opportunities in a particular jurisdiction. ... Other incentives are designed to promote the research and investment in new technologies. Negotiating government incentives in exchange for a significant commitment by Ford to invest and operate in their jurisdiction or to engage in research that results in innovative technologies (i.e. biofuels, electric vehicles , etc.), is part of our normal business operations.

Overview of the Paper

*We have also concluded that compliance with the proposed guidance will not achieve the stated objective and is impracticable to implement: the scope is too broad and ambiguous; it **requires disclosure of confidential and competitive information**; and the cost to implement will exceed the benefit.*

Ford asks Detroit for \$100M as part of bigger train station incentives package

*It had been implied, at the time, that tax abatement would play a role in the development, but the **specifics had been vague**, with **Ford opaquely sharing** last month that it planned to spend nearly \$740 million on renovations and would seek from “federal, state and local economic development groups and officials” at least \$250 million in “tax or other incentives” to support the project.*

Detroit Free Press, 10/16/18

Overview of the Paper

As frequent users of corporate financial statements, we applaud the FASB for this proposed update to GAAP. We believe that government assistance is indeed a salient factor in the financial results of many companies and that therefore users of financial statements will be well served by statements' including such information.

We view this information as critical for shareholders and other stakeholders from a risk-management perspective.
That is, we do not believe that the recent trajectory in the growth of government assistance via economic development subsidies is sustainable. For example, the annual number and cost of what we call “megadeals”—essentially nine- and ten-figure packages—has roughly doubled since 2008.

Good Jobs First Comment Letter

Big Picture Comments

- Framing the Negotiation/Abatement process

Governments bid for jobs/infrastructure offered by an entity



amazon



BOSTON

NYC

DC

ATLANTA

CHICAGO

DETROIT

unlikely disclosure of private data

Big Picture Comments

- Framing the Question

A single entity asks for aid in return for jobs/infrastructure



DETROIT

perhaps some disclosure of private data

Big Picture Comments

- Framing the Question

A government offers aid to one or more bidders



likely disclosure of private data

Big Picture Comments

- Framing the Question

A party (federal government) offers relief to all bidders



unlikely disclosure of private data

Big Picture Comments

Source of data



Discover Where Corporations are Getting Taxpayer Assistance Across the United States

SUBSIDY TRACKER is the first national search engine for economic development subsidies and other forms of government financial assistance to business.

Subsidy award entries: 607,000 (386,000 state/local; 221,000 federal)

Subsidy programs: 1,035 (897 state/local; 138 federal)
Parent companies covered: 2,919

Uncle Sam's Favorite Corporations (report on federal data)
Megadeals (largest state and local subsidy awards)

Inventory of data sources

Update log

User Guide

Big Picture Comments

- Questions regarding the data
 - ◆ Messy and incomplete
 - ◆ Other sources that are more timely: Media mentions?
 - ◆ Size of the relief
 - ♣ Mean (median): \$2.8 million (\$353,217)
 - ♣ Mean market cap: \$17.6 billion!
 - ♣ Do mega deals drive the results? Successful firms / governments receive the largest aid



Big Picture Comments

- Questions regarding the subsidy classifications
 - ◆ Are enterprise zone subsidies a negotiation process?
 - ♣ Disbursed on meeting \$ invested in infrastructure or creation of new jobs with salaries at 150% or more of minimum wages
 - ♣ Does a municipality have to vet the builder before allowing construction or rehabilitation?

