National Association of State Auditors, Comptrollers and Treasurers

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# Washington Update

## IRS HOLDS HEARING ON DEFINITION OF POLITICAL SUBDIVISION

The Internal Revenue Service recently held a public hearing on its proposal to modify the definition of "political subdivision" for tax-exempt bond purposes. This proposed regulation will affect state and local governments that issue tax-exempt bonds and users of property financed with such bonds.

Speaking at the hearing and representing the municipal market were representatives from the Government Finance Officers Association, the Securities Industry and Financial Markets Association and the National Association of Bond Lawyers. All the groups seem to carry a common message–that a change is unnecessary and could cause uncertainty in the market.

A political subdivision is defined as any division of any state or local governmental unit which is a municipal corporation or which has been delegated the right to exercise part of the sovereign power of the unit. Section 103 of the Internal Revenue Code provides that interest on any obligation of a state or **political subdivision** not be included in gross income. The proposal clarifies that the continued tax exemption of an issuance of bonds depends on the issuer's continued status as a qualifying issuer of tax-exempt bonds.

The proposed regulations provide that in order for an entity to qualify as a political subdivision, the entity must meet three requirements considering all the facts and circumstances:

sovereign powers, governmental purpose and governmental control. Each entity would have to meet all three tests to be considered a political subdivision. If an entity fails even one test, it would not be considered a political subdivision.

Pat McCoy, director of finance for the Metropolitan Transportation Authority in New York City (a political subdivision of the state of New York) and representing GFOA at the hearing, spoke on the role of the states:

> "The new, three-part test of the proposed regulations, is overly restrictive. As we see it, these proposed

regulations question the legitimacy and authority of bodies who enacted the enabling legislation that created the political subdivisions in the first place. Taken together, the additional requirements of the Treasury's proposed rule attempt to regulate governing matters that, in the absence of abuse, should be left to the states as has been the case for decades."

While the proposed regulations make clear that the intent of the rule is to adopt safeguards to prevent potential abuses, the application of the proposal could have an overreaching effect for all political subdivisions that are well established, formed within state law and presently providing significant public benefit.

## EXPENDITURE INPUT SOUGHT BY FASAB

The Federal Accounting Standards Advisory Board has released a request for comment on new rules that would require that disclosures in notes to the financial statements of the consolidated financial report of the U.S. Government (CFR) include a "plain language" definition of the term tax expenditures, examples of types of tax expenditures, and a description of how tax expenditures impact nonexchange revenue, tax collections and refunds, as well as whether tax expenditure amounts are presented in the basic financial statements. The exposure draft, *Tax Expenditures: Management's Discussion and Analysis and Disclosure Requirements*, specifically seeks input on the following:

- Tax expenditures resemble federal spending in that they affect the federal deficit or surplus; however, unlike federal spending, tax expenditures impact federal tax revenues. The FASAB is proposing to require certain information on tax expenditures to assist users of the consolidated financial report of the U.S. Government (CFR) in understanding the existence, purpose, and impact of tax expenditures.
- The proposed standards would require that the CFR include narrative disclosures and information regarding tax expenditures that inform the reader regarding the:
    1. Definition of tax expenditures.
    2. General purpose of tax expenditures.
    3. Impact on and treatment of tax expenditures within the federal budget process.
    4. Impact of tax expenditures on the government's financial position and condition.

Tax expenditures are used by the federal government as one of many means to accomplish policy objectives. Although not direct outlays of federal funds, tax expenditures are often viewed as alternatives to other policy instruments, such as spending or regulatory programs. Comments are due by September 15, 2016, and can be filed at www.fasab.gov/documents-for-comment.

## NEW GOVERNMENT EMPLOYMENT SURVEY FINDS EMPTY ACCOUNTING POSITIONS GOING UNFILLED

The Center for State and Local Government Excellence has released its annual workforce survey. *State and Local Government Workforce: 2016 Trends* finds that governments are experiencing an uptick in retirements, with 54 percent of respondents reporting an increase of retirements last year over 2014. In additions, 92 percent of respondents also indicated that recruiting and retaining talented workers is a major concern. In response to the question "What positions, if any, do you continue to have a hard time filling in the current economic climate?", respondents identified accountants, finance talent of all types, and management at all levels.

The online survey was conducted from March 15 to April 7, 2016, by the SLGE with 331 members submitting responses. The full survey can be found at http://slge.org/wp-content/uploads/2016/05/State-and-Local-Government-Workforce-2016-Trends.pdf?utm_source=5.31.16+eNews&utm_campaign=April+2016+eNews&utm_medium=email.


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