

## **Tax Expenditures Task Force Meeting Minutes**

June 11, 2015

9 AM to 11 AM

441 G Street NW, Washington, D.C.

Room 5047

- **Attendance**

The following task force members and officials were present at the meeting: Messrs. Bell, Bixby, Dietz, and Edwards; Mses. Kearney and Mac; Messrs. McClelland, McTigue, and Murrin; and Mses. Sergent, Thornton, and Valentine. The executive director, Ms. Payne, and support staff, Mr. Perry, were present throughout the meeting.

- **Introductions**

Ms. Payne welcomed the task force members to the meeting and thanked them for volunteering to serve and inform the FASAB's development of financial accounting standards surrounding the reporting of federal tax expenditures.

Because this was the first meeting of the task force, attendees briefly introduced themselves, the organizations they represented, and their backgrounds. Ms. Payne expressed her optimism that the strong backgrounds and diverse perspectives of the task force would enable FASAB to develop balanced, well-informed, and high quality recommendations to the Board during the standards-setting process.

Ms. Payne explained that minutes would be prepared following each meeting and that the minutes of the June meeting would be provided to members on approximately June 17, 2015 for review. She also noted that statements made by task force members would generally not be attributed to the individual task force members within the minutes. Ms. Payne also said that future meetings may be taped for purposes of recording minutes.

Ms. Payne offered to address questions from the task force with respect to how FASAB operates, including one question regarding the FASAB standard-setting process. Members asked if input from the public would be sought multiple times before a standard is finalized. Ms. Payne indicated that the minimum is one solicitation of comments but there are options to formally seek public comment multiple times. Details regarding due process are available on the [FASAB website's due process page](#).

- **Individuals and entities likely to be users of federal tax expenditure information reported and disclosed in the Financial Report of the U.S. Government and/or the related Citizens Guide**

Task force members identified several likely users of tax expenditure information, including: the education community (high schools/AP courses, colleges and universities), professional associations, citizen associations, policy analysts, government entities, and individual citizens.

A task force member noted that a growing number of colleges and universities are incorporating federal financial management and performance issues into the curriculum of their accounting and policy courses and, thus, the education community is likely to

pay particularly close attention to tax expenditure information reported by the federal government.

- **Initial Discussion and Views on Approaches for Developing Narrative Information Explaining Tax Expenditures, Government Performance**

The task force raised concerns about the challenge of comprehensively explaining the complexity and limitations of a topic like tax expenditure estimates to users.

One task force member noted that Treasury's approach to developing narrative is to be as efficient as possible, non-policy-based, and neutral in its presentation of projections.

The task force agreed that disclosing too much information would serve to confuse readers' understanding of tax expenditures rather than enhance their understanding.

The task force agreed that simply introducing readers to tax expenditures with narrative information, such as what tax expenditures are (defining and explaining the concept), introducing the types of tax expenditures that exist, and explaining the purposes that they serve from a policy perspective—both intended and unintended—could go a long way. Such information serves to 1) simply inform users that tax expenditures exist, 2) enhance user understanding of how tax expenditures impact both government revenues and economic behavior, and 3) improve transparency and reporting in general.

One task force member described an ideal narrative federal financial report on tax expenditures as being “illustrative” rather than “comprehensive”.

One task force member noted that there is currently a lack of understanding among citizens of what tax expenditures are and their magnitude.

Task force members expressed concern that the use of “loaded terminology” within narrative information, such as “normal baseline” and “negative tax expenditures” would be confusing for a majority of users. The task force agreed that such terms should be avoided. One task force member noted that negative tax expenditures are not comprehensively measured. Many members said that tax expenditures were already a very complex topic to explain to users and that introducing the concept of negative tax expenditures would likely confuse readers and muddle the overall message being reported.

Several task force members acknowledged the need to address limitations of tax expenditure estimates within any narrative. Limitations include data reliability, stale data, underlying judgments used in various assumptions for certain estimates, resource constraints faced by estimating entities—Treasury's Office of Tax Analysis (OTA) and Joint Committee on Taxation (JCT).

One task force member cautioned that in particular tax exclusions are difficult to estimate and update because they are typically not reported in tax data like many other tax expenditures. Neither the OTA nor the JCT populations of tax expenditure estimates are complete.

Scarce resources are often devoted to developing estimates for tax expenditures a) when high-quality data (such as tax credits where there are data from tax returns) are available or b) to evaluate behavioral reactions to new provisions.

Task force members familiar with FASAB's Reporting Model Project noted that there is opportunity to present tax expenditure narrative information in a manner that is in line with concepts introduced in the project. Users who seek to better understand tax expenditure information can be directed to such information through hyperlinks that guide them from highly summarized information reported by Treasury to more detailed information provided through other sources.

One task force member noted the distinction between reporting on performance information versus tax expenditure projections. The former focuses on what has happened while the latter focuses on future policy that is more uncertain.

One task force member with professional experience in estimating tax expenditures explained that large tax expenditures (such as exclusion of employer provided health insurance from taxable income) do not lend themselves to performance reporting. Their magnitude and broad impact on economic behavior means that performance of such tax expenditures is difficult to assess.

The task force agreed that providing some background and context within the narrative on the progress made (or the lack thereof) by the federal government on reporting on the contributions toward federal government-wide and agency priority goals by tax expenditures—as required by the Government Performance and Results Act Modernization Act of 2010 (GPRAMA) and OMB guidance—would be useful. Such context could shine a light on the challenges agencies face in assessing the effectiveness of tax expenditures, including resource constraints and data limitations.

One task force member inquired as to whether FASAB or any other members were aware of how other developed countries were reporting tax expenditure information in their financial reports. Ms. Payne and other members had not come across any general purpose financial reports from other countries that included tax expenditure information but noted other specialized reporting. Also, the International Monetary Fund in its [Code of Good Practices on Fiscal Transparency](#) indicates tax expenditure information should be publicly available.

- **Initial Discussion and Views on Reporting Federal Tax Expenditure Estimates**
  - **Task Force Views on Reporting Joint Committee on Taxation (JCT) Estimates versus Reporting Treasury's Office of Tax Analysis Estimates**

Ms. Payne noted that the Board and FASAB officials envisioned that any estimates reported would come from the OTA and/or JCT estimates; in other words, current estimation processes at one (or both) of these entities would be leveraged for reporting purposes. The task force members agreed that it would be best to make a decision up front about which source to use (or whether to use both).

The task force members reached a consensus to recommend that the Board select either JCT estimates or OTA estimates as the reporting source. Task force members noted that significant inconsistencies between normal baselines for measurement purposes and other differences in estimation methodologies between JCT and OTA would create confusion about which estimates to select. Also, members discussed the

timeline for preparing the financial report and indicated that the OTA estimates are usually available in August while timing of the JCT estimates varies widely.

One task force member questioned whether selecting one source may create external perceptions of privileging one estimation source over the other.

Task force members noted that there would be precedence for Treasury, as the preparer of the Financial Report of the U.S. Government, to use estimates from its own Office of Tax Analysis. The task force reached a consensus to recommend that the Board select OTA estimates as the source of estimates within federal financial reports.

- **Task Force Views on Reporting Quantitative Information**

Experts on the task force agreed that reporting a government-wide total of tax expenditures would be both impracticable and misleading to users, citing several factors that prevent the government from being able to estimate such a figure, including:

- Tax expenditures are estimated assuming that other parts of the tax code remain unchanged. Interactions among provisions and forecasting challenges associated with the simultaneous elimination of multiple tax expenditures in the tax code make estimating a grand total difficult.

- There is not a complete population of tax expenditures at OTA (or JCT).

- As previously noted, several task force members indicated that other limitations of tax expenditure estimates include data reliability, stale data used for successive estimates of the same tax expenditure, underlying management judgments used in various assumptions for certain estimates, resource constraints and information availability. These limit OTA's ability to develop a complete population of updated estimates based on reliable and recent data.

The task force reached a consensus that the aforementioned limitations and constraints faced when estimating tax expenditures for individual tax provisions would be magnified when estimating a grand total, making such a task impracticable.

Several task force members endorse the idea of presenting a “flavor” of the scope and magnitude of tax expenditures by presenting a “top 10” listing of individual tax expenditure estimates.

Many task force members stated that reporting a limited number of estimates and examples would help to give users a general idea of the dollar value of the benefit that tax expenditures can provide and their impact.

A few task force members expressed concern that placing estimates alongside audited financial statements—which are often based on more reliable data—could be problematic; however, other members noted that disclosing the limitations and uncertainties surrounding the accuracy of such numbers could help mitigate the risk that reporting tax expenditure estimates would mislead users.

- **Task Force Review and Input on “Tax Expenditures Explained” Document (see Attachment 1 of meeting agenda)**

Ms. Payne pointed the task force's attention to the "Tax Expenditures Explained" document attached to the meeting agenda. She informed the members that she would send out a Word file of the document via e-mail immediately following the meeting. Ms. Payne requested that members provide comments and suggestions for improving the paper to her and Mr. Perry either electronically using the Word comment feature or by scanning and e-mailing handwritten comments. Ms. Payne noted that the purpose of the paper was to provide background and context needed by respondents to any future Board proposal. Respondents not already familiar with tax expenditures may find it challenging to respond to a proposal absent such background and context. Feedback provided would help the project team to refine the paper.

Mr. Perry asked for member feedback on 1) whether to include GPRAMA information in the document to provide context in the paper and 2) whether to include the current status of GAO recommendations to OMB and agencies related to disclosing performance information related to tax expenditures. Some members agreed that such context could be helpful to include but cautioned to balance this information with content from the Analytical Perspectives chapter of the President's Budget.

- **Discussion of Next Steps and Closing**

Ms. Payne thanked the task force members for their attendance and input, noting that she was pleased with the preparedness and familiarity of the tax force with the subject matter.

Ms. Payne noted that she would continue to send out monthly meeting appointments and requested that members keep her apprised as to whether they are unable to attend future meetings or need to designate another official to sit in on their behalf.

Ms. Payne and Mr. Perry said that they would write up and distribute the meeting minutes for the task force to review by Wednesday, June 17.