

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

August 14, 2015

9 AM to 11 AM

441 G Street NW, Washington, D.C.

Room 5N30

- **Attendance**

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

- **Approval of July Meeting Minutes**

Minutes for the July task force meeting were approved at the beginning of the meeting.

- **Analysis of Task Force Survey Results**

Mr. Perry provided an overview of the pre-meeting survey results (see Attachment 1 of the meeting agenda). The purpose of the survey was to gauge where the task force members stood regarding the placement and inclusion of various key points about tax expenditures within Treasury's Financial Report of the U.S. Government.

Mr. Perry said that the survey results yielded a surprising number of areas of consensus. He noted that the survey results provide direction to future task force deliberations as well as the development of Management Discussion and Analysis (MD&A) and Required Supplementary Information (RSI) illustrations.

- **Member Discussion Regarding Auditing Requirements over Required Supplementary Information (RSI) and Placement of Tax Expenditure Information within the Financial Report of the U.S. Government**

One area identified for additional discussion was the placement and inclusion of tax expenditure estimates within RSI. To begin the discussion on this topic, Ms. Payne referred the task force to Attachments 2 and 3 of the meeting agenda. Ms. Payne noted that the audit procedures surrounding tax expenditure estimates would be impacted by the way any future FASAB standard is phrased. For example, a standard requiring the preparer to report within RSI tax expenditure estimates from a report published elsewhere would not require the same audit procedures as would a standard requiring the preparer to estimate tax expenditures based on criteria set by the Board.

One task force member noted that—under the aforementioned scenario—an auditor would, indeed, agree estimation amounts to the amounts from reports published elsewhere; however, if the standards required the preparer to publish such estimates in RSI, other work would be necessary to gain some level of comfort over the information; this task force member noted that auditors would not want to be associated with

numbers that were based on materially unreliable estimation processes and procedures. Although auditors may not review the entire estimation process in detail and scrutinize all of the underlying assumptions, they would likely want to gain some understanding of the estimation processes and procedures and assess whether it is reasonable. Another task force member agreed that a certain amount of due diligence on the part of the preparer and the auditor is expected with RSI.

One task force member also noted that audit procedures over RSI may be impacted if that information were to be phased into basic information in subsequent years following that audit.

Ms. Payne stated that, if the task force were to ultimately decide that certain information should not be included in RSI and instead be included in the Other Information (OI) section at the option of the preparer, the task force would want to convey to the Board the reason for such a recommendation as well.

Ms. Payne noted (in response to a question from a task force member) that FASAB does not have the authority to set requirements for information included in OI, as it can with the RSI section.

A few task force members stressed that the public expects the government to report on what impacts the financial status of the federal government, and they noted that the placement of tax expenditure information in OI may not subject that information to an appropriate level of scrutiny and transparency, given the magnitude and importance of tax expenditure estimates today.

A few task force members noted that a phased approach may allow FASAB to evaluate the burden of moving these estimates into RSI. A few members expressed that tax expenditure estimates should be eventually audited.

Treasury officials noted that the agency is supportive of introducing the concept of tax expenditures and their budgetary impact into MD&A. They cautioned that Treasury was not ready to include tax expenditure estimates in RSI at this time.

*Staff note: The task force members unanimously support requiring the inclusion of certain narrative key points regarding tax expenditures in the MD&A section of Treasury's Financial Report of the U.S. Government (see Attachment 1 of the meeting agenda). Future deliberations going forward will focus on developing an illustration of tax expenditure disclosures based on the task force's recommendations and areas of agreement. Such illustrations will be used by FASAB to inform the standards-setting process and the development of any future exposure drafts.*

Mr. Perry noted that federal auditors can conduct a performance audit over tax expenditure estimates regardless of whether such estimates are published in RSI or OI. The only difference being the relationship of the information being audited, or lack thereof, to the financial audit report and the accounting standards. In other words, leaving tax expenditure estimates out of RSI may not preclude such estimates from being audited by the GAO or the Inspector General of the Department of Treasury.

Mr. Perry and Ms. Payne stated that the task force could invite the first and second audit partners of the consolidated financial statement audit, from GAO's Financial Management and Assurance mission team, to explain the procedures that GAO might perform surrounding tax expenditure estimates placed in RSI under certain FASAB standards scenarios. The task force agreed that GAO's perspectives would be useful and informative. Mr. Perry stated that he would arrange for a segment of the September

task force meeting to be a discussion with GAO's first and second partners—Mr. Engel and Mr. Dacey—regarding RSI auditing standards and the procedures GAO would likely perform over tax expenditure information if it were included in RSI.

- **Member Comments and Updates to “Tax Expenditures Explained” Document (see Attachment 4 of meeting agenda)**

*Staff note: The purpose of the “Tax Expenditures Explained” document is to provide background and context for respondents to any future Board proposal. Respondents who are less familiar with tax expenditures may find it challenging to respond to a proposal absent such background and context. Revision of this document is an ongoing project of the task force. See the June and July minutes and subsequent meeting minutes (as they become available) for additional information with respect to revisions made to this document.*

Members provided technical comments to the draft, including footnote 7 and the Appendix. Mr. Perry and Ms. Payne stated that they would address these comments and provide another draft to the task force in the coming weeks.

Ms. Payne thanked the task force for their valuable input, feedback, and revisions to the document.

- **Next Steps**

Ms. Payne noted that she and Mr. Perry would work to 1) revise the “Tax Expenditures Explained” document; 2) write up and distribute meeting minutes for task force review; and 3) develop illustrations, based on discussions and feedback received to-date, of what information would be included in MD&A and RSI for task force discussion at the next meeting.

Mr. Perry stated that he would begin the illustration development process by drafting two illustrations for task force review: one illustration with limited or no information in RSI, and one illustration with tax expenditure estimates included in RSI.

Mr. Perry noted that discussions with GAO's first and second audit partners of the consolidated financial statement audit at the following month's meeting may help the task force decide how best to develop and revise the illustrations going forward.