



## Federal Accounting Standards Advisory Board

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**September 30, 2016**

### Memorandum

To: Members of the Board

From: R. Alan Perry, Senior Financial Auditor, Government Accountability Office  
**Ricky A. Perry, Jr. /s/**

Through: Wendy M. Payne, Executive Director  
**Wendy M. Payne /s/**

Subject: Tax Expenditures– **Tab 5**<sup>1</sup>

### MEETING OBJECTIVES

1. Staff will provide a high-level summary of public comments on the exposure draft.
2. The Board will review and discuss public comments on the exposure draft.
3. The Board will discuss next steps.

### BRIEFING MATERIALS

- Attachment 1** – QFR 1 Response Summary File
- Attachment 2** – QFR 2 Response Summary File
- Attachment 3** – QFR 3 Response Summary File
- Attachment 4** – QFR 4 Response Summary File
- Attachment 5** – Catalog of comment letters 1-11
- Attachment 6** – Exposure Draft

### BACKGROUND

On June 2, 2016, the Board released an exposure draft of *Tax Expenditures: Management's Discussion and Analysis and Disclosure Requirements* for public comment. FASAB received 11 comment letters, including comment letters from four government agencies, four individuals, one elected official, one state/territory CPA society, and one nonprofit organization.

Four questions for respondents (QFRs) were available to respondents to solicit views regarding specific aspects of the proposed standards, as well as any other feedback.

Staff wishes to thank Senator Enzi, Messrs. Burton, Dubay, Engel, Ewer, Lewis, Marren, Mazur, and Steinberg; and Mses. DiGiantommaso, Dillard, Krabbe, and Simpson, and their respective staffs and colleagues for the useful and insightful feedback and comments provided.

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

## DISCUSSION TOPICS

The discussion topics and related summaries below are merely to generate Board discussion. Board members may also wish to refer to the related attachment for more detailed information.

**QFR1.** The Board is proposing 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. These proposed disclosure requirements are presented in paragraphs 14-15 on page 14. An illustrative example of how these disclosures might be presented in the notes to the financial statements of the CFR is provided in Appendix D: Illustrations beginning on page 36.

Do you believe that these proposed disclosure requirements related to the notes to the financial statements in the CFR will be helpful to readers? Do you believe the placement of the proposed disclosures in the notes to the financial statements of the CFR is appropriate? Please explain the basis for your view and note any recommended changes in the requirements.

See **Attachments 5 and 1**. Staff noted that many of the recommended changes and insights provided by respondents were informative and useful. Board members may wish to discuss any and all responses.

*Note that the staff analysis column may be informative to Board discussions and the Board may wish to provide, comments, or suggested changes to the staff analysis and recommendations at this time; however, the staff analysis column should be considered preliminary. At the December Board meeting, staff will provide an updated draft of the standard to the Board and formally propose and solicit additional recommended changes.*

**Question 1: What matters does the Board wish to discuss in response to comments received from respondents in response to QFR 1?**

**QFR2.** The Board is proposing that management’s discussion and analysis (MD&A) in the CFR include a discussion of tax expenditures, their general purpose, and how they impact the government’s financial position and condition. The proposed standards also require discussion of other factors that may affect tax collections in order to place tax expenditure information in an appropriate context. The specific proposed requirements are presented in paragraph 17 and sub-paragraphs 17.a-17.e beginning on page 14. An illustrative example of how these proposed requirements might be presented in MD&A is provided in Appendix D: Illustrations beginning on page 32.

Do you believe that these proposed requirements related to MD&A will be helpful to readers? Do you believe the placement of the proposed requirements in MD&A in the CFR is appropriate? Please explain the basis for your view and note any recommended changes in the requirements.

See **Attachments 5 and 2**. Staff noted that many of the recommended changes and insights provided by respondents were informative and useful. Board members may wish to discuss any and all responses.

*Note that the staff analysis column may be informative to Board discussions and the Board may wish to provide, comments, or suggested changes to the staff analysis and recommendations at this time; however, the staff analysis column should be considered preliminary. At the December Board meeting, staff will provide an updated draft of the standard to the Board and formally propose and solicit additional recommended changes.*

**Question 2: What matters does the Board wish to discuss in response to comments received from respondents in response to QFR 2?**

**QFR3.** The Board is proposing to encourage rather than require the presentation of a selection of major tax expenditure estimates, such as those published annually by the Department of the Treasury's (Treasury) Office of Tax Policy, as other information (OI) in the CFR. The proposed information to be encouraged is presented in paragraphs 19-20 and subparagraphs 20.a-20.c. An illustrative example of how this proposed information might be presented in OI is provided in Appendix D: Illustrations beginning on page 38.

Statement of Federal Financial Accounting Concepts (SFFAC) 6 paragraph 5 provides that OI is information that accompanies basic information and required supplementary information (RSI), but is not required by a body that establishes generally accepted accounting principles. For additional information regarding OI, see Appendix C: Characteristics of Other Information beginning on page 30.

The Board's basis for reaching this proposal to encourage such information be included in OI is documented in Appendix A: Basis for Conclusions, beginning on page 16.

Appendix B: Tax Expenditures Explained beginning on page 23 includes important considerations behind the Board's proposal, including how Treasury's Office of Tax Policy prepares tax expenditure estimates and how those estimates can be used and interpreted.

- a. Do you believe that the proposed information, as outlined in paragraphs 19-20 and subparagraphs 20.a-20.c would be helpful to readers? Please explain the basis for your view and explain any recommended changes.
- b. Do you agree with the Board's rationale for encouraging the presentation of the proposed information as OI in the CFR, as provided in 20.a-20.c? Please explain the basis for your view.

See **Attachments 5 and 3**. Staff noted that many of the recommended changes and insights provided by respondents were informative and useful; however, respondents varied in their views in this area. A few respondents supported the proposed requirements in their current form, a few supported presentation as RSI, and a few recommended excluding the estimates altogether. Strong rationale was provided in support of all views. Board members may wish to discuss any and all responses.

*Note that the staff analysis column may be informative to Board discussions and the Board may wish to provide, comments, or suggested changes to the staff analysis and recommendations at this time; however, the staff analysis column should be considered preliminary. At the December Board meeting, staff will provide an updated draft of the standard to the Board and formally propose and solicit additional recommended changes.*

### **Question 3: What matters does the Board wish to discuss in response to comments received from respondents in response to QFR 3?**

**QFR4.** This exposure draft (ED) proposes disclosure requirements and RSI to be included in the notes to the financial statements and MD&A sections of the CFR, respectively, that would support SFFAC 1 Objective 1, Budgetary Integrity, including Sub-objectives 1A and 1C; Objective 2, Operating Performance; and Objective 3, Stewardship.

More detailed discussion of these reporting objectives and sub-objectives and how they are supported by the proposed requirements in this ED can be found in the Purpose section beginning on page 10 and the Appendix A: Basis for Conclusions section beginning on page 16.

Appendix B: Tax Expenditures Explained beginning on page 23 provides additional background which may aid respondents' understanding of tax expenditures, their "plain language" definition, why they are important, how estimates are prepared, and considerations for understanding how estimates can be used.

Are there any other changes that you believe should be made to the proposed Statement? Please provide rationale for your answer.

See **Attachments 5** and **4**. Staff noted that many of the recommended changes and insights provided by respondents were informative and useful; however, respondents varied in their views and feedback in this area.

A few respondents provided what staff views to be agreeable editorial changes, while a few respondents raised other ideas and feedback worthy of discussion. Board members may wish to discuss any and all responses.

*Note that the staff analysis column may be informative to Board discussions and the Board may wish to provide, comments, or suggested changes to the staff analysis and recommendations at this time; however, the staff analysis column should be considered preliminary. At the December Board meeting, staff will provide an updated draft of the standard to the Board and formally propose and solicit additional recommended changes.*

**Question 4: What matters does the Board wish to discuss in response to comments received from respondents in response to QFR 4?**

**Question 5: Does this Board wish to discuss next steps or provide additional considerations for staff as we move forward with comment letter analysis and finalizing staff recommendations?**

As always, it is helpful to hear from members before the meeting. Please contact me at 202.512.7357 or [paynew@fasab.gov](mailto:paynew@fasab.gov).

The Board is proposing 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. These proposed disclosure requirements are presented in paragraphs 14-15 on page 14. An illustrative example of how these disclosures might be presented in the notes to the financial statements of the CFR is provided in Appendix D: Illustrations beginning on page 36.

(1) Do you believe that these proposed disclosure requirements related to the notes to the financial statements in the CFR will be helpful to readers?

(2) Do you believe the placement of the proposed disclosures in the notes to the financial statements of the CFR is appropriate?

Please explain the basis for your view and note any recommended changes in the requirements.

Resp. No.	Resp. Type	Entity / Name	Response 1	Response 2	Respondent Recommendation	Rationale Type	Respondent Rationale	Staff Response / Preliminary Analysis
1	Individual	Steinberg, Harold	Y	Y	None	Concurs with ED rationale	The rationale presented in the ED says it all. There is a cost in financing programs through foregone revenues that is no less than financing the programs through outlays. Indeed, the former reflects less accountability since tax expenditures are not as transparent. Nor do they generate as much deliberation. Hence, shedding as much sunlight as practicable on this form of financing costs is highly desirable.	
2	Federal Agency	U.S. Department of Labor	NR	NR	None		No response	
3	Federal Agency	Social Security Administration	Y	N	We believe this information should appear in Other Information (OI).		Given the uncertain nature and variability of tax expenditure estimates, we would restrict discussion of the topic to the non-audited portion of the CFR	<b>Staff analysis:</b> Tax expenditure estimates are not part of the proposed requirements for information to be included in the financial statement notes. The information in para. 14-15 is important to include in the notes to the financial statements for reasons enumerated in paras. A5, A6, A7, and A8
4	Individual	Marren, Joseph	N	N			See QFR 4 tab, Resp No. 4.1 - 4.3	See staff analysis of Resp No. 4.1 - 4.3 at QFR 4 tab
5	Federal Agency	Treasury - Office of Tax Policy	Y	N	The Board should consider the possibility that the "Other Information" (OI) section, with corresponding references included in the Note and/or MD&A, provides the ideal context for this information.	Concurs with content. Does not explicitly oppose the placement within the CFR but indicates a preference to and provides rationale for placing the information in OI.	<p>(1) From a content perspective, incorporating a “plain language” definition of tax expenditures and brief discussion of their conceptual impact on non-exchange revenue, tax collections, and refunds in the consolidated financial report of the U.S. Government (CFR) will be helpful to improving reader’s understanding of this complex topic. Proposing that such information appear in the Note on “Collections and Refunds of Federal Revenue” is a potentially viable approach, given the context in which the tax expenditure information would be placed.</p> <p>(2) However, the Board should consider the possibility that the “Other Information” (OI) section, with corresponding references included in the Note and/or MD&amp;A, provides the ideal context for this information based on the following:</p> <p>In addition to tax expenditure content, the proposed text in Appendix D also references “Tax Gap” information. “Tax Gap”, along with “Tax Burden”, are discussed in the OI section of the CFR (pp 219-221 of the FY 2015 CFR). The topic of tax expenditures aligns well from a context perspective with these other topics already discussed in OI. As such, to minimize redundancy and to capitalize on context that is already established in the CFR, an ideal approach would be to focus the substantive discussion of tax expenditures as proposed above in the OI section with a brief reference to both Tax Expenditures and Tax Gap in the “Collections and Refunds of Federal Revenue” Note. So doing perpetuates the context established in OI, minimizes redundancy, and prompts readers to refer to these other, informative sections of the CFR.</p> <p>Regardless of where in the document the discussion of Tax Expenditures appears, it should be noted that tax expenditures is a complex topic. Treasury’s Office of Tax Policy, as well as other organizations, such as the Joint Committee on Taxation already have made and continue to make substantive information available to the public in other on-line forums. While a “plain language” definition and discussion can provide a practical introduction to this topic, it may be more appropriate, at a minimum, to provide the preparer the discretion to refer readers to these other, external resources – as either a complement to or in lieu of direct CFR content – to ensure that those readers fully understand the complexities associated with this topic and have the opportunity to research the issue more fully if so desired.</p>	<p><b>Staff analysis:</b> While tax expenditures align well from a context perspective with topics already discussed in OI, paras. A4 thru A8 provide strong rationale based on FFR objectives outlined in SFFAC 1 for placing this information in RSI and the financial statement notes.</p> <p>SFFAC 2 para. 73A notes that an item is considered a candidate for required information if it is consistent with the objectives of federal financial reporting and meets certain qualitative characteristics and cost-benefit considerations. These reporting objectives are outlined in SFFAC 1 paras. 112-150, and the qualitative characteristics and cost-benefit considerations are outlined in paras. 157-164 and 151-155, respectively.</p> <p>As documented in paras. A3-A8 of the BFC, the Board preliminarily determined that the proposed disclosure requirements in paras. 14-15 were cost-effective to implement and contributed to the basic qualitative characteristics of understandability and relevance without having an adverse affect on other characteristics.</p> <p>With respect to providing the preparer the discretion to refer readers to external sources, the preparer already has this discretion which is why the Board does not require that this reference be made. In the illustrative note on p. 38 of the exposure draft (see footnote 33), the illustrative note refers readers to an external resource with a hyperlink thereto. As a result, the current exposure draft appears to be consistent with the views of the respondent in this particular area.</p>
6	Nonprofit Organization	Heritage Foundation: Curtis Dubay David Burton	NR	NR	None			See staff analysis of Resp No. 6.1 at QFR 4 tab

Resp. No.	Resp. Type	Entity / Name	Response 1	Response 2	Respondent Recommendation	Rationale Type	Respondent Rationale	Staff Response / Preliminary Analysis
7	Other - Elected Official	Senator Enzi	NR	NR	<p>Disclosure requirements: Paragraph 14 includes "how budgetary objectives can be achieved through the mechanism of tax expenditures." However, the illustrative Appendix D discusses policy objectives. As tax expenditures cannot be equated to forgone revenue or summed to total, the budgetary effect is unclear.</p> <p>Illustration: Appendix D should not state that tax expenditures reduce tax collections unless clarifying that it is in relation to a normal tax system's baseline. It is important to clarify that tax expenditures are not estimated and reported in the financial statements because they cannot be summed to total and are not auditable.</p>	Does not explicitly oppose the disclosure requirements, but provides recommended changes.		<p><b>Staff recommendations:</b></p> <p>1) Amend illustration under "Tax Expenditures - Impact on "What Came In" and "The Bottom Line" to read "The government uses tax expenditures for stimulating behavior to accomplish <u>budgetary and public policy goals</u> such as..."</p> <p>2) Amend illustration under Note 18 to read "These provisions are referred to as tax expenditures because collections are reduced <u>in relation to a normal tax baseline</u> to support a particular <u>budgetary or public policy goal</u>.</p> <p>3) Amend illustration under "Tax Expenditures - Impact on "What Came In" and "The Bottom Line" to read "Tax expenditures are "revenue reductions" in that the provisions reduce taxes owed and, therefore, revenue collected <u>in relation to a normal tax baseline</u>."</p> <p>4) Amend illustration under OI to read: "The government uses tax expenditures for stimulating behavior to accomplish budgetary and public policy goals such as..."</p> <p>5) Amend illustration under OI to read: "Tax expenditures are revenue reductions in that the provisions reduce taxes owed <u>in relation to a normal tax baseline</u> and, therefore, revenue collected <u>in relation to that which would be collected absent such provisions</u>"</p>
8	Individual	Dillard, Joyce	Y	Y	None		Yes, since these expenditures are "hidden" in a sense, disclosure is a way of identification in relationship to assessing results or benefit to the policy intended. This result or benefit is difficult to ascertain without understanding, in plain language, of the policy allowance given.	
9	Association/ Industry Organization	Greater Washington Society of CPAs - Federal Issues and Standards Committee	Partially	Y	The FISC agrees that the proposed disclosure requirements related to the notes to the financial statements in the CFR will be helpful to readers. The FISC also concurs with the placement of the proposed disclosures in the notes to the financial statements. We suggest that the Board define the term "plain language" in the proposed standard.	Respondent agrees with proposed requirements but also suggests defining the term "plain language."	For example, the Board could replace the existing footnote reference in the ED with language similar to the following: "The "plain language" definition should be (1) relatable and comprehensible to the financial statement user based upon a reasonable level of knowledge of economic and public sector operations, and (2) free of jargon and technical terminology."	<p><b>Staff analysis:</b> Staff believes that the additional specificity would be redundant and not likely impact how Treasury explains the concept in the financial statement notes. The current footnote is meant to clarify that the statement does not establish the plain language wording. The current footnote would still be valid even if the additional language were added to the footnote. The additional language is implied in the term "plain language." In addition, in the absence of a specific requirement, the preparer would still follow applicable SFFAC 1 criteria with respect to the qualitative charactersitc of understandability. No change needed.</p>

Tab 5 - Attachment 1 - QFR 1 Response Summary File								
Resp. No.	Resp. Type	Entity / Name	Response 1	Response 2	Respondent Recommendation	Rationale Type	Respondent Rationale	Staff Response / Preliminary Analysis
10	Individual	Ewer, Sid	NR	NR	<p>It is probably useful to bring up the term [tax expenditures] in the notes when discussing revenues but downplay the term's importance here. Something like, "non-exchange revenues do not report separately the effect of certain allowances, deductions and credits, such as health insurance contributions, mortgage interest deduction and child care credit, the effect of such items would increase federal revenue. The Congressional Budget and Impoundment Act (CBIA) of 1974 termed such items "Tax Expenditures." [This sentence lets the reader know that the term is written into the U.S. Code over 40 years ago and it cannot go away without an act of Congress.] These items and their estimation are important to federal government management decision makers and they are discussed at length in this CFR's Management Discussion and Analysis.</p>	Respondent is concerned about the use of the term "tax expenditures" for the lay reader.	<p>Notes to the financial statements enhance a reader's understanding of the financial statements. There is nothing inherent in the nature of Tax Expenditures as defined by Congressional Budget and Impoundment Act (CBIA) of 1974, I believe, that bringing up the concept will serve the stated purpose of notes. Indeed, just the opposite is likely to occur. Expenditures as defined by Webster or any other common source for defining terms explains an expenditure as an outlay of some physical item or, less commonly, an exhaustion of some energy. In accounting and finance, the term is understood to mean an outlay of assets, generally fund assets. This usage is common among accounting and financial professionals, as well as the lay reader of federal financial reports who possesses a modicum of sophistication. Moreover, the Statement of Federal Accounting Concepts 4, "Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government," notes in Paragraph 6 that the consolidated report should be "...understandable to the average citizen who has a reasonable understanding of Federal Government activities and is willing to study the information with reasonable diligence." To most average citizens, even those with reasonable understanding of Federal Government, etc., expressing expenditures as defined by CBIA of 1974 is an alien idea. It's alien to even more sophisticated users, except pertinent U.S. Treasury officials, and even they understand the term 'expenditure' in its non-CBIA of 1974 connotations. In financial accounting circles, reductions against revenues are referred to as allowances or discounts, not expenditures.</p> <p>Tax expenditures are, however, similar to the concept of opportunity costs in management accounting. Opportunity costs are the benefits foregone by not choosing a particular option because another option was chosen. In federal government revenue structure, the increased taxes from individual taxpayers by disallowing the mortgage interest deduction is a foregone benefit, i.e., an opportunity cost. It is still not an expenditure, as the term is generally applied. I can understand, I think, the thinking behind calling them expenditures. By not collecting extra tax revenue due to certain tax provisions, the government is attempting to accomplish certain goals by letting certain citizens expend from its tax savings rather than the federal government collect and expend what would have been savings to citizens. Maybe on the same or similar goal, but maybe not. In any case it is too nebulous a term to be used to any great extent in the notes to the financial statements.</p>	<p><b>Staff analysis:</b> Paras. 14-15 of the proposed standards were worded in such a way so as to encourage plain language presentation and enhance the understanding of readers unfamiliar with the topic. Pages 33 and 35 introduce tax expenditures using plain language verbiage; these represent non-authoritative illustrations of approaches to reducing the risk of confusion among readers and explain the concept in such a way to allow those familiar with the concept of opportunity cost to make the connection that tax expenditures can be considered to be somewhat equivalent.</p> <p>Use of an alternative term would likely generate disagreement from users familiar with the legal definition of the term "tax expenditures." SFFAC 1 para. 158 notes that general purpose financial reports should include explanations and interpretations to help report users understand the information in the proper context. However, general purpose financial reports should not exclude information merely because it is difficult to understand or because some report users choose not to use it." Use of the term tax expenditures, coupled with plain language explanations and context, and requiring that the preparer provide a plain language definition (as para. 14-15 are designed to do), is consistent with the qualitative characteristic of "understandability." Although not all users are familiar with the term, it must be assumed that users will read the explanatory information and context within the disclosure narrative rather than reading the term "tax expenditure" in isolation. Staff believes that the proposed requirements provide criteria that require the preparer to present the term in a manner that enables the average citizen to understand it, provided that they are willing to read the related narrative and study the information with reasonable diligence.</p>
11	Government Agency - Auditor	Government Accountability Office	Y	Y	None		<p>We support the board's efforts and commend the board for proposing guidance for increasing the transparency of tax expenditures in the CFR. It is our view that the proposed guidance will assist in achieving the budgetary integrity, operating performance, and stewardship objectives of federal financial reporting in the CFR. In addition, we support the board's view that the exposure draft presents a meaningful and cost-effective approach for enhancing the transparency and accountability of tax expenditures in the CFR.</p>	



The Board is proposing that management’s discussion and analysis (MD&A) in the CFR include a discussion of tax expenditures, their general purpose, and how they impact the government's financial position and condition. The proposed standards also require discussion of other factors that may affect tax collections in order to place tax expenditure information in an appropriate context. The specific proposed requirements are presented in paragraph 17 and sub-paragraphs 17.a-17.e beginning on page 14. An illustrative example of how these proposed requirements might be presented in MD&A is provided in Appendix D: Illustrations beginning on page 32.

- (1) Do you believe that these proposed requirements related to MD&A will be helpful to readers?  
(2) Do you believe the placement of the proposed requirements in MD&A in the CFR is appropriate?  
Please explain the basis for your view and note any recommended changes in the requirements.

Resp. No.	Resp. Type	Entity / Name	Response 1	Response 2	Respondent Recommendation	Rationale Type	Respondent Rationale	Staff Response / Preliminary Analysis
1	Individual	Steinberg, Harold	Y	Y	I would add to the MD&A example, the identification of the six types of tax expenditures which are already proposed for disclosure in the footnotes.	Concurs with ED rationale	Readers are more likely to read the Management’s Discussion and Analysis than the footnotes.	<p>It is unclear whether the respondent favors adding a requirement to para. 17 or simply wishes to change the illustrative example (which is non-authoritative). Staff concurs with the suggested edit.</p> <p><b>Staff response:</b> Agree <b>Staff recommendation:</b> Insert the paragraph 15.b requirement as an MD&amp;A requirement as well. Paragraph 15.b text would be copied and inserted between current paragraph numbers 17.b and 17.c. in the proposed standard. Illustration text would be amended accordingly.</p>
2	Federal Agency	U.S. Department of Labor	NR	NR	None		No response	
3	Federal Agency	Social Security Administration	Y	N	We believe this information should appear in Other Information (OI).		Given the uncertain nature and variability of tax expenditure estimates, we would restrict discussion of the topic to the non-audited portion of the CFR	<p><b>Staff analysis:</b> Tax expenditure estimates are not part of the proposed requirements for information to be included in the financial statement notes. The information in para. 17 is important to include in the notes to the financial statements for reasons enumerated in paras. A5, A6, A7, and A8</p>
4	Individual	Marren, Joseph	N	N			See QFR 4 tab, Resp No. 4.1 - 4.3	See staff analysis of Resp No. 4.1 - 4.3 at QFR 4 tab



Tab 5 - Attachment 2 - QFR 2 Response Summary File

Resp. No.	Resp. Type	Entity / Name	Response 1	Response 2	Respondent Recommendation	Rationale Type	Respondent Rationale	Staff Response / Preliminary Analysis
5	Federal Agency	Treasury - Office of Tax Policy	Y	Y		Concurs	<p>Consistent with our response to Question 1, a brief, summary discussion of Tax Expenditures, consistent with the overall scope of other MD&amp;A content, with appropriate references to more substantive discussion of Tax Expenditures located elsewhere within and/or outside of the CFR is a reasonable approach to educating the public about this topic.</p> <p>SFFAS 15 notes that the purpose of the MD&amp;A is to “(1) communicate managers’ insights about the reporting entity, (2) increasing the understandability and usefulness of the general purpose federal financial report (GPFFR), and (3) provide understandable and accessible information about the entity and its operations...”. As such, including a brief discussion of tax expenditures, their general purpose, and how they conceptually impact the government’s financial position and condition in the MD&amp;A is a reasonable approach and, given the prominence of the MD&amp;A section, can be an effective means of educating the general public about this topic, or at least introducing it to them. That said, key portions of our response to Question 1 are equally applicable here: Tax Expenditures is a complex topic. Treasury’s Office of Tax Policy, as well as other organizations, such as the Joint Committee on Taxation already have made and continue to make substantive information available to the public in other on-line forums. To ensure that readers fully appreciate and understand the complexities of Tax Expenditures, the preparer should be provided with the discretion to refer readers to other, external resources as either a complement to or in lieu of direct CFR content.</p>	<b>Staff response:</b> The respondent's views appear to be generally consistent with the proposed requirements in paragraph 17 and sub-paragraphs 17.a-17.e., indicating general concurrence with the standard as it relates to QFR 2.
6	Nonprofit Organization	Heritage Foundation: Curtis Dubay David Burton	NR	NR	None			See staff analysis of Resp No. 6.1 at QFR 4 tab
7	Other - Elected Official	Senator Enzi	NR	NR	<p>Disclosure requirement: Paragraph 17 includes "a description of how tax expenditures are treated for budgetary and financial reporting purposes, including their impact on the surplus (deficit), and their treatment with the federal budget process." As tax expenditures are treated within the federal budget process as relative to a normal tax system's baseline, that should be clarified for the user. The deficit is not provided in the illustration.</p> <p>Illustration: This baseline concept should be integrated into the phrase that "tax expenditures are 'revenue reductions' in that the provisions reduce taxes owed, and, therefore revenue collected." The language would mirror statute closely if it read: "tax expenditures are 'revenue losses' in that provisions reduce tax liability relative to a normal tax system's baseline."</p>	Does not explicitly oppose the disclosure requirements, but provides recommended changes.		<b>Staff analysis:</b> See staff recommended edits at Resp No. 7 at QFR 1 tab.  The respondent may have overlooked discussion on the impact to the surplus/deficit. The discussion is located at p. 35 of the illustration under "Tax Expenditures - Impact on "What Came In" and "The Bottom Line"" within the second paragraph. Similar discussion is also included in the OI illustration under the first paragraph. No change appears to be needed with respect to Mr. Enzi's particular comment regarding the deficit.  With respect to the suggested illustration edit, staff proposed an edit at Resp No. 6.1 at QFR 4 tab to incorporate some aspects of the recommended edit. See staff recommended edit. However, the phrase "revenue collected" cannot be changed to "tax liability" because this the term "liability" in this context is from the perspective of the taxpayer rather than the federal government.

Tab 5 - Attachment 2 - QFR 2 Response Summary File

Resp. No.	Resp. Type	Entity / Name	Response 1	Response 2	Respondent Recommendation	Rationale Type	Respondent Rationale	Staff Response / Preliminary Analysis
8	Individual	Dillard, Joyce	Y	Y			Yes, but it is still difficult to understand the overall benefit of such expenditures. One example is New Markets Tax Credit that involves many non-profit entities but pass-throughs to taxable entities including individuals. Benefits are difficult to distinguish from the intention.	<b>Staff analysis:</b> It appears that the respondent agrees with the proposed requirements and that the additional commentary does not represent recommended changes.
9	Association/ Industry Organization	Greater Washington Society of CPAs - Federal Issues and Standards Committee	Y	Y	None		The FISC agrees that the proposed requirements related to MD&A will be helpful to readers. The FISC also concurs with the placement of the proposed requirements in MD&A.	
10	Individual	Ewer, Sid	NR	NR	See QFR 3 tab Resp. No. 10.	Respondent appears to agree with paras. 17 and 17.a-17.e although the agreement is not explicit in the letter. Also see additional comments from the respondent regarding MD&A at QFR 3 tab Resp. No. 10.	Management should be discussing the effect of what the CBIA of 1974 terms "tax expenditures." It is entirely appropriate the MD&A house this discussion. Here is where the concept can be explained, including how it arose over 40 years ago. It is also where details on major individual items should be provided (see Q2 that follows).  [Staff note: It appears that a numbering error, perhaps caused by Microsoft Word auto-number, caused the respondent to misnumber Q3 as Q2 in the text above... "see Q2 that follows" should read "see Q3 that follows.")	See staff analysis at Resp. No. 10 of QFR 3 tab.
11	Government Agency - Auditor	Government Accountability Office	Y	Y	None		We support the board's efforts and commend the board for proposing guidance for increasing the transparency of tax expenditures in the CFR. It is our view that the proposed guidance will assist in achieving the budgetary integrity, operating performance, and stewardship objectives of federal financial reporting in the CFR. In addition, we support the board's view that the exposure draft presents a meaningful and cost-effective approach for enhancing the transparency and accountability of tax expenditures in the CFR.	

The Board is proposing to encourage rather than require the presentation of a selection of major tax expenditure estimates, such as those published annually by the Department of the Treasury's (Treasury) Office of Tax Policy, as other information (OI) in the CFR. The proposed information to be encouraged is presented in paragraphs 19-20 and subparagraphs 20.a-20.c. An illustrative example of how this proposed information might be presented in OI is provided in Appendix D: Illustrations beginning on page 38.

Statement of Federal Financial Accounting Concepts (SFFAC) 6 paragraph 5 provides that OI is information that accompanies basic information and required supplementary information (RSI), but is not required by a body that establishes generally accepted accounting principles. For additional information regarding OI, see Appendix C: Characteristics of Other Information beginning on page 30.

The Board's basis for reaching this proposal to encourage such information be included in OI is documented in Appendix A: Basis for Conclusions, beginning on page 16.

Appendix B: Tax Expenditures Explained beginning on page 23 includes important considerations behind the Board's proposal, including how Treasury's Office of Tax Policy prepares tax expenditure estimates and how those estimates can be used and interpreted.

- (1) a. Do you believe that the proposed information, as outlined in paragraphs 19-20 and subparagraphs 20.a-20.c would be helpful to readers? Please explain the basis for your view and explain any recommended changes.
- (2) b. Do you agree with the Board's rationale for encouraging the presentation of the proposed information as OI in the CFR, as provided in 20.a-20.c? Please explain the basis for your view.

Resp. No.	Resp. Type	Entity / Name	Resp 1	Resp 2	Respondent Recommendation	Rationale Type	Respondent Rationale	Staff Response / Preliminary Analysis
1	Individual	Steinberg, Harold	Y	N	Prefers presentation in RSI	Respondent believes that more attention will be provided to the preparation and use of tax expenditure estimates by including them in RSI without significantly negative or costly audit implications.	<div>(1) Absent disclosure of the general magnitude of the tax expenditures, the rest of the information is rhetoric. For there to be decision useful information, there needs to be identification of the specific purposes for which tax expenditures are provided and the amounts.</div> <div>(2) RSI is a higher level than OI. The higher the level at which the information is presented, the more attention that will be provided to its preparation and use. My understanding is that for auditors to accept information as RSI, they must be satisfied with the methods of preparing the information, i. e., it must have come from a system of records rather than simply drawn from "thin air;" and with comparisons of the information for consistency with management's responses to the auditor's inquiries, the basic financial statements, and other knowledge obtained by the auditor during the audit. By definition, the information is obtained from the Department of the Treasury who, albeit relying on estimates and conjectures, nevertheless uses a systematic approach to prepare the information. Furthermore, absent other information on the specific tax expenditures, there should be no inconsistencies with the comparisons.</div>	<div>Staff response: Agree</div> <div>Staff recommendation: See Tab A briefing memorandum to the Board dated December 8, 2015.</div>
2	Federal Agency	U.S. Department of Labor	NR	NR	None		No response	
3	Federal Agency	Social Security Administration	Y	Y	None		<div>(1) We agree the information is helpful in terms of providing a sense of the scale of tax expenditures. At the same time, due to the (understandably) uncertain nature of the estimates, we believe these numbers should not appear in an audited section of the CFR in the future.</div> <div>(2) We believe FASAB should encourage the presentation of tax expenditures information in the OI section of the CFR, as such information helps provide additional data that advances Federal financial reporting by providing transparency and context surrounding the general magnitude and impact of tax expenditures on the Government's financial position.</div>	
4	Individual	Marren, Joseph	N	N			See QFR 4 tab, Resp No. 4.1 - 4.3	See staff analysis of Resp No. 4.1 - 4.3 at QFR 4 tab

Tab 5 - Attachment 3 - QFR 3 Response Summary File

Resp. No.	Resp. Type	Entity / Name	Resp 1	Resp 2	Respondent Recommendation	Rationale Type	Respondent Rationale	Staff Response / Preliminary Analysis
5	Federal Agency	Treasury - Office of Tax Policy	NR	NR		Respondent does not explicitly express non-concurrence in the attached response but does express non-concurrence in its letter (see below). Respondent emphasizes the importance of clarity, minimalization of duplication, and effective communication and presentation in the attached response.	<p>FASAB should be commended for seeking to ensure that the public is better informed about a topic that has such a broad effect. Treasury's Office of Tax Policy, as well as the Joint Committee on Taxation are both dedicated to providing the public with relevant information on this complex topic. Both organizations provide annual listings and analyses of tax expenditures.</p> <p>But it is important to note that, as mentioned in our responses to both Q 1 and 2, this information can be complex, and as such, the risk of misperception is real. As such, it is our responsibility to ensure that any reporting, whether quantitative, qualitative, or both, possesses sufficient clarity and minimizes redundancy and duplication of effort. Such reporting should leverage resources and communication channels that optimize the effectiveness of tax expenditure reporting – not just in the context of the CFR – but in the broader, collective federal space.</p> <p>Given the complexity of the topic of Tax Expenditures, encouraging reporting in the OI section is entirely appropriate. It is very reasonable to assume that reporting on Tax Expenditures in the CFR in any form or fashion will require an evolutionary and iterative approach. Consistent with task force discussions, tax expenditures reporting, if not approached in a deliberate and deliberative manner, even after the final standards are issued, can raise more questions than provide answers. Furthermore, given that tax expenditure reporting is predicated largely on complex estimates and projections, it is imperative that the preparer retain the discretion to include and/or configure any quantitative or qualitative presentation and/or to leverage and/or reference other resources that either currently exist and/or which may be developed to ensure that most germane information about Tax Expenditures is effectively communicated to the reader.</p>	
5A	Federal Agency	Treasury - Office of Tax Policy	Partially	Partially		Respondent does not concur with the proposed paragraph wherein the Board encourages the inclusion of tax expenditure estimates in OI.	<p><b>Letter:</b></p> <p>We are concerned that an inclusion of tax expenditure estimates would not comport with the primary mission of the CFR to present the state of the government's finances. While some tax expenditures are viewed for policy purposes as akin to spending programs, for financial purposes they are quite different. The CFR's reporting of tax revenue already fully reflects the financial consequences of tax expenditures. Theoretically, one could alter the reporting to "gross up" revenues to reflect a world without tax expenditures and then show the tax expenditures as a net cost, this new accounting presentation would have no impact on the bottom line statement of the government's financial position. In addition to having no impact on the bottom line, in practice the information that is available on "tax expenditures" as currently defined is not appropriate nor sufficient to prepare this type of integrated presentation of activities conducted through the tax code.</p> <p>Treasury agrees that adding a brief discussion of tax expenditures to the CFR in both the management's discussion and analysis and the notes could help readers understand in general terms the breadth of the government's activities. However, it is not helpful to the reader to include a selection of tax expenditure estimates with "Other Information" or as any other presentation in the CFR. The illustration with the ED appears to suggest that simply reprinting a subset of tax expenditure estimates from the list in the Administration's Budget would aid the reader of the CFR in understanding the government's finances. We believe that reporting in this context is more likely to confuse many readers. Presenting a subset of tax expenditure estimates pulled from another publication, coupled with the fact that the impact of tax expenditures is already fully integrated in the CFR in the tax revenue accounting, leads us to believe that it would be difficult for many readers to understand how the material on tax expenditures relate to the other reporting in the CFR.</p> <p>We agree with the overall goal of continuing to expand public access to tax expenditure information and we strongly believe that the appropriate place to present detailed discussion and estimates of tax expenditures is on the Treasury website, where this information can be placed in the appropriate context and linked with relevant background information. Treasury supports providing a link in the CFR to the other Treasury reporting of tax expenditures so that interested readers could learn more about tax expenditures, how they work, and the government activities they support.</p>	<p><b>Staff analysis:</b> As noted in Appendix B of the ED, while tax expenditures help determine the government's net revenue, tax expenditures are not explicitly displayed in the Statements of Net Cost or Changes in Net Position. Although the inclusion of tax expenditure information within these statements would not change the bottom line amounts, information on the factors that impact these amounts - such as net revenue - would be highly relevant to users of the financial statements given their magnitude. This impact is not currently transparent in the CFR.</p> <p>Due to voluminous number of tax expenditures, their considerable size, and the challenges with summing and auditing the underlying estimates for each, the Board decided to propose a Statement encouraging the presentation of individual estimates of the major tax expenditures as way to provide relevant information regarding some sense of the magnitude of impact that tax expenditures have on net revenue.</p>
6	Nonprofit Organization	Heritage Foundation: Curtis Dubay David Burton	N	NR	See QFR 4 tab			See staff analysis of Resp No. 6.1 at QFR 4 tab

Resp. No.	Resp. Type	Entity / Name	Resp 1	Resp 2	Respondent Recommendation	Rationale Type	Respondent Rationale	Staff Response / Preliminary Analysis
7	Other - Elected Official	Senator Enzi	NR	NR	<p>Disclosure requirements: Paragraph 20 include "the general magnitude of tax expenditures and their impact on federal revenues (revenue effect) during the fiscal year." Again, this should state there is not an equivalent deficit effect. Appendix B has repeated language from Treasury and JCT that tax expenditures are not necessarily equivalent to forgone revenue, so disclosing a revenue effect is contradictory. For example, the Other Information cannot sum to total the general magnitude, but instead provides a table of Treasury's top expenditures listed independently.</p> <p>Illustration: The Estimates section includes some limitations that were included in Appendix B and are supported by Treasury and JCT, but it is not comprehensive. One major consideration is the significant judgment required to determined whether a provision is a tax expenditure, so it should also note that Treasury uses two different baselines, which also differ from JCT's baseline. Another major consideration is that estimates do not necessarily equal changes in federal revenues (or the deficit). The language should include why the list of major tax expenditures cannot be summed to total. This section should also include the statement from Appendix B that "a present-value alternative that considers the full life cycle of the taxable activities may be more useful for tax expenditures involving deferrals or other long-term revenue effects."</p> <p>Informing the user of published estimates should be comprehensive. Figure 1 is an out of context table that lists the largest 20 tax expenditures, "Ranked by Revenue Effect." It would be more accurate to refer to it as a baseline effect and to link to Treasury's full report. It should be noted that this table is a current table, and Treasury also provides a present-value list that may be more appropriate. JCT also has a separate list that could be used for comparison.</p>	Respondent does not appear to fundamentally oppose the disclosure requirements, but provides several recommended changes/edits.		<p><b>Staff analysis:</b> With respect to paragraph 20 and the commentary regarding the contradictory nature of disclosing revenue effects, the Board may wish to consider an additional footnote or disclosure in OI similar to language in footnote 21 of Appendix B. Otherwise, staff believes that presenting estimates of forgone revenue and noting that such estimates are not necessarily equivalent to forgone revenue due to incentive effects and interactions among tax provisions is not necessarily contradictory, but rather a disclosure of the limitation of those estimates. These limitations are already disclosed in the illustrative example in OI and such limitations are encouraged to be disclosed in the illustrative example and in para. A10 of the BFC.</p> <p>&gt; With respect to the suggested addition of language noting the significant judgment required to determine whether a provision is a tax expenditure, a statement is included in the Other Information illustration of Appendix D to that effect; however, it is worded in a different way. See statement on p. 39 of ED: "Significant judgment is required to <u>identify</u> and measure special provisions of the income tax code..." The Board may wish to consider revising the wording of the illustration to wording suggested by the commentor. Staff views both statements as being nearly equivalent information, but simply different wording.</p> <p>&gt; In the ED version, staff elected to not discuss challenges associated with summing tax expenditures because the estimates presented are not summed. Treasury is provided with flexibility to include such a statement though, as the illustrative example of the limitations of tax expenditure estimates is not authoritative.</p> <p>&gt; A link to Treasury's full report is provided in the table footnote; however, it does not stand out because it is not presented in hyperlink blue print. Staff proposes changing the print to blue to illustrate and call out the hyperlink.</p> <p>&gt; Treasury is afforded the flexibility to inform users regarding the availability of present value estimates and other sources of tax expenditure estimates. The illustration is merely an example and is non-authoritative.</p>
8	Individual	Dillard, Joyce	NR	NR	None			
9	Association/ Industry Organization	Greater Washington Society of CPAs - Federal Issues and Standards Committee	Y	Y		FISC members strongly support paras. 19-20 and BFC para. A11	The FISC agrees that the proposed information would be helpful to readers. The FISC members voiced strong support for the inclusion of the tax expenditure estimates, such as those displayed in Figure 1 (Largest 20 Tax Expenditures, Fiscal Years 2016 and 2015 (Ranked by Revenue Effect)) in Appendix D of the ED. The FISC members commented that the presentation of estimates alongside the discussion of tax expenditures provides substantial value in meeting the Board's goals of this ED (listed in paragraph 6 of the ED). If the Board concludes that it is not appropriate to require the inclusion of estimates in the CFR, the FISC supports the Board's decision in paragraph A11 of the ED that additional measurement, recognition, and disclosure guidance may be required in the future if the presentation of tax expenditures in the CFR, once this ED is fully effective, does not meet the Board's goals.	
10	Individual	Ewer, Sid	Y	N	I don't think it is necessary, or even desirable, to include this information in OI. The information should be included in the MD&A.	Respondent views MD&A (RSI) to be an appropriate classification for the proposed requirements in paras. 19-20.		<p><b>Staff analysis:</b> Partially agree. Staff recommended RSI classification in briefing memorandum to the Board dated December 8, 2015. Although staff did not recommend placing this information in the MD&amp;A, the respondent is effectively recommending the information be classified as RSI, which is consistent with the staff recommendation.</p> <p><b>Staff recommendation:</b> See Tab A briefing memorandum to the Board dated December 8, 2015.</p>

Resp. No.	Resp. Type	Entity / Name	Resp 1	Resp 2	Respondent Recommendation	Rationale Type	Respondent Rationale	Staff Response / Preliminary Analysis
11	Government Agency - Auditor	Government Accountability Office	Y	Y	None	Respondent supports paras. 19-20 and the related BFC paras. A9-A12	<p>We support the board's efforts and commend the board for proposing guidance for increasing the transparency of tax expenditures in the CFR. It is our view that the proposed guidance will assist in achieving the budgetary integrity, operating performance, and stewardship objectives of federal financial reporting in the CFR. In addition, we support the board's view that the exposure draft presents a meaningful and cost-effective approach for enhancing the transparency and accountability of tax expenditures in the CFR.</p> <p>We also acknowledge the unique and significant challenges inherent in defining, estimating, reporting, and auditing tax expenditures that the task force identified, including concerns about</p> <ul style="list-style-type: none"><li>• the quality, timeliness, and availability of reliable data upon which tax expenditure estimates are based;</li><li>• existing differences in the list of tax expenditures identified by two credible sources of such estimates—the Department of the Treasury's Office of Tax Policy and the U.S. Congress Joint Committee on Taxation;</li><li>• estimation methodologies for certain tax expenditures that can neither be tested nor improved over time by assessing their historical performance against actual tax return data or transactions; and</li><li>• assessing historical performance for certain tax expenditures that require the use of data that are not collected on tax returns or otherwise available because the estimates are imputed rather than based on recordable transactions that have actually occurred.</li></ul> <p>Given such challenges, the board concluded that it is not appropriate to require presentation of tax expenditure estimates at this time. In the future, with experience gained in reporting tax expenditure information, we believe that the board should reevaluate the costs, limitations, benefits, and other implications of developing additional measurement, recognition, and disclosure guidance for tax expenditures.</p> <p>As the board noted in the ED, before such reevaluation efforts are undertaken, the following matters need to be considered:</p> <ul style="list-style-type: none"><li>• how best to define, identify, and measure tax provisions that are relevant for financial reporting;</li><li>• whether it is feasible to develop estimates that are considered to be representationally faithful and auditable; and</li><li>• if auditability can be achieved, what considerations would enable the preparer and auditor to achieve their respective responsibilities in a reasonably cost-effective manner.</li></ul> <p>Another matter that needs to be considered is the development of methodologies for aggregating tax expenditures that would account for interactions between individual tax expenditures.</p>	



This exposure draft (ED) proposes disclosure requirements and RSI to be included in the notes to the financial statements and MD&A sections of the CFR, respectively, that would support SFFAC 1 Objective 1, Budgetary Integrity, including Sub-objectives 1A and 1C; Objective 2, Operating Performance; and Objective 3, Stewardship.						
More detailed discussion of these reporting objectives and sub-objectives and how they are supported by the proposed requirements in this ED can be found in the Purpose section beginning on page 10 and the Appendix A: Basis for Conclusions section beginning on page 16.						
Appendix B: Tax Expenditures Explained beginning on page 23 provides additional background which may aid respondents' understanding of tax expenditures, their "plain language" definition, why they are important, how estimates are prepared, and considerations for understanding how estimates can be used.						
Are there any other changes that you believe should be made to the proposed Statement? Please provide rationale for your answer.						
Resp. No.	Change No.	Resp. Type	Entity / Name	Respondent Recommendation	Respondent Rationale	Staff Response / Preliminary Analysis
1	1.1	Individual	Steinberg, Harold	I believe the Standard should indicate the appropriateness of potentially extending the requirement to at least certain components.	<p>Federal accounting concepts and standards are written for the government-wide financial statements and the component financial statements. Program managers would not have been listed among the users of Federal financial reports if the only report FASAB is to be concerned with is the government-wide report. Many are as interested in the components' financial reports as they are in the government-wide financial report.</p> <p>Furthermore, many component's achievements are financed as much through tax expenditures as through outlays, e. g., HUD's goal to achieve defined levels of home ownership is achieved largely through the mortgage interest and state and local government property tax tax expenditures; HHS' goal to advance the health care of the American people is achieved largely through the exclusion of employer contributions for medical insurance premiums and medical care. Hence a report that enables users to evaluate a component's service efforts, costs, and accomplishments should explain and identify whether there are significant tax expenditures associated with the component's services.</p> <p>Paragraph A.3.b.i claims there would be "potentially significant challenges and costs" incurred by components reporting tax expenditures and that the process would be "time consuming and costly to the preparer." I fail to see how using the same explanations and identifying individual tax expenditure and the amounts already identified in the government-wide financial report would present significant challenges or be time consuming or costly to component-level preparers.</p>	<p><b>Staff response:</b> Add additional clarification to para. A.3.b.i to more clearly articulate the challenges of identifying and assigning tax provisions that align with agency goals. Consider incorporating findings of a recently-released GAO report: GAO-16-622. GAO noted that a lack of clarity about agencies' roles leads to inaction in identifying tax expenditures that contribute to agency goals. OMB cited capacity constraints in its ability to support agency efforts in this area. The lack of clarity about agency roles and the nexus of tax expenditures to their service efforts, costs, and accomplishments of individual agencies can vary . For example, the premium tax credit clearly contributes to the goals of HHS because they play a role in operating the marketplace and administering advanced payments of the premium tax credit to issuers; however, if agencies do not have a defined role in administering a tax expenditure, they may choose not to identify the tax expenditure's contributions to agency goals because the connection is not as clear or quantifiable.</p> <p>As a result, implementation of this change would likely make it necessary for FASAB to develop recognition criteria or implementation guidance for identifying tax expenditures that contribute to agency service efforts, costs, and accomplishments in order to assist agencies with these efforts.</p>
1	1.1A	Individual	Steinberg, Harold	I believe the Standard should indicate the appropriateness of potentially extending the requirement to at least certain components.	<p>OMB Circular A-11, Budget Preparation, Submission, and Execution, Section 51.11, Taxes and Tax Expenditures requires that each agency "reflect full and explicit consideration of the resources made available by the Federal Government through tax expenditures (bold face added) and other tax incentives" and "should be prepared to submit justifications for continuing or reenacting existing taxes and tax expenditures in the program areas for which they have primary responsibility." The Circular also provides the reasons agencies should identify their tax expenditures in their budget requests, namely, that tax expenditures often complement or substitute for agencies' spending or regulatory programs that contribute to the agency's strategic objectives, and the resources and incentives provided through tax expenditures can be substantial.</p> <p>Furthermore, GAO recently issued a report titled Opportunities Exist to Use Budgeting and Agency Performance Processes to Increase Oversight (GAO-16-622). The report emphasized the importance of tax expenditure information at the agency level for evaluating the contribution that tax expenditures make to the agencies' missions and goals.</p> <p>As long as there are legislation and regulations requiring agencies to report tax expenditures in their agency budget submissions, agencies should report the actual tax expenditures related to their programs in their annual financial reports. This would be consistent with the sub-objective in Statement of Federal Financial Accounting Concepts 1 Objectives of Financial Reporting that states "Federal financial reports should help readers determine how their budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization."</p> <p>Furthermore, the GAO report provides a strong rationale for how tax expenditure information at the agency level fulfills the sub-objective "Federal financial report should help readers determine the costs of providing specific programs and activities and the composition of, and changes in, these costs."</p> <p>I believe the above represent further reasons why extending the requirement for tax expenditure information to at least certain components should be included in the standard.</p>	<p><b>Staff response:</b> See response to 1.1 above.</p>
1	1.2	Individual	Steinberg, Harold	Paragraph 3 (and several subsequent parts) state "Other tax expenditures resemble discretionary spending programs, for which Congress appropriates annual funding." I do not see the comparison. Perhaps this can be elaborated upon.	N/A	<p><b>Staff response:</b> Agree.</p> <p><b>Staff recommendation:</b> Add an example within the sentence. GAO-16-622 includes a good example to help readers make the connection. <i>"Other tax expenditures, such as the low-income housing tax credit, resemble discretionary spending programs, for which Congress appropriates specific funding each year."</i></p>
1	1.3	Individual	Steinberg, Harold	Page 37, 2nd bullet, 4th line. Is "As such" needed?	The rest of the sentence is not a sequiter.	<p><b>Staff response:</b> Disagree. Other change needed.</p> <p><b>Staff recommendation:</b> Re-order sentences in bullets from 1,2,3 (current order) to 1,3,2 (new order). Third sentence is linked to or the result of the first sentence--not the second.</p>
1	1.4	Individual	Steinberg, Harold	Page 39, 1st full paragraph, 3rd line. The second word "are" should be eliminated. "	N/A	<p><b>Staff response:</b> Agree. Change will be made.</p>
2	2.1	Federal Agency	U.S. Department of Labor	Paragraph 10, Increased costs associated with Agencies' formal and informal reporting, auditing, and review processes is a factor that should be considered in the cost/ benefit of the Statement.	Although the reporting requirements of the proposed Statement do not apply to the financial statements of component reporting entities, the standards may indirectly increase the reporting requirements of component reporting entities. Information presented in the consolidated financial report of the U.S. Government (CFR) is based, among other things, Agencies' "closing package" reporting submitted through the U.S. Department of the Treasury's (Treasury's) Governmentwide Financial Report System (GFRS); at the component entity reporting level, the closing package has its own audit and audit opinion. If Treasury requires additional information from Agencies through the closing package, this would increase reporting and audit requirements at the component entity level. Treasury also collects information from Agencies in less formal reporting and processes, e.g., data calls to Agencies requesting information based on interim reporting. If Treasury requires additional information from Agencies through informal reporting processes, this would increase reporting requirements at the component entity level. The draft CFR goes through review at the Agency level; an increase in CFR reporting may also increase review at the Agency level.	<p><b>Staff response:</b> The requirements in the exposure draft in its current state do not impact component-level entities beyond the U.S. Department of Treasury. There are no requirements enumerated in this exposure draft that could foreseeably be implemented by adding additional information to the closing packages for agencies.</p> <p>The cost-benefit considerations recommended by the respondent are consistent with those already enumerated and documented by the Board in the Basis for Conclusion, paras. A3 and A9-A12 and the related sub-paragraphs.</p>



Resp. No.	Change No.	Resp. Type	Entity / Name	Respondent Recommendation	Respondent Rationale	Staff Response / Preliminary Analysis
2	2.2	Federal Agency	U.S. Department of Labor	Paragraphs 19 and 20, Appendix D. The qualitative aspects of tax expenditures should also be considered, e.g., the tax expenditures that are used most frequently (most popular); tax expenditures that are more likely subject to fraud and abuse.		<b>Staff response:</b> The Board elected to be non-prescriptive and provide the Department of the Treasury with discretion and flexibility with regard to the presentation of select estimates. Treasury is not precluded in the current standard from considering qualitative aspects of tax expenditures in its presentation. Appendix D is merely an illustration of presenting estimates based on dollar amounts; however, this is not a requirement in the standard.
2	2.3	Federal Agency	U.S. Department of Labor	Paragraph 22, The required implementation date should be later than FY 2018	So that it would not occur at the same time as implementation of SFFAS 47, Reporting Entity.	<b>Staff response:</b> Because these requirements do not impact component-level entities, the Board and staff have considered and will continue to consider the views of the Department of Treasury with respect to the implementation date.  The requirements enumerated in this standard are strictly disclosures and would not take as long to implement as standards with recognition and/or measurement criteria.
2	2.4	Federal Agency	U.S. Department of Labor	When providing information about tax expenditures, the information should be specific as to whether they are tax expenditures for income taxes or some other type of taxes.	Throughout the document, references are made to tax expenditure reports of the Treasury's Office of Tax Policy. As far as we could determine, the Treasury report covers tax expenditures on income taxes, but not on other types of tax expenditures (e.g., excise taxes, employment taxes, and estate and gift taxes).	<b>Staff response:</b> Generally agree. The scope of the proposed Statement is limited to the current definition of tax expenditures, as defined by the Congressional Budget and Impoundment Act of 1974. As a result, additional specificity in the proposed Statement is not necessary. Having said that, staff concurs that the illustrations in Appendix D need to be more explicit regarding what type of taxes are impacted by tax expenditures.
3	3.1	Federal Agency	Social Security Administration	None	We have no additional suggestions.	
4	4.1	Individual	Marren, Joseph	Arguably, FASAB is rewriting Article I, Section 9, Clause 7 because tax expenditures do not have appropriations and do not involve Money that ever reaches the Treasury. Therefore, in order to publish an accurate Statement and Account the federal government cannot legally include Tax Expenditures in it. The Constitution does not limit Congress in any way from disclosing additional information. However, it cannot mix legally required disclosures and additional disclosures without clearly identifying each. Therefore, it cannot include a tax expenditure discussion in the MD&A section unless it is clearly identified as supplemental information.		<b>Staff response:</b> SFFAS 15 para. 1 defines MD&A to be "required supplemental information," as defined by AICPA auditing standards. SFFAC para. 6 further explains that required supplementary information is information that a body that establishes GAAP requires to accompany basic information. SFFAC para. 73F notes that information required by laws or administrative directives is considered to be Other Information; therefore, the distinction is made clear in FASAB standards and concepts. Therefore, MD&A is already identified by FASAB standards and concepts as being supplemental information required by a body that establishes GAAP. No changes needed.  Article I, Section 9, Clause 7 of the U.S. Constitution does not require that information reported in the CFR be limited to appropriations. FASAB standards and concepts describe what information is required to be included in the CFR, and specifically in the MD&A. No changes needed.
4	4.2	Individual	Marren, Joseph	The bottom line is that the Tax Expenditure Exposure Draft is not an accounting standard. It is merely an invitation to publish JCT or Treasury's figures regarding Tax Expenditures in the CFR. Furthermore, it is unlikely to have substantive impact on the need for tax reform.		<b>Staff response:</b> The objectives of federal financial reporting, as defined in SFFAC 1, do not include objectives or sub-objectives intended to cause federal financial reporting to be a factor that impacts the need of tax reform. The purpose of the standard is to assist users of the CFR in understanding the existence, purpose, and impact of tax expenditures. Although the proposed standard does not promulgate recognition and measurement criteria for tax expenditures, the standards affect the notes to the financial statements. Accounting standards include not only recognition and measurement criteria, but also disclosure criteria for the financial statement notes, as the notes are an integral part of the financial statements. No change needed.
4	4.3	Individual	Marren, Joseph	The idea that publishing additional tax expenditure information in the CFR will lead to tax reform is comical because as David Mosso explained earlier in this memorandum: no one pays any attention to the CFR because its accruals are not included in the budget negotiations. Paragraph 19 states "The Board encourages the presentation of a selection of the major tax expenditure estimates, such as those published annually by Treasury's Office of Tax Policy as OI in the CFR." The Exposure Draft does not amount to an accounting standard. It merely offers to publish in the CFR without alteration whatever the JCT or Treasury come up with. This is not a proposed standard that anyone would ever object to within the government. JCT and Treasury retain complete control over their respective definitions of "tax expenditures." The plain language definition called for in the Exposure Draft is not a real definition in any true sense of the word.		<b>Staff response:</b> The objectives of federal financial reporting, as defined in SFFAC 1, do not include objectives or sub-objectives intended to cause federal financial reporting to be a factor that impacts the need of tax reform. The purpose of the standard is to assist users of the CFR in understanding the existence, purpose, and impact of tax expenditures. Although the proposed standard does not promulgate recognition and measurement criteria for tax expenditures, the standards affect the notes to the financial statements. Accounting standards include not only recognition and measurement criteria, but also disclosure criteria for the financial statement notes, as the notes are an integral part of the financial statements. No change needed.  Para. 9 notes that the proposed Statement does not alter or contradict the definition of tax expenditures, as established by the Congressional Budget and Impoundment Act of 1974. SFFAC 4 para. 6 notes that the CFR is a general purpose statement of accountability to the public that should be easily understandable to the average citizen. Inclusion of a plain language definition is consistent with the qualitative characteristics of understandability, as outlined in SFFAC 6 paras. 157-159. Staff recommends making no changes in this area.

Resp. No.	Change No.	Resp. Type	Entity / Name	Respondent Recommendation	Respondent Rationale	Staff Response / Preliminary Analysis
5	5.1	Federal Agency	Treasury - Office of Tax Policy	None	In general, Treasury believes that a brief discussion of tax expenditures in the MD&A and a somewhat more involved discussion in the OI section (along with reference to existing substantive public information on the topic) is the best approach for effectively informing the public about this important matter. Please see our responses to Q1, Q2, and Q3 for additional proposed alternatives.	
6	6.1	Nonprofit Organization	Heritage Foundation: Curtis Dubay David Burton	<p>It would be constructive for FASAB to set a standard which would result in tax expenditures being included in the consolidated financial report of the U.S. Government (CFR). It is important for the public to understand how tax revenue is reduced by tax preferences that Congress enacts which reduce tax revenues below where they would be under an ideal tax system.</p> <p>However, it is vital that the CFR use a proper definition of tax expenditures, otherwise it will mislead the public. It appears as though FASAB proposes to use the tax expenditures list used by the Treasury Department, the White House Office of Management and Budget, and the Joint Committee on taxation. In the proposal, FASAB indicates that the list used by these agencies is widely-accepted and neutral. That is far from true.</p> <p>FASAB should recommend the CFR include tax expenditures, but only after a thorough review of what should actually be counted as a tax expenditure. If it uses the current list it will create a biased number that will hinder instead of assist the public debate on tax policy.</p>	<p>The standard tax expenditures list is idiosyncratic. It closely adheres to the definition of a "normal tax system" by one individual – Stanley Surrey. That definition has subsequently been adopted by Treasury and the Joint Committee on Taxation. Because of political inertia, it has remained largely unchanged. That does not make it correct. In fact, because the list is inconsistent with either accepted definition of economic income, it is objectively wrong. If the CFR uses that list it will bias the figures it includes.</p> <p>The accepted definitions of economic income are the Haig-Simons definition and the Fisher-Ture definition. The Haig-Simons definition of income is consumption plus changes in net worth. The Fisher-Ture definition of income is gross income minus all outlays or expenditures made to earn current or future income. The definition of tax expenditure varies depending on which definition of income is employed. Since the existing U.S. tax system has provisions based on both definitions, a nuanced and carefully thought out definition of tax expenditure is necessary. The current list does not meet that criterion.</p> <p>The FASAB proposal defines a tax expenditure as a "special exclusion, exemption, deduction, credit, preferential rate, or deferral" from the baseline system. The baseline system employed by the current tax expenditure list is neither Haig-Simons nor Fisher-Ture. Instead, it implicitly accepts as its baseline a definition of income – the Surrey definition – that is inconsistent with the two definitions accepted by economists.</p> <p>Even if the Haig-Simons comprehensive income definition were accepted as the baseline, the tax expenditures list would still be deficient. For instance, a comprehensive income tax does not countenance the double taxation of income. In fact, Henry Simons explicitly rejected the double taxation of corporate income in his influential book Personal Income Taxation.</p> <p>The standard tax expenditures list assumes double taxation is proper in a "normal" tax system. It also assumes that personal and dependent exemptions and standard deductions (or zero bracket amounts) are not tax expenditures. Such a position is political decision, not one rooted in economics. In fact, it is inconsistent with either economic definition of income. If the CFR does not include them it will report strongly biased figures because these tax preferences greatly reduce tax revenue.</p> <p>The current methodology treats graduated corporate rates as tax expenditures (i.e. the reduction in tax due to lower tax rates on lower incomes) but fails to treat graduated individual rates as a tax expenditure. There is no acceptable intellectual argument for such a treatment. Their exclusion from the tax expenditures list is a personal preference of those creating the list. In short, current methodology ignores some of the largest tax expenditures altogether.</p> <p>Absent from the FASAB proposal is an acknowledgment of negative tax expenditures. These are instances where those revenue increases attributable to provisions of the federal tax laws which overstate income by denying a deduction, impose a special higher rate of tax, accelerate tax liability or impose multiple taxes on the same income.</p>	<p><b>Staff analysis:</b> According to Treasury's annual report wherein its estimates are published, the estimates do incorporate certain aspects of the Haig-Simons and Fisher-Ture definitions of economic income to at least some extent. For example, most of the estimates published by Treasury use two baselines, one of which is a baseline patterned on a practical variant of a comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given period of time (similar to the Haig-Simons definition). However, major departures from a comprehensive income tax are listed in the annual report. The respondent is correct in noting that items such as the personal exemption and standard deduction are not considered tax expenditures by OTA when adhering to a comprehensive income tax without embedded variations therefrom. Treasury acknowledges in its publication that deciding whether provisions are exceptions is a matter of judgment. Staff will confirm with Board members whether they wish to proceed with the normal definition. Staff notes that the Board has considered these matters, is aware of and acknowledges the subjective judgments involved in existing estimates, and understands that additional deliberations and analysis must be undertaken by the Board prior to developing additional recognition and measurement criteria in the future (see Basis for Conclusion paras. A9-A12). As a result, the proposed Standard does not deviate from the existing definition of the Congressional Budget and Impoundment Act of 1974 nor does it deviate from or contradict the judgments made by Treasury or JCT practices for recognizing and measuring tax expenditures.</p> <p>The current proposed Standard and the Basis for Conclusions does not provide criteria or discussion to instruct or encourage the preparer to provide examples of the major departures from the comprehensive income tax within Other Information disclosures. Board members may wish to consider incorporating such criteria or discussion within or adjacent to para. 19-20 or A10 and including a corresponding disclosures within the Appendix D Other Information illustration within the bulleted list under "Major considerations regarding the estimates include the following:"</p> <p>In addition, the current proposed Standard does not acknowledge negative tax expenditures. The Board members may wish to consider incorporating such criteria or discussion within or adjacent to para. 19-20 or A10 and including corresponding disclosures within the Appendix D Other Information illustration within the bulleted list under "Major considerations regarding the estimates include the following:"</p>
7	7.1	Other - Elected Official	Senator Enzi	<p>The proposed standards definition of baseline provisions could set up a larger discussion on the alternative and subjective nature of a normal tax system's baseline. It should explicitly state which baseline is being referenced in the disclosure requirements. Similar to how Appendix B discusses behavioral and economic effects, this definition could clarify the "impact of tax expenditures on tax revenues" assumes no behavioral response and is not necessarily the amount of revenue that would be raised if it were repealed.'</p>		<p><b>Staff analysis:</b> With respect to the normal tax system's baseline, staff will raise a question to the Board regarding additional discussion in this area. See staff analysis for Resp. No. 6.1 above.</p> <p>The proposed Standards provide Treasury with discretion and do not prohibit discussion of behavioral and economic effects and the baseline. The Board elected to be non-prescriptive in its proposed requirements to allow the preparer to exercise discretion when describing tax expenditures in the financial statement notes. Additional specificity in the proposed Standards may have unintended consequences of voluminous, complex, and/or confusing disclosures within the context of the CFR.</p>
8	8.1	Individual	Dillard, Joyce	None		
9	9.1	Association/ Industry Organization	Greater Washington Society of CPAs - Federal Issues and Standards Committee	<p>Add a requirement to paragraph 15 that disclosures in the notes to the financial statements should include a discussion of how the economic benefit or impact to the United States of each tax expenditure is assessed or evaluated.</p>	<p>Some FISC members remarked that it is not clear how the ED supports the SFFAC 1 Objective 2, Budgetary Integrity, which states that Federal financial reporting should "assist report users in evaluating the service efforts, costs, and accomplishments" (emphasis added), and Objective 3, Stewardship, which states that Federal financial reporting should provide information to the reader to determine whether "(3) government operations have contributed to the nation's current and future well-being." The ED currently focuses on one aspect of tax expenditures related to the "general magnitude of tax expenditures and their impact on federal revenues (revenue effect) during the fiscal year" (paragraph 20), but does not address a requirement to describe or to quantify the economic impact or benefit of tax expenditures. Without having the information available to understand both the revenue effect (cost) and economic impact (benefit) of the tax expenditures, a reader cannot properly evaluate the net benefit (or cost) to the United States for each of the tax expenditures.</p>	<p><b>Staff analysis:</b> Discussion regarding how the economic benefit or impact to the U.S. of each tax expenditure is assessed and evaluated would be useful information; however, such information would be extremely voluminous at the CFR level. Such requirements are very worthy of consideration if the Board elects to consider disclosure requirements for component-level entities in the future. Moreover, discussion of performance goals and results is often discussed in MD&amp;A rather than the financial statement notes (see SFFAS 15 para. 2).</p>
9	9.2	Association/ Industry Organization	Greater Washington Society of CPAs - Federal Issues and Standards Committee	<p>Add a requirement to paragraph 17 that Management's Discussion and Analysis (MD&amp;A) include a description of how the economic benefit or impact to the United States of each tax expenditure is assessed or evaluated; any significant limitations or assumptions in determining the economic benefit or impact; and the availability of published information on the economic benefit or impact of tax expenditures.</p>	<p>Some FISC members remarked that it is not clear how the ED supports the SFFAC 1 Objective 2, Budgetary Integrity, which states that Federal financial reporting should "assist report users in evaluating the service efforts, costs, and accomplishments" (emphasis added), and Objective 3, Stewardship, which states that Federal financial reporting should provide information to the reader to determine whether "(3) government operations have contributed to the nation's current and future well-being." The ED currently focuses on one aspect of tax expenditures related to the "general magnitude of tax expenditures and their impact on federal revenues (revenue effect) during the fiscal year" (paragraph 20), but does not address a requirement to describe or to quantify the economic impact or benefit of tax expenditures. Without having the information available to understand both the revenue effect (cost) and economic impact (benefit) of the tax expenditures, a reader cannot properly evaluate the net benefit (or cost) to the United States for each of the tax expenditures.</p>	<p><b>Staff analysis:</b> Detailed discussion regarding how the economic benefit or impact to the U.S. of each tax expenditure is assessed and evaluated would be useful information; however, such information would be extremely voluminous at the CFR level (see SFFAC 15 para. 5-6). Staff concurs that a high level discussion in this area may be useful. Board members may wish to consider this comment and whether any high level discussions about economic benefits and impacts of tax expenditures--and how they are assessed and evaluated by the federal government--are appropriate at the CFR level.</p>

Resp. No.	Change No.	Resp. Type	Entity / Name	Respondent Recommendation	Respondent Rationale	Staff Response / Preliminary Analysis
9	9.3	Association/ Industry Organization	Greater Washington Society of CPAs - Federal Issues and Standards Committee	Add to paragraph 20 that the presentation of tax expenditures estimates in Other Information include the general magnitude of economic benefit or impact of each tax expenditure during the fiscal year.	Some FISC members remarked that it is not clear how the ED supports the SFFAC 1 Objective 2, Budgetary Integrity, which states that Federal financial reporting should "assist report users in evaluating the service efforts, costs, and accomplishments" (emphasis added), and Objective 3, Stewardship, which states that Federal financial reporting should provide information to the reader to determine whether "(3) government operations have contributed to the nation's current and future well-being." The ED currently focuses on one aspect of tax expenditures related to the "general magnitude of tax expenditures and their impact on federal revenues (revenue effect) during the fiscal year" (paragraph 20), but does not address a requirement to describe or to quantify the economic impact or benefit of tax expenditures. Without having the information available to understand both the revenue effect (cost) and economic impact (benefit) of the tax expenditures, a reader cannot properly evaluate the net benefit (or cost) to the United States for each of the tax expenditures.	<b>Staff analysis:</b> Staff anticipates that such a requirement would not be feasible because the general magnitude and economic benefits of tax expenditures in aggregate is not quantifiable or measured at this time. Such a change could not feasibly be implemented at this time.
10	10.1	Individual	Ewer, Sid	None		
11	11.1	Government Agency - Auditor	Government Accountability Office	None		

## ATTACHMENT 5 – COMMENT LETTERS

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**Harold I. Steinberg  
1881 N. Nash Street  
Apt. 711  
Arlington, VA 22209**

June 24, 2016

Ms. Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814  
Mail Stop 6H19  
Washington, D. C. 20548

Dear Wendy,

The following are my responses to the questions for the Tax Expenditures exposure draft, plus some other comments.

**Q1. Do you believe that these proposed disclosure requirements related to the notes to the financial statements in the CFR will be helpful to readers?**

Yes.

**Do you believe the placement of the proposed disclosures in the notes to the financial statements of the CFR is appropriate?**

Yes

**Please explain the basis for your view and note any recommended changes in the requirements.**

The rationale presented in the ED says it all. There is a cost in financing programs through foregone revenues that is no less than financing the programs through outlays. Indeed, the former reflects less accountability since tax expenditures are not as transparent. Nor do they generate as much deliberation. Hence, shedding as much sunlight as practicable on this form of financing costs is highly desirable.

**Q2. Do you believe that these proposed requirements related to MD&A will be helpful to readers?**

Yes

**Do you believe the placement of the proposed requirements in MD&A in the CFR is appropriate?**

Yes

**Please explain the basis for your view and note any recommended changes in the requirements.**

Same reason as for the footnote disclosure. However, I would add to the MD&A example, the identification of the six types of tax expenditures which are already proposed for disclosure in

the footnotes. Readers are more likely to read the Management's Discussion and Analysis than the footnotes.

**Q3a. Do you believe that the proposed information, as outlined in paragraphs 19-20 and subparagraphs 20.a-20.c would be helpful to readers?**

Yes.

**Please explain the basis for your view and explain any recommended changes.**

Absent disclosure of the general magnitude of the tax expenditures, the rest of the information is rhetoric. For there to be decision useful information, there needs to be identification of the specific purposes for which tax expenditures are provided and the amounts.

**Q3b. Do you agree with the Board's rationale for encouraging the presentation of the proposed information as OI in the CFR, as provided in paragraphs A9-A12?**

No. I prefer the information be presented as RSI.

**Please explain the basis for your view.**

RSI is a higher level than OI. The higher the level at which the information is presented, the more attention that will be provided to its preparation and use. My understanding is that for auditors to accept information as RSI, they must be satisfied with the methods of preparing the information, i. e., it must have come from a system of records rather than simply drawn from "thin air;" and with comparisons of the information for consistency with management's responses to the auditor's inquiries, the basic financial statements, and other knowledge obtained by the auditor during the audit. By definition, the information is obtained from the Department of the Treasury who, albeit relying on estimates and conjectures, nevertheless uses a systematic approach to prepare the information. Furthermore, absent other information on the specific tax expenditures, there should be no inconsistencies with the comparisons.

**Q4. Are there any other changes that you believe should be made to the proposed Statement? Please provide rationale for your answer.**

1. I believe the Standard should indicate the appropriateness of potentially extending the requirement to at least certain components. Federal accounting concepts and standards are written for the government-wide financial statements and the component financial statements. Program managers would not have been listed among the users of Federal financial reports if the only report FASAB is to be concerned with is the government-wide report. Many are as interested in the components' financial reports as they are in the government-wide financial report.

Furthermore, many component's achievements are financed as much through tax expenditures as through outlays, e. g., HUD's goal to achieve defined levels of home ownership is achieved largely through the mortgage interest and state and local government property tax tax expenditures; HHS' goal to advance the health care of the American people is achieved largely through the exclusion of employer contributions for medical insurance premiums and medical care. Hence a report that enables users to evaluate a component's

service efforts, costs, and accomplishments should explain and identify whether there are significant tax expenditures associated with the component's services.

Paragraph A.3.b.i claims there would be "potentially significant challenges and costs" incurred by components reporting tax expenditures and that the process would be "time consuming and costly to the preparer." I fail to see how using the same explanations and identifying individual tax expenditure and the amounts already identified in the government-wide financial report would present significant challenges or be time consuming or costly to component-level preparers.

2. Paragraph 3 (and several subsequent parts) state "Other tax expenditures resemble discretionary spending programs, for which Congress appropriates annual funding." I do not see the comparison. Perhaps this can be elaborated upon.
3. Page 37, 2<sup>nd</sup> bullet, 4<sup>th</sup> line. Is "As such" needed? The rest of the sentence is not a sequiter.
4. Page 39, 1<sup>st</sup> full paragraph, 3<sup>rd</sup> line. The second word "are" should be eliminated. "

I hope the above is useful.

Sincerely

Hal Steinberg



**Harold I. Steinberg  
1881 N. Nash Street  
Apt. 711  
Arlington, VA 22209**

August 22, 2016

Ms. Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814  
Mail Stop 6H19  
Washington, D. C. 20548

Dear Wendy,

Please consider this letter as an addendum to my June 24, 2016 letter responding to the Tax Expenditures Exposure Draft.

In response to Question 4 **Are there any other changes that you believe should be made to the proposed Statement? Please provide rationale for your answer**, I answered “I believe the Standard should indicate the appropriateness of potentially extending the requirement to at least certain components” and provided a rationale for that belief. I wish to expand my response.

OMB Circular A-11, *Budget Preparation, Submission, and Execution*, Section 51.11, *Taxes and Tax Expenditures* requires that each agency “reflect full and explicit consideration of the resources made available by the Federal Government through **tax expenditures** (bold face added) and other tax incentives” and “should be prepared to submit justifications for continuing or reenacting existing taxes and tax expenditures in the program areas for which they have primary responsibility.” The Circular also provides the reasons agencies should identify their tax expenditures in their budget requests, namely, that tax expenditures often complement or substitute for agencies' spending or regulatory programs that contribute to the agency's strategic objectives, and the resources and incentives provided through tax expenditures can be substantial.

Furthermore, GAO recently issued a report titled *Opportunities Exist to Use Budgeting and Agency Performance Processes to Increase Oversight* (GAO-16-622). The report emphasized the importance of tax expenditure information at the agency level for evaluating the contribution that tax expenditures make to the agencies' missions and goals.

As long as there are legislation and regulations requiring agencies to report tax expenditures in their agency budget submissions, agencies should report the actual tax expenditures related to their programs in their annual financial reports. This would be consistent with the sub-objective in Statement of Federal Financial Accounting Concepts 1 *Objectives of Financial Reporting* that states “Federal financial reports should help readers determine how their budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization.”

Furthermore, the GAO report provides a strong rationale for how tax expenditure information at the agency level fulfills the sub-objective “Federal financial report should help readers determine the costs of providing specific programs and activities and the composition of, and changes in, these costs.”

I believe the above represent further reasons why extending the requirement for tax expenditure information to at least certain components should be included in the standard.

I hope the above is useful.

Sincerely

Hal Steinberg

**From:** [Simpson, Cynthia - OCFO](#)  
**To:** [FASAB](#)  
**Cc:** [Brown, Kevin L - OCFO](#); [Tekleberhan, Karen - OCFO](#); [DiGiantommaso, Jennifer M. - OCFO](#); [Wyes, Tesfaye T - OCFO](#); [Balin, Robert - OCFO](#); [Sacchetti, Dylan M - OCFO](#); [Payne, Wendolyn M](#)  
**Subject:** US DOL/OCFO Comments on Exposure Draft, "Tax Expenditures: MD&A and Disclosure Requirements (June 2,2016)"  
**Date:** Wednesday, September 07, 2016 12:03:14 PM

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This e-mail is sent on behalf of Jennifer DiGiantommaso.

Below please find comments from the U.S. Department of Labor (DOL), Office of the Chief Financial Officer (OCFO), on the exposure draft of proposed Statement of Federal Financial Accounting Standards, "Tax Expenditures: Management's Discussion and Analysis and Disclosure Requirements (June 2, 2016)." Comments were requested by June 15, 2016.

DOL/OCFO did not provide responses to the Board's specific questions one through four and has no comments on the questions at this time. DOL provided comments in response to the Questions for Respondents, "... the Board also welcomes your comments on other aspects of the proposed Statement."

DOL/OCFO appreciates the opportunity to provide comments. If there are any questions, please contact:

Jennifer DiGiantommaso [DiGiantommaso.Jen@dol.gov](mailto:DiGiantommaso.Jen@dol.gov) or

Cynthia Simpson, [simpson.cynthia@dol.gov](mailto:simpson.cynthia@dol.gov)

Both may be reached at 202-693-6800.

Regards,

Jennifer DiGiantommaso  
Accounting Officer  
U.S. Department of Labor  
Office of the Chief Financial Officer  
Financial Reporting Division

~~~~~

**U.S. Department of Labor**  
**Office of the Chief Financial Officer**  
**Comments on FASAB ED: "Tax Expenditures:**  
**Management's Discussion and Analysis**  
**and Disclosure Requirements (June 2, 2016)."**

Below please find the U.S. Department of Labor, Office of the Chief Financial Officer's, comments on other aspects of the proposed statement.

1. Paragraph 10. Although the reporting requirements of the proposed Statement do not apply to the financial statements of component reporting entities, the standards may indirectly increase the reporting requirements of component reporting entities. Information presented in the consolidated financial report of the U.S. Government (CFR) is based, among other things, Agencies' "closing package" reporting submitted through the U.S. Department of the Treasury's (Treasury's) Governmentwide Financial Report System (GFRS); at the component entity reporting level, the closing package has its own audit and audit opinion. If Treasury requires additional information from the Agencies through the closing package, this would increase reporting and audit requirements at the component entity level.

Treasury also collects information from Agencies in less formal reporting and processes, e.g., data calls to Agencies requesting information based on interim reporting. If Treasury requires additional information from Agencies

through informal reporting processes, this would increase reporting requirements at the component entity level. The draft CFR goes through review at the Agency level; an increase in CFR reporting may also increase review at the Agency level.

Increased costs associated with Agencies' formal and informal reporting, auditing, and review processes is a factor that should be considered in the cost/benefit of the Statement.

2. Paragraphs 19 and 20, Appendix D. The qualitative aspects of tax expenditures should also be considered, e.g., the tax expenditures that are used most frequently (most popular); tax expenditures that are more likely subject to fraud and abuse.

3. Paragraph 22. The required implementation date should be later than FY 2018 so it would not occur at the same time as implementation of SFFAS 47, Reporting Entity.

4. Throughout the document, references are made to tax expenditure reports of the Treasury's Office of Tax Policy. As far as we could determine, the Treasury report covers tax expenditures on income taxes, but not on other types of tax expenditures (e.g., excise taxes, employment taxes, and estate and gift taxes). When providing information about tax expenditures, the information should be specific as to whether they are tax expenditures for income taxes or some other type of taxes.

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**From:** FASAB [<mailto:FASAB@updates.gao.gov>]  
**Sent:** Wednesday, August 31, 2016 12:01 PM  
**To:** Simpson, Cynthia - OCFO  
**Subject:** Tax Expenditures ED Comment Deadline - 9/15



The Federal Accounting Standards Advisory Board (FASAB or "the Board") reminds you that September 15 is the comment deadline for the exposure draft (ED) titled [Tax Expenditures: Management's Discussion and Analysis and Disclosure Requirements](#).

FASAB welcomes your input on any aspect of the ED. Specific questions for your consideration appear on page seven of the document, but you are welcome to comment on any aspect of the proposal. If you do not agree with the proposed approach, your response will be most helpful to the Board if you explain the reasons for your position and any alternative you propose. Please email your comments to [fasab@fasab.gov](mailto:fasab@fasab.gov).

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**Exposure Draft: Questions for Respondents due September 15, 2016*****Tax Expenditures: Management's Discussion and Analysis and Disclosure Requirements***

**Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."**

|                                   |                                     |                                                |
|-----------------------------------|-------------------------------------|------------------------------------------------|
| Accounting Firm                   | <input type="checkbox"/>            |                                                |
| Government Agency (user)          | <input checked="" type="checkbox"/> |                                                |
| Government Agency (preparer)      | <input type="checkbox"/>            |                                                |
| Government Agency (auditor)       | <input type="checkbox"/>            |                                                |
| Government Agency (other)         | <input type="checkbox"/>            | If other, please specify: <input type="text"/> |
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| Nonprofit organization/Foundation | <input type="checkbox"/>            |                                                |
| Other                             | <input type="checkbox"/>            | If other, please specify: <input type="text"/> |
| Individual                        | <input type="checkbox"/>            |                                                |

**Please provide your name.**

Name: Carla A. Krabbe, Deputy Chief Financial Officer

**Please identify your organization, if applicable.**

Organization: Social Security Administration

**Q1.** The Board is proposing 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. These proposed disclosure requirements are presented in paragraphs 14-15 on page 14. An illustrative example of how these disclosures might be presented in the notes to the financial statements of the CFR is provided in Appendix D: Illustrations beginning on page 36.

**Do you believe that these proposed disclosure requirements related to the notes to the financial statements in the CFR will be helpful to readers? Do you believe the placement of the proposed disclosures in the notes to the financial statements of the CFR is appropriate? Please explain the basis for your view and note any recommended changes in the requirements.**

**SSA Response:** We believe the proposed information on tax expenditures would be helpful, particularly in regard to clarifying terminology that may be counterintuitive for a general reader (i.e. use plain language for both the definition and for examples of tax expenditures). We do not agree with placement in the notes to the financial statements. We believe this information should appear in Other Information (OI).

**Exposure Draft: Questions for Respondents due September 15, 2016*****Tax Expenditures: Management's Discussion and Analysis and Disclosure Requirements***

**Given the uncertain nature and variability of tax expenditure estimates, we would restrict discussion of the topic to the non-audited portion of the CFR.**

- Q2.** The Board is proposing that management's discussion and analysis (MD&A) in the CFR include a discussion of tax expenditures, their general purpose, and how they impact the government's financial position and condition. The proposed standards also require discussion of other factors that may affect tax collections in order to place tax expenditure information in an appropriate context. The specific proposed requirements are presented in paragraph 17 and sub-paragraphs 17.a-17.e beginning on page 14. An illustrative example of how these proposed requirements might be presented in MD&A is provided in Appendix D: Illustrations beginning on page 32.

**Do you believe that these proposed requirements related to MD&A will be helpful to readers? Do you believe the placement of the proposed requirements in MD&A in the CFR is appropriate? Please explain the basis for your view and note any recommended changes in the requirements.**

**SSA Response: Again, we think the information on tax expenditures would be helpful to readers. However, we believe this information should appear in OI. Given the uncertain nature and variability of tax expenditure estimates, we would restrict discussion of the topic to the non-audited portion of the CFR.**

- Q3.** The Board is proposing to encourage rather than require the presentation of a selection of major tax expenditure estimates, such as those published annually by the Department of the Treasury's (Treasury) Office of Tax Policy, as other information (OI) in the CFR. The proposed information to be encouraged is presented in paragraphs 19-20 and subparagraphs 20.a-20.c. An illustrative example of how this proposed information might be presented in OI is provided in Appendix D: Illustrations beginning on page 38.

Statement of Federal Financial Accounting Concepts (SFFAC) 6 paragraph 5 provides that OI is information that accompanies basic information and required supplementary information (RSI), but is not required by a body that establishes generally accepted accounting principles. For additional information regarding OI, see Appendix C: Characteristics of Other Information beginning on page 30.

The Board's basis for reaching this proposal to encourage such information be included in OI is documented in Appendix A: Basis for Conclusions, beginning on page 16.

Appendix B: Tax Expenditures Explained beginning on page 23 includes important considerations behind the Board's proposal, including how Treasury's Office of Tax Policy prepares tax expenditure estimates and how those estimates can be used and interpreted.

- a.** **Do you believe that the proposed information, as outlined in paragraphs 19-20 and subparagraphs 20.a-20.c would be helpful to readers? Please explain the basis for your view and explain any recommended changes.**

**Exposure Draft: Questions for Respondents due September 15, 2016***Tax Expenditures: Management's Discussion and Analysis and Disclosure Requirements*

**SSA Response:** We agree the information is helpful in terms of providing a sense of the scale of tax expenditures. At the same time, due to the (understandably) uncertain nature of the estimates, we believe these numbers should not appear in an audited section of the CFR in the future.

- b. Do you agree with the Board's rationale for encouraging the presentation of the proposed information as OI in the CFR, as provided in 20.a-20.c? Please explain the basis for your view.

**SSA Response:** We believe FASAB should encourage the presentation of tax expenditures information in the OI section of the CFR, as such information helps provide additional data that advances Federal financial reporting by providing transparency and context surrounding the general magnitude and impact of tax expenditures on the Government's financial position.

- Q4.** This exposure draft (ED) proposes disclosure requirements and RSI to be included in the notes to the financial statements and MD&A sections of the CFR, respectively, that would support SFFAC 1 Objective 1, Budgetary Integrity, including Sub-objectives 1A and 1C; Objective 2, Operating Performance; and Objective 3, Stewardship.

More detailed discussion of these reporting objectives and sub-objectives and how they are supported by the proposed requirements in this ED can be found in the Purpose section beginning on page 10 and the Appendix A: Basis for Conclusions section beginning on page 16.

Appendix B: Tax Expenditures Explained beginning on page 23 provides additional background which may aid respondents' understanding of tax expenditures, their "plain language" definition, why they are important, how estimates are prepared, and considerations for understanding how estimates can be used.

**Are there any other changes that you believe should be made to the proposed Statement? Please provide rationale for your answer.**

**SSA Response:** We have no additional suggestions.



PLEASE SEE SEPARATELY BOUND COPY FOR  
THIS LETTER.



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

September 14, 2016

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814  
Mail Stop 6H19  
Washington, D.C. 20548

Dear Ms. Payne:

On behalf of the Department of the Treasury, I submit the attached comments on the proposed Federal Financial Accounting Standards regarding tax expenditures. A list of tax expenditures was first published in 1968 when Assistant Secretary of the Treasury Stanley Surrey asked the staff of the Office of Tax Policy to create a comprehensive accounting of these special provisions. Over nearly fifty years, Treasury has continued to illuminate the existence and function of tax expenditures with an evolving variety of publications, including the listing within the Administration's annual Budget, as required by the Congressional Budget Act of 1974.

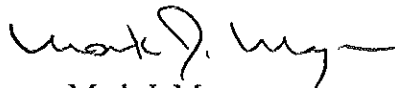
The FASAB should be commended for seeking to improve the public's understanding of a topic as complex and far-reaching as tax expenditures. However, an issue within our attached comments is the inclusion of select information on tax expenditures in the consolidated financial report of the U.S. Government (CFR). We are concerned that an inclusion of tax expenditures would not comport with the primary mission of the CFR to present the state of the government's finances. While some tax expenditures are viewed for policy purposes as akin to spending programs, for financial purposes they are quite different. The CFR's reporting of tax revenue already fully reflects the financial consequences of tax expenditures. Theoretically, one could alter the reporting to "gross up" revenues to reflect a world without tax expenditures and then show the tax expenditures as a net cost, this new accounting presentation would have no impact on the bottom line statement of the government's financial position. In addition to having no impact on the bottom line, in practice the information that is available on "tax expenditures" as currently defined is not appropriate nor sufficient to prepare this type of integrated presentation of activities conducted through the tax code.

As reflected in the attached responses to the questions posed in the Exposure Draft (ED), Treasury agrees that adding a brief discussion of tax expenditures to the CFR in both the management's discussion and analysis and the notes could help readers understand in general terms the breadth of the government's activities. However, it is not helpful to the reader to include a selection of tax-expenditure estimates with "Other Information" or as any other presentation in the CFR. The illustration included with the ED appears to suggest that simply reprinting a subset of tax-expenditure estimates from the list included in the Administration's

Budget would aid the reader of the CFR in understanding the government's finances. We believe that reporting in this context is more likely to confuse many readers. Presenting a subset of tax expenditure estimates pulled from another publication, coupled with the fact that the impact of tax expenditures is already fully integrated in the CFR in the tax revenue accounting, leads us to believe that it would be difficult for many readers to understand how the material on tax expenditures relate to the other reporting in the CFR.

We agree with the overall goal of continuing to expand public access to tax expenditure information and we strongly believe that the appropriate place to present detailed discussion and estimates of tax expenditures is on the Treasury website, where this information can be placed into the appropriate context and linked with relevant background information. Treasury supports providing a link in the CFR to the other Treasury reporting of tax expenditures so that interested readers could learn more about tax expenditures, how they work, and the government activities they support. Reflecting a potential expanded audience, Treasury will improve the presentation of information on tax expenditures available on our website. As reporting of this information continues to evolve, Treasury will look for opportunities to introduce the appropriate amount of information into the CFR so that it complements the various existing Treasury publications and accurately represents the activities of the government.

Sincerely,



Mark J. Mazur  
Assistant Secretary for Tax Policy

Enclosure

**Exposure Draft: Questions for Respondents due September 15, 2016***Tax Expenditures: Management's Discussion and Analysis and Disclosure Requirements*

**Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."**

|                                   |                                     |                                                |
|-----------------------------------|-------------------------------------|------------------------------------------------|
| Accounting Firm                   | <input type="checkbox"/>            |                                                |
| Government Agency (user)          | <input type="checkbox"/>            |                                                |
| Government Agency (preparer)      | <input checked="" type="checkbox"/> |                                                |
| Government Agency (auditor)       | <input type="checkbox"/>            |                                                |
| Government Agency (other)         | <input type="checkbox"/>            | If other, please specify: <input type="text"/> |
| Association/Industry Organization | <input type="checkbox"/>            |                                                |
| Nonprofit organization/Foundation | <input type="checkbox"/>            |                                                |
| Other                             | <input type="checkbox"/>            | If other, please specify: <input type="text"/> |
| Individual                        | <input type="checkbox"/>            |                                                |

**Please provide your name.**

Name:

**Please identify your organization, if applicable.**

Organization:

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**Q1.** The Board is proposing 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. These proposed disclosure requirements are presented in paragraphs 14-15 on page 14. An illustrative example of how these disclosures might be presented in the notes to the financial statements of the CFR is provided in Appendix D: Illustrations beginning on page 36.

**Do you believe that these proposed disclosure requirements related to the notes to the financial statements in the CFR will be helpful to readers? Do you believe the placement of the proposed disclosures in the notes to the financial statements of the CFR is appropriate? Please explain the basis for your view and note any recommended changes in the requirements.**

**Response:** From a content perspective, incorporating a "plain language" definition of tax expenditures and brief discussion of their conceptual impact on non-exchange revenue, tax collections, and refunds in the consolidated financial report of the U.S. Government (CFR) will be helpful to improving reader's understanding of this complex topic. Proposing that such information appear in the Note on "Collections and Refunds of Federal Revenue" is a potentially viable approach, given the context in which the tax expenditure information

**Exposure Draft: Questions for Respondents due September 15, 2016*****Tax Expenditures: Management's Discussion and Analysis and Disclosure Requirements***

would be placed. However, the Board should consider the possibility that the "Other Information" (OI) section, with corresponding references included in the Note and/or MD&A, provides the ideal context for this information based on the following:

In addition to tax expenditure content, the proposed text in Appendix D also references "Tax Gap" information. "Tax Gap", along with "Tax Burden", are discussed in the OI section of the CFR (pp 219-221 of the FY 2015 CFR). The topic of tax expenditures aligns well from a context perspective with these other topics already discussed in OI. As such, to minimize redundancy and to capitalize on context that is already established in the CFR, an ideal approach would be to focus the substantive discussion of tax expenditures as proposed above in the OI section with a brief reference to both Tax Expenditures and Tax Gap in the "Collections and Refunds of Federal Revenue" Note. So doing perpetuates the context established in OI, minimizes redundancy, and prompts readers to refer to these other, informative sections of the CFR.

Regardless of where in the document the discussion of Tax Expenditures appears, it should be noted that tax expenditures is a complex topic. Treasury's Office of Tax Policy, as well as other organizations, such as the Joint Committee on Taxation already have made and continue to make substantive information available to the public in other on-line forums. While a "plain language" definition and discussion can provide a practical introduction to this topic, it may be more appropriate, at a minimum, to provide the preparer the discretion to refer readers to these other, external resources – as either a complement to or in lieu of direct CFR content – to ensure that those readers fully understand the complexities associated with this topic and have the opportunity to research the issue more fully if so desired.

- Q2.** The Board is proposing that management's discussion and analysis (MD&A) in the CFR include a discussion of tax expenditures, their general purpose, and how they impact the government's financial position and condition. The proposed standards also require discussion of other factors that may affect tax collections in order to place tax expenditure information in an appropriate context. The specific proposed requirements are presented in paragraph 17 and sub-paragraphs 17.a-17.e beginning on page 14. An illustrative example of how these proposed requirements might be presented in MD&A is provided in Appendix D: Illustrations beginning on page 32.

**Do you believe that these proposed requirements related to MD&A will be helpful to readers? Do you believe the placement of the proposed requirements in MD&A in the CFR is appropriate? Please explain the basis for your view and note any recommended changes in the requirements.**

**Response:** Consistent with our response to Question 1, a brief, summary discussion of Tax Expenditures, consistent with the overall scope of other MD&A content, with appropriate references to more substantive discussion of Tax Expenditures located elsewhere within and/or outside of the CFR is a reasonable approach to educating the public about this topic.



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SFFAS 15 notes that the purpose of the MD&A is to “(1) communicate managers’ insights about the reporting entity, (2) increasing the understandability and usefulness of the general purpose federal financial report (GPFFR), and (3) provide understandable and accessible information about the entity and its operations...”. As such, including a brief discussion of tax expenditures, their general purpose, and how they conceptually impact the government’s financial position and condition in the MD&A is a reasonable approach and, given the prominence of the MD&A section, can be an effective means of educating the general public about this topic, or at least introducing it to them. That said, key portions of our response to Question 1 are equally applicable here: Tax Expenditures is a complex topic. Treasury’s Office of Tax Policy, as well as other organizations, such as the Joint Committee on Taxation already have made and continue to make substantive information available to the public in other on-line forums. To ensure that readers fully appreciate and understand the complexities of Tax Expenditures, the preparer should be provided with the discretion to refer readers to other, external resources as either a complement to or in lieu of direct CFR content.

- Q3.** The Board is proposing to encourage rather than require the presentation of a selection of major tax expenditure estimates, such as those published annually by the Department of the Treasury’s (Treasury) Office of Tax Policy, as other information (OI) in the CFR. The proposed information to be encouraged is presented in paragraphs 19-20 and subparagraphs 20.a-20.c. An illustrative example of how this proposed information might be presented in OI is provided in Appendix D: Illustrations beginning on page 38.

Statement of Federal Financial Accounting Concepts (SFFAC) 6 paragraph 5 provides that OI is information that accompanies basic information and required supplementary information (RSI), but is not required by a body that establishes generally accepted accounting principles. For additional information regarding OI, see Appendix C: Characteristics of Other Information beginning on page 30.

The Board’s basis for reaching this proposal to encourage such information be included in OI is documented in Appendix A: Basis for Conclusions, beginning on page 16.

Appendix B: Tax Expenditures Explained beginning on page 23 includes important considerations behind the Board’s proposal, including how Treasury’s Office of Tax Policy prepares tax expenditure estimates and how those estimates can be used and interpreted.

- a.** **Do you believe that the proposed information, as outlined in paragraphs 19-20 and subparagraphs 20.a-20.c would be helpful to readers? Please explain the basis for your view and explain any recommended changes.**

**Response:** FASAB should be commended for seeking to ensure that the public is better informed about a topic that has such a broad effect. Treasury’s Office of Tax Policy, as well as the Joint Committee on Taxation are both dedicated to providing the public with relevant information on this complex topic. Both organizations provide annual listings and analyses of tax expenditures.

**Exposure Draft: Questions for Respondents due September 15, 2016*****Tax Expenditures: Management's Discussion and Analysis and Disclosure Requirements***

But it is important to note that, as mentioned in our responses to both Q 1 and 2, this information can be complex, and as such, the risk of misperception is real. As such, it is our responsibility to ensure that any reporting, whether quantitative, qualitative, or both, possesses sufficient clarity and minimizes redundancy and duplication of effort. Such reporting should leverage resources and communication channels that optimize the effectiveness of tax expenditure reporting – not just in the context of the CFR – but in the broader, collective federal space.

- b. Do you agree with the Board's rationale for encouraging the presentation of the proposed information as OI in the CFR, as provided in 20.a-20.c? Please explain the basis for your view.**

**Response:** Given the complexity of the topic of Tax Expenditures, encouraging reporting in the OI section is entirely appropriate. It is very reasonable to assume that reporting on Tax Expenditures in the CFR in any form or fashion will require an evolutionary and iterative approach. Consistent with task force discussions, tax expenditures reporting, if not approached in a deliberate and deliberative manner, even after the final standards are issued, can raise more questions than provide answers. Furthermore, given that tax expenditure reporting is predicated largely on complex estimates and projections, it is imperative that the preparer retain the discretion to include and/or configure any quantitative or qualitative presentation and/or to leverage and/or reference other resources that either currently exist and/or which may be developed to ensure that most germane information about Tax Expenditures is effectively communicated to the reader.

- Q4.** This exposure draft (ED) proposes disclosure requirements and RSI to be included in the notes to the financial statements and MD&A sections of the CFR, respectively, that would support SFFAC 1 Objective 1, Budgetary Integrity, including Sub-objectives 1A and 1C; Objective 2, Operating Performance; and Objective 3, Stewardship.

More detailed discussion of these reporting objectives and sub-objectives and how they are supported by the proposed requirements in this ED can be found in the Purpose section beginning on page 10 and the Appendix A: Basis for Conclusions section beginning on page 16.

Appendix B: Tax Expenditures Explained beginning on page 23 provides additional background which may aid respondents' understanding of tax expenditures, their "plain language" definition, why they are important, how estimates are prepared, and considerations for understanding how estimates can be used.

**Are there any other changes that you believe should be made to the proposed Statement? Please provide rationale for your answer.**

**Response:**

In general, Treasury believes that a brief discussion of tax expenditures in the MD&A and a somewhat more involved discussion in the OI section (along with reference to existing substantive public information on the topic) is the best approach for effectively informing



**Exposure Draft: Questions for Respondents due September 15, 2016***Tax Expenditures: Management's Discussion and Analysis and Disclosure Requirements*

the public about this important matter. Please see our responses to Q1, Q2, and Q3 for additional proposed alternatives.

September 15, 2016

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814  
Mail Stop 6H19  
Washington, DC 20548

Via [fasab@fasab.gov](mailto:fasab@fasab.gov)

Dear Ms. Payne:

We are pleased to submit these comments on the Exposure Draft of the proposed Statement of Federal Financial Accounting Standards entitled Tax Expenditures: Management's Discussion and Analysis and Disclosure Requirements.<sup>1</sup>

It would be constructive for FASAB to set a standard which would result in tax expenditures being included in the consolidated financial report of the U.S. Government (CFR). It is important for the public to understand how tax revenue is reduced by tax preferences that Congress enacts which reduce tax revenues below where they would be under an ideal tax system.

However, it is vital that the CFR use a proper definition of tax expenditures, otherwise it will mislead the public. It appears as though FASAB proposes to use the tax expenditures list used by the Treasury Department, the White House Office of Management and Budget, and the Joint Committee on taxation. In the proposal, FASAB indicates that the list used by these agencies is widely-accepted and neutral. That is far from true.

The standard tax expenditures list is idiosyncratic. It closely adheres to the definition of a "normal tax system" by one individual – Stanley Surrey.<sup>2</sup> That definition has subsequently been adopted by Treasury and the Joint Committee on Taxation. Because of political inertia, it has remained largely unchanged.<sup>3</sup> That does not make it correct. In fact, because the list is inconsistent with either accepted definition of economic income, it is objectively wrong. If the CFR uses that list it will bias the figures it includes.

<sup>1</sup> Exposure Draft , Statement of Federal Financial Accounting Standards entitled Tax Expenditures: Management's Discussion and Analysis and Disclosure Requirements June 2, 2016  
[http://files.fasab.gov/pdf/files/taxexpenditures\\_ed\\_2016.pdf](http://files.fasab.gov/pdf/files/taxexpenditures_ed_2016.pdf).

<sup>2</sup> Surrey was a Harvard law professor and Assistant Secretary of the Treasury for Tax Policy during the Kennedy and Johnson administrations.

<sup>3</sup> "Rethinking Tax Expenditures," Edward D. Kleinbard, Chief of Staff, Joint Committee on Taxation to the Chicago-Kent College of Law Federal Tax Institute May 1, 2008  
[http://www.jct.gov/Rethinking\\_Tax\\_Expenditures.pdf](http://www.jct.gov/Rethinking_Tax_Expenditures.pdf) ("Our 2007 pamphlet, by contrast, *while employing essentially the same methodology as that of our first description 35 years earlier*, listed 170 tax expenditures." (emphasis added))

The accepted definitions of economic income are the Haig-Simons definition and the Fisher-Ture definition. The Haig-Simons definition of income is consumption plus changes in net worth.<sup>4</sup> The Fisher-Ture definition of income is gross income minus all outlays or expenditures made to earn current or future income.<sup>5</sup> The definition of tax expenditure varies depending on which definition of income is employed. Since the existing U.S. tax system has provisions based on both definitions, a nuanced and carefully thought out definition of tax expenditure is necessary.<sup>6</sup> The current list does not meet that criterion.

The FASAB proposal defines a tax expenditure as a “special exclusion, exemption, deduction, credit, preferential rate, or deferral” from the baseline system. The baseline system employed by the current tax expenditure list is neither Haig-Simons nor Fisher-Ture. Instead, it implicitly accepts as its baseline a definition of income – the Surrey definition – that is inconsistent with the two definitions accepted by economists.

Even if the Haig-Simons comprehensive income definition were accepted as the baseline, the tax expenditures list would still be deficient. For instance, a comprehensive income tax does not countenance the double taxation of income. In fact, Henry Simons explicitly rejected the double taxation of corporate income in his influential book *Personal Income Taxation*.<sup>7</sup>

The standard tax expenditures list assumes double taxation is proper in a “normal” tax system. It also assumes that personal and dependent exemptions and standard deductions (or zero bracket amounts) are not tax expenditures. Such a position is political decision, not one rooted in economics. In fact, it is inconsistent with either economic definition of income. If the CFR does not include them it will report strongly biased figures because these tax preferences greatly reduce tax revenue.

The current methodology treats graduated corporate rates as tax expenditures (i.e. the reduction in tax due to lower tax rates on lower incomes) but fails to treat graduated individual rates as a

<sup>4</sup> Henry C. Simons, *Personal Income Taxation: The Definition of Income as a Problem of Fiscal Policy* (The University of Chicago Press, 1938), p. 50; Robert Murray Haig, “The Concept of Income – Economic and Legal Aspects,” in *The Federal Income Tax*, Robert Murray Haig, Ed., (New York: 1921) reprinted in American Economic Association Readings in the Economics of Taxation, Vol. IX, Richard A. Musgrave and Carl S. Shoup, Eds., (Homewood, IL: Richard D. Irwin, 1959).

<sup>5</sup> Irving Fisher, “Income in Theory and Income Taxation in Practice,” *Econometrica* (January, 1937); Irving Fisher, “The Double Taxation of Savings,” 29 *American Economic Review* 1 (March, 1939); Irving Fisher, “The Unperceived Double Taxation of Income, Answers to Those That Deny Its Existence,” 1946, previously unpublished manuscript published in *The Works of Irving Fisher, Volume 12, Contributions to the Theory and Practice of Public Finance*, William J. Barber, Ed., (London: Pickering and Chatto, 1997); Irving Fisher, “Paradoxes in Taxing Savings,” *Econometrica* (April, 1942); Irving Fisher and Herbert Fisher, *Constructive Income Taxation* (New York: Harper and Brothers, 1942); Norman B. Ture, “Supply Side Analysis and Public Policy,” in David G. Raboy, *Essays in Supply Side Economics*, Heritage Foundation and Institute for Research on the Economics of Taxation (1982) <http://iret.org/pub/SupplySideBook.pdf>; Norman B. Ture, “The Inflow Outflow Tax — A Saving-Deferred Neutral Tax System,” (1997) [http://iret.org/pub/inflow\\_outflow.pdf](http://iret.org/pub/inflow_outflow.pdf).

<sup>6</sup> For a more detailed explanation of the distinction between the two systems and how they affect the definition of tax expenditures, see Office of Management and Budget, *Budget of the U.S. Government, FY 2007, Analytical Perspectives*, pp. 285-328, <https://www.gpo.gov/fdsys/pkg/BUDGET-2007-PER/pdf/BUDGET-2007-PER.pdf>.

<sup>7</sup> Henry C. Simons, *Personal Income Taxation: The Definition of Income as a Problem of Fiscal Policy* (The University of Chicago Press, 1938).

tax expenditure. There is no acceptable intellectual argument for such a treatment. Their exclusion from the tax expenditures list is a personal preference of those creating the list. In short, current methodology ignores some of the largest tax expenditures altogether.

Absent from the FASAB proposal is an acknowledgment of *negative* tax expenditures. These are instances where those revenue increases attributable to provisions of the federal tax laws which overstate income by denying a deduction, impose a special higher rate of tax, accelerate tax liability or impose multiple taxes on the same income.

FASAB should recommend the CFR include tax expenditures, but only after a thorough review of what should actually be counted as a tax expenditure. If it uses the current list it will create a biased number that will hinder instead of assist the public debate on tax policy.

Signed,

Curtis Dubay, Research Fellow in Tax and Economic Policy at the Heritage Foundation

David Burton, Senior Fellow, Economic Policy at the Heritage Foundation

# United States Senate

COMMITTEE ON THE BUDGET

WASHINGTON, DC 20510-6100

TELEPHONE: (202) 224-0642 FAX: (202) 224-4835

September 15, 2016

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
441 G St, NW, Suite 6814  
Mail Stop 6H19  
Washington, D.C. 20548

Dear Ms. Payne:

As the Chairman of the Senate Committee on the Budget, I am committed to accurate public information on our country's financial position. The Federal Accounting Standards Advisory Board (FASAB) serves the public interest by publishing financial statements, but I have concerns that the Exposure Draft on *Tax Expenditures: Management's Discussion and Analysis and Disclosure Requirements* does not include a full picture of the government's revenues.

As the goal of the proposal is to disclose the impact on and treatment of tax expenditures within the federal budget process, it is relevant to Congress's annual budget that the information be complete and considered in the correct context.

FASAB does not plan to produce independent information on tax expenditures, but instead to include Treasury data for informational purposes in their financial reports. It is important that any limitations to this information are also included for users. FASAB's financial statements are currently prepared in conformity with generally accepted accounting principles. Tax expenditure information, which is admittedly not auditable, appears to be an expansion of scope that is not justified in the Exposure Draft, except to be informational.

Appendix B contains background information on the Exposure Draft that should be integrated into the illustrative language and final disclosure. The Understanding Estimates section explains why tax expenditures are not necessarily equivalent to forgone revenue and that there is difficulty in summing expenditures or calculating totals. However, the illustrative language implies "revenue effects" on multiple occasions, which is contradictory for the user.

There should be further clarification on baseline provisions and the subjective nature of a normal tax system. A revenue effect compared with a normal tax system is not the equivalent of a deficit effect on the budget. It should be noted that multiple tax baselines are used in Treasury's publication, and they differ from the Joint Committee on Taxation's (JCT) baseline.

Should FASAB decide to include tax expenditure in its financial reports, I request you ensure the final disclosure include fully accurate information for the users. Since tax expenditures are not auditable and only being included for informational purposes, it is important that users are informed of the limitations to this information, as explained by both Treasury and JCT in their annual reports.

Specific examples of how to integrate Appendix B and provide complete information on the limitations on tax expenditures to the user are provided in the attached responses to the four questions posed in the exposure draft notice.

Sincerely,

A handwritten signature in black ink, reading "Michael B. Enzi". The signature is written in a cursive, slightly slanted style.

Senator Michael B. Enzi  
Chairman

**Q1.** The Board is proposing 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. These proposed disclosure requirements are presented in paragraphs 14-15 on page 14. An illustrative example of how these disclosures might be presented in the notes to the financial statements of the CFR is provided in Appendix D: Illustrations beginning on page 36.

Do you believe that these proposed disclosure requirements related to the notes to the financial statements in the CFR will be helpful to readers? Do you believe the placement of the proposed disclosures in the notes to the financial statements of the CFR is appropriate? Please explain the basis for your view and note any recommended changes in the requirements.

**RESPONSE:**

- Disclosure requirements: Paragraph 14 includes “how *budgetary* objectives can be achieved through the mechanism of tax expenditures.” However, the illustrative Appendix D discusses *policy* objectives. As tax expenditures cannot be equated to forgone revenue or summed to total, the budgetary effect is unclear.
- Illustration: Appendix D should not state that tax expenditures reduce tax collections unless clarifying that it is in relation to a normal tax system’s baseline. It is important to clarify that tax expenditures are not estimated and reported in financial statements because they cannot be summed to total and are not auditable.

**Q2.** The Board is proposing that management’s discussion and analysis (MD&A) in the CFR include a discussion of tax expenditures, their general purpose, and how they impact the government’s financial position and condition. The proposed standards also require discussion of other factors that may affect tax collections in order to place tax expenditure information in an appropriate context. The specific proposed requirements are presented in paragraph 17 and subparagraphs 17.a-17.e beginning on page 14. An illustrative example of how these proposed requirements might be presented in MD&A is provided in Appendix D: Illustrations beginning on page 32.

Do you believe that these proposed requirements related to MD&A will be helpful to readers? Do you believe the placement of the proposed requirements in MD&A in the CFR is appropriate? Please explain the basis for your view and note any recommended changes in the requirements.

**RESPONSE:**

- Disclosure requirement: Paragraph 17 includes “a description of how tax expenditures are treated for budgetary and financial reporting purposes, including their impact on the surplus (deficit), and their treatment with the federal budget process.” As tax expenditures are treated within the federal budget process as relative to a normal tax system’s baseline, that should be clarified for the user. The deficit effect is not provided in the Illustration.

- Illustration: This baseline concept should be integrated into the phrase that “tax expenditures are ‘revenue reductions’ in that the provisions reduce taxes owed, and, therefore revenue collected.” The language would mirror statute more closely if it read: “tax expenditures are ‘revenue losses’ in that provisions reduce tax liability relative to a normal tax system’s baseline.” To add in the opening paragraph of The Government’s Net Position that tax expenditures are part of the government’s “bottom line” net operating cost implies they can be summed and are included in Table 4, even though they are not totaled.

**Q3.** The Board is proposing to encourage rather than require the presentation of a selection of major tax expenditure estimates, such as those published annually by the Department of the Treasury’s (Treasury) Office of Tax Policy, as other information (OI) in the CFR. The proposed information to be encouraged is presented in paragraphs 19-20 and subparagraphs 20.a-20.c.

An illustrative example of how this proposed information might be presented in OI is provided in Appendix D: Illustrations beginning on page 38.

Statement of Federal Financial Accounting Concepts (SFFAC) 6 paragraph 5 provides that OI is information that accompanies basic information and required supplementary information (RSI), but is not required by a body that establishes generally accepted accounting principles. For additional information regarding OI, see Appendix C: Characteristics of Other Information beginning on page 30.

The Board’s basis for reaching this proposal to encourage such information be included in OI is documented in Appendix A: Basis for Conclusions, beginning on page 16.

Appendix B: Tax Expenditures Explained beginning on page 23 includes important considerations behind the Board’s proposal, including how Treasury’s Office of Tax Policy prepares tax expenditure estimates and how those estimates can be used and interpreted.

a. Do you believe that the proposed information, as outlined in paragraphs 19-20 and subparagraphs 20.a-20.c would be helpful to readers? Please explain the basis for your view and explain any recommended changes.

b. Do you agree with the Board’s rationale for encouraging the presentation of the proposed information as OI in the CFR, as provided in paragraphs A9-A12? Please explain the basis for your view.

## **RESPONSE:**

**a)**

- Disclosure requirements: Paragraph 20 include “the general magnitude of tax expenditures and their impact on federal revenues (revenue effect) during the fiscal year.” Again, this should state that it is a divergence from a normal tax system’s baseline and that there is not an equivalent deficit effect. Appendix B has repeated the language from Treasury and JCT that tax expenditures are not necessarily equivalent to forgone revenue,



so disclosing a revenue effect is contradictory. For example, the Other Information cannot sum to total the general magnitude, but instead provides a table of Treasury's top expenditures listed independently.

- Illustration: The Estimates section includes some limitations that were included in Appendix B and are supported by Treasury and JCT, but is not comprehensive. One major consideration is the significant judgment required to determine whether a provision is a tax expenditure, so it should also note that Treasury uses two different baselines, which also differ from JCT's baseline. Another major consideration is that estimates do not necessarily equal changes in federal revenues (or the deficit). The language should include why the list of major tax expenditures cannot be summed to total. This section should also include the statement from Appendix B that "a present-value alternative that considers the full life cycle of the taxable activities may be more useful for tax expenditures involving deferrals or other long-term revenue effects."

b)

- Informing the user of published estimates should be comprehensive. Figure 1 is an out of context table that list the largest 20 tax expenditures, "Ranked by Revenue Effect". It would be more accurate to refer to it as a baseline effect and to link to Treasury's full report. It should be noted that this table is a current revenue table, and Treasury also provides a present-value list that may be more appropriate. JCT also has a separate list that could be used for comparison.

Q4. This exposure draft (ED) proposes disclosure requirements and RSI to be included in the notes to the financial statements and MD&A sections of the CFR, respectively, that would support SFFAC 1 Objective 1, Budgetary Integrity, including Sub-objectives 1A and 1C; Objective 2, Operating Performance; and Objective 3, Stewardship.

More detailed discussion of these reporting objectives and sub-objectives and how they are supported by the proposed requirements in this ED can be found in the Purpose section beginning on page 10 and the Appendix A: Basis for Conclusions section beginning on page 16.

Appendix B: Tax Expenditures Explained beginning on page 23 provides additional background which may aid respondents' understanding of tax expenditures, their "plain language" definition, why they are important, how estimates are prepared, and considerations for understanding how estimates can be used.

Are there any other changes that you believe should be made to the proposed Statement? Please provide rationale for your answer.

#### **RESPONSE:**

- The Proposed Standards definition of baseline provisions could set up a larger discussion on the alternative and subjective nature of a normal tax system's baseline. It should explicitly state which baseline is being referenced in the disclosure requirements. Similar to how Appendix B discusses behavioral and economic effects, this definition could clarify the "impact of tax expenditures on tax revenues" assumes no behavioral response and is not necessarily the amount of revenue that would be raised if it were repealed.

**From:** [Joyce Dillard](#)  
**To:** [FASAB](#)  
**Subject:** Comments FASAB Tax Expenditures: Management's Discussion and Analysis and Disclosure Requirements due 9.15.2016  
**Date:** Thursday, September 15, 2016 6:49:33 PM

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Question 1:

*Do you believe that these proposed disclosure requirements related to the notes to the financial statements in the CFR will be helpful to readers? Do you believe the placement of the proposed disclosures in the notes to the financial statements of the CFR is appropriate? Please explain the basis for your view and note any recommended changes in the requirements*

Comment:

Yes, since these expenditures are "hidden" in a sense, disclosure is a way of identification in relationship to assessing results or benefit to the policy intended. This result or benefit is difficult to ascertain without understanding, in plain language, of the policy allowance given

Question 2:

*Do you believe that these proposed requirements related to MD&A will be helpful to readers? Do you believe the placement of the proposed requirements in MD&A in the CFR is appropriate? Please explain the basis for your view and note any recommended changes in the requirements.*

Comment:

Yes, but it is still difficult to understand the overall benefit of such expenditures. One example is New Markets Tax Credit that involves many non-profit entities but pass-throughs to taxable entities including individuals. Benefits are difficult to distinguish from the intention.

Joyce Dillard  
P.O. Box 31377  
Los Angeles, CA 90031



September 15, 2016

Wendy Payne, Executive Director  
Federal Accounting Standards Advisory Board  
Mail Stop 6K17V  
441 G Street, NW – Suite 6814  
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft (ED) on the proposed Statement of Federal Financial Accounting Standards (SFFAS), *Tax Expenditures*.

The GWSCPA consists of approximately 3,300 members, and the FISC includes nearly 30 GWSCPA members who are active in financial management, accounting, and auditing in the Federal sector. We sincerely appreciate the opportunity by the Board to share our views, and the hard work and dedication by the Board Members and Staff on their contributions to improving federal financial reporting.

Our responses to the ED questions are included below.

Q1. The Board is proposing 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. These proposed disclosure requirements are presented in paragraphs 14-15 on page 14. An illustrative example of how these disclosures might be presented in the notes to the financial statements of the CFR is provided in Appendix D: Illustrations beginning on page 36.

Do you believe that these proposed disclosure requirements related to the notes to the financial statements in the CFR will be helpful to readers? Do you believe the placement of the proposed disclosures in the notes to the financial statements of the CFR is appropriate? Please explain the basis for your view and note any recommended changes in the requirements.

A1. The FISC agrees that the proposed disclosure requirements related to the notes to the financial statements in the CFR will be helpful to readers. The FISC also concurs with the placement of the proposed disclosures in the notes to the financial statements. We suggest that the Board define the term "plain language" in the proposed standard. For example, the Board could replace the existing footnote reference in the ED with language similar to the following: "The "plain language" definition should be (1) relatable and comprehensible to the financial statement user based upon a

reasonable level of knowledge of economic and public sector operations, and (2) free of jargon and technical terminology.”

- Q2. The Board is proposing that management’s discussion and analysis (MD&A) in the CFR include a discussion of tax expenditures, their general purpose, and how they impact the government’s financial position and condition. The proposed standards also require discussion of other factors that may affect tax collections in order to place tax expenditure information in an appropriate context. The specific proposed requirements are presented in paragraph 17 and sub-paragraphs 17.a-17.e beginning on page 14. An illustrative example of how these proposed requirements might be presented in MD&A is provided in Appendix D: Illustrations beginning on page 32.

Do you believe that these proposed requirements related to MD&A will be helpful to readers? Do you believe the placement of the proposed requirements in MD&A in the CFR is appropriate? Please explain the basis for your view and note any recommended changes in the requirements.

- A2. The FISC agrees that the proposed requirements related to MD&A will be helpful to readers. The FISC also concurs with the placement of the proposed requirements in MD&A.
- Q3. The Board is proposing to encourage rather than require the presentation of a selection of major tax expenditure estimates, such as those published annually by the Department of the Treasury’s (Treasury) Office of Tax Policy, as other information (OI) in the CFR. The proposed information to be encouraged is presented in paragraphs 19-20 and subparagraphs 20.a-20.c. An illustrative example of how this proposed information might be presented in OI is provided in Appendix D: Illustrations beginning on page 38.

Statement of Federal Financial Accounting Concepts (SFFAC) 6 paragraph 5 provides that OI is information that accompanies basic information and required supplementary information (RSI), but is not required by a body that establishes generally accepted accounting principles. For additional information regarding OI, see Appendix C: Characteristics of Other Information beginning on page 30.

The Board’s basis for reaching this proposal to encourage such information be included in OI is documented in Appendix A: Basis for Conclusions, beginning on page 16.

Appendix B: Tax Expenditures Explained beginning on page 23 includes important considerations behind the Board’s proposal, including how Treasury’s Office of Tax Policy prepares tax expenditure estimates and how those estimates can be used and interpreted.

- A. Do you believe that the proposed information, as outlined in paragraphs 19-20 and subparagraphs 20.a-20.c would be helpful to readers? Please explain the basis for your view and explain any recommended changes.
- B. Do you agree with the Board’s rationale for encouraging the presentation of the proposed information as OI in the CFR, as provided in 20.a-20.c? Please explain the basis for your view.

- A3. The FISC agrees that the proposed information would be helpful to readers. The FISC members voiced strong support for the inclusion of the tax expenditure estimates, such as those displayed in Figure 1 (Largest 20 Tax Expenditures, Fiscal Years 2016 and 2015 (Ranked by Revenue Effect)) in Appendix D of the ED. The FISC members commented that the presentation of estimates alongside the discussion of tax expenditures provides substantial value in meeting the Board's goals of this ED (listed in paragraph 6 of the ED). If the Board concludes that it is not appropriate to require the inclusion of estimates in the CFR, the FISC supports the Board's decision in paragraph A11 of the ED that additional measurement, recognition, and disclosure guidance may be required in the future if the presentation of tax expenditures in the CFR, once this ED is fully effective, does not meet the Board's goals.
- Q4. This exposure draft (ED) proposes disclosure requirements and RSI to be included in the notes to the financial statements and MD&A sections of the CFR, respectively, that would support SFFAC 1 Objective 1, Budgetary Integrity, including Sub-objectives 1A and 1C; Objective 2, Operating Performance; and Objective 3, Stewardship.

More detailed discussion of these reporting objectives and sub-objectives and how they are supported by the proposed requirements in this ED can be found in the Purpose section beginning on page 10 and the Appendix A: Basis for Conclusions section beginning on page 16.

Appendix B: Tax Expenditures Explained beginning on page 23 provides additional background which may aid respondents' understanding of tax expenditures, their "plain language" definition, why they are important, how estimates are prepared, and considerations for understanding how estimates can be used.

Are there any other changes that you believe should be made to the proposed Statement? Please provide rationale for your answer.

- A4. Some FISC members remarked that it is not clear how the ED supports the SFFAC 1 Objective 2, Budgetary Integrity, which states that Federal financial reporting should "assist report users in evaluating the service efforts, costs, and *accomplishments*" (emphasis added), and Objective 3, Stewardship, which states that Federal financial reporting should provide information to the reader to determine whether "(3) government operations have contributed to the nation's current and future well-being." The ED currently focuses on one aspect of tax expenditures related to the "general magnitude of tax expenditures and their impact on federal revenues (revenue effect) during the fiscal year" (paragraph 20), but does not address a requirement to describe or to quantify the economic impact or benefit of tax expenditures. Without having the information available to understand both the revenue effect (cost) and economic impact (benefit) of the tax expenditures, a reader cannot properly evaluate the net benefit (or cost) to the United States for each of the tax expenditures. To address this matter, the proposed Standard could:
1. Add a requirement to paragraph 15 that disclosures in the notes to the financial statements should include a discussion of how the economic benefit or impact to the United States of each tax expenditure is assessed or evaluated.

Ms. Payne, Federal Accounting Standards Advisory Board  
September 15, 2016

2. Add a requirement to paragraph 17 that Management's Discussion and Analysis (MD&A) include a description of how the economic benefit or impact to the United States of each tax expenditure is assessed or evaluated; any significant limitations or assumptions in determining the economic benefit or impact; and the availability of published information on the economic benefit or impact of tax expenditures.
3. Add to paragraph 20 that the presentation of tax expenditures estimates in Other Information include the general magnitude of economic benefit or impact of each tax expenditure during the fiscal year.

### Other Comment

In the example notes to the financial statements (Appendix D, page 39), a FISC member suggested that the phrase "government's net revenue" may not be clear to readers as that phrase does not appear to be defined or used elsewhere in the CFR. To reduce confusion, the word "net" could be removed, or the phrase could be replaced with "federal revenues" (as used in paragraph 20a of the ED).

\*\*\*\*\*

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,



Andrew C. Lewis  
FISC Chair

**From:** [Ewer, Sidney R](#)  
**To:** [FASAB](#)  
**Subject:** comment on exposure draft - federal tax expenditures  
**Date:** Thursday, September 15, 2016 11:39:05 PM  
**Attachments:** [Federal tax "expenditures" comment letter 9-15-16.docx](#)

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Attached please find my comments on the above mentioned exposure draft. Thank you for the opportunity to comment. I pulled down your form to answer specifically your questions. My responses are in italics. Most of my response is in the first question, but I think it has implications for the rest. Long story short: mention it enough in the notes to make Treasury happy who happen to be looking for it; otherwise provide considerable detail in MD&A. It is entirely appropriate in MD&A. I don't like the term, "tax expenditure." I suspect I am not the only professional who looks askance at it, or, in my case, a retired professional who likes to keep his mind active. Which brings me to who I am, if you want to know, beyond the name you see that I typed on the form you provided.

I am retired Accounting Professor, emeritus of Missouri State University, where I taught for over 25 years. I taught Governmental and Not-for-Profit Accounting during most of that time and in doing so, I made sure the one chapter books tend to have on federal government accounting got covered completely. And I always required students do some kind of project or extra assignment on federal government accounting, budget or operations, etc. I have written a number of articles on federal government accounting or operations, and similarly, have made a number of presentations. Currently I live in Bluffton, SC.

Sincerely,

Sid R. Ewer

**Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select “individual.”**

|                                   |                                     |                                                |
|-----------------------------------|-------------------------------------|------------------------------------------------|
| Accounting Firm                   | <input type="checkbox"/>            |                                                |
| Government Agency (user)          | <input type="checkbox"/>            |                                                |
| Government Agency (preparer)      | <input type="checkbox"/>            |                                                |
| Government Agency (auditor)       | <input type="checkbox"/>            |                                                |
| Government Agency (other)         | <input type="checkbox"/>            | If other, please specify: <input type="text"/> |
| Association/Industry Organization | <input type="checkbox"/>            |                                                |
| Nonprofit organization/Foundation | <input type="checkbox"/>            |                                                |
| Other                             | <input type="checkbox"/>            | If other, please specify: <input type="text"/> |
| Individual                        | <input checked="" type="checkbox"/> |                                                |

**Please provide your name.**

Name:

**Please identify your organization, if applicable.**

Organization:

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**Q1.** The Board is proposing 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. These proposed disclosure requirements are presented in paragraphs 14-15 on page 14. An illustrative example of how these disclosures might be presented in the notes to the financial statements of the CFR is provided in Appendix D: Illustrations beginning on page 36.

**Do you believe that these proposed disclosure requirements related to the notes to the financial statements in the CFR will be helpful to readers? Do you believe the placement of the proposed disclosures in the notes to the financial statements of the CFR is appropriate? Please explain the basis for your view and note any recommended changes in the requirements.**

**Response:** *Notes to the financial statements enhance a reader's understanding of the financial statements. There is nothing inherent in the nature of Tax Expenditures as defined by Congressional Budget and Impoundment Act (CBIA) of 1974, I believe, that bringing up the concept will serve the stated purpose of notes. Indeed, just the opposite is likely to occur. Expenditures as defined by Webster or any other common source for defining terms explains an expenditure as an outlay of some physical item or, less*



*commonly, an exhaustion of some energy. In accounting and finance, the term is understood to mean an outlay of assets, generally fund assets. This usage is common among accounting and financial professionals, as well as the lay reader of federal financial reports who possesses a modicum of sophistication. Moreover, the Statement of Federal Accounting Concepts 4, "Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government," notes in Paragraph 6 that the consolidated report should be "...understandable to the average citizen who has a reasonable understanding of Federal Government activities and is willing to study the information with reasonable diligence." To most average citizens, even those with reasonable understanding of Federal Government, etc., expressing expenditures as defined by CBIA of 1974 is an alien idea. It's alien to even more sophisticated users, except pertinent U.S. Treasury officials, and even they understand the term 'expenditure' in its non-CBIA of 1974 connotations. In financial accounting circles, reductions against revenues are referred to as allowances or discounts, not expenditures.*

*Tax expenditures are, however, similar to the concept of opportunity costs in management accounting. Opportunity costs are the benefits foregone by not choosing a particular option because another option was chosen. In federal government revenue structure, the increased taxes from individual taxpayers by disallowing the mortgage interest deduction is a foregone benefit, i.e., an opportunity cost. It is still not an expenditure, as the term is generally applied. I can understand, I think, the thinking behind calling them expenditures. By not collecting extra tax revenue due to certain tax provisions, the government is attempting to accomplish certain goals by letting certain citizens expend from its tax savings rather than the federal government collect and expend what would have been savings to citizens. Maybe on the same or similar goal, but maybe not. In any case it is too nebulous a term to be used to any great extent in the notes to the financial statements.*

*Because some users, especially important users like Treasury officials, might be looking for the term, it is probably useful to bring up the term in the notes when discussing revenues but downplay the term's importance here. Something like, "non-exchange revenues do not report separately the effect of certain allowances, deductions and credits, such as health insurance contributions, mortgage interest deduction and child care credit, the effect of such items would increase federal revenue. The Congressional Budget and Impoundment Act (CBIA) of 1974 termed such items "Tax Expenditures." [This sentence lets the reader know that the term is written into the U.S. Code over 40 years ago and it cannot go away without an act of Congress.] These items and their estimation are important to federal government management decision makers and they are discussed at length in this CFR's Management Discussion and Analysis."*

*And this brings us to your second question.*

The Board is proposing that management's discussion and analysis (MD&A) in the CFR include a discussion of tax expenditures, their general purpose, and how they impact the government's financial position and condition. The proposed standards also require discussion of other factors that may affect tax collections in order to place tax expenditure information in an appropriate context. The specific proposed requirements are presented in paragraph 17 and sub-paragraphs 17.a-17.e beginning on page 14. An illustrative

example of how these proposed requirements might be presented in MD&A is provided in Appendix D: Illustrations beginning on page 32.

**Do you believe that these proposed requirements related to MD&A will be helpful to readers? Do you believe the placement of the proposed requirements in MD&A in the CFR is appropriate? Please explain the basis for your view and note any recommended changes in the requirements.**

**Response:** *Management should be discussing the effect of what the CBIA of 1974 terms "tax expenditures." It is entirely appropriate the MD&A house this discussion. Here is where the concept can be explained, including how it arose over 40 years ago. It is also where details on major individual items should be provided (see Q2 that follows).*

- Q2.** The Board is proposing to encourage rather than require the presentation of a selection of major tax expenditure estimates, such as those published annually by the Department of the Treasury's (Treasury) Office of Tax Policy, as other information (OI) in the CFR. The proposed information to be encouraged is presented in paragraphs 19-20 and subparagraphs 20.a-20.c. An illustrative example of how this proposed information might be presented in OI is provided in Appendix D: Illustrations beginning on page 38.

Statement of Federal Financial Accounting Concepts (SFFAC) 6 paragraph 5 provides that OI is information that accompanies basic information and required supplementary information (RSI), but is not required by a body that establishes generally accepted accounting principles. For additional information regarding OI, see Appendix C: Characteristics of Other Information beginning on page 30.

The Board's basis for reaching this proposal to encourage such information be included in OI is documented in Appendix A: Basis for Conclusions, beginning on page 16.

Appendix B: Tax Expenditures Explained beginning on page 23 includes important considerations behind the Board's proposal, including how Treasury's Office of Tax Policy prepares tax expenditure estimates and how those estimates can be used and interpreted.

- a. Do you believe that the proposed information, as outlined in paragraphs 19-20 and subparagraphs 20.a-20.c would be helpful to readers? Please explain the basis for your view and explain any recommended changes.**

**Response:** *I don't think it is necessary, or even desirable, to include this information in OI. The information should be included in the MD&A.*

- b. Do you agree with the Board's rationale for encouraging the presentation of the proposed information as OI in the CFR, as provided in 20.a-20.c? Please explain the basis for your view.**

- Q3.** This exposure draft (ED) proposes disclosure requirements and RSI to be included in the notes to the financial statements and MD&A sections of the CFR, respectively, that would support SFFAC 1 Objective 1, Budgetary Integrity, including Sub-objectives 1A and 1C; Objective 2, Operating Performance; and Objective 3, Stewardship.

More detailed discussion of these reporting objectives and sub-objectives and how they are supported by the proposed requirements in this ED can be found in the Purpose section beginning on page 10 and the Appendix A: Basis for Conclusions section beginning on page 16.

Appendix B: Tax Expenditures Explained beginning on page 23 provides additional background which may aid respondents' understanding of tax expenditures, their "plain language" definition, why they are important, how estimates are prepared, and considerations for understanding how estimates can be used.

**Are there any other changes that you believe should be made to the proposed Statement? Please provide rationale for your answer.**



U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.  
Washington, DC 20548

September 20, 2016

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
441 G. Street, NW, Suite 6814  
Mailstop 6H19  
Washington, DC 20548

**Federal Accounting Standards Advisory Board—*Tax Expenditures:*  
*Management's Discussion and Analysis and Disclosure Requirements Exposure*  
*Draft***

Dear Ms. Payne:

This letter provides the U.S. Government Accountability Office's (GAO) comments on the Federal Accounting Standards Advisory Board's exposure draft (ED) entitled *Tax Expenditures: Management's Discussion and Analysis and Disclosure Requirements*. Tax expenditures are reductions in a taxpayer's tax liability that are the result of special exemptions and exclusions from taxation, deductions, credits, deferrals of tax liability, or preferential tax rates. Similar to spending programs, tax expenditures represent a substantial federal commitment to a wide range of mission areas. The ED proposes standards that would require the consolidated financial report of the U.S. government (CFR) to include narrative disclosures and information regarding tax expenditures and alert readers to the availability of published information on tax expenditure estimates, such as those published annually by the Department of the Treasury's Office of Tax Policy. The proposed standards would also encourage presentation of a selection of the major tax expenditure estimates as other information (OI) in the CFR.

Since 1994, GAO has recommended greater scrutiny of tax expenditures. In 2006, we reported that it was important to understand the nature and extent of exposures in long-term fiscal planning for the federal government that were not reported in the CFR. We noted that tax expenditure amounts were not required to be disclosed, nor were they disclosed, in agency or the U.S. government's consolidated financial statements.<sup>1</sup> We further stated that enhanced reporting on tax expenditures would ensure greater transparency and accountability for revenue forgone by the federal government and provide a more comprehensive picture of the federal government's policies and fiscal position. In fiscal year 2015, the aggregate sum of tax expenditures reported by the Department of the Treasury amounted to an estimated \$1.23 trillion. The sum of tax expenditure estimates is useful for gauging the general size of revenue forgone, but

<sup>1</sup>GAO, *Fiscal Year 2005 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Financial Condition and Long-term Fiscal Imbalance*, GAO-06-406T (Washington, D.C.: Mar. 1, 2006).

must be interpreted carefully because it does not take into account interactions among individual tax expenditures.

We support the board's efforts and commend the board for proposing guidance for increasing the transparency of tax expenditures in the CFR. It is our view that the proposed guidance will assist in achieving the budgetary integrity, operating performance, and stewardship objectives of federal financial reporting in the CFR.<sup>2</sup> In addition, we support the board's view that the exposure draft presents a meaningful and cost-effective approach for enhancing the transparency and accountability of tax expenditures in the CFR.

We also acknowledge the unique and significant challenges inherent in defining, estimating, reporting, and auditing tax expenditures that the task force identified, including concerns about

- the quality, timeliness, and availability of reliable data upon which tax expenditure estimates are based;
- existing differences in the list of tax expenditures identified by two credible sources of such estimates—the Department of the Treasury's Office of Tax Policy and the U.S. Congress Joint Committee on Taxation;
- estimation methodologies for certain tax expenditures that can neither be tested nor improved over time by assessing their historical performance against actual tax return data or transactions; and
- assessing historical performance for certain tax expenditures that require the use of data that are not collected on tax returns or otherwise available because the estimates are imputed rather than based on recordable transactions that have actually occurred.

Given such challenges, the board concluded that it is not appropriate to require presentation of tax expenditure estimates at this time. In the future, with experience gained in reporting tax expenditure information, we believe that the board should reevaluate the costs, limitations, benefits, and other implications of developing additional measurement, recognition, and disclosure guidance for tax expenditures.

As the board noted in the ED, before such reevaluation efforts are undertaken, the following matters need to be considered:

- how best to define, identify, and measure tax provisions that are relevant for financial reporting;
- whether it is feasible to develop estimates that are considered to be representationally faithful and auditable; and

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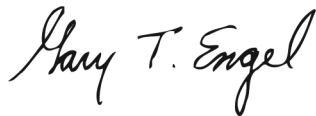
<sup>2</sup>Federal Accounting Standards Advisory Board, *FASAB Statement of Federal Financial Accounting Concepts 1, Objectives of Federal Financial Reporting*.

- if auditability can be achieved, what considerations would enable the preparer and auditor to achieve their respective responsibilities in a reasonably cost-effective manner.

Another matter that needs to be considered is the development of methodologies for aggregating tax expenditures that would account for interactions between individual tax expenditures.

We support this work and appreciate the opportunity to provide comments. Please contact Robert Dacey, Chief Accountant at (202) 512-7439 or [daceyr@gao.gov](mailto:daceyr@gao.gov) or me at (202) 512-2600 or [engelg@gao.gov](mailto:engelg@gao.gov) if you have questions on GAO's perspectives.

Sincerely,

A handwritten signature in black ink that reads "Gary T. Engel". The signature is written in a cursive, flowing style.

Gary T. Engel  
Managing Director  
Financial Management and Assurance



September 28, 2016

Ms. Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board  
Mailstop 6H19  
441 G Street, NW, Suite 6814  
Washington, DC 20548

Dear Ms. Payne:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB) on its June 2, 2016 exposure draft entitled *Tax Expenditures: Management's Discussion and Analysis and Disclosure Requirements*. The FMSB is comprised of 22 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB has reviewed the exposure draft and overall supports the adoption of this standard by the FASAB and have answered the questions requested by FASAB.

**Q1.** The Board is proposing 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. These proposed disclosure requirements are presented in paragraphs 14-15 on page 14. An illustrative example of how these disclosures might be presented in the notes to the financial statements of the CFR is provided in Appendix D: Illustrations beginning on page 36.

**Do you believe that these proposed disclosure requirements related to the notes to the financial statements in the CFR will be helpful to readers? Do you believe the placement of the proposed disclosures in the notes to the financial statements of the CFR is appropriate? Please explain the basis for your view and note any recommended changes in the requirements.**

Response: We support the proposed disclosures in the notes and the emphasis on "plain language" definition of the tax expenditure term. We did not have any concerns on the placement of the proposed disclosures. We believe they enhance integrity, provide a better picture of the true cost of government and allows our citizens to make better judgments on the government's stewardship of funds. Indeed, tax expenditure disclosure may have a political impact. However, the political impact needs to be balanced with the increase in accountability.





- Q2.** The Board is proposing that management's discussion and analysis (MD&A) in the CFR include a discussion of tax expenditures, their general purpose, and how they impact the government's financial position and condition. The proposed standards also require discussion of other factors that may affect tax collections in order to place tax expenditure information in an appropriate context. The specific proposed requirements are presented in paragraph 17 and sub-paragraphs 17.a-17.e beginning on page 14. An illustrative example of how these proposed requirements might be presented in MD&A is provided in Appendix D: Illustrations beginning on page 32.

**Do you believe that these proposed requirements related to MD&A will be helpful to readers? Do you believe the placement of the proposed requirements in MD&A in the CFR is appropriate? Please explain the basis for your view and note any recommended changes in the requirements.**

- Q3.** Response: We believe the MD&A is an excellent means of communicating additional information to the readers of the financial statements and support the proposed requirement of providing the information in the MD&A. As a suggestion, Chart C in the MD&A could include the dollar effect of tax expenditures to portray the revenue reductions. The annual report on tax expenditures is published by the Office of Tax Policy. However, it is unaudited, presenting a challenge to its inclusion. Should it be audited, we would encourage the changed illustration. The Board is proposing to encourage rather than require the presentation of a selection of major tax expenditure estimates, such as those published annually by the Department of the Treasury's (Treasury) Office of Tax Policy, as other information (OI) in the CFR. The proposed information to be encouraged is presented in paragraphs 19-20 and subparagraphs 20.a-20.c. An illustrative example of how this proposed information might be presented in OI is provided in Appendix D: Illustrations beginning on page 38.

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Appendix B: Tax Expenditures Explained beginning on page 23 includes important considerations behind the Board's proposal, including how Treasury's Office of Tax Policy prepares tax expenditure estimates and how those estimates can be used and interpreted.



- a. Do you believe that the proposed information, as outlined in paragraphs 19-20 and subparagraphs 20.a-20.c would be helpful to readers? Please explain the basis for your view and explain any recommended changes.**

Response: While we believe the proposed information is beneficial to the reader and providing education to the public, we encourage the board to continue to weigh the benefits with the costs when considering the implementation of the exposure draft. If necessary adjust the required disclosure to make it more efficient from an agency perspective when they are obtaining the information. All the information considered in 20.a-20.c is important to the reader to enhance the accountability of the Federal Government to its taxpayers and investors. We would suggest Figure 1 include an 'other' row aggregating all other tax expenditures and a total. The total will allow trend analysis and notes may be included for significant changes in tax law from year to year affecting the trend.

- b. Do you agree with the Board's rationale for encouraging the presentation of the proposed information as OI in the CFR, as provided in 20.a-20.c? Please explain the basis for your view.**

Response: We agree that OI would be an appropriate place to present the information but as noted in 3a we encourage the board to continue to consider the cost benefit in providing the information.

- Q4.** This exposure draft (ED) proposes disclosure requirements and RSI to be included in the notes to the financial statements and MD&A sections of the CFR, respectively, that would support SFFAC 1 Objective 1, Budgetary Integrity, including Sub-objectives 1A and 1C; Objective 2, Operating Performance; and Objective 3, Stewardship.

More detailed discussion of these reporting objectives and sub-objectives and how they are supported by the proposed requirements in this ED can be found in the Purpose section beginning on page 10 and the Appendix A: Basis for Conclusions section beginning on page 16.

Appendix B: Tax Expenditures Explained beginning on page 23 provides additional background which may aid respondents' understanding of tax expenditures, their "plain language" definition, why they are important, how estimates are prepared, and considerations for understanding how estimates can be used.

**Are there any other changes that you believe should be made to the proposed Statement? Please provide rationale for your answer.**

Response: We agree with the proposed disclosure requirements and do not have any suggested changes.



We appreciate the opportunity to comment on this document and will be pleased to discuss this letter with you at your convenience. If there are any questions regarding the comments in this letter, please contact Lealan Miller, CGFM, FSMB Chair, at [lmiller@eidebailly.com](mailto:lmiller@eidebailly.com) or at 208-383-4756.

Sincerely,

A handwritten signature in black ink that reads "Lealan Miller". The signature is written in a cursive, flowing style.

Lealan Miller, CGFM, CPA  
Chair- AGA Financial Management Standards Board



**Association of Government Accountants  
Financial Management Standards Board**

**July 2016 – June 2017**

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Federal Accounting Standards Advisory Board

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# TAX EXPENDITURES

MANAGEMENT'S DISCUSSION AND ANALYSIS AND DISCLOSURE REQUIREMENTS

## Statement of Federal Financial Accounting Standards

### Exposure Draft

Comments are requested by September 15, 2016

June 2, 2016

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## **THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD**

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from FASAB or its website:

- “Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”
- “Mission Statement: Federal Accounting Standards Advisory Board,” exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB’s website at: [www.fasab.gov](http://www.fasab.gov).

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## Federal Accounting Standards Advisory Board

June 2, 2016

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Tax Expenditures: Management's Discussion and Analysis and Disclosure Requirements*, are requested. Specific questions for your consideration appear on page 7 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by September 15, 2016.

All comments received by FASAB are considered public information. Those comments may be posted to FASAB's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to e-mail your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814  
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We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at (202) 512-7350 to determine if your comments were received.

The Board's rules of procedure provide that one or more public hearings may be held on any exposure draft. No hearing has yet been scheduled for this exposure draft.

Notice of the date and location of any public hearing on this document will be published in the Federal Register and in FASAB's newsletter.

Sincerely,

D. Scott Showalter  
Chairman



## EXECUTIVE SUMMARY

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### WHAT IS THE BOARD PROPOSING?

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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 Board 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.

Specifically, the proposed standards would require that the CFR:

1. Include narrative disclosures and information regarding tax expenditures that inform the reader regarding the:
  - a. definition of tax expenditures,
  - b. general purpose of tax expenditures,
  - c. impact on and treatment of tax expenditures within the Federal Budget process, and
  - d. impact of tax expenditures on the government's financial position and condition.
2. Alert readers regarding the availability of published information on tax expenditure estimates, such as those published annually by the Department of the Treasury's Office of Tax Policy.

The proposed standards would also encourage presentation of tax expenditure estimates as other information (OI)<sup>1</sup> in the CFR.<sup>2</sup>

### HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

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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. The Board believes the service efforts, costs, and accomplishments of the reporting entity—the U.S. Government—include those service efforts undertaken, costs incurred through, and accomplishments resulting from the use of tax expenditures. Accordingly, the Board identified a need to improve users' awareness and understanding of tax expenditures. By requiring disclosures, the Board will provide a mechanism and framework for achieving this objective. The Board is mindful of the need to avoid voluminous disclosures and believes that disclosures of

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<sup>1</sup> The term *Other Information* (OI) used in this Statement and the term *Other Accompanying Information* (OAI), as defined by SFFAC 6 par. 5, are synonymous.

<sup>2</sup> Although the Federal Accounting Standards Advisory Board (FASAB) does not require OI to be presented, FASAB may at times encourage voluntary reporting of items to help in the development of information that may enhance overall federal financial reporting. For example, FASAB may consider an item to be relevant to entity operations but, for the moment, does not meet other criteria for required information.

the definition, purpose, and impact of tax expenditures can be integrated into the CFR in a succinct manner.

Given the unique and significant challenges inherent in defining, estimating, reporting, and auditing tax expenditures, the Board concluded that it is not appropriate to require presentation of estimates. However, the Board may elect to evaluate the costs, limitations, benefits, and other implications of developing additional measurement, recognition, and disclosure guidance in the future. Before such efforts are potentially undertaken, the following matters need to be considered: (1) how best to define, identify, and measure tax provisions that are relevant for financial reporting purposes; (2) whether it is feasible to develop estimates that are considered to be representationally faithful and auditable; and (3) if auditability can be achieved, what considerations would enable the preparer and auditor to achieve their respective responsibilities in a reasonably cost-effective manner.

The Board believes this proposal is a useful and cost-effective means of improving the extent to which the budgetary integrity, operating performance, and stewardship objectives established by Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, are addressed in the CFR. Tax expenditure disclosures would contribute to these objectives by helping the reader to evaluate and understand

- (1) the impact of the tax code on budgetary resources and uses,
- (2) the service efforts, costs, and accomplishments of the reporting entity, and the manner in which these service efforts have been financed and/or impacted by the tax system, and
- (3) how the tax code relates to and/or affects the government's investments and financial position, and how the government's financial condition has changed and may change in the future as a result.

#### **Budgetary Integrity Objective**

Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations.

#### **Operating Performance Objective**

Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities.

#### **Stewardship Objective**

Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and nation's financial conditions have changed and may change in the future.

Source: SFFAC 1

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## QUESTIONS FOR RESPONDENTS

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The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Statement. Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The Board believes this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

The questions in this section are available in a Word file for your use at <http://www.fasab.gov/documents-for-comment/>. Your responses should be sent by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to respond by e-mail, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814  
Mail Stop 6H19  
Washington, D.C. 20548

All responses are requested by September 15, 2016.

- Q1. The Board is proposing 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. These proposed disclosure requirements are presented in paragraphs 14-15 on page 14. An illustrative example of how these disclosures might be presented in the notes to the financial statements of the CFR is provided in Appendix D: Illustrations beginning on page 36.

**Do you believe that these proposed disclosure requirements related to the notes to the financial statements in the CFR will be helpful to readers? Do you believe the placement of the proposed disclosures in the notes to the financial statements of the CFR is appropriate? Please explain the basis for your view and note any recommended changes in the requirements.**

- Q2. The Board is proposing that management’s discussion and analysis (MD&A) in the CFR include a discussion of tax expenditures, their general purpose, and how they impact

the government's financial position and condition. The proposed standards also require discussion of other factors that may affect tax collections in order to place tax expenditure information in an appropriate context. The specific proposed requirements are presented in paragraph 17 and sub-paragraphs 17.a-17.e beginning on page 14. An illustrative example of how these proposed requirements might be presented in MD&A is provided in Appendix D: Illustrations beginning on page 32.

**Do you believe that these proposed requirements related to MD&A will be helpful to readers? Do you believe the placement of the proposed requirements in MD&A in the CFR is appropriate? Please explain the basis for your view and note any recommended changes in the requirements.**

- Q3. The Board is proposing to encourage rather than require the presentation of a selection of major tax expenditure estimates, such as those published annually by the Department of the Treasury's (Treasury) Office of Tax Policy, as other information (OI) in the CFR. The proposed information to be encouraged is presented in paragraphs 19-20 and subparagraphs 20.a-20.c. An illustrative example of how this proposed information might be presented in OI is provided in Appendix D: Illustrations beginning on page 38.

Statement of Federal Financial Accounting Concepts (SFFAC) 6 paragraph 5 provides that OI is information that accompanies basic information and required supplementary information (RSI), but is not required by a body that establishes generally accepted accounting principles. For additional information regarding OI, see Appendix C: Characteristics of Other Information beginning on page 30.

The Board's basis for reaching this proposal to encourage such information be included in OI is documented in Appendix A: Basis for Conclusions, beginning on page 16.

Appendix B: Tax Expenditures Explained beginning on page 23 includes important considerations behind the Board's proposal, including how Treasury's Office of Tax Policy prepares tax expenditure estimates and how those estimates can be used and interpreted.

- a. **Do you believe that the proposed information, as outlined in paragraphs 19-20 and subparagraphs 20.a-20.c would be helpful to readers? Please explain the basis for your view and explain any recommended changes.**
- b. **Do you agree with the Board's rationale for encouraging the presentation of the proposed information as OI in the CFR, as provided in paragraphs A9-A12? Please explain the basis for your view.**

- Q4. This exposure draft (ED) proposes disclosure requirements and RSI to be included in the notes to the financial statements and MD&A sections of the CFR, respectively, that would support SFFAC 1 Objective 1, Budgetary Integrity, including Sub-objectives 1A and 1C; Objective 2, Operating Performance; and Objective 3, Stewardship.

More detailed discussion of these reporting objectives and sub-objectives and how they are supported by the proposed requirements in this ED can be found in the Purpose

section beginning on page 10 and the Appendix A: Basis for Conclusions section beginning on page 16.

Appendix B: Tax Expenditures Explained beginning on page 23 provides additional background which may aid respondents' understanding of tax expenditures, their "plain language" definition, why they are important, how estimates are prepared, and considerations for understanding how estimates can be used.

**Are there any other changes that you believe should be made to the proposed Statement? Please provide rationale for your answer.**

# INTRODUCTION

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## PURPOSE

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1. In Statement of Federal Financial Accounting Concepts (SFFAC) 1, the Board established four objectives of federal financial reporting. These objectives provide a framework for assessing the existing accountability and financial reporting systems of the federal government and for considering new accounting standards.<sup>3</sup> The objectives address (1) Budgetary Integrity, (2) Operating Performance, (3) Stewardship, and (4) Systems and Controls.

2. This Statement contributes to Objectives 1, 2, and 3.

a. Objective 1, Budgetary Integrity, states that:

Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations.

i. Sub-objective 1A states that:

Federal financial reporting should provide information that helps readers to determine how budgetary resources have been obtained and used...

ii. Sub-objective 1C states that:

Federal financial reporting should provide information that helps readers to determine how information on the use of budgetary resources relates to information on the costs of program operations...

b. Objective 2, Operating Performance, states that:

Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity, and the manner in which these service efforts have been financed...

c. Objective 3, Stewardship, states that:

Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial conditions have changed and may change in the future.

Federal financial reporting should provide information that helps the reader to determine whether (1) the government's financial position improved or deteriorated

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<sup>3</sup> SFFAC 1, par. 109.

over the period, (2) future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and (3) government operations have contributed to the nation's current and future well-being.

3. Tax expenditures reduce federal revenues as a result of tax legislation. Many tax expenditures resemble mandatory spending programs, for which spending is typically determined by rules for eligibility and benefit formulas. Other tax expenditures resemble discretionary spending programs, for which Congress appropriates annual funding. Forgoing budgetary resources through the use of tax expenditures can be a method of achieving policy objectives without direct outlays of funds by federal agencies and programs. Accordingly, the Board believes that the disclosure requirements in this Statement provide budgetary integrity information which will contribute to Objective 1. In particular, the proposed disclosure requirements will contribute to sub-objectives 1A and 1C because these disclosures provide readers with an understanding of how tax expenditures impact the availability of budgetary resources and tax collections, and how certain policy objectives are addressed through the mechanism of forgoing tax revenues.
4. Tax expenditures are used as one of many means to accomplish policy objectives of the federal government. Although tax expenditures are not direct outlays of federal funds, they are often viewed as alternatives to other policy instruments, such as spending or regulatory programs. The Board believes that the service efforts, costs, and accomplishments of the reporting entity—the U.S. Government—include those service efforts undertaken, costs incurred through, and accomplishments resulting from the use of tax expenditures. Accordingly, the Board believes this Statement provides operating performance information which will contribute to Objective 2.
5. Because tax expenditures are often viewed as alternatives to spending or regulatory programs, they can be viewed as government investments of forgone budgetary resources designed to address policy objectives. Thus, tax expenditures impact (1) the government's financial position, (2) the budgetary resources available to sustain public services and to meet obligations as they come due, and (3) the nation's current and future well-being. Accordingly, the Board believes this Statement provides stewardship information which will contribute to Objective 3.
6. The Board believes that this Statement will improve users' awareness and understanding of tax expenditures, their use, and their relationship to and impact on federal revenues and the overall financial position of the U.S. government.
7. Appendix B: Tax Expenditures Explained provides additional background to aid respondents' understanding of tax expenditures, their "plain language" definition, why they are important, how estimates are prepared by Treasury, and considerations for understanding how Treasury's estimates can be used.

## MATERIALITY

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8. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person



relying on the information would have been changed or influenced by the omission or the misstatement.

## PROPOSED STANDARDS

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### SCOPE

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9. This Statement does not alter or contradict the definition of tax expenditures, as established by the Congressional Budget and Impoundment Act of 1974. This Statement does not affect the Department of the Treasury's (Treasury) or the Joint Committee on Taxation's (JCT) interpretation of the statutory definition. Hence, this Statement does not affect the policies and practices of Treasury's Office of Tax Policy or the JCT with respect to the definition of tax expenditures, identification and recognition of tax expenditures, and measurement of tax expenditures.
10. The reporting requirements in this Statement apply to the consolidated financial report of the U.S. Government (CFR). They do not apply to the financial statements of component reporting entities. They also do not affect the reporting in the *Budget of the U.S. Government* or any other special purpose report.
11. The Statement encourages the presentation of a selection of the major tax expenditure estimates, such as those published annually by Treasury's Office of Tax Policy, as other information (OI) in the CFR.<sup>4</sup>

### DEFINITIONS

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#### 12. Tax expenditures

The Congressional Budget Act of 1974 (Public Law 93-344) defines **tax expenditures** as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability."

While the term "revenue losses" is used in the statutory definition, tax expenditures are generally reductions in federal tax revenues that were properly approved and authorized by the Congress to accomplish an identified policy objective, recognizing that federal tax revenues would be reduced.

#### 13. Baseline provisions

**Baseline provisions** are the starting points used to measure the impact of tax expenditures on tax revenues as compared to revenues that would be collected otherwise, absent the special exclusion, exemption, deduction, credit, preferential rate, or deferral. Certain practical aspects of the tax code are incorporated into the baseline—such as progressive tax rates, personal exemptions, standard deductions, deductions of expenses incurred in order to earn income, and deferrals of unrealized income.

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<sup>4</sup> The term other information (OI) used in this Statement and the term other accompanying information (OAI), as defined by SFFAC 6 par. 5, are synonymous.

## DISCLOSURE REQUIREMENTS

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### FINANCIAL REPORT OF THE U.S. GOVERNMENT DISCLOSURES

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14. Disclosures about tax expenditures should help provide readers with a general understanding of how tax expenditures impact the government's tax collections, financial position, and financial condition; and how budgetary objectives can be achieved through the mechanism of tax expenditures.
15. Disclosures within the notes to the financial statements should include:
  - a. a "plain language" definition of the term tax expenditures;<sup>5</sup>
  - b. examples of types of tax expenditures such as special deductions, credits, deferrals, preferential rates, exemptions, and exclusions; and
  - c. 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.
16. An example of how these financial statement note disclosures might be presented is presented in Appendix D: Illustrations. The example is for illustrative purposes only.

## REQUIRED SUPPLEMENTARY INFORMATION

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

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17. Management's discussion and analysis (MD&A) should include:
  - a. a "plain language" definition of the term tax expenditures;
  - b. the general purpose of tax expenditures;
  - c. information about other factors that may affect tax collections in order to place tax expenditure information in an appropriate context;
  - d. a description of how tax expenditures are treated for budgetary and financial reporting purposes, including their impact on the surplus (deficit) and their treatment within the federal budget process, and how they impact the government's financial position and condition; and
  - e. a statement regarding the availability of published information on tax expenditures, such as the Treasury Office of Tax Policy's unaudited annual report on tax expenditures and how that information can be obtained.
18. An example of how this information might be presented within MD&A is presented in Appendix D: Illustrations. The example is for illustrative purposes only.

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<sup>5</sup> This statement does not establish the wording of the "plain language" definition.

## OTHER INFORMATION

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19. The Board encourages the presentation of a selection of the major tax expenditure estimates, such as those published annually by Treasury's Office of Tax Policy, as OI in the CFR.
20. The Board encourages the presentation of tax expenditure estimates in a manner that informs readers of:
  - a. the general magnitude of tax expenditures and their impact on federal revenues (revenue effect) during the fiscal year;
  - b. the source of the estimates; and
  - c. the availability of published information wherein the estimates presented in OI were originally published, such as the Treasury Office of Tax Policy's annual report on tax expenditures, and how that information can be obtained.
21. An example of how tax expenditure estimates might be presented within OI is presented in Appendix D: Illustrations. The example is for illustrative purposes only.

## EFFECTIVE DATE

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22. The requirements of this Statement are effective for reporting periods beginning after September 30, 2017. Earlier implementation is encouraged.

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|---------------------------------------------------------------------------|
| The provisions of this Statement need not be applied to immaterial items. |
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## APPENDIX A: BASIS FOR CONCLUSIONS

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This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

### PROJECT HISTORY

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- A1. In October 2014, the Federal Accounting Standards Advisory Board (FASAB or “the Board”) approved this project in order to determine what information regarding tax expenditures should be included in general purpose federal financial reports. The decision followed an October 2013 educational briefing to the Board that resulted in identifying the topic as a high priority.
- A2. Throughout the project, the Board relied heavily on a task force that included experts in the areas of tax expenditures, tax policy, and federal financial reporting. The task force provided critical assistance and knowledge to the Board and FASAB staff in developing recommendations, developing Appendix B: Tax Expenditures Explained and Appendix D: Illustrations, providing technical comments and feedback on working drafts, and attending Board meetings to answer technical questions and provide insight during deliberations.
- A3. In December 2015, the task force issued its [Report to the FASAB](#), which included three recommendations to the Board and three options for the Board’s consideration with respect to the presentation of tax expenditure estimates in the CFR.
- a. Recommendation 1 of the task force was to include an introduction section or background paper, as drafted by the task force to educate readers of and respondents to the Board’s exposure draft regarding tax expenditures.
    - i. The Board approved this recommendation to be implemented in a proposed standard, but elected to include a condensed introduction section, along with the full background paper developed by the task force (with minor changes) as an appendix section (Appendix B: Tax Expenditures Explained).
  - b. Recommendation 2 of the task force was to require certain narrative disclosures regarding tax expenditures within the notes to the financial statements and MD&A of the CFR.
    - i. The task force members decided early in the project that they did not generally support issuing proposed standards that impacted component reporting entities of the federal government due to potentially significant challenges and costs associated with doing so. For example, implementing accounting standards for identifying tax expenditures that are key performance or financial indicators for a component reporting entity could be time consuming and costly to the preparer.

- ii. The task force believed that Recommendation 2 would greatly improve users' awareness and understanding of tax expenditures, while avoiding extensive, voluminous, or costly disclosures.
  - iii. The Board approved the recommendation to be implemented in a proposed standard, with certain minor changes to the recommendation as it was written in the task force report.
- c. Recommendation 3 of the task force was to require the inclusion of hyperlinks in the CFR to inform readers regarding other online sources of information where readers of the government-wide report can obtain more detailed information regarding tax expenditures.
  - i. FASAB staff worked with members of the task force and other members of the federal financial statement auditing community to develop proposed language for implementing this recommendation.
  - ii. The Board discussed how best to implement this recommendation. Board members came to the conclusion that the language in paragraph 17.e provides the preparer with the discretion to embed a hyperlink to information sources that it deems to be most appropriate each year, should reporting on tax expenditures evolve, expand, or improve in the future.
  - iii. The Board sought to develop a requirement that would continue to be relevant in the future and also allow the preparer to exercise discretion in selecting information sources that are referenced in the CFR.
  - iv. Board members determined that implementing the proposed requirement in paragraph 17.e will likely necessitate the use of electronic hyperlinking in the CFR, given (1) the costs and burdens of using alternative methods for implementing the requirement, such as postage and printing costs, and (2) the availability and minimal costs associated with hyperlinking to electronic information available on the internet. The Board encourages the use of hyperlinks in implementing the proposed requirement.
  - v. The Board concluded that the proposed requirement in paragraph 17.e makes it sufficiently clear to the preparer and auditor that the reader should be informed that the information referenced is unaudited. Moreover, the Board concluded that MD&A was an appropriate section for directing users to unaudited reports.
- d. Options for consideration proposed by the task force regarding the presentation of tax expenditure estimates were: (1) to encourage the inclusion of tax expenditure estimates as OI in the CFR, (2) to require the inclusion of tax expenditure estimates within required supplementary information (RSI) of the CFR, or (3) to neither encourage nor require the inclusion of tax expenditure estimates within the CFR and focus exclusively on narrative content and links to other resources for comprehensive reporting of estimates.

- i. Task force members who supported the placement of tax expenditure estimates in OI were primarily concerned about the quality, timeliness, and availability of reliable data upon which these estimates are based. These task force members also were concerned that existing differences in the list of tax expenditures identified by two credible sources of such estimates—Treasury’s Office of Tax Policy and the JCT—may pose challenges, particularly if such information were audited. Additionally, estimation methodologies for certain tax expenditures can neither be tested nor improved over time by way of assessing their historical performance against tax return data or transactions; assessing historical performance for certain tax expenditures requires the use of data that are not collected on tax returns or otherwise available because these estimates are imputed rather than based on recordable transactions that actually occurred. Task force members supporting the inclusion of estimates in OI believed that these unique challenges impede the preparer’s ability to (1) identify a generally accepted universe of tax expenditures; (2) develop estimates generally accepted as reliable, fair, and correctly measured; and (3) include estimates within RSI or basic information without negative or potentially unresolvable audit challenges.
- ii. These members recommended—and the Board ultimately concluded—that encouraging the inclusion of estimates in OI avoids such costs and challenges, increases transparency and context surrounding the general magnitude and impact of tax expenditures on the government’s financial position, and elevates tax expenditure estimates into an unaudited section of the CFR to create more transparency. See Appendix C: Characteristics of Other Information for additional background information regarding the characteristics of OI.

## REQUIREMENT FOR INFORMATION IN MD&A AND NOTES

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- A4. The Board is proposing that the CFR’s MD&A include a discussion of tax expenditures, their general purpose, and how they impact the government’s financial position and condition. The proposed standards also require discussion of other factors that may affect tax collections in order to place tax expenditure information in an appropriate context. The specific proposed requirements are presented in paragraph 17 and sub-paragraphs 17.a-17.e beginning on page 14.
- A5. Requiring information on tax expenditures in the MD&A and notes to the financial statements in the CFR is important for the following reasons:
  - a. Discussion regarding the topic of tax expenditures is currently absent; however, tax expenditures have a significant impact on the federal government’s financial position, tax collections, and performance outcomes each year. The significant impact of tax expenditures warrants discussion in MD&A because MD&A should “provide a clear and concise description of the reporting entity and its ... activities, program and

financial performance, systems, controls, legal compliance, financial position, and financial condition.”<sup>6</sup>

- b. Tax expenditures are significant to the management, budgetary, and oversight functions of Congress and the Administration. Tax expenditures are often used by the federal government as a mechanism to address policy objectives. Tax expenditures may also affect the judgment of citizens about the efficiency and effectiveness of the tax code in accomplishing certain financial or policy objectives. Therefore, tax expenditures are consistent with the provisions of Statement of Federal Financial Accounting Standards 15 paragraph 6 which indicates:

MD&A should deal with the “vital few” matters; i.e., the most important matters that will probably affect the judgments and decisions of people who rely on the general purpose federal financial report as a source of information. Matters to be discussed and analyzed are those that management of the reporting entity believes it is reasonable to assume could:

- i. lead to significant actions or proposals by top management of the reporting unit;
  - ii. be significant to the managing, budgeting, and oversight functions of Congress and the Administration; or
  - iii. significantly affect the judgment of citizens about the efficiency and effectiveness of their federal government.
- c. In SFFAC 1, the Board established four objectives of federal financial reporting. These objectives provide a framework for assessing the existing accountability and financial reporting systems of the federal government and for considering new accounting standards.<sup>7</sup> The objectives address (1) Budgetary Integrity, (2) Operating Performance, (3) Stewardship, and (4) Systems and Controls.
- d. Objective 1, Budgetary Integrity, states that:

Federal financial reporting should assist in fulfilling the government’s duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government’s budget for a particular fiscal year and related laws and regulations.

- i. Sub-objective 1A states that:

Federal financial reporting should provide information that helps readers to determine how budgetary resources have been obtained and used...

- ii. Sub-objective 1C states that:

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<sup>6</sup> Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management’s Discussion and Analysis*, par. 1.

<sup>7</sup> SFFAC 1, par. 109.



Federal financial reporting should provide information that helps readers to determine how information on the use of budgetary resources relates to information on the costs of program operations...

- e. Tax expenditures reduce federal revenues via tax legislation. Many tax expenditures resemble mandatory spending programs, for which spending is typically determined by rules for eligibility and benefit formulas. Other tax expenditures resemble discretionary spending programs, for which Congress appropriates annual funding. Forgoing budgetary resources through the use of tax expenditures can be a method of achieving policy objectives without direct outlays of funds to federal agencies and programs. Accordingly, the MD&A and financial statement note requirements in this Statement will provide budgetary integrity information and contribute to addressing Objective 1. In particular, the proposed disclosure requirements will contribute to addressing sub-objectives 1A and 1C because these disclosures provide readers with an understanding of how tax expenditures impact the availability of budgetary resources and tax collections, and how certain policy objectives are addressed through the mechanism of forgoing tax revenues.

- f. Objective 2, Operating Performance, states that:

Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity, and the manner in which these service efforts have been financed; and the management of the entity's assets and liabilities.

- g. Tax expenditures are used as one of many means to accomplish policy objectives of the federal government. Although tax expenditures are not direct outlays of federal funds, they are often viewed as alternatives to other policy instruments, such as spending or regulatory programs. The service efforts, costs, and accomplishments of the reporting entity—the U.S. Government—include those service efforts undertaken, costs incurred through, and accomplishments resulting from the use of tax expenditures. Accordingly, this Statement will result in information that alerts readers to the efforts and costs associated with tax expenditures and, therefore, will provide operating performance information and contribute to addressing Objective 2.

- h. Objective 3, Stewardship, states that:

Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial conditions have changed and may change in the future.

Federal financial reporting should provide information that helps the reader to determine whether (1) the government's financial position improved or deteriorated over the period, (2) future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and (3) government operations have contributed to the nation's current and future well-being.

- i. Because tax expenditures are often viewed as alternatives to spending or regulatory programs, they can be viewed as government investments of forgone budgetary resources designed to address policy objectives. Thus, tax expenditures impact (1) the government's financial position, (2) the budgetary resources available to sustain public services and to meet obligations as they come due, and (3) the nation's current and future well-being. Accordingly, the Board believes the requirements for MD&A and notes to the financial statements in the CFR will provide stewardship information and contribute to addressing Objective 3.
- A6. Requiring information on tax expenditures in the notes to the financial statements in the CFR is important for the following reasons:
- a. The proposed requirements will help readers understand that the tax system is used to accomplish policy goals as well as to collect revenue.
  - b. The proposed requirements will help readers understand that some "efforts" and related costs are not transparent in the financial statements, but do impact the financial statements.
  - c. The proposed requirements provide context of other factors impacting tax collection in order to place tax expenditures in an appropriate context and help readers to have a more complete understanding of factors impacting the government's financial position and financial condition.
- A7. The information reported in accordance with the requirements of this Statement for MD&A and the notes to the financial statements in the CFR will improve users' awareness and understanding of tax expenditures, their use, and their relationship to and impact on federal revenues and the overall financial position of the U.S. government.
- A8. The information reported in accordance with requirements of this Statement will help users to evaluate and understand: (1) the impact of the tax code on budgetary resources and uses; (2) the service efforts, costs, and accomplishments of the reporting entity, and the manner in which these service efforts have been financed and/or impacted by the tax system; and (3) how the tax code relates to and/or affects the government's investments and financial position, and how the government's financial condition has changed and may change in the future as a result.

## REPORTING ESTIMATES IN OTHER INFORMATION

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- A9. Regarding cost-benefit considerations, SFFAC 1 paragraph 155 states that "for many purposes, other information sources and other techniques to maintain and demonstrate accountability are either essential or more cost-effective." Paragraphs 19-20 beginning on page 15 of this Statement provide readers with a means of easily accessing other relevant tax expenditure information sources.
- A10. Regarding the inclusion of estimates in OI and informing readers of the source and availability of published information wherein the estimates were originally published; the Board concluded that suitable amounts of detail, context, and explanations can

accompany estimates presented in a reasonably concise manner, while also meeting the needs of users with different levels of knowledge regarding tax expenditures. Accordingly, the inclusion of statements to alert readers regarding (1) that the published information includes a complete population of the tax expenditure estimates identified by the reporting party, and (2) whether the published information includes details of the estimating conventions and explanatory definitions of the tax expenditures presented in OI, would also be helpful to users.

- A11. The Board may elect to evaluate the costs, limitations, benefits, and other implications of developing additional measurement, recognition, and disclosure guidance in the future.
- A12. Before such efforts are potentially undertaken, the following matters need to be considered:
- a. how best to define, identify, and measure tax provisions that are relevant for financial reporting purposes;
  - b. whether it is feasible to develop estimates that are considered to be representationally faithful and auditable; and
  - c. if auditability can be achieved, what considerations would enable the preparer and auditor to achieve their respective responsibilities in a reasonably cost-effective manner.

## APPENDIX B: TAX EXPENDITURES EXPLAINED

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### Purpose

In light of the Board's mission to improve federal financial reporting, it is paramount that such reporting assists report users in evaluating the service efforts, costs, accomplishments, and fiscal sustainability of the federal government and in understanding how these efforts and accomplishments have been financed. Although tax expenditures have similarities to federal spending in their impact on service efforts, costs, accomplishments, and fiscal sustainability; they have historically received little focus in general purpose federal financial reporting. Establishing reporting requirements with respect to this topic requires an understanding of tax expenditures, the methods used to estimate income tax expenditures, and considerations in using those estimates.

This section provides an overview of tax expenditures to aid respondents in considering the Board's proposal. Specifically, this section:

1. defines tax expenditures and describes the six types of tax expenditures,
2. provides context with respect to the purpose of tax expenditures, why tax expenditures are important, and the relationship of tax expenditures to government performance, taxpayer behaviors, and the economy; and
3. summarizes how tax expenditure estimates are prepared by U.S. Department of the Treasury (Treasury). This ultimately impacts how tax expenditure estimates can be used and interpreted.

### Background

The Congressional Budget and Impoundment Act of 1974 (the Budget Act) defines tax expenditures as

*"...revenue losses attributable to provisions of the federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of liability." (Section 3(3) of Public Law 93-344)*

Generally, tax expenditures are provisions in the tax law available to certain subsets of taxpayers who engage in certain kinds of activities, face special circumstances, or otherwise meet certain criteria. The government uses tax expenditures to stimulate behavior that will accomplish public policy goals such as facilitating homeownership, reducing the cost of borrowing for state and local governments, encouraging higher education, or promoting domestic energy production.

Tax expenditures are "revenue losses" in that the provisions reduce income taxes owed and, therefore, revenue collected. Tax expenditures resemble federal spending in that such provisions affect the federal deficit/surplus by impacting income tax revenue; however, tax expenditures are often not treated the same as federal spending for budgetary or financial reporting purposes.<sup>8</sup> Many tax expenditures resemble mandatory spending programs, for which spending is typically determined by rules for eligibility and benefit formulas. Other tax expenditures resemble discretionary spending programs, for which Congress appropriates annual funding. Many tax expenditures can only be removed or changed through tax legislation. While tax expenditures help

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<sup>8</sup> In certain cases a tax preference may provide cash in the form of a refundable tax credit even if the taxpayer owes no tax. The budget records payments to taxpayers for refundable tax credits (such as earned income tax credits) that exceed the taxpayer's tax liability as outlays. As such, a portion of this type of tax preference is reported as outlays in the budget to the extent payments exceed the taxpayer's liability, whereas the portion offsetting the taxpayer's liability reduces budget revenues but is not explicitly reported in the budget.

determine the government's net revenue, tax expenditure estimates are not explicitly displayed in the Statements of Net Cost or Changes in Net Position.

### How Tax Expenditures Are Identified

The first step in identifying tax expenditures is determining what the tax baseline is so that the provisions considered “special” (see definition above) can be distinguished from those provisions consistent with a baseline tax system. For the federal income tax, the baseline tax system is a comprehensive income tax with certain practical provisions that are generally accepted as being part of a baseline tax system. Accordingly, provisions such as the personal exemption, standard deductions, deductions of expenses incurred in earning income, and a progressive rate structure are considered to be part of the baseline tax system for measurement purposes.

Judgments about such provisions are based on a general consensus view of analysts regarding practical provisions of a baseline tax system versus “special” provisions that constitute a tax expenditure. For example, the personal exemption and standard deduction are viewed as defining a zero-rate bracket that is part of baseline tax law as are the other graduated rate brackets in the individual income tax. In contrast, the child tax credit is considered a tax expenditure because it provides a “special” benefit that would not exist under baseline tax law.

After determining the baseline tax system, the credits, deductions, special exceptions and allowances that reduce tax liability below the level implied by the baseline tax system are then considered to be tax expenditures. See Figure 1 in Appendix D: Illustrations for a list of the largest income tax expenditures, ranked by fiscal year 2016 revenue effect.

### Types of Tax Expenditures

There are six types of tax expenditures—exclusions, exemptions, deductions, credits, preferential rates, and deferrals. Table 1 below describes each and provides an example.

**Table 1: Examples of Provisions That Are Tax Expenditures When They Are Exceptions to the Normal [Baseline] Tax Structure**

| <b>Tax expenditure</b> | <b>Description</b>                                                                                                                                            | <b>Examples</b>                                                                                                                                                                 |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Exclusion              | Excludes income that would otherwise constitute part of a taxpayer's gross income.                                                                            | Employees generally pay no income taxes on contributions their employers make on their behalf for medical insurance premiums.                                                   |
| Exemption              | Reduces gross income for taxpayers because of their status or circumstances.                                                                                  | Taxpayers may be able to reduce their tax liability if they have a dependent who is a child aged 19 through 23 and is a full-time student.                                      |
| Deduction              | Reduces gross income due to expenses taxpayers incur.                                                                                                         | Taxpayers may be able to deduct state and local income taxes and property taxes.                                                                                                |
| Credit                 | Reduces tax liability dollar-for-dollar. Additionally, some credits are refundable meaning that a credit in excess of tax liability results in a cash refund. | Taxpayers with children under age 17 potentially can qualify for up to a \$1,000 partially refundable, per child credit, provided their income does not exceed a certain level. |
| Preferential tax rate  | Reduces tax rates on some forms of income.                                                                                                                    | Capital gains on certain income are subject to lower tax rates under the individual income tax.                                                                                 |
| Deferral               | Delays recognition of income or accelerates some deductions otherwise attributable to future years.                                                           | Taxpayers may defer paying tax on interest earned on certain U.S. savings bonds until the bonds are redeemed.                                                                   |

Source: [GAO-13-167SP](#): Guide for Evaluating Tax Expenditures.

In considering these six types note that it may be possible to achieve certain public policy outcomes in a variety of ways. For example, it may be possible for some public policy purposes to be achieved through a preferential rate, a deduction, or a credit. Because a variety of approaches can produce the same cash effect, the types are different in form rather than substance.

Most reports do not categorize tax expenditures by type. The types are presented to aid in understanding the mechanisms used to establish preferences.

### Budget Act Requirements and History

The term “tax expenditures” was introduced in 1967 by Assistant Secretary for Tax Policy, Stanley Surrey, in a speech calling for a “full accounting” of them. Following his speech, estimates were prepared by the U.S. Department of the Treasury and later by the Joint Committee on Taxation (JCT) of the U.S. Congress.

In 1974, the Budget Act charged the House and Senate Budget Committees with the duty “to request and evaluate continuing studies of tax expenditures, to devise methods of coordinating tax expenditures, policies, and programs with direct budget outlays, and to report the results of such studies” to Congress on a recurring basis. The Budget Act further required that the annual President’s Budget include tax expenditure estimates.<sup>9</sup>

<sup>9</sup> Kleinbard, Edward. Tax Expenditure Framework Legislation, *Research Paper Series and Legal Studies Research Paper Series, Paper No. C10-1*. USC Center in Law, Economics and Organization. 2010.

Estimates are now available annually from both the JCT<sup>10</sup> and the President's Budget.<sup>11</sup> Each JCT report contains a discussion of the concept of tax expenditures, identification of new tax expenditures enacted into law, a general explanation on how the committee staff measures tax expenditures, estimates of tax expenditures, and distributions of selected individual tax expenditures by income class.

Treasury prepares estimates provided in the President's Budget. These estimates are for the current fiscal year and the ten years following the current fiscal year. The estimates are intended to support budget analysis and are a measure of the economic benefits that are provided through the tax laws to various groups of taxpayers and sectors of the economy. The estimates also may be useful in assessing the efficiency and effectiveness of achieving specific public goals through the use of tax expenditures. Treasury provides the tax expenditure estimates before the end of each fiscal year and makes them available on the Treasury website before the President's Budget is issued.<sup>12</sup>

## Government Performance Reporting for Tax Expenditures

The Government Performance and Results Act of 1993 (GPRA) originally put in place a framework for performance planning and reporting, and the GPRA Modernization Act of 2010 (GPRAMA) has significantly enhanced the statutory framework.<sup>13</sup> The GPRAMA framework aims at taking a more crosscutting and integrated approach to focusing on results and improving government performance. The Office of Management and Budget (OMB) is required to coordinate with agencies to establish federal government priority goals—otherwise referred to as cross-agency priority (CAP) goals.<sup>14</sup> GPRAMA requires certain agencies to identify a subset of agency goals as agency priority goals (APG) which reflect the highest priorities of each agency. Fully implementing GPRAMA requirements could provide the foundation for reviewing tax expenditure performance and assessing their contributions toward federal goals. GPRAMA requires OMB to identify tax expenditures that contribute to the CAP goals. In addition, OMB guidance has directed agencies to identify tax expenditures that contribute to their APGs since 2012 and to their strategic objectives since 2013.<sup>15</sup>

While OMB has determined that there are no tax expenditures that are critical to achievement of the current CAP goals, agencies have not yet completed actions necessary to identify tax expenditures that contribute to their APGs.<sup>16</sup>

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<sup>10</sup> See <https://www.jct.gov/publications.html?func=select&id=5> for JCT Publications on Tax Expenditures. As of July 17, 2015 estimates for fiscal years 2014-2018 were available in JCX-97-14.

<sup>11</sup> See [https://www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/ap\\_14\\_expenditures.pdf](https://www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/ap_14_expenditures.pdf) for the Fiscal Year 2016 President's Budget. The Analytical Perspectives, Chapter 14 provides estimates for fiscal years 2014 through 2024. (Last accessed July 17, 2015.)

<sup>12</sup> See <http://www.treasury.gov/resource-center/tax-policy/Pages/Tax-Expenditures.aspx> for the latest estimates of tax expenditures. (Last accessed September 22, 2015.)

<sup>13</sup> Pub. L. No. 103-62, 107 Stat. 285 (Aug. 3, 1993) and Pub. L. No. 111-352, 124 Stat. 3866 (Jan. 4, 2011).

<sup>14</sup> OMB set the first interim CAP goals in 2012 and identified the next set of CAP goals in March 2014, which it is to be updated every 4 years.

<sup>15</sup> OMB, Circular A-11 (2015).

<sup>16</sup> GAO, *Managing for Results: Implementation of GPRA Modernization Act Has Yielded Mixed Progress in Addressing Pressing Governance Challenges*, [GAO-15-819](#) (Washington, D.C.: Sept. 28, 2015) and GAO, *OMB Improved Implementation of Cross-Agency Priority Goals, But Could Be More Transparent About Measuring Progress*, [GAO-16-509](#) (Washington, D.C.: May 20, 2016).



## How the Department of the Treasury Prepares the Administration's Estimates

As noted in the definition above, tax expenditures arise from special provisions allowing an exclusion, exemption, or deduction from gross income, a credit, a preferential rate of tax, or a deferral of liability. Deciding whether a provision of tax law is a special exception to the baseline income tax system is a matter of judgment. The baseline used by the Treasury to identify these special exceptions is adapted from a comprehensive income tax approach in which income is the sum of consumption and the change in net wealth in a given period of time with certain departures.<sup>17</sup> This baseline assumes an individual income tax and a separate corporate income tax.<sup>18</sup>

Preparing tax expenditure estimates requires consideration of certain information about the economy, presently and in the future. The Treasury estimates for economic activity are consistent with the economic assumptions in the President's Mid-Session Review of the prior year's budget and reflect current law as of July 1.<sup>19</sup>

Each tax expenditure is measured by the difference between tax liability under current law and the tax liability that would result if the tax expenditure provision were repealed and had never existed. It is assumed that there is no behavioral response to the elimination of the provision and taxpayers simply recalculate their tax in the absence of the provision in question. Thus, tax expenditures calculate revenues forgone by the existence of the rule but not necessarily the amount of revenue that would be raised if it were repealed. For example, the ability to deduct mortgage interest expense on owner-occupied housing is considered to be a tax expenditure. The tax expenditure estimate reports the revenue change that would occur if this deduction were repealed but it does not take into account any revenue effect that might occur as a result of most changes in the taxpayers' behavior, such as taxpayers' decisions to own homes. However, in recalculating the tax due in the absence of this deduction, the tax expenditure estimate does assume the taxpayer would switch from itemizing deductions to claiming the standard deduction if that were tax minimizing in the absence of the ability to deduct mortgage interest on an itemized return.

When possible, the Treasury uses samples of tax returns provided by the Internal Revenue Service as the basis for tax expenditure estimates. For provisions benefiting individual tax filers the Individual Tax Model (ITM) Tax Calculator is often used. The ITM is based upon a stratified sample of individual tax returns that represent the entire tax filing population. This sample is augmented by additional data to represent the U.S. population. The ITM projects these individual records forward consistent with the Administration's economic forecast. The ITM Tax Calculator allows the computation of tax for each record under differing tax laws.

For example, the Lifetime Learning tax credit is considered a tax expenditure because the baseline tax system would not allow credits targeted at particular activities, investments, or industries. Treasury uses the ITM Tax Calculator to compute tax liability for each filing unit under current law and current law with the Lifetime Learning tax credit removed.

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<sup>17</sup> For example, one major departure is that income is taxable only when it is realized in exchange. Thus, the deferral of tax on unrealized capital gains is not regarded as a tax expenditure. Another example is that values of assets and debt are not generally adjusted for inflation.

<sup>18</sup> Treasury and the JCT differ in their assumed baselines from which tax expenditures are measured. For a summary of the differences see Altshuler, Rosanne and Robert Dietz. "Reconsidering Tax Expenditure Estimation." *The National Tax Journal*, June 2011, 64 (2, Part 2), 459-490.

<sup>19</sup> "Current law baseline" refers to the budget estimates prepared by the Administration based on laws enacted at the time they are prepared. If a provision will expire or change under currently enacted law then the baseline projections reflects the effects of that expiration or change.



As another example, the exclusion of public assistance benefits is considered a tax expenditure because transfers from the government would be considered income to the taxpayer under the baseline tax system. Since tax records do not record the receipt of these types of benefits, Treasury estimates the value of this tax expenditure by supplementing historical Bureau of Economic Analysis National Income and Product Accounts data with U.S. Department of Health and Human Services and state expenditure data to determine the total forecasted value of public assistance transfers to taxpayers under current law over the budget window. The tax expenditure is calculated by multiplying the aggregate public transfers by an estimate of the average effective tax rate for tax filers receiving public assistance benefits.

The Treasury estimates the cash effect of each tax expenditure. Some tax expenditures represent deferrals of taxation (a tax not paid in the current tax year will be paid in a future tax year when the deferral reverses). Estimates for such deferrals are based on the net tax effect of current year deductions or exclusions and reversals of prior year deferrals included in current year taxable income.<sup>20</sup> For example, defined contribution employer plans are estimated as the net tax effect of current year contributions excluded from income and income reported upon withdrawals from plans.

Year-to-year differences in the calculations for each tax expenditure reflect changes in tax law, including phase outs of tax expenditure provisions and changes that alter the baseline income tax structure, such as the tax rate schedule, the personal exemption amount, the standard deduction, and other factors. For example, the dollar value of tax expenditures tends to increase and decrease as tax rates increase and decrease, respectively, without any other changes in law.

## Understanding Estimates

Tax expenditure estimates are developed to aid policymakers. It is important to understand that they are not transaction-based amounts. The estimates are updated annually using the best available data and models. However, data limitations and resource constraints are inherent in the process. For example, some data collected on tax returns are not available in time for the annual estimates; other data are not collected on tax returns at all and must always be estimated.

The major considerations regarding the estimates are identified below.

**Not Necessarily Equivalent to Forgone Revenue.** Estimates should be regarded as approximations. As with expenses incurred with spending programs, tax expenditure estimates do not necessarily equal the change in the deficit<sup>21</sup> that would result from repealing these special provisions because:

- a. eliminating a tax expenditure may have incentive effects that alter economic behavior, and
- b. tax expenditures are interdependent even without incentive effects.

**Difficulty in Calculating Totals.** A total for the estimated tax expenditures is not provided in the President's Budget because each tax expenditure is estimated independently assuming other parts of the Tax Code remains unchanged. The estimates might be different if two or more tax expenditures were changed simultaneously because of potential interactions

<sup>20</sup> To complement these estimates, Treasury also reports a discounted present-value estimate of the future net revenue effects for the tax expenditure activity in the most recently concluded calendar year.

<sup>21</sup> Note that repealing certain spending programs would also not reduce the deficit by the amount of spending because of interaction with other programs and the tax system. For example, Social Security benefits may be taxed so that eliminating the benefits would also reduce tax revenue and possibly increase spending in other benefit programs. Thus, the change in the deficit would be smaller than the direct spending eliminated through the adjustment to the Social Security program.

among provisions. Nonetheless, other experts do present a total summing the separate estimates. The Congressional Budget Office has modeled the interaction of the ten largest tax expenditures in the individual income tax law and found that interactions that overstate the effect are similar in size to interactions that understate the effect.<sup>22</sup> As a result, they conclude that the total is a meaningful estimate for the general magnitude of tax expenditures under current tax law. If the law changes in significant ways the interactions may not result in offsetting over- and understatements of the effect to the same extent.

**Completeness.** As noted earlier, significant judgment is required to identify special provisions of the income tax code. Given the complexity of the tax code, differences in judgment lead some to include provisions in tax expenditure lists that others would exclude and vice versa. In addition, special provisions can be included in taxes other than income taxes (for example, excise taxes) but these generally are not included in reports on tax expenditures.

**Expiring Provisions.** Estimates are based on tax law enacted as of July 1 of the reporting year and assume that any provisions scheduled to expire will expire. As noted above, provisions likely to be extended are ignored for estimation purposes until such legislation is actually enacted. In other words, estimates are based on current law rather than analyzing policy outcomes likely to occur. As a result, an extensive knowledge of tax policy may be required in order to understand multi-year tax expenditure projections when provisions are scheduled to expire or when provisions of previous legislation are phased in.

**Alternatives.** Estimates involve significant judgment and, as a result, there are alternative approaches to estimation. For example, alternatives regarding the application of marginal tax rates, treatment of related tax provisions, or selection of a different baseline (such as a consumption tax rather than an income tax) would impact tax expenditure estimates. In addition, while estimates are provided for the cash (current revenue) effect for each of the ten fiscal years covered by the projections, a present value alternative that considers the full life cycle of the taxable activity may be more useful for tax expenditures involving deferrals or other long-term revenue effects. For such tax expenditures, the present value effects are important because deferrals will reverse in later years and a present value estimate for the activity in the current calendar year would include this activity.

See Figure 1 in Appendix D: Illustrations for a list of the largest income tax expenditures and the related Treasury estimates, ranked by fiscal year 2016 revenue effect.<sup>23</sup> Please note the aforementioned considerations when reviewing these estimates.

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<sup>22</sup> Congressional Budget Office. *The Distribution of Major Tax Expenditures in the Individual Tax System*. May 2013.

<sup>23</sup> See <https://www.treasury.gov/resource-center/tax-policy/Documents/Tax-Expenditures-FY2017-11132015.pdf> for a complete listing of tax expenditures reported and estimated by Treasury in September, 2015.

## APPENDIX C: CHARACTERISTICS OF OTHER INFORMATION

**Purpose:** This summary table serves to provide background to the reader regarding the other information (OI) category of information presented in federal financial reports.<sup>24</sup>

| Characteristics of Other Information (OI)                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Source                                                                                                                |
|-------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| Definition of OI                                                                                            | Information that accompanies basic information and required supplementary information, but is not required by a body that establishes GAAP.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | FASAB SFFAC 6 par. 5                                                                                                  |
| What types of information might be reported in OI?                                                          | <p>If an item does not meet criteria for basic information and RSI, it becomes a candidate for OI.</p> <p>Some entities may desire to report information to supplement required information and enhance a user's understanding of the entity's operations or financial condition.</p> <p>In addition, entities report information in OI that is not required by a body that establishes GAAP, but required by laws or administrative directives.</p>                                                                                                                                                                                                                                                                             | FASAB SFFAC 2 par. 73F                                                                                                |
| How does FASAB impact reporting of items in OI?                                                             | <p>By definition, OI is not required by a body that establishes GAAP.</p> <p>Although the FASAB does not require OI to be presented, the FASAB may at times encourage voluntary reporting of items to help in the development of information that may enhance overall federal financial reporting. For example, while the FASAB may consider an item to be relevant to entity operations the FASAB may also view the item as not currently meeting other criteria commensurate for required information.</p>                                                                                                                                                                                                                     | FASAB SFFAC 6 par. 5 and 73G                                                                                          |
| Is OI audited by Inspectors General, independent accounting firms, or the Government Accountability Office? | <p>No.</p> <p>In the absence of any separate requirement in the particular circumstances of the engagement, the auditor's opinion on the financial statements does not cover other information, and the auditor has no responsibility for determining whether such information is properly stated.</p> <p>OI is subject to different procedures and reporting requirements under generally accepted government auditing standards (GAGAS).<sup>25</sup> When an auditor is engaged to audit an entity's financial statements, basic information as a whole is subject to testing for fair presentation in conformity with GAAP. However, OI is unaudited, but subject to certain procedures under GAGAS and AICPA standards.</p> | American Institute of Certified Public Accountants, Auditing Standards – Clarified (AU-C) 720.01 and SFFAC 2 par. 55A |

<sup>24</sup> The term Other Information (OI) used in this Statement and the term Other Accompanying Information (OAI), as defined by SFFAC 6 par. 5, are synonymous.

<sup>25</sup> GAGAS establishes reporting requirements in addition to AICPA standards that are incorporated by reference within GAGAS. See GAGAS 4.02.

| Characteristics of Other Information (OI)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Source                                                           |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|
| <p>What is the auditor's responsibility with respect to OI?</p> <p>In the absence of any separate requirement in the particular circumstances of the engagement, the auditor's opinion on the financial statements does not cover other information, and the auditor has no responsibility for determining whether such information is properly stated.</p> <p>The auditor should read the other information of which the auditor is aware in order to identify material inconsistencies, if any, with the audited financial statements.</p> <p>If, on reading the other information, the auditor identifies a material inconsistency, the auditor should determine whether the audited financial statements or the other information needs to be revised.</p> <p>The auditor should make appropriate arrangements with management or those charged with governance to obtain the other information prior to the report release date. If it is not possible to obtain all of the other information prior to the report release date, the auditor should read such other information as soon as practicable.</p> <p>The auditor should communicate with those charged with governance the auditor's responsibility with respect to the other information, any procedures performed relating to the other information, and the results.</p> <p>In instances where the other information is required by a law or regulation, financial statement auditors must also comply with AICPA and GAGAS requirements relevant to compliance with laws and regulations.</p> | <p>AU-C 250 and AU-C 720.01 and .04-.08; and GAGAS Chapter 4</p> |

The Federal Accounting Standards Advisory Board developed this summary but does not establish auditing standards. For guidance regarding auditing standards, please refer to the source documents identified in the summary.

## APPENDIX D: ILLUSTRATIONS

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This appendix illustrates the application of the provisions of this Statement to assist in clarifying their meaning. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the situations or methods illustrated. Additionally, these illustrations are not intended to provide guidance on determining the application of materiality. Application of the provisions of this Statement may require assessing facts and circumstances other than those illustrated here and require reference to other applicable standards.

The examples in this Appendix are illustrative only and do not represent authoritative guidance. Illustrations on the application of the provisions of this Statement are presented in tracked changes format (underlined), while the outline and remaining text are based on the 2014 CFR. Abridgments to the 2014 CFR are also noted.

[Beginning of the illustration]

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **Introduction**

[Abridged (i.e., text omitted)]

#### **Mission & Organization**

[Abridged]

#### **The Government's Financial Position and Condition**

[Abridged]

#### **Fiscal Year 2014 Financial Statement Audit Results**

[Abridged]

#### **Accounting Differences Between The Budget and the Financial Report**

[Abridged]

## The Government's Net Position: "Where We Are"

The Government's financial position and condition have traditionally been expressed through the *Budget*, focusing on surpluses, deficits, and debt. However, this primarily cash-based discussion of the Government's net outlays (deficit) or net receipts (surplus) tells only part of the story. The Government's accrual-based net position, (the difference between its assets and liabilities), ~~and its~~ "bottom line" net operating cost (the difference between its revenues and costs), and tax expenditures (revenue reductions attributable to special tax code provisions) are also key financial indicators.

### Costs and Revenues: "What Went Out & What Came In"

The Government's *Statement of Operations and Changes in Net Position*, much like a corporation's income statement, shows the Government's "bottom line" and its impact on net position (i.e., assets net of liabilities). To derive the Government's "bottom line" net operating cost, the *Statement of Net Cost* first shows how much it costs to operate the federal government, recognizing expenses when incurred, regardless of when payment is made (accrual basis). It shows the derivation of the Government's *net cost* or the net of: (1) gross costs, or the costs of goods produced and services rendered by the Government, (2) the earned revenues generated by those goods and services during the fiscal year, and (3) gains or losses from changes in actuarial assumptions used to estimate certain liabilities. This amount, in turn, is offset against the Government's taxes and other revenue reported in the *Statement of Operations and Changes in Net Position* to calculate the "bottom line" or *net operating cost*.<sup>26</sup>

| Table 4: Gross Cost, Revenues, Net Cost, and Net Operating Cost |              |              |                       |        |  |
|-----------------------------------------------------------------|--------------|--------------|-----------------------|--------|--|
| Dollars in Billions                                             | 2014         | 2013         | Increase / (Decrease) |        |  |
|                                                                 |              |              | \$                    | %      |  |
| <b>Gross Cost</b>                                               | \$ (4,251.4) | \$ (3,940.9) | \$ 310.5              | 7.9%   |  |
| Less: Earned Revenue                                            | \$ 417.9     | \$ 415.5     | \$ 2.4                | 0.6%   |  |
| Gain/(Loss) from Changes in Assumptions                         | \$ (3.5)     | \$ (131.2)   | \$ 127.7              | 97.3%  |  |
| <b>Net Cost</b>                                                 | \$ (3,837.0) | \$ (3,656.6) | \$ 180.4              | 4.9%   |  |
| Less: Taxes and Other Revenue                                   | \$ 3,066.1   | \$ 2,842.5   | \$ 223.6              | 7.9%   |  |
| Unmatched Transactions and Balances                             | \$ (20.4)    | \$ 9.0       | \$ 29.4               | 326.7% |  |
| <b>Net Operating Cost</b>                                       | \$ (791.3)   | \$ (805.1)   | \$ (13.8)             | (1.7%) |  |

Table 4 shows that the Government's "bottom line" net operating cost decreased slightly from \$805.1 billion in FY 2013 to \$791.3 billion in FY 2014. This \$13.8 billion (1.7 percent) decrease is attributable to a number of offsetting revenue and cost changes over the past fiscal year as summarized in the following.

### Gross Cost and Net Cost

The *Statement of Net Cost*, starts with the Government's total gross costs of \$4.3 trillion dollars, subtracts revenues earned for goods and services provided (e.g., Medicare premiums, national park entry fees, and postal service fees), and adjusts the balance for gains or losses from changes in actuarial assumptions used to estimate certain liabilities, including federal employee and veterans benefits to derive its net cost of \$3.8 trillion, a \$180.4 billion increase (4.9 percent) over FY 2013.

Typically, the Government's net cost is impacted by a variety of offsetting increases and decreases. The more significant drivers affecting the change in net cost during FY 2014 were:

- The loss on changes in assumptions associated with the Government's civilian and military benefits programs amounted to \$3.5 billion in FY 2014 as compared to \$131.2 billion in FY 2013, representing a \$127.7 billion decrease in net cost. Agencies administering these types of programs employ a complex series of assumptions, including but not limited to interest rates, beneficiary eligibility, life expectancy, medical cost levels, compensation levels, disability claims rates, and cost of living to make annual actuarial projections of their long-term benefits liabilities. The Department of Veterans Affairs (VA) and the Office

<sup>26</sup> As shown in Table 4, net operating cost includes an adjustment for unmatched transactions and balances, which represent unreconciled differences in intragovernmental activity and balances between Federal agencies. These amounts are described in greater detail in the Other Information section of this *Financial Report*.

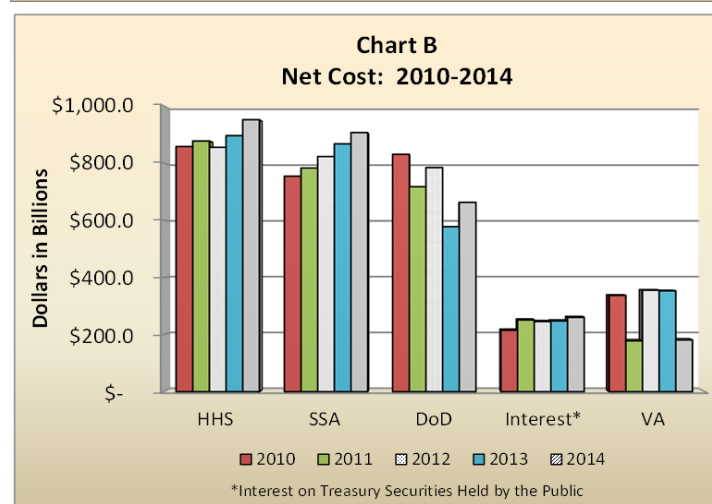
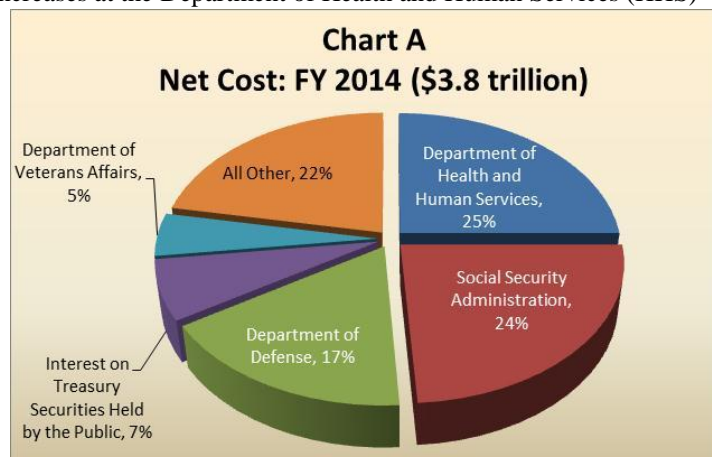
of Personnel Management (OPM) reported significant decreases in losses from changes in these assumptions for FY 2014;

- Most of the Department of the Treasury’s (Treasury’s) \$131.2 billion net cost increase is attributable to the effect of changes in the fair value of Treasury’s investments in two GSEs – Fannie Mae and Freddie Mac – and to the decrease in dividend receipts from the GSEs<sup>27</sup>;
- \$55.8 billion and \$39.4 billion net cost increases at the Department of Health and Human Services (HHS) and the Social Security Administration (SSA), respectively, primarily due to cost increases of the benefits programs that these agencies administer (HHS – Medicare and Medicaid programs, SSA – Old Age Survivors and Disability Insurance (OASDI) programs);
- a \$46.4 billion cost increase at the Department of Education, largely associated with increases in the projected long-term costs of its direct student loan programs due to changes in the types and availability of repayment plans and increases in default rates<sup>28</sup>; and
- a \$26.5 billion decrease at the Department of Labor, primarily due to decreases in unemployment benefits provided under existing legislation and lower levels of unemployment as compared to FY 2013.<sup>29</sup>

Chart A shows the composition of the Government’s net cost. In FY 2014, two-thirds of total net cost came from DOD, the Social Security Administration (SSA), and the Department of Health and Human Services (HHS). These three agencies have consistently incurred the largest agency shares of the Government’s total net cost in recent years (Chart B). As indicated above, HHS and SSA

net costs for FY 2014 (\$951.5 billion and \$906.4 billion, respectively) are attributable to major social insurance programs administered by these agencies. The *Statement of Social Insurance* (SOSI) and the related information in this *Financial Report*, including the broader discussion of the Government’s long-term fiscal projections, discuss the projected future revenues, expenditures, and sustainability of these programs in greater detail. DOD’s net costs of \$662.3 billion relate primarily to operations, readiness, and support; personnel; research; procurement; and retirement and health benefits. Chart A shows that the Department of Veterans Affairs (VA) as well as interest on debt held by the public contributed an additional combined 12 percent, and the other agencies included in the Government’s FY 2014 Statement of Net Cost accounted for a combined 22 percent of the Government’s total net cost for FY 2014.

## Taxes and Other Revenues - Getting to the “Bottom Line”



<sup>27</sup> Department of the Treasury FY 2014 Agency Financial Report, p. 22-23. See also Note 9 – Investments in GSEs – of this *Financial Report*.

<sup>28</sup> Department of Education FY 2014 Agency Financial Report, p. 30

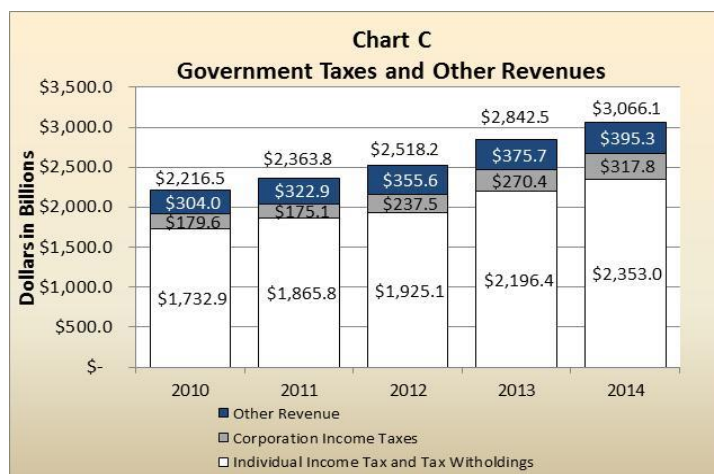
<sup>29</sup> Department of Labor FY 2014 Agency Financial Report, p. 27



As noted earlier, taxes and other revenues from the *Statement of Operations and Changes in Net Position* are deducted from total net cost to derive the Government’s “bottom line” net operating cost.

Nonexchange revenue from taxes are recognized when collected and adjusted for changes in net measurable and legally recognizable taxes receivable. There are a number of factors that affect the amount of taxes collected, including (1) the general state of the economy; (2) the timing of collections; (3) the tax gap, which represents a shortfall in collections due to taxpayers not filing returns, not paying on time, or failing to report correct tax liabilities; (4) tax expenditures, which are further discussed below and (5) other tax provisions, such as tax rates and standard deductions.

Chart C shows that increases in each of the three taxes and other revenue categories shown - individual income tax and withholdings, corporation income taxes, and other revenue - combined to increase total Government taxes and other revenues by \$223.6 billion (7.9 percent) to nearly \$3.1 trillion for FY 2014. This change is primarily attributed to an overall increase in individual and corporation income tax collections.<sup>30</sup> As noted in the earlier discussion of budget receipts, these increases largely stem from a stronger economy and growth in wages and salaries, as well as and the expiration of certain tax provisions. Earned revenues from Table 4 are not considered “taxes and other revenue” and, thus, are not shown in Chart C. Individual income tax and tax withholdings and corporation income taxes accounted for about 77 percent and 10 percent of total revenue, respectively in FY 2014; other revenues from Chart C include excise taxes, unemployment taxes, and customs duties.



As previously shown in Table 4, the increase in taxes and other revenues more than offset the increase in net costs, resulting in a slight total net decrease of \$13.8 billion (1.7 percent) in the Government’s net operating cost from \$805.1 billion for FY 2013 to \$791.3 billion for FY 2014.

### Tax Expenditures – Impact on “What Came In” and “The Bottom Line”

Generally, tax expenditures are provisions in the tax law available to certain subsets of taxpayers who engage in certain kinds of activities, face special circumstances, or otherwise meet certain criteria. The government uses tax expenditures for stimulating behavior to accomplish public policy goals such as facilitating homeownership, reducing the cost of borrowing for state and local governments, encouraging higher education, or promoting domestic energy production.

Tax expenditures are “revenue reductions” in that the provisions reduce taxes owed and, therefore, revenue collected. Tax expenditures resemble federal spending in that such provisions affect the federal deficit/surplus by impacting income tax revenue; however, tax expenditures are often not treated the same as federal spending for budgetary or financial reporting purposes.<sup>31</sup> Many tax expenditures resemble mandatory spending programs, for which spending is typically determined by rules for eligibility and benefit formulas. Other tax expenditures resemble discretionary spending programs, for which Congress appropriates annual funding. Many tax expenditures can only be removed or changed through tax legislation. While tax expenditures help determine the government’s net revenue, tax expenditure estimates are not explicitly displayed in the Statements of Net Cost or Changes in Net Position. Hence, tax expenditure estimates do not appear in the net operating cost calculation in Table 4 above.

These and other issues concerning tax expenditures, including tax expenditure estimates, are discussed in greater detail within an unaudited annual report published by Treasury’s Office of Tax Policy.<sup>32</sup>

<sup>30</sup> Department of the Treasury FY 2014 Agency Financial Report, p. 28

<sup>31</sup> In certain cases a tax preference may provide cash in the form of a refundable tax credit even if the taxpayer owes no tax. The budget records payments to taxpayers for refundable tax credits (such as earned income tax credits) that exceed the taxpayer’s tax liability as outlays. As such, a portion of this type of tax preference is reported as outlays in the budget to the extent payments exceed the taxpayer’s liability, whereas the portion offsetting the taxpayer’s liability reduces budget revenues but is not explicitly reported in the budget.

<sup>32</sup> Department of the Treasury Fiscal Year 2017 Tax Expenditures Report



[\[Also refer readers to additional discussion in OL.\]](#)

*Assets and Liabilities: "What We Own and What We Owe"*

[\[Abridged\]](#)

**The Long-Term Fiscal Outlook: "Where We Are Headed"**

[\[Abridged\]](#)

**Systems, Controls, and Legal Compliance**

[\[Abridged\]](#)

**Financial Management Progress and Priorities**

[\[Abridged\]](#)

**Additional Information**

[\[Abridged\]](#)

# United States Government Notes to the Financial Statements for the Years Ended September 30, 2014, and 2013

## Note 1. Summary of Significant Accounting Policies

### A. Reporting Entity

[\[Abridged\]](#)

### B. Basis of Accounting and Revenue Recognition

These financial statements were prepared using U.S. GAAP, primarily based on Statement of Federal Financial Accounting Standards (SFFAS). Under these principles:

- Expenses are generally recognized when incurred.
- Nonexchange revenue, including taxes, duties, fines, and penalties, are recognized when collected and adjusted for the change in net measurable and legally collectible amounts receivable. Related refunds and other offsets, including those that are measurable and legally payable, are netted against nonexchange revenue. As such, estimated taxes not collected due to factors such as noncompliance with the tax law (the tax gap) and special provisions identified in the tax laws that reduce tax collections (tax expenditures) are not estimated and reported in the financial statements.
- Exchange (earned) revenue are recognized when the government provides goods and services to the public for a price. Exchange revenue include user charges such as admission to federal parks and premiums for certain federal insurance.

The basis of accounting used for budgetary purposes, which is primarily on a cash and obligation basis and follows budgetary concepts and policies, differs from the basis of accounting used for the financial statements which follow U.S. GAAP. See the Reconciliations of Net Operating Cost and Unified Budget Deficit in the Financial Statements section.

The basis of accounting used and the detail of the basis for the Statement of Social Insurance (SOSI) and the Statement of Changes in Social Insurance Amounts (SCSIA) are covered in Note 24—Social Insurance.

## New Standards Issued and Implemented

[Abridged]

[Remainder of Note 1.B. thru Note 1.Y.: Abridged]

## Note 18. Collections and Refunds of Federal Revenue

| Collections of Federal Tax Revenue for the Year Ended September 30, 2014 |                                          |                                      |       |      |                |
|--------------------------------------------------------------------------|------------------------------------------|--------------------------------------|-------|------|----------------|
| (In billions of dollars)                                                 | Federal<br>Tax<br>Revenue<br>Collections | Tax Year to Which Collections Relate |       |      |                |
|                                                                          |                                          | 2014                                 | 2013  | 2012 | Prior<br>Years |
| Individual income tax and tax                                            |                                          |                                      |       |      |                |
| withholdings .....                                                       | 2,605.0                                  | 1,691.1                              | 864.3 | 24.3 | 25.3           |
| Corporation income taxes .....                                           | 353.1                                    | 252.9                                | 87.9  | 1.2  | 11.1           |
| Excise taxes .....                                                       | 96.7                                     | 74.4                                 | 22.1  | 0.1  | 0.1            |
| Unemployment taxes .....                                                 | 52.7                                     | 27.1                                 | 15.3  | 10.2 | 0.1            |
| Customs duties .....                                                     | 34.2                                     | 34.2                                 | -     | -    | -              |
| Estate and gift taxes .....                                              | 20.2                                     | -                                    | 7.0   | 0.9  | 12.3           |
| Railroad retirement taxes .....                                          | 6.0                                      | 4.6                                  | 1.4   | -    | -              |
| Fines, penalties, interest, and<br>other revenue .....                   | 6.7                                      | 6.5                                  | 0.1   | 0.1  | -              |
| Subtotal .....                                                           | 3,174.6                                  | 2,090.8                              | 998.1 | 36.8 | 48.9           |
| Less: amounts collected for<br>non-federal entities .....                | (0.3)                                    |                                      |       |      |                |
| Total .....                                                              | 3,174.3                                  |                                      |       |      |                |

Treasury is the Government's principal revenue-collecting agency. Collections of individual income and

tax withholdings include FICA/SECA and individual income taxes. These taxes are characterized as non-exchange revenue.

Excise taxes, also characterized as non-exchange revenue, consist of taxes collected for various items, such as airline tickets, gasoline products, distilled spirits and imported liquor, tobacco, firearms, and others.

Nonexchange revenue are collected in accordance with laws. Some federal tax law provisions allow special exclusions, exemptions, or deductions from taxpayers' gross income or which provide special credits, preferential tax rates, or deferrals of liabilities. These provisions are referred to as tax expenditures because collections are reduced to support a particular policy goal. Collections are affected by tax expenditures; however, tax expenditures are not directly reported in the financial statements. These and other matters concerning tax expenditures, including tax expenditure estimates, are discussed in greater detail within an unaudited annual report published by Treasury's Office of Tax Policy.<sup>33</sup>

Nonexchange revenue may also be lost due to noncompliance with laws. The amount of loss is referred to as the tax gap. Estimates of the tax gap are not reported in financial statements.

[Remainder of Note 18: Abridged]

## United States Government Other Information (Unaudited) for the Years Ended September 30, 2014, and 2013

### Unexpended Balances of Budget Authority

[Abridged]

### Tax Burden

[Abridged]

### Tax Expenditures

#### Definition

Generally, tax expenditures are provisions in the tax law available to certain subsets of taxpayers who engage in certain kinds of activities, face special circumstances, or otherwise meet certain criteria. The government uses tax expenditures to stimulate behavior that will accomplish public policy goals such as facilitating homeownership, reducing the cost of borrowing for state and local governments, encouraging higher education, or promoting domestic energy production. Tax expenditures are revenue reductions in that the provisions reduce taxes owed and, therefore, revenue collected. Tax expenditures resemble federal spending in that such provisions affect the federal deficit/surplus by impacting income tax revenue; however, tax expenditures are not treated the same as federal spending for budgetary or financial reporting purposes.<sup>34</sup> Tax expenditures are not subject to the annual budget

<sup>33</sup> Department of the Treasury Fiscal Year 2017 Tax Expenditures Report

<sup>34</sup> In certain cases a tax preference may provide cash in the form of a refundable tax credit even if the taxpayer owes no tax. The budget records payments to taxpayers for refundable tax credits (such as earned income tax credits) that exceed the taxpayer's tax liability as outlays. Accordingly, a portion of this type of tax preference is reported as outlays in the budget to the extent payments exceed the taxpayer's liability, whereas the portion offsetting the taxpayer's liability reduces budget revenues but is not explicitly reported in the budget.

process and can only be removed or changed through tax legislation. While tax expenditures are included in determining the government's net revenue, they are not explicitly displayed in the Statements of Net Cost or Changes in Net Position.

## **Estimates**

Tax expenditure estimates are available annually from Treasury's Office of Tax Policy<sup>35</sup>. The estimates are for the current fiscal year and the ten years following the current fiscal year. The estimates are intended to support budget analysis and are a measure of the economic benefits are provided through the tax laws to various groups of taxpayers and sectors of the economy. The estimates also may be useful in assessing the efficiency and effectiveness of achieving specific public goals through the use of tax expenditures. Treasury provides the tax expenditure estimates before the end of each fiscal year and makes them available on the Treasury website before the President's Budget is issued.

Tax expenditure estimates are developed to aid policymakers. The estimates are updated annually using the best available data and models. However, data limitations and resource constraints are inherent in the process. For example, some data collected on tax returns are not available in time for the annual estimates; other data are not collected on tax returns at all and must always be estimated.

Major considerations regarding the estimates include the following:

- Significant judgment is required to identify and measure special provisions of the income tax code. For example, preferential rates for capital gains are considered a tax expenditure; however the progressive income tax system is not considered to be a preferential rate or a tax expenditure.
- As with expenses incurred with spending programs, an individual tax expenditure estimate does not necessarily equal the increase in federal revenues (or the change in the deficit) that would result from repealing the special provision. It is assumed that there is no behavioral response to the repeal of the related provision; however, the estimate does account for switching from itemized deductions to standard deductions when repealing a provision would impact the type of deduction claimed by taxpayers.
- Estimates are based on tax law enacted as of July 1 of the reporting year and assume that any provisions scheduled to expire will expire. Provisions likely to be extended are ignored for estimation purposes until such legislation is actually enacted. Extensive knowledge of tax policy may be required in order to understand multi-year tax expenditure projections.
- Treasury relies on economic data and estimates to approximate the current utilization of the tax preferences not reflected on tax returns. The use of the preference is then projected into the future using assumptions that are consistent with the Administration's economic forecast.

Selected major tax expenditures are presented in the [figure below](#).

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<sup>35</sup> These estimates are prepared annually by Treasury for inclusion in the President's Budget. The unaudited report is available at <http://www.treasury.gov/resource-center/tax-policy/Pages/Tax-Expenditures.aspx>.

**Figure 1**

| <b><u>Largest 20 Tax Expenditures, Fiscal Years 2016 and 2015 (Ranked by Revenue Effect)</u></b>                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                          |
|---------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|
|                                                                                                                                       | <b>2016</b><br>(dollars, in<br>billions)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <b>2015</b><br>(dollars, in<br>billions) |
| I Exclusion of employer contributions for medical insurance premiums and medical care                                                 | \$ 211.0                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | \$ 201.5                                 |
| I Exclusion of net imputed rental income                                                                                              | 101.1                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 97.9                                     |
| I Capital gains (except agriculture, timber, iron ore, and coal)                                                                      | 92.8                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 85.7                                     |
| C Deferral of income from controlled foreign corporations (normal tax method)                                                         | 67.8                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 64.6                                     |
| I Defined benefit employer plans                                                                                                      | 66.6                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 66.6                                     |
| I Defined contribution employer plans                                                                                                 | 64.7                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 62.1                                     |
| I Deductibility of mortgage interest on owner-occupied homes                                                                          | 62.4                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 58.9                                     |
| I Step-up basis of capital gains at death                                                                                             | 58.3                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 54.9                                     |
| I Deductibility of nonbusiness State and local taxes other than on owner-occupied homes                                               | 51.4                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 48.4                                     |
| B Deductibility of charitable contributions, other than education and health                                                          | 44.2                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 40.9                                     |
| I Capital gains exclusion on home sales                                                                                               | 40.6                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 37.2                                     |
| I Deductibility of State and local property tax on owner-occupied homes                                                               | 33.1                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 31.1                                     |
| B Exclusion of interest on public purpose State and local bonds                                                                       | 31.7                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 29.4                                     |
| I Self-Employed plans                                                                                                                 | 28.0                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 25.5                                     |
| I Social Security benefits for retired workers                                                                                        | 26.9                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 25.8                                     |
| I Treatment of qualified dividends                                                                                                    | 25.5                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 25.7                                     |
| I Child credit <sup>(1)</sup>                                                                                                         | 24.0                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 24.0                                     |
| B Exclusion of interest on life insurance savings                                                                                     | 18.9                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 17.5                                     |
| I Individual Retirement Accounts                                                                                                      | 16.9                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 16.4                                     |
| B Deduction for US production activities                                                                                              | 15.7                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 15.2                                     |
| Key: I = Individual; C = Corporate; B = Both Corporate and Individual                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                          |
| FASAB analysis based on U.S. Department of Treasury's Tables of Estimates from the Fiscal Year 2017 Tax Expenditures (September 2015) |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                          |
| Source :                                                                                                                              | These estimates are prepared annually by Treasury for inclusion in the President's Budget. There are 169 provisions that are currently classified by Treasury as tax expenditures. Estimates and descriptions of each of the 169 provisions classified as tax expenditures, including the 20 presented here, are available in the unaudited annual report at <a href="http://www.treasury.gov/resource-center/tax-policy/Pages/Tax-Expenditures.aspx">http://www.treasury.gov/resource-center/tax-policy/Pages/Tax-Expenditures.aspx</a> . |                                          |
| (1)                                                                                                                                   | The figures in the table indicate the effect of the child tax credit on receipts. The effect of the credit on outlays (in billions of dollars) is as follows: 2015: \$27.0 and 2016: \$27.0                                                                                                                                                                                                                                                                                                                                                |                                          |

The examples in this Appendix are illustrative only and do not represent authoritative guidance. Illustrations on the application of the provisions of this Statement are presented in tracked changes format (underlined), while the outline and remaining text are based on the 2014 CFR. Abridgments to the 2014 CFR are also noted.

**[End of the illustration]**

## APPENDIX E: ABBREVIATIONS

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|       |                                                      |
|-------|------------------------------------------------------|
| CFR   | Consolidated Financial Report of the U.S. Government |
| ED    | Exposure Draft                                       |
| FASAB | Federal Accounting Standards Advisory Board          |
| GAAP  | Generally Accepted Accounting Principles             |
| GAO   | Government Accountability Office                     |
| JCT   | Joint Committee on Taxation                          |
| MD&A  | Management's Discussion and Analysis                 |
| OAI   | Other Accompanying Information                       |
| OI    | Other Information                                    |
| OMB   | Office of Management and Budget                      |
| RSI   | Required Supplementary Information                   |
| SFFAC | Statement of Federal Financial Accounting Concepts   |
| SFFAS | Statement of Federal Financial Accounting Standards  |

## APPENDIX F: TASK FORCE MEMBERS

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|                    |                                                                                       |
|--------------------|---------------------------------------------------------------------------------------|
| R. Scott Bell      | Department of the Treasury, Senior Accountant                                         |
| Robert Bixby       | The Concord Coalition, Executive Director                                             |
| Robert Dietz       | National Association of Home Builders, Tax and Market Analysis, Senior Vice President |
| Bert Edwards       | GWSCPA Federal Issues and Standards Committee (FISC) Member                           |
| Regina Kearney     | Office of Management and Budget, Senior Advisor                                       |
| John McClelland    | Department of the Treasury, Office of Tax Analysis, Economist                         |
| James McTigue, Jr. | Government Accountability Office, Strategic Issues, Director                          |
| Tim Morgan         | PricewaterhouseCoopers, Partner (retired)                                             |
| Dan Murrin         | EY, Partner; GWSCPA FISC Member                                                       |
| MaryLynn Sergent   | Government Accountability Office, Strategic Issues, Assistant Director                |
| Jamie Taber        | Office of Management and Budget, Economist                                            |
| Alexandra Thornton | Center for American Progress, Tax Policy, Senior Director                             |
| Robin Valentine    | KPMG LLP, Partner                                                                     |
| David Weiner       | Congressional Budget Office, Tax Analysis Division, Assistant Director                |

## APPENDIX G: GLOSSARY

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### Tax expenditures

**Tax expenditures** refer to revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.

While the term “revenue losses” is used in the statutory definition, tax expenditures are generally reductions in federal tax revenues that were properly approved and authorized by the Congress to accomplish an identified policy, recognizing that federal tax revenues would be reduced.

### Baseline provisions

**Baseline provisions** are the starting points used to measure the impact of tax expenditures on tax revenues as compared to revenues that would be collected otherwise, absent the special exclusion, exemption, deduction, credit, preferential rate, or deferral. Certain practical aspects of the code are incorporated into the baseline—such as progressive tax rates, personal exemptions, standard deductions, deductions of expenses incurred in order to earn income, and deferrals of unrealized income.



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