



**April 17, 2015**

Memorandum

To: Members of the Board

*Wendy M. Payne*

From: Wendy M. Payne, Executive Director

Subj: Updated Project Plans and Priorities– **Tab H**<sup>1</sup>

**MEETING OBJECTIVES**

- To review and provide input regarding:
  - ✓ the status of priority projects
  - ✓ the tax expenditures project plan

**BRIEFING MATERIAL**

This memo updates members regarding active project progress, summarizes suggestions provided in response to our three-year plan, and poses questions for discussion at the meeting.

Attachment 1 – Draft Tax Expenditures Project Plan

Attachment 2 – 1991 Tax Expenditure Information from CFR

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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.

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## **BACKGROUND**

Six responses to our FY2015-2017 three-year plan were received. (Responses indicating “no comment” are not reflected in this total.) In addition to the direct responses to the report, staff hosted roundtable discussions with independent public accounting (IPA) firm audit practice representatives (“auditor roundtables”). Complete responses were provided in your February 2015 briefing materials.

### Summary of Input Received Regarding Three-Year Plan

There is general support for the active and research projects. None of the respondents addressed the specific question regarding deferral of the next phase of the public-private partnership project.

Several comments relate to the reporting model including emphasis on linking cost to performance and tax expenditures. Support was expressed for additional work in the areas of:

- Electronic reporting (with one respondent reminding the Board of recent laws such as the DATA Act addressing this area)
- Financial/economic condition reporting and intergovernmental financial dependency
- Cleanup costs
- Performance reporting in the management’s discussion and analysis section
- Managerial cost accounting

The Social Security Administration response reminded the Board of the resource concerns expressed by the CFO panel discussion at the October meeting as well as other initiatives underway such as the DATA Act implementation.

## **PROJECT OBJECTIVES FOR 2015**

Our newest project – assisting the Department of Defense (DoD) – remains open-ended. Ms. Loughan is serving as a liaison to the DoD working groups on real property, military equipment, environmental liabilities, and inventory. Ms. Wu is supporting the AAPC’s internal use software effort and will liaise with the DoD’s IUS working group. We believe this is the most efficient way to identify DoD issues for which needed GAAP guidance can be developed. We are attempting to address issues as they arise rather than deferring them for collective action.

To date, in addition to the proposal regarding opening balances for inventory and related property (see Tab F), we are proposing guidance in two areas: use of estimates for work in progress and treatment of capital improvements to existing G-PP&E (see Tab G). Note that as issues arise, we are considering the most efficient means of

providing guidance and may propose staff implementation guidance where we believe it appropriate.

For other projects, I have updated the timelines since the February meeting. The reporting model project has been extended by one year to allow for the expanded scope of the outline agreed to at the February meeting. The leases project has been extended by approximately six months to align with the GASB's plans for an exposure draft.

The **2015 project milestones** (consistent with the revised summary project timelines shown on the next page) are:

1. Reporting model - Draft an exposure draft to solicit comments on concepts
2. Develop a lease accounting proposal to issue for comment in FY2016
3. Develop an insurance accounting standards exposure draft (Phase I) to be issued in FY2016
4. Finalize P3 disclosure standards and submit for review in late FY2015
5. Develop a proposal regarding SFFAS 3 DoD transition guidance for issuance in early FY2016
6. Develop a proposed release regarding internal use software for issuance in early FY2016
7. Tax expenditures – form a task force and develop a proposal
8. Reconciling budget and accrual information - conduct research as time permits

**Table 1 – Project Timelines**

Project and Objective	PLANS		
	FY2015	FY2016	FY2017
<b>Financial Reporting Model</b>  Consider whether the existing model meets user needs and reporting objectives Segments may include consideration of improvements in: -Cost information -Performance reporting -Budget presentation -Other areas such as the role of electronic reporting and the articulation of the financial statements	Continue developing concepts statement	<b>Issue Exposure Draft in FY2016*</b> <b>Finalize concepts statement in FY2017</b> <b>Identify and develop discrete standards needed</b>  <b>*Milestones deferred by one year to expanded scope of the concepts statement.</b>	
<b>Leases</b> Evaluate existing standards to improve comparability and	<b>*Milestones deferred to align with GASB</b>	Issue Exposure Draft	Redeliberation Finalize Standards

Project and Objective	PLANS		
	FY2015	FY2016	FY2017
completeness of reporting	exposure draft		
<b>Risk Assumed</b> Develop standards so that information about risks assumed by the federal government and their potential financial impacts are available	Continue developing Phase I (Insurance Program) exposure draft	Issue Phase 1 Exposure Draft(s)  Begin Research for Phase II	Finalize Phase I Standards  Phase I Implementation Guidance as Needed  Develop Exposure Drafts for Phase II
<b>Public-Private Partnerships</b> Consider how financial reporting objectives are met with regard to public private partnerships	Finalize Disclosure Standards		Phase II-Recognition and Measurement Standards Deferred
<b>Department of Defense Request for Guidance</b>	Issue an ED on DoD valuation of existing inventory and related property (transition guidance) Participate in DoD Working Groups on Other Matters	Complete SFFAS 3 guidance	
<b>Reconciling Budget and Accrual Information –</b> Alignment between Agency and Government-wide Requirements (This project is related to the reporting model project. Incremental changes will be considered first. Decisions regarding next steps will be taken as the ideal model is developed.)	Research		
<b>Tax Expenditures</b> Tax expenditures are revenue losses attributable to provisions of Federal income 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. Tax expenditures may substitute for direct spending to accomplish policy objectives. Ensure information regarding the nature and amount of tax expenditures is available to users of financial reports.	Research and Planning	Issue Exposure Draft	Finalize Standards

## **TAX EXPENDITURES UPDATE**

Since the February meeting, I have continued research and outreach on the tax expenditures project. Attachment 1 provides the project plan. The plan will serve as a framework for task force discussions. Your feedback on the plan is important as it may impact the scope of work. Discussions with experts on tax expenditures surfaced areas I had not previously considered such as whether fiscal sustainability projections should include tax expenditures. That question could be considered in the initial work or deferred to a later effort.

Note that the prototype consolidated financial report, issued beginning in the early 1970s through the mid-1990s, included information on tax expenditures. Attachment 2 provides the fiscal year 1991 information. This will serve as a starting point for the task force to consider needed content for a general audience.

I will update you regarding the composition of the task force at the April meeting.

## **QUESTIONS FOR THE BOARD**

- 1. Do members support the project milestones for FY2015 and the accompanying timelines (Table 1)?**
- 2. Are there any changes to the priority projects?**
- 3. Are there any suggestions regarding the tax expenditure project plan?**

As always, it would be helpful to hear from you before the meeting. Please contact me at 202.512.7357 or [paynew@fasab.gov](mailto:paynew@fasab.gov) with any suggestions or questions.

**TAX EXPENDITURES**

**PROJECT PLAN**



**MAY 2015**

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### Why

Why is a project on tax expenditures needed?

- Tax expenditures can substitute for direct spending but are not presently reported in federal financial reports.
- Information on all fiscal activities is required for report users to evaluate the service efforts, costs and accomplishments of a reporting entity.



### What

What questions / issues does the tax expenditures project plan to address?

- What information should be included in the Financial Report of the US Government and in financial reports provided by its components?
- Where should the information be placed?



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# TAX EXPENDITURES

## PROJECT PLAN

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- Purpose:** The purpose of this project is to determine what information regarding tax expenditures should be included in general purpose federal financial reports. Tax expenditures are “revenue losses attributable to provisions of Federal income 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.” (Section 3(3) of Public Law 93-344) Both the Joint Committee on Taxation (JCT) and Treasury’s Office of Tax Analysis (OTA) publish annual estimates of tax expenditures. OTA estimates are included in the annual President’s Budget. These estimates would be relied upon for general purpose federal financial reporting.
- Applicability:** This project applies to all federal entities that present general purpose financial reports in conformance with Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
- Objectives:** Given the availability of tax expenditure estimates, the primary objectives of this project are to:
- 1) Identify narrative information needed for readers to understand:
    - a) What tax expenditures are
    - b) The nature of estimates and their limitations; such as
      - i) Key sources of data and methods
      - ii) Estimates do not equate to foregone revenue (for example, behavioral effects of policy changes are not considered and changes to one provision may impact others)
      - iii) Estimates are not always adjusted for interaction among other or related tax provisions
      - iv) Estimates exclude excise and other taxes and fees
  - 2) Develop guidance for presentation of estimates
    - a) What amounts should be presented
      - i) All estimates or selected estimates
      - ii) Present totals and sub-totals
      - iii) Current and prior year
      - iv) Projections
    - v) Classify and sub-total tax expenditure estimates by:

- (1) Individual provision (and if so, how many to identify)
    - (a) Individual
    - (b) Corporate
  - (2) Type (deductions, exemptions, exclusions, credits, deferrals or preferential rates)
  - (3) Budget function
- b) How should amounts be related to other amounts in the financial reports? This relates primarily to the Management's Discussion and Analysis (MD&A) section because it provides summary information about financial results. Currently a table of key measures is required and graphic presentation of results for the period are provided. Should tax expenditure amounts be included with:
- i) Tabular or graphic depictions of Outlays and Net Cost
  - ii) Fiscal sustainability information
- 3) What information should be required about changes in the tax code (new tax expenditures or changes to existing tax expenditures)?
- 4) Should references be provided to more comprehensive reports on tax expenditures?
- 5) Regarding the summary of performance measures required in MD&A, should a requirement for performance information relating to tax expenditures be included? (A general requirement exists and may imply tax expenditures are included given the Government Performance and Results Act (GPRA) Modernization Act of 2010 (GPRAMA),..)

***Assigned staff:***

Wendy Payne

***Other resources:***

A task force will support this effort.

***Timeline:***

**May – July 2015**

- Convene task force and discuss issue areas 1 and 2 above.

**August 2015 Meeting**

- Initial recommendations of the task force presented to the Board.

**September – November 2015**

- Task force continues to develop recommendations on issue areas 1 through 5.

**December 2015 Meeting**

- Consider recommendation of the task force.

***Timeline:***  
***(continued)***

**January – June 2016**

- Draft exposure draft (ED).
- Issue ED following June 2016 meeting with a 90-day comment period.

**October 2016 Meeting**

- Consider comments on the ED.

**December 2016 Meeting**

- Consider revisions to the proposed standards.

**January 2017 – June 2017**

- Consult with task force members and finalize revised standards.
- Submit to Treasury, OMB and GAO for 90-day review.

**September 2017**

- Issue final standards.

## Estimates for Tax Expenditures in the Income Tax

This table shows revenue losses attributable to tax law provisions allowing special exclusions, exemptions, or deductions from gross income or providing special credits, tax rates, or deferrals.

Revenue loss estimates do not take into account the additional resources, if any, required to provide the same after-tax incentives if the expenditure program were administered as a direct outlay rather than through the tax system.

Revenue loss estimates are not necessarily equivalent to estimates of the in-

crease in Federal receipts that would result from repealing tax expenditure provisions.

For further 1991 information, refer to "Budget of the United States Government, Fiscal Year 1993," Estimates for Tax Expenditures in the Income Tax, table 24-1. For 1990, refer to "Budget of the United States Government, Fiscal Year 1992," Estimates for Tax Expenditures in the Income Tax, table XI-1.

## Estimates for Tax Expenditures in the Income Tax for the Years Ended September 30, 1991 and 1990

(In billions of dollars)

	Estimated amount of revenue loss	
	1991	1990
<b>Income exclusions</b>		
Capital gains at death . . . . .	24.4	22.2
Disability and retirement benefits (private) . . . . .	60.0	58.3
Social Security benefits . . . . .	21.4	20.2
Education allowances (scholarships and GI benefits) . . . . .	.7	.7
Foreign earnings and investment incentives (income earned abroad) . . . . .	5.6	5.0
Interest and dividends (State and local bonds and debt, and life insurance) . . . . .	27.1	25.8
Medical care and insurance (employer premiums paid) . . . . .	43.0	32.5
Payroll benefits and allowances (group life, accident, and unemployment) . . . . .	5.0	4.8
Other (e.g., age 55 or over credit on home sales) . . . . .	3.2	3.2
<b>Income deferrals</b>		
Interest on U.S. savings bonds . . . . .	.9	1.0
Real estate (home sales) . . . . .	12.6	12.6
<b>Other deferrals</b>		
Taxes (shipping companies) . . . . .	.1	.1
<b>Deductions and credits</b>		
Agriculture related (capital outlays and gains on certain income) . . . . .	.5	.5
Contributions (charitable and political) . . . . .	15.7	13.3
Earned income . . . . .	2.3	1.8
Employee stock ownership plans (funded through investment and tax credits) . . . . .	2.1	1.9
Excess bad debt reserves (financial institutions) . . . . .	*	.2
Exemptions (credit unions) . . . . .	.3	.4
Foreign earnings (corporations doing business in U.S. possessions) . . . . .	2.2	1.9
Interest (mortgage and consumer) . . . . .	40.7	39.1
Investments (commercial capital gains, credits, other investment incentives, construction period interest, and expensing developmental costs) . . . . .	1.6	4.2
Medical . . . . .	3.0	2.9
Old-age, disability, and other personal exemptions . . . . .	1.9	1.6
Property damages and losses (casualty losses) . . . . .	.3	.3
State and local property tax and other taxes . . . . .	31.7	28.4
Work incentives (employment credits under work programs) and dependent care . . . . .	2.5	3.9
Accelerated depreciation (rental housing, buildings other than rental housing, and machinery and equipment) . . . . .	26.0	30.9

\* Less than \$50 million.