Federal Accounting Standards Advisory Board

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

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.

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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. 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

D. Scott Showalter

Chairman

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

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)[1] in the CFR.[2]

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

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

[1] 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.

[2] 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

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. 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

PURPOSE

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.[3] 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

[3] 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

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

SCOPE

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.[4]

DEFINITIONS

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.

[4] 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

Financial Report of the U.S. Government Disclosures

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;[5]

    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

Management's Discussion and Analysis

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.

[5] This statement does not establish the wording of the "plain language" definition.

OTHER INFORMATION

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

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

The provisions of this Statement need not be applied to immaterial items.

APPENDIX A: BASIS FOR CONCLUSIONS

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

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

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."[6]

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.[7] 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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[6] Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management's Discussion and Analysis*, par. 1.
[7] 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

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

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.[8] 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

[8] 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

Tax expenditure	Description	Examples
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.[9]

[9] 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[10] and the President's Budget.[11] 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.[12]

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.[13] 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.[14] 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.[15]

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.[16]

[10] 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.

[11] See 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.)

[12] 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.)

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

[14] 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.

[15] OMB, Circular A-11 (2015).

[16] 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.[17] This baseline assumes an individual income tax and a separate corporate income tax.[18]

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.[19]

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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[17] 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.

[18] 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.

[19] "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.[20] 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[21] 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

[20] 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.

[21] 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.[22] 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.[23] Please note the aforementioned considerations when reviewing these estimates.

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[22] Congressional Budget Office. *The Distribution of Major Tax Expenditures in the Individual Tax System.* May 2013.

[23] 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.[24]

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?	If an item does not meet criteria for basic information and RSI, it becomes a candidate for OI. 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. In addition, entities report information in OI that is not required by a body that establishes GAAP, but required by laws or administrative directives.	FASAB SFFAC 2 par. 73F
How does FASAB impact reporting of items in OI?	By definition, OI is not required by a body that establishes GAAP. 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.	FASAB SFFAC 6 par. 5 and 73G
Is OI audited by Inspectors General, independent accounting firms, or the Government Accountability Office?	No. 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. OI is subject to different procedures and reporting requirements under generally accepted government auditing standards (GAGAS).[25] 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.	American Institute of Certified Public Accountants, Auditing Standards – Clarified (AU-C) 720.01 and SFFAC 2 par. 55A

[24] 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.

[25] 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
What is the auditor's responsibility with respect to OI?	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. 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. 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. 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. 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. 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.	AU-C 250 and AU-C 720.01 and .04-.08; and GAGAS Chapter 4

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.

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*. [26]

Table 4: Gross Cost, Revenues, Net Cost, and Net Operating Cost

Dollars in Billions		2014		2013	Increase / (Decrease) $	Increase / (Decrease) %
Gross Cost	**$**	**(4,251.4)**	**$**	**(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%
Net Cost	**$**	**(3,837.0)**	**$**	**(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%
Net Operating Cost	**$**	**(791.3)**	**$**	**(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.

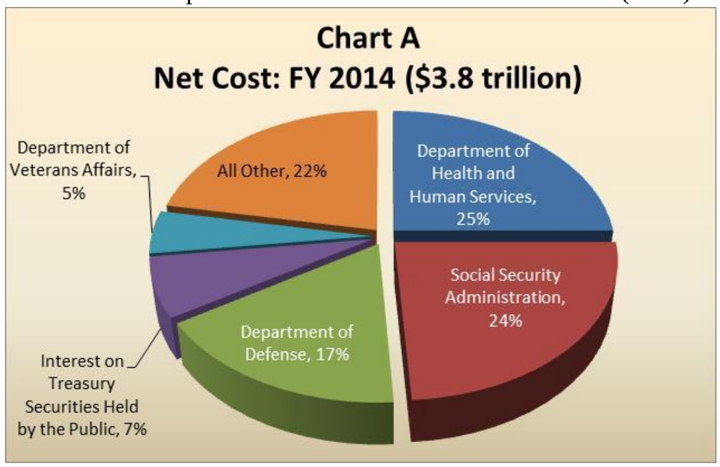
Typically, the Government's net cost is impacted by a variety of offsetting increases and decreases. The more significant drivers affecting the change in net cost during FY 2014 were:

- 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

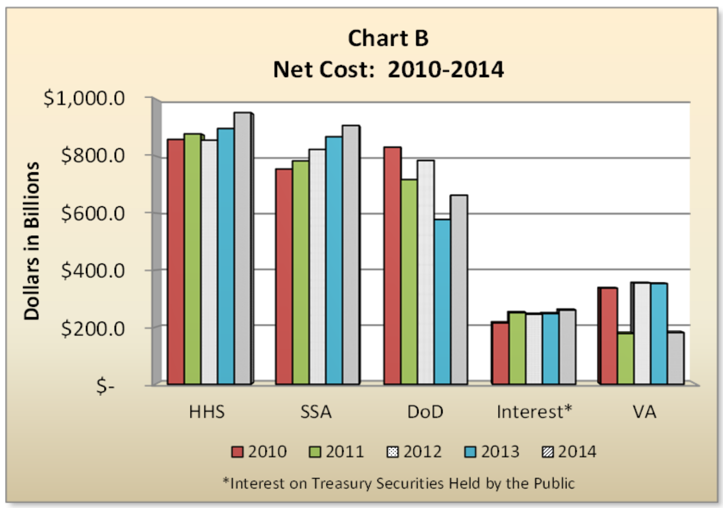
[26] As shown in Table 4, net operating cost includes an adjustment for unmatched transactions and balances, which represent unreconciled differences in intragovernmental activity and balances between Federal agencies. These amounts are described in greater detail in the Other Information section of 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[27];
- $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[28]; 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.[29]

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"

[27] Department of the Treasury FY 2014 Agency Financial Report, p. 22-23. See also Note 9 – Investments in GSEs – of this *Financial Report*.
[28] Department of Education FY 2014 Agency Financial Report, p. 30
[29] 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.

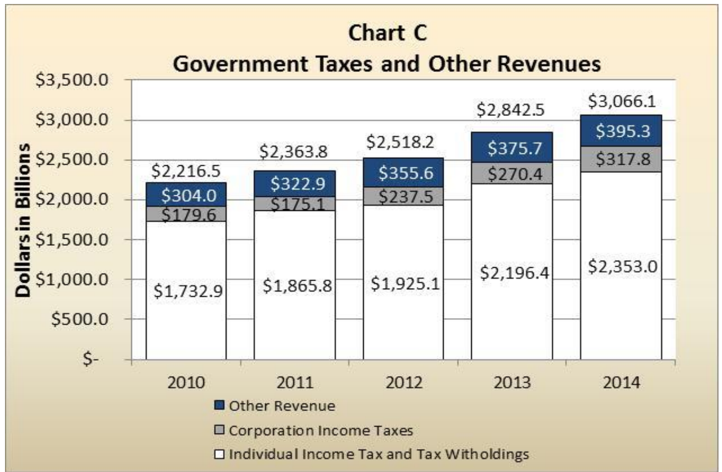


Chart C shows that increases in each of the three taxes and other revenue categories shown - individual income tax and withholdings, corporation income taxes, and other revenue - combined to increase total Government taxes and other revenues by $223.6 billion (7.9 percent) to nearly $3.1 trillion for FY 2014. This change is primarily attributed to an overall increase in individual and corporation income tax collections.[30] 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.[31] 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.[32]

[30] Department of the Treasury FY 2014 Agency Financial Report, p. 28

[31] 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.

[32] Department of the Treasury Fiscal Year 2017 Tax Expenditures Report

[Also refer readers to additional discussion in OI.]

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 Tax Revenue Collections	Tax Year to Which Collections Relate: 2014	2013	2012	Prior 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 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 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.[33]

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.[34] Tax expenditures are not subject to the annual budget

[33] Department of the Treasury Fiscal Year 2017 Tax Expenditures Report

[34] 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[35]. 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.

[35] 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

Largest 20 Tax Expenditures, Fiscal Years 2016 and 2015 (Ranked by Revenue Effect)

		2016 (dollars, in billions)	2015 (dollars, in 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 *(1)*	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

Source: FASAB analysis based on U.S. Department of Treasury's Tables of Estimates from the Fiscal Year 2017 Tax Expenditures (September 2015)

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 http://www.treasury.gov/resource-center/tax-policy/Pages/Tax-Expenditures.aspx.

(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

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

R. Scott Bell	Department of the Treasury, Senior Accountant
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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

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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