



September 28, 2016

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

Dear Ms. Payne:

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

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

Q1. The Board is proposing that disclosures in notes to the financial statements of the consolidated financial report of the U.S. Government (CFR) include a "plain language" definition of the term tax expenditures, examples of types of tax expenditures, and a description of how tax expenditures impact nonexchange revenue, tax collections, and refunds, as well as whether tax expenditure amounts are presented in the basic financial statements. These proposed disclosure requirements are presented in paragraphs 14-15 on page 14. An illustrative example of how these disclosures might be presented in the notes to the financial statements of the CFR is provided in Appendix D: Illustrations beginning on page 36.

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

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



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

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

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

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

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

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



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

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

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

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

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

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

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

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

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



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

Sincerely,

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

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



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