



September 15, 2016

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

Dear Ms. Payne:

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

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

Our responses to the ED questions are included below.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Comment

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

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

Very truly yours,



Andrew C. Lewis
FISC Chair