

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

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

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

Sincerely,

Sid R. Ewer

### Exposure Draft: Questions for Respondents due September 15, 2016

#### Tax Expenditures: Management's Discussion and Analysis and Disclosure Requirements

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

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

**Please provide your name.**

Name:

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

Organization:

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

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

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

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### *Tax Expenditures: Management's Discussion and Analysis and Disclosure Requirements*

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

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

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

*And this brings us to your second question.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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