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June 24, 2016

Ms. Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814  
Mail Stop 6H19  
Washington, D. C. 20548

Dear Wendy,

The following are my responses to the questions for the Tax Expenditures exposure draft, plus some other comments.

**Q1. Do you believe that these proposed disclosure requirements related to the notes to the financial statements in the CFR will be helpful to readers?**

Yes.

**Do you believe the placement of the proposed disclosures in the notes to the financial statements of the CFR is appropriate?**

Yes

**Please explain the basis for your view and note any recommended changes in the requirements.**

The rationale presented in the ED says it all. There is a cost in financing programs through foregone revenues that is no less than financing the programs through outlays. Indeed, the former reflects less accountability since tax expenditures are not as transparent. Nor do they generate as much deliberation. Hence, shedding as much sunlight as practicable on this form of financing costs is highly desirable.

**Q2. Do you believe that these proposed requirements related to MD&A will be helpful to readers?**

Yes

**Do you believe the placement of the proposed requirements in MD&A in the CFR is appropriate?**

Yes

**Please explain the basis for your view and note any recommended changes in the requirements.**

Same reason as for the footnote disclosure. However, I would add to the MD&A example, the identification of the six types of tax expenditures which are already proposed for disclosure in

the footnotes. Readers are more likely to read the Management's Discussion and Analysis than the footnotes.

**Q3a. Do you believe that the proposed information, as outlined in paragraphs 19-20 and subparagraphs 20.a-20.c would be helpful to readers?**

Yes.

**Please explain the basis for your view and explain any recommended changes.**

Absent disclosure of the general magnitude of the tax expenditures, the rest of the information is rhetoric. For there to be decision useful information, there needs to be identification of the specific purposes for which tax expenditures are provided and the amounts.

**Q3b. 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?**

No. I prefer the information be presented as RSI.

**Please explain the basis for your view.**

RSI is a higher level than OI. The higher the level at which the information is presented, the more attention that will be provided to its preparation and use. My understanding is that for auditors to accept information as RSI, they must be satisfied with the methods of preparing the information, i. e., it must have come from a system of records rather than simply drawn from "thin air;" and with comparisons of the information for consistency with management's responses to the auditor's inquiries, the basic financial statements, and other knowledge obtained by the auditor during the audit. By definition, the information is obtained from the Department of the Treasury who, albeit relying on estimates and conjectures, nevertheless uses a systematic approach to prepare the information. Furthermore, absent other information on the specific tax expenditures, there should be no inconsistencies with the comparisons.

**Q4. Are there any other changes that you believe should be made to the proposed Statement? Please provide rationale for your answer.**

1. I believe the Standard should indicate the appropriateness of potentially extending the requirement to at least certain components. Federal accounting concepts and standards are written for the government-wide financial statements and the component financial statements. Program managers would not have been listed among the users of Federal financial reports if the only report FASAB is to be concerned with is the government-wide report. Many are as interested in the components' financial reports as they are in the government-wide financial report.

Furthermore, many component's achievements are financed as much through tax expenditures as through outlays, e. g., HUD's goal to achieve defined levels of home ownership is achieved largely through the mortgage interest and state and local government property tax tax expenditures; HHS' goal to advance the health care of the American people is achieved largely through the exclusion of employer contributions for medical insurance premiums and medical care. Hence a report that enables users to evaluate a component's

service efforts, costs, and accomplishments should explain and identify whether there are significant tax expenditures associated with the component's services.

Paragraph A.3.b.i claims there would be "potentially significant challenges and costs" incurred by components reporting tax expenditures and that the process would be "time consuming and costly to the preparer." I fail to see how using the same explanations and identifying individual tax expenditure and the amounts already identified in the government-wide financial report would present significant challenges or be time consuming or costly to component-level preparers.

2. Paragraph 3 (and several subsequent parts) state "Other tax expenditures resemble discretionary spending programs, for which Congress appropriates annual funding." I do not see the comparison. Perhaps this can be elaborated upon.
3. Page 37, 2<sup>nd</sup> bullet, 4<sup>th</sup> line. Is "As such" needed? The rest of the sentence is not a sequiter.
4. Page 39, 1<sup>st</sup> full paragraph, 3<sup>rd</sup> line. The second word "are" should be eliminated. "

I hope the above is useful.

Sincerely

Hal Steinberg

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August 22, 2016

Ms. Wendy M. Payne, Executive Director  
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Dear Wendy,

Please consider this letter as an addendum to my June 24, 2016 letter responding to the Tax Expenditures Exposure Draft.

In response to Question 4 **Are there any other changes that you believe should be made to the proposed Statement? Please provide rationale for your answer**, I answered “I believe the Standard should indicate the appropriateness of potentially extending the requirement to at least certain components” and provided a rationale for that belief. I wish to expand my response.

OMB Circular A-11, *Budget Preparation, Submission, and Execution*, Section 51.11, *Taxes and Tax Expenditures* requires that each agency “reflect full and explicit consideration of the resources made available by the Federal Government through **tax expenditures** (bold face added) and other tax incentives” and “should be prepared to submit justifications for continuing or reenacting existing taxes and tax expenditures in the program areas for which they have primary responsibility.” The Circular also provides the reasons agencies should identify their tax expenditures in their budget requests, namely, that tax expenditures often complement or substitute for agencies' spending or regulatory programs that contribute to the agency's strategic objectives, and the resources and incentives provided through tax expenditures can be substantial.

Furthermore, GAO recently issued a report titled *Opportunities Exist to Use Budgeting and Agency Performance Processes to Increase Oversight* (GAO-16-622). The report emphasized the importance of tax expenditure information at the agency level for evaluating the contribution that tax expenditures make to the agencies' missions and goals.

As long as there are legislation and regulations requiring agencies to report tax expenditures in their agency budget submissions, agencies should report the actual tax expenditures related to their programs in their annual financial reports. This would be consistent with the sub-objective in Statement of Federal Financial Accounting Concepts 1 *Objectives of Financial Reporting* that states “Federal financial reports should help readers determine how their budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization.”

Furthermore, the GAO report provides a strong rationale for how tax expenditure information at the agency level fulfills the sub-objective “Federal financial report should help readers determine the costs of providing specific programs and activities and the composition of, and changes in, these costs.”

I believe the above represent further reasons why extending the requirement for tax expenditure information to at least certain components should be included in the standard.

I hope the above is useful.

Sincerely

Hal Steinberg