



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

September 14, 2016

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

Dear Ms. Payne:

On behalf of the Department of the Treasury, I submit the attached comments on the proposed Federal Financial Accounting Standards regarding tax expenditures. A list of tax expenditures was first published in 1968 when Assistant Secretary of the Treasury Stanley Surrey asked the staff of the Office of Tax Policy to create a comprehensive accounting of these special provisions. Over nearly fifty years, Treasury has continued to illuminate the existence and function of tax expenditures with an evolving variety of publications, including the listing within the Administration's annual Budget, as required by the Congressional Budget Act of 1974.

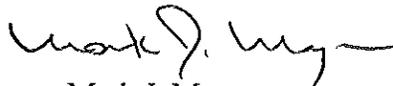
The FASAB should be commended for seeking to improve the public's understanding of a topic as complex and far-reaching as tax expenditures. However, an issue within our attached comments is the inclusion of select information on tax expenditures in the consolidated financial report of the U.S. Government (CFR). We are concerned that an inclusion of tax expenditures would not comport with the primary mission of the CFR to present the state of the government's finances. While some tax expenditures are viewed for policy purposes as akin to spending programs, for financial purposes they are quite different. The CFR's reporting of tax revenue already fully reflects the financial consequences of tax expenditures. Theoretically, one could alter the reporting to "gross up" revenues to reflect a world without tax expenditures and then show the tax expenditures as a net cost, this new accounting presentation would have no impact on the bottom line statement of the government's financial position. In addition to having no impact on the bottom line, in practice the information that is available on "tax expenditures" as currently defined is not appropriate nor sufficient to prepare this type of integrated presentation of activities conducted through the tax code.

As reflected in the attached responses to the questions posed in the Exposure Draft (ED), Treasury agrees that adding a brief discussion of tax expenditures to the CFR in both the management's discussion and analysis and the notes could help readers understand in general terms the breadth of the government's activities. However, it is not helpful to the reader to include a selection of tax-expenditure estimates with "Other Information" or as any other presentation in the CFR. The illustration included with the ED appears to suggest that simply reprinting a subset of tax-expenditure estimates from the list included in the Administration's

Budget would aid the reader of the CFR in understanding the government's finances. We believe that reporting in this context is more likely to confuse many readers. Presenting a subset of tax expenditure estimates pulled from another publication, coupled with the fact that the impact of tax expenditures is already fully integrated in the CFR in the tax revenue accounting, leads us to believe that it would be difficult for many readers to understand how the material on tax expenditures relate to the other reporting in the CFR.

We agree with the overall goal of continuing to expand public access to tax expenditure information and we strongly believe that the appropriate place to present detailed discussion and estimates of tax expenditures is on the Treasury website, where this information can be placed into the appropriate context and linked with relevant background information. Treasury supports providing a link in the CFR to the other Treasury reporting of tax expenditures so that interested readers could learn more about tax expenditures, how they work, and the government activities they support. Reflecting a potential expanded audience, Treasury will improve the presentation of information on tax expenditures available on our website. As reporting of this information continues to evolve, Treasury will look for opportunities to introduce the appropriate amount of information into the CFR so that it complements the various existing Treasury publications and accurately represents the activities of the government.

Sincerely,



Mark J. Mazur  
Assistant Secretary for Tax Policy

Enclosure

### 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 checked="" 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 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:** From a content perspective, incorporating a “plain language” definition of tax expenditures and brief discussion of their conceptual impact on non-exchange revenue, tax collections, and refunds in the consolidated financial report of the U.S. Government (CFR) will be helpful to improving reader’s understanding of this complex topic. Proposing that such information appear in the Note on “Collections and Refunds of Federal Revenue” is a potentially viable approach, given the context in which the tax expenditure information

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

would be placed. However, the Board should consider the possibility that the "Other Information" (OI) section, with corresponding references included in the Note and/or MD&A, provides the ideal context for this information based on the following:

In addition to tax expenditure content, the proposed text in Appendix D also references "Tax Gap" information. "Tax Gap", along with "Tax Burden", are discussed in the OI section of the CFR (pp 219-221 of the FY 2015 CFR). The topic of tax expenditures aligns well from a context perspective with these other topics already discussed in OI. As such, to minimize redundancy and to capitalize on context that is already established in the CFR, an ideal approach would be to focus the substantive discussion of tax expenditures as proposed above in the OI section with a brief reference to both Tax Expenditures and Tax Gap in the "Collections and Refunds of Federal Revenue" Note. So doing perpetuates the context established in OI, minimizes redundancy, and prompts readers to refer to these other, informative sections of the CFR.

Regardless of where in the document the discussion of Tax Expenditures appears, it should be noted that tax expenditures is a complex topic. Treasury's Office of Tax Policy, as well as other organizations, such as the Joint Committee on Taxation already have made and continue to make substantive information available to the public in other on-line forums. While a "plain language" definition and discussion can provide a practical introduction to this topic, it may be more appropriate, at a minimum, to provide the preparer the discretion to refer readers to these other, external resources – as either a complement to or in lieu of direct CFR content – to ensure that those readers fully understand the complexities associated with this topic and have the opportunity to research the issue more fully if so desired.

- 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.**

**Response:** Consistent with our response to Question 1, a brief, summary discussion of Tax Expenditures, consistent with the overall scope of other MD&A content, with appropriate references to more substantive discussion of Tax Expenditures located elsewhere within and/or outside of the CFR is a reasonable approach to educating the public about this topic.

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

SFFAS 15 notes that the purpose of the MD&A is to “(1) communicate managers’ insights about the reporting entity, (2) increasing the understandability and usefulness of the general purpose federal financial report (GPFFR), and (3) provide understandable and accessible information about the entity and its operations...”. As such, including a brief discussion of tax expenditures, their general purpose, and how they conceptually impact the government’s financial position and condition in the MD&A is a reasonable approach and, given the prominence of the MD&A section, can be an effective means of educating the general public about this topic, or at least introducing it to them. That said, key portions of our response to Question 1 are equally applicable here: Tax Expenditures is a complex topic. Treasury’s Office of Tax Policy, as well as other organizations, such as the Joint Committee on Taxation already have made and continue to make substantive information available to the public in other on-line forums. To ensure that readers fully appreciate and understand the complexities of Tax Expenditures, the preparer should be provided with the discretion to refer readers to other, external resources as either a complement to or in lieu of direct CFR content.

- 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.**

**Response:** FASAB should be commended for seeking to ensure that the public is better informed about a topic that has such a broad effect. Treasury’s Office of Tax Policy, as well as the Joint Committee on Taxation are both dedicated to providing the public with relevant information on this complex topic. Both organizations provide annual listings and analyses of tax expenditures.

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

But it is important to note that, as mentioned in our responses to both Q 1 and 2, this information can be complex, and as such, the risk of misperception is real. As such, it is our responsibility to ensure that any reporting, whether quantitative, qualitative, or both, possesses sufficient clarity and minimizes redundancy and duplication of effort. Such reporting should leverage resources and communication channels that optimize the effectiveness of tax expenditure reporting – not just in the context of the CFR – but in the broader, collective federal space.

- 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:** Given the complexity of the topic of Tax Expenditures, encouraging reporting in the OI section is entirely appropriate. It is very reasonable to assume that reporting on Tax Expenditures in the CFR in any form or fashion will require an evolutionary and iterative approach. Consistent with task force discussions, tax expenditures reporting, if not approached in a deliberate and deliberative manner, even after the final standards are issued, can raise more questions than provide answers. Furthermore, given that tax expenditure reporting is predicated largely on complex estimates and projections, it is imperative that the preparer retain the discretion to include and/or configure any quantitative or qualitative presentation and/or to leverage and/or reference other resources that either currently exist and/or which may be developed to ensure that most germane information about Tax Expenditures is effectively communicated to the reader.

- 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:**

In general, Treasury believes that a brief discussion of tax expenditures in the MD&A and a somewhat more involved discussion in the OI section (along with reference to existing substantive public information on the topic) is the best approach for effectively informing

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

the public about this important matter. Please see our responses to Q1, Q2, and Q3 for additional proposed alternatives.