

# Spending Through the Tax Code

How tax expenditures, also known as tax incentives, affect the federal budget

AN OVERVIEW OF GAO-16-622

## What are "tax expenditures"?

- tax credits
- deductions
- exclusions
- exemptions
- deferrals
- preferential tax rates

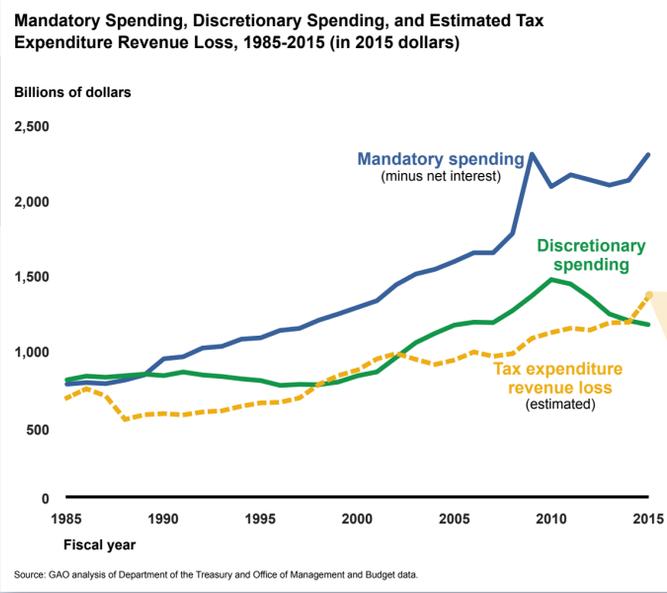
They are special tax provisions that have the same net effect on the federal budget as spending programs.

## What are they for?

Many are designed to help achieve national social and economic goals, such as:



## How much do they cost?



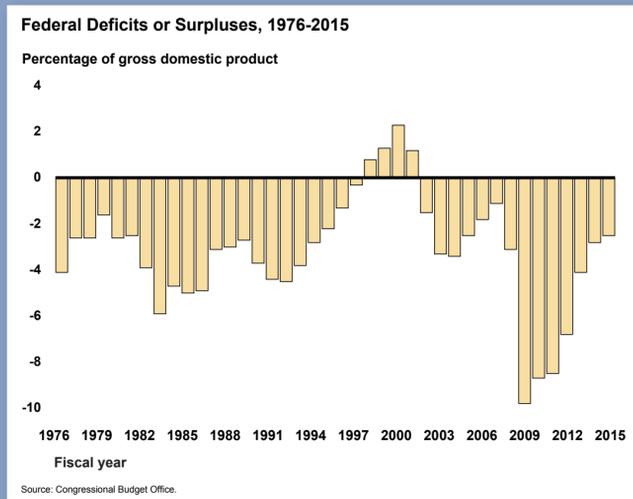
They are comparable in size to discretionary spending.

Estimated total of tax expenditures in FY 2015: **\$1.2 Trillion**

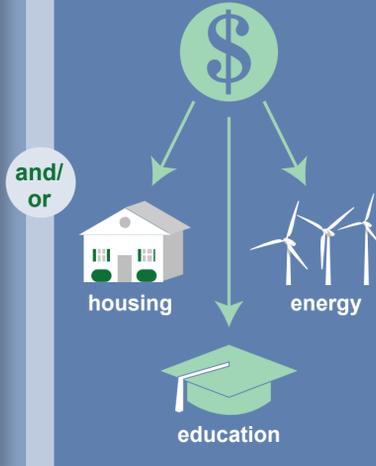
## How do tax expenditures affect the budget?

The federal government does not collect revenue it otherwise would have, requiring higher tax rates to raise the same amount of revenue. As with any federal spending program, tax expenditures:

### Increase federal deficits or reduce federal surpluses



### Reduce available funding for other programs



## How well are tax expenditures working?

It's hard to know.

Congress annually reviews discretionary spending.



Existing tax expenditures are not regularly reviewed.



Tax expenditure outcomes are not measured as closely as spending program outcomes.

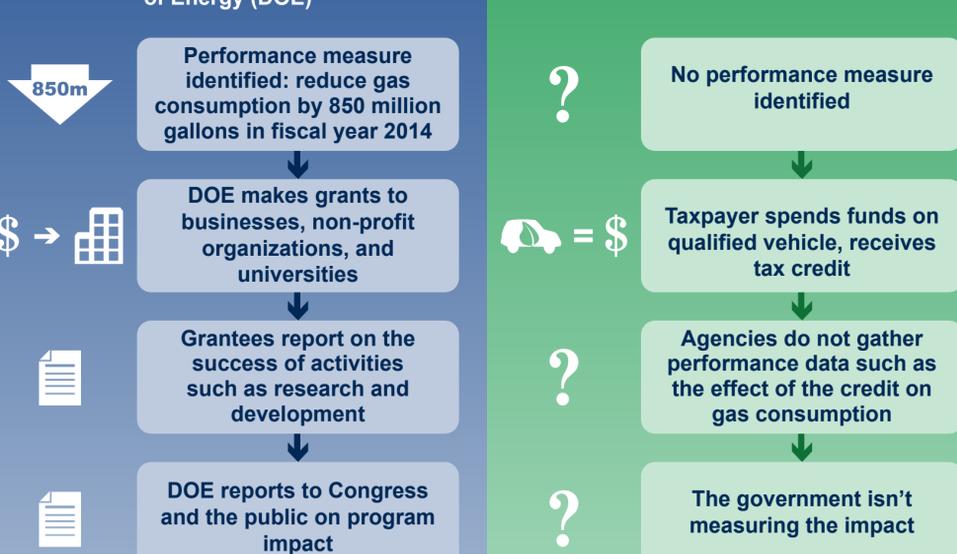


See how a spending program and a tax expenditure with the same policy goal are evaluated:

### Goal: to create more fuel-efficient modes of transportation

Vehicle Technologies spending program, administered by the Department of Energy (DOE)

Alternative Motor Vehicle Credit, a tax credit created in 2005



## How can the government better track these tax expenditures?

In past work, we have recommended greater scrutiny. Agencies could:



periodically review tax expenditures



include tax expenditures in their annual performance management reviews



compare tax expenditures to spending programs with similar goals



further incorporate tax expenditures into budget presentations