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

What are "tax expenditures"?

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:

- Home ownership
- Postsecondary education
- Renewable energy

What are they for?

They are comparable in size to discretionary spending.

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:

- Reduce available funding for other programs
- Increase federal deficits or reduce federal surpluses

The government isn’t measuring the impact

Source: Congressional Budget Office.

How well are tax expenditures working?

It’s hard to know.

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

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

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

Performance measure identified: reduce gas consumption by 850 million gallons in fiscal year 2014

No performance measure identified

DOE makes grants to businesses, non-profit organizations, and universities

Taxpayer spends funds on qualified vehicle, receives tax credit

Grantees report on the success of activities such as research and development

Agencies do not gather performance data such as the effect of the credit on gas consumption

DOE reports to Congress and the public on program impact

The government isn’t measuring the impact

Source: GAO analysis of agency documents.

AN OVERVIEW OF GAO-16-622
Spending Through the Tax Code
How tax expenditures, also known as tax incentives, affect the federal budget

What are "tax expenditures"?

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:

- Sustainable transportation
- Energy efficiency

How much do they cost?

Mandatory spending (minus net interest)  
Discretionary spending  
Tax expenditure revenue loss (estimated)

Billions of dollars


0 500 1,000 1,500 2,000 2,500

Source: GAO analysis of Department of the Treasury and Office of Management and Budget data.

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:

- Reduce available funding for other programs
- Increase federal deficits or reduce federal surpluses

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:

- Reduce available funding for other programs
- Increase federal deficits or reduce federal surpluses

How much do they cost?

Mandatory spending (minus net interest)  
Discretionary spending  
Tax expenditure revenue loss (estimated)

Billions of dollars


0 500 1,000 1,500 2,000 2,500

Source: GAO analysis of Department of the Treasury and Office of Management and Budget data.

How well are tax expenditures working?

It’s hard to know.

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

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
- Further incorporate tax expenditures into budget presentations