

# GAO Highlights

Highlights of [GAO-16-622](#), a report to congressional requesters

## Why GAO Did This Study

Tax expenditures—special credits, deductions, and other tax provisions that reduce taxpayers’ tax liabilities—represent a substantial federal commitment. If Treasury’s estimates are summed, an estimated \$1.23 trillion in federal revenue was forgone from the 169 tax expenditures reported for fiscal year 2015, an amount comparable to discretionary spending. Tax expenditures are often aimed at policy goals similar to those of federal spending programs.

GAO was asked to identify the extent to which tax expenditures are incorporated into federal budget processes. This report (1) compares the treatment of tax expenditures and other spending in federal budgeting processes; (2) evaluates the extent to which OMB and agencies have identified tax expenditures’ contributions to agency goals; and (3) examines options to further incorporate tax expenditures in federal budgeting processes. To address these objectives, GAO reviewed agency budget documents, OMB guidance, prior GAO reports, and performance plans and reports available as of January 2016 for all 24 CFO Act agencies. GAO also held a roundtable discussion with budget and tax experts to examine options for further incorporating tax expenditures into budgeting processes.

## What GAO Recommends

GAO recommends that OMB, in collaboration with Treasury, work with agencies to identify which tax expenditures contribute to agency goals. OMB generally agreed with GAO’s recommendation.

View [GAO-16-622](#). For more information, contact Heather Krause at (202) 512-6806 or [krauseh@gao.gov](mailto:krauseh@gao.gov).

July 2016

## TAX EXPENDITURES

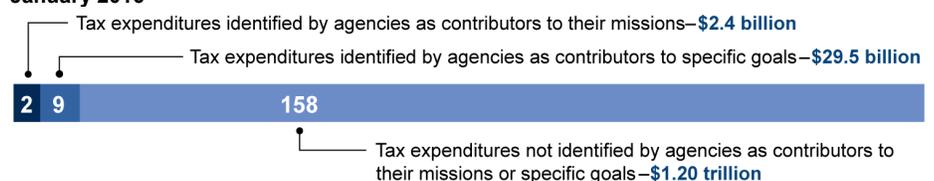
### Opportunities Exist to Use Budgeting and Agency Performance Processes to Increase Oversight

## What GAO Found

Federal budget formulation processes include fewer controls and reviews, and provide less information on tax expenditures—which represented an estimated \$1.23 trillion in forgone revenues in fiscal year 2015—than for discretionary or mandatory spending. For example, in the President’s budget, tax expenditure revenue loss estimates are presented separately from related spending, making their relative contributions toward national priorities less visible than spending programs. Likewise, only proposed tax expenditures or those that expire are subject to review within congressional budget processes, similar to mandatory spending. Existing, non-expiring tax expenditures are not subject to such review.

The Office and Management and Budget (OMB) and agencies have made limited progress identifying tax expenditures’ contribution to agency goals. As of January 2016, 7 of the 24 Chief Financial Officer (CFO) Act agencies identified tax expenditures as contributors to their agency goals—as directed in OMB guidance—or agency missions. The tax expenditures they identified accounted for only 11 of the 169 tax expenditures included in the President’s Budget for Fiscal Year 2017, representing an estimated \$31.9 billion of \$1.23 trillion in forgone revenues for fiscal year 2015. Based on interviews with agencies and reviewing past GAO work, GAO found that a lack of clarity about agencies’ roles leads to inaction in identifying tax expenditures that contribute to agency goals. To address this, OMB guidance previously stated that it would work with the Department of the Treasury (Treasury) and other agencies to identify where tax expenditures align with agency goals. OMB removed that language in June 2015, citing capacity constraints. Without additional OMB and Treasury assistance, agencies may continue to have difficulty identifying whether, or which of, the remaining 158 tax expenditures—representing \$1.20 trillion in forgone revenues—contribute to their goals.

**Tax Expenditures Identified by Agencies As Contributing to Agency Goals or Missions, As of January 2016**



Source: GAO review of Chief Financial Officer Act agency performance documents. | GAO-16-622

Based on an assessment of budget and tax experts’ input and prior GAO work, GAO found that options to further incorporate tax expenditures into budgeting processes could help achieve various benefits; but policymakers would need to consider challenges and tradeoffs in deciding whether or how to implement them. For example, one option is to require that all, or some subset of, tax expenditures expire after a finite period. This option could result in greater oversight, requiring policymakers to explicitly decide whether to extend more or all tax expenditures. However, this option could lead to frequent changes in the tax code, such as from extended or expired tax expenditures, which can create uncertainty and make tax planning more difficult, as GAO has reported previously.