



441 G St. N.W.  
Washington, DC 20548

September 20, 2016

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
441 G. Street, NW, Suite 6814  
Mailstop 6H19  
Washington, DC 20548

**Federal Accounting Standards Advisory Board—*Tax Expenditures:  
Management’s Discussion and Analysis and Disclosure Requirements Exposure  
Draft***

Dear Ms. Payne:

This letter provides the U.S. Government Accountability Office’s (GAO) comments on the Federal Accounting Standards Advisory Board’s exposure draft (ED) entitled *Tax Expenditures: Management’s Discussion and Analysis and Disclosure Requirements*. Tax expenditures are reductions in a taxpayer’s tax liability that are the result of special exemptions and exclusions from taxation, deductions, credits, deferrals of tax liability, or preferential tax rates. Similar to spending programs, tax expenditures represent a substantial federal commitment to a wide range of mission areas. The ED proposes standards that would require the consolidated financial report of the U.S. government (CFR) to include narrative disclosures and information regarding tax expenditures and alert readers to the availability of published information on tax expenditure estimates, such as those published annually by the Department of the Treasury’s Office of Tax Policy. The proposed standards would also encourage presentation of a selection of the major tax expenditure estimates as other information (OI) in the CFR.

Since 1994, GAO has recommended greater scrutiny of tax expenditures. In 2006, we reported that it was important to understand the nature and extent of exposures in long-term fiscal planning for the federal government that were not reported in the CFR. We noted that tax expenditure amounts were not required to be disclosed, nor were they disclosed, in agency or the U.S. government’s consolidated financial statements.<sup>1</sup> We further stated that enhanced reporting on tax expenditures would ensure greater transparency and accountability for revenue forgone by the federal government and provide a more comprehensive picture of the federal government’s policies and fiscal position. In fiscal year 2015, the aggregate sum of tax expenditures reported by the Department of the Treasury amounted to an estimated \$1.23 trillion. The sum of tax expenditure estimates is useful for gauging the general size of revenue forgone, but

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<sup>1</sup>GAO, *Fiscal Year 2005 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation’s Financial Condition and Long-term Fiscal Imbalance*, GAO-06-406T (Washington, D.C.: Mar. 1, 2006).

must be interpreted carefully because it does not take into account interactions among individual tax expenditures.

We support the board's efforts and commend the board for proposing guidance for increasing the transparency of tax expenditures in the CFR. It is our view that the proposed guidance will assist in achieving the budgetary integrity, operating performance, and stewardship objectives of federal financial reporting in the CFR.<sup>2</sup> In addition, we support the board's view that the exposure draft presents a meaningful and cost-effective approach for enhancing the transparency and accountability of tax expenditures in the CFR.

We also acknowledge the unique and significant challenges inherent in defining, estimating, reporting, and auditing tax expenditures that the task force identified, including concerns about

- the quality, timeliness, and availability of reliable data upon which tax expenditure estimates are based;
- existing differences in the list of tax expenditures identified by two credible sources of such estimates—the Department of the Treasury's Office of Tax Policy and the U.S. Congress Joint Committee on Taxation;
- estimation methodologies for certain tax expenditures that can neither be tested nor improved over time by assessing their historical performance against actual tax return data or transactions; and
- assessing historical performance for certain tax expenditures that require the use of data that are not collected on tax returns or otherwise available because the estimates are imputed rather than based on recordable transactions that have actually occurred.

Given such challenges, the board concluded that it is not appropriate to require presentation of tax expenditure estimates at this time. In the future, with experience gained in reporting tax expenditure information, we believe that the board should reevaluate the costs, limitations, benefits, and other implications of developing additional measurement, recognition, and disclosure guidance for tax expenditures.

As the board noted in the ED, before such reevaluation efforts are undertaken, the following matters need to be considered:

- how best to define, identify, and measure tax provisions that are relevant for financial reporting;
- whether it is feasible to develop estimates that are considered to be representationally faithful and auditable; and

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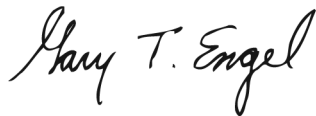
<sup>2</sup>Federal Accounting Standards Advisory Board, *FASAB Statement of Federal Financial Accounting Concepts 1, Objectives of Federal Financial Reporting*.

- if auditability can be achieved, what considerations would enable the preparer and auditor to achieve their respective responsibilities in a reasonably cost-effective manner.

Another matter that needs to be considered is the development of methodologies for aggregating tax expenditures that would account for interactions between individual tax expenditures.

We support this work and appreciate the opportunity to provide comments. Please contact Robert Dacey, Chief Accountant at (202) 512-7439 or [daceyr@gao.gov](mailto:daceyr@gao.gov) or me at (202) 512-2600 or [engelg@gao.gov](mailto:engelg@gao.gov) if you have questions on GAO's perspectives.

Sincerely,

A handwritten signature in cursive script that reads "Gary T. Engel".

Gary T. Engel  
Managing Director  
Financial Management and Assurance