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Spending Through the Tax Code

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

What are "tax expenditures"?

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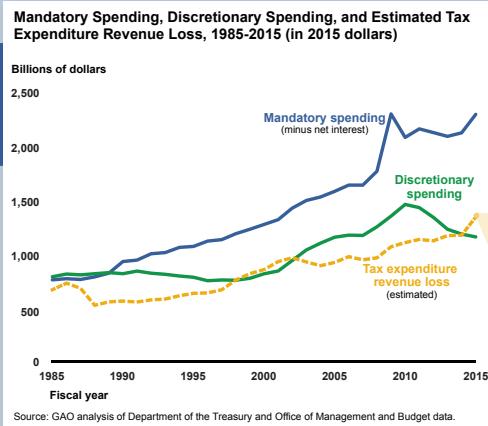- ☑ deferrals
- ☑ preferential tax rates

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:

home ownership

postsecondary education

renewable energy

How much do they cost?

Mandatory Spending, Discretionary Spending, and Estimated Tax Expenditure Revenue Loss, 1985-2015 (in 2015 dollars)

Billions of dollars

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

1985 1990 1995 2000 2005 2010 2015
Fiscal year

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

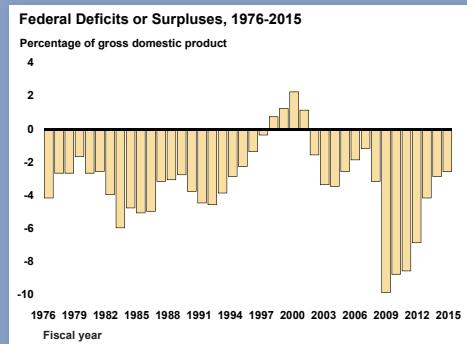Source: GAO analysis of Department of the Treasury and Office of Management and Budget data.

They are comparable in size to discretionary spending.

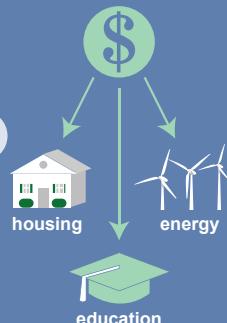Estimated total of tax expenditures in FY 2015:
$1.2 Trillion

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

Federal Deficits or Surpluses, 1976-2015

Percentage of gross domestic product

4
2
0
-2
-4
-6
-8
-10

1976 1979 1982 1985 1988 1991 1994 1997 2000 2003 2006 2009 2012 2015
Fiscal year

Source: Congressional Budget Office.

Reduce available funding for other programs

and/ or

housing   energy

education

How well are tax expenditures working?

It's hard to know.

- Congress annually reviews discretionary spending.
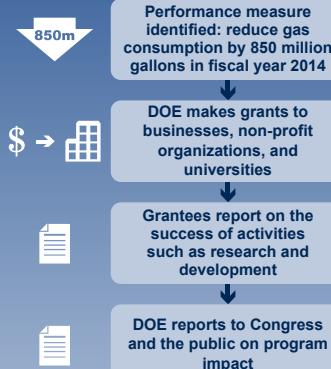- Existing tax expenditures are not regularly reviewed.
- Tax expenditure outcomes are not measured as closely as spending program outcomes.
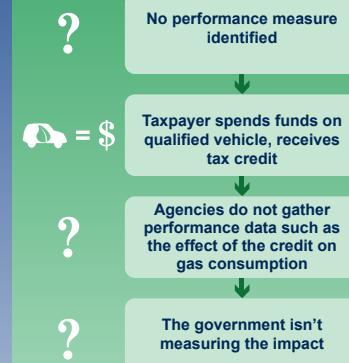
See how a spending program and a tax expenditure with the same policy goal are evaluated:

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
850m 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.

How can the government better track these tax expenditures?

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

- periodically review tax expenditures
- compare tax expenditures to spending programs with similar goals
- include tax expenditures in their annual performance management reviews
- further incorporate tax expenditures into budget presentations

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