



Highlights of [GAO-05-690](#), a report to agency officials

Why GAO Did This Study

Numerous federal programs, policies, and activities are supported through the tax code. As described in statute, tax expenditures are reductions in tax liabilities that result from preferential provisions, such as tax exclusions, credits, and deductions. They result in revenue forgone. This report, done under the Comptroller General's authority, is part of an effort to assist Congress in reexamining and transforming the government to meet the many challenges and opportunities that we face in the 21st century. This report describes (1) how tax expenditures have changed over the past three decades in number, size, and in comparison to federal revenue, spending, and the economy, and (2) the amount of progress made since our 1994 recommendations to improve scrutiny of tax expenditures.

What GAO Recommends

GAO recommends the Office of Management and Budget (OMB), consulting with the U.S. Department of the Treasury, take several steps to ensure greater transparency of and accountability for tax expenditures by reporting better information on tax expenditure performance and more fully incorporating tax expenditures into federal performance management and budget review processes. Citing methodological and conceptual issues, OMB disagreed with the recommendations. GAO still believes the recommendations are valid. www.gao.gov/cgi-bin/getrpt?GAO-05-690.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Michael Brostek, (202) 512-9110, brostekm@gao.gov.

GOVERNMENT PERFORMANCE AND ACCOUNTABILITY

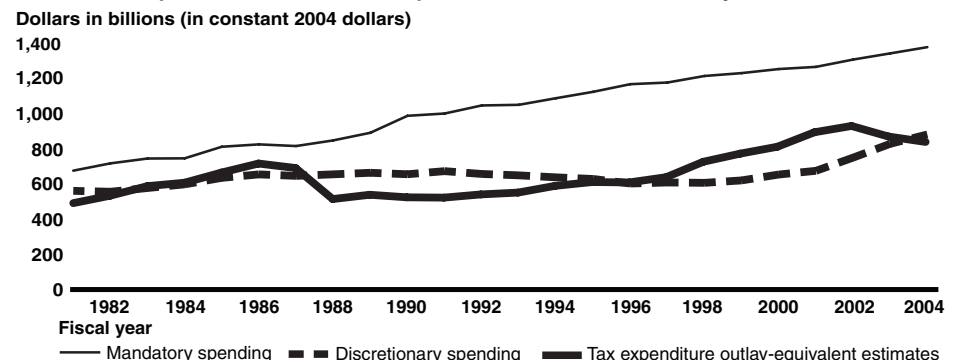
Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined

What GAO Found

Whether gauged in numbers, revenues forgone, or compared to federal spending or the size of the economy, tax expenditures have represented a substantial federal commitment over the past three decades. Since 1974, the number of tax expenditures more than doubled and the sum of tax expenditure revenue loss estimates tripled in real terms to nearly \$730 billion in 2004. The 14 largest tax expenditures, headed by the individual income tax exclusion for employer-provided health care, accounted for 75 percent of the aggregate revenue loss in fiscal year 2004. On an outlay-equivalent basis, the sum of tax expenditure estimates exceeded discretionary spending for most years in the last decade. For some budget functions, the sum of tax expenditure estimates was of the same magnitude as or larger than federal spending. As a share of the economy, the sum of tax expenditure outlay-equivalent estimates has been about 7.5 percent of gross domestic product since the last major tax reform legislation in 1986.

All federal spending and tax policy tools, including tax expenditures, should be reexamined to ensure that they are achieving their intended purposes and designed in the most efficient and effective manner. The nation's current and projected fiscal imbalance serves to reinforce the importance of engaging in such a review and reassessment. Although data and methodological challenges exist, periodic reviews of tax expenditures could establish whether they are relevant to today's needs; if so, how well they have worked to achieve their objectives; and whether the benefits from specific tax expenditures are greater than their costs. Over the past decade, however, the Executive Branch made little progress in integrating tax expenditures into the budget presentation, in developing a structure for evaluating tax expenditure outcomes or in incorporating them under review processes that apply to spending programs, as we recommended in 1994. More recently, the Administration has not used its Program Assessment Rating Tool process to systematically review tax expenditures or promote joint reviews of tax and spending programs sharing common goals.

Sum of Tax Expenditure Estimates Compared with Total Federal Outlays, 1981-2004



Note: Summing tax expenditure estimates does not take into account interactions between individual provisions.