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WASHINGTON, D.C. 20548

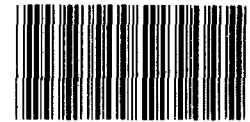
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PROGRAM ANALYSIS
DIVISION

B-207548

JULY 21, 1982

The Honorable Ed Bethune
House of Representatives



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Dear Mr. Bethune:

Subject: Information on Programs Primarily Benefiting
Business (GAO/PAD-82-40)

This letter is in response to your request for information about programs that benefit business, including spending programs, credit programs, and tax expenditures. As agreed with your office, we based our response on information readily available to us. We did not develop additional information on regulatory benefits or make out-year estimates. In April, we gave your staff a listing of spending programs from our Legislative, Authorization, Program, and Budget Information System (LAPIS) program information data base so that he would have the information in time for Budget Committee action.

Our information shows that in fiscal year 1983, spending and credit programs will be reduced substantially from fiscal 1982 levels, mostly because of reductions in some large programs directed toward business. On the other hand, tax expenditures directed toward business will be increased, largely as a result of the Economic Recovery Tax Act of 1981.

SPENDING PROGRAMS

In fiscal year 1983, spending programs directed primarily toward business will receive about 30 percent less budget authority than they did in fiscal year 1982, according to information we developed from the GAO LAPIS program information data base. We identified 277 programs receiving a total of \$5.8 billion in budget authority in fiscal year 1983, down from a level of \$8.4 billion in fiscal 1982. Following are the major changes in budget authority from fiscal year 1982 to fiscal year 1983. (These are also shown in table 1.)

--reducing Export-Import Bank activities to \$2.7 billion from a level of \$4.0 billion,

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- lowering energy research activities that primarily benefit business to \$1.3 billion from a level of \$2.0 billion,
- decreasing Small Business Administration programs to a level of \$357 million from a level of \$542 million, and
- dropping Economic Development Administration programs to \$15 million from \$217 million.

Table 1

Summary of Spending Programs by Agency
(Budget authority dollars in millions)

	<u>FY 1982</u>	<u>FY 1983</u>	<u>Increase/ Decrease (-)</u>
Department of Agriculture	\$ 563	\$ 422	\$ -141
Department of Commerce (Economic Development Administration)	2,506 (217)	1,597 (15)	-909 (-202)
(Energy Research and Technology Administration)	(2,018)	(1,345)	(-673)
Department of the Interior	126	146	20
National Aeronautics and Space Administration	474	486	12
Export-Import Bank	3,971	2,685	-1,286
Small Business Administration	542	357	-185
Other agencies	<u>214</u>	<u>99</u>	<u>-115</u>
Total	\$ <u>8,396</u>	\$ <u>5,792</u>	\$ <u>-2,604</u>

CREDIT PROGRAMS

The fiscal year 1983 budget has less credit for business than was available in fiscal 1982. We identified 11 programs providing credit to business. According to Congressional Budget Office information, in fiscal year 1983, these programs will provide \$17.0 billion in direct loans and loan guarantees, only

85 percent of the amount provided in 1982. 1/ (See table 2 for a breakdown of the credit programs.)

Table 2

Summary of Credit Programs a/
(dollars in millions)

	<u>FY 1982</u>	<u>FY 1983</u>	<u>Increase/ Decrease (-)</u>
Export-Import Bank	\$12,400	\$11,830	\$ -570
NASA Satellite Leases	206	171	-35
Biomass Energy Development	700	--	-700
Geothermal and other Energy Sources	42	62	20
Small Business Disaster Loans	646	440	-206
Other Small Business Assistance	3,862	3,404	-458
Aid to Railroads	279	2	-277
Aircraft Purchase Loan Guarantees	56	--	-56
Assistance to Ocean Shipping	700	625	-75
Rural Development Insurance Fund	1,080	430	-650
Economic Development Assistance	<u>80</u>	<u>--</u>	<u>-80</u>
Total	<u>\$20,051</u>	<u>\$16,964</u>	<u>\$ -3,087</u>

a/These totals are direct loan obligations plus loan guarantee commitments net of guaranteed loans held as direct loans by the Federal Financing Bank.

The Export-Import Bank, which helps finance exports by U.S. firms to foreign purchasers, provides well over half of Federal credit support for business. In 1983, the Export-Import Bank plans to provide \$11.8 billion in credit, 4.6 percent less than the previous year. The Administration intends to reduce the number of qualified borrowers by raising eligibility criteria.

1/See Congressional Budget Office, "Federal Credit Activities: An Overview of the President's Credit Budget for Fiscal Year 1983;" and Office of Management and Budget, Special Analysis F. We also consulted with the Congressional Research Service of the Library of Congress.

Large decreases for fiscal year 1983 are planned for rural development insurance programs and small business programs. Rural development insurance credit will be \$430 million in fiscal year 1983, a decrease of 60 percent from fiscal 1982. The Administration plans to make no new rural development loans for industrial development. The only new loans will be for water and waste disposal systems and community facilities programs. Small Business Administration disaster assistance loans are projected at a fiscal year 1983 level of \$440 million, also more than 30 percent below fiscal 1982 levels. Other Small Business credit programs will drop to \$3.4 billion in fiscal year 1983 from a fiscal year 1982 level of \$3.8 billion, a decrease of 12 percent.

Some smaller credit programs benefiting business will be eliminated in fiscal year 1983. The Department of Energy biomass energy development guarantee program (\$700 million in fiscal year 1982) will be ended. The aircraft purchase loan guarantee program in the Federal Aviation Administration (\$56 million in fiscal year 1982) is also proposed for termination. All loan programs of the Economic Development Administration (\$80 million in fiscal year 1982) will also be ended.

TAX EXPENDITURES

We estimate that tax expenditures directly benefiting business will be higher in fiscal year 1983 than in fiscal year 1982. Because of how tax expenditures are estimated, it is not easy to compute the cumulative effect of a series of tax expenditures. Each tax expenditure is computed on the assumption that all other tax provisions will remain unchanged, and there is no allowance for the interactive effect of two or more tax provisions.

Using the GAO LAPIS tax expenditure file, which is currently based on Office of Management and Budget data, we identified 29 tax expenditures that primarily benefit business. We also used data from the Joint Committee on Taxation to identify two other tax expenditures for business. ^{1/} Of the 31 tax expenditures that we identified, 6 were estimated to produce fiscal year 1983 revenue losses smaller than in 1982, 15 were estimated to be 100 to 112 percent over fiscal year 1982 levels, and 10 were estimated to produce 1983 revenue losses of more than 112 percent of 1982 levels. (The estimated revenue losses are shown in table 3.)

Most of the 10 tax expenditures estimated to increase more than 112 percent from fiscal year 1982 to 1983 are fairly small. Only four of the 10 are estimated to produce revenue losses of more than \$300 million dollars in fiscal 1983. Five of the tax expenditures with high rates of increase have estimated revenue losses of less than \$120 million in fiscal year 1983.

^{1/}Joint Committee on Taxation, "Estimates of Federal Tax Expenditures for Fiscal Years 1982-1987," March 8, 1982.

Table 3

Summary of Large Tax Expenditures Benefiting Business
(dollars in millions)

	Estimated Revenue Loss		
	<u>FY 1982</u>	<u>FY 1983</u>	<u>Increase/ Decrease (-)</u>
Investment Credit	\$20,035	\$20,150	\$ 115
Accelerated depreciation on equipment other than leased property <u>a/</u>	6,455	10,705	4,250
Reduction on first \$100,000 of corporate income <u>b/</u>	5,680	6,280	600
Expensing of exploration and development, oil and gas	4,065	4,530	465
Safe Harbor Leasing Provisions	3,560	3,945	385
Excess of percentage over cost depletion, oil and gas	1,965	1,695	-270
Exclusion of interest on State and local development bonds	1,650	2,185	535
Capital gains, other than agriculture, timber, iron, ore, and coal, paid by corporations <u>c/</u>	1,495	1,710	215
Deferral of income by domestic international sales corporation	1,456	1,490	25

a/ Designated a tax expenditure by the Joint Committee on Taxation but not by the Office of Management and Budget. Revenue loss estimated by Joint Committee on Taxation.

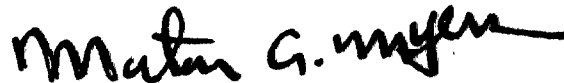
b/ Designated a tax expenditure by the Joint Tax Committee but not by the Office of Management and Budget. Revenue loss estimated by Office of Management and Budget.

c/ Revenue loss estimated by Joint Committee on Taxation.

One large and rapidly growing tax expenditure has created disagreement between the Office of Management and Budget and the Joint Committee on Taxation. The disagreement has occurred over the accelerated depreciation provisions contained in the Economic Recovery Tax Act of 1981. The Office of Management and Budget regards the depreciation rates as part of the normal tax structure and therefore does not include it as a tax expenditure. In contrast, the Joint Committee on Taxation lists the accelerated depreciation provisions as a tax expenditure with an estimated revenue loss of \$10.7 billion in 1983, over 165 percent of the 1982 level.

We will be happy to meet with you or a member of your staff to discuss the information in this letter. Besides the listing of spending programs that we provided earlier, we are also giving your staff a listing of tax expenditure activities of benefit to business from our LAPIS tax expenditure file.

Sincerely yours,



Morton A. Myers
Director