

MEMORANDUM

9/2/86 Tue 11:10:56

TO: WILLIAM CANNELL  
FROM: FRED PANZER  
SUBJECT: STATE IMPACT OF F.E.T.

*Rec'd 4:30 PM  
9.2*

We would like your help in fighting the potential increase in the federal cigarette tax with a series of state-tailored news releases.

They would report the tax hike that some Members of Congress want to impose on the (blank) number of smokers in (blank) state, thus raising the price from (blank) to (blank), a jump of (blank) per cent.

In addition, the news release would reveal that the federal tax hike together with the state and local taxes that are already imposed brings the tax bite to (blank) per cent of the retail price of a pack of cigarettes. It would go on to detail the total tax take of (blank) million dollars from the (blank) thousand of adults in the state who happen to smoke.

Ed Battison and Paula Duhaime could provide the facts and figures on a state-by-state basis.

Attached is an example of how this sort of tailored news release was used recently to fight a proposal to increase an excise tax on imported oil.

Please let me know if we can count on their help.

Attachment

cc: Ed Battison  
Paula Duhaime  
William Kloepfer  
Peter Sparber

12.31

*Kan Samson*  
838-1798

FOR RELEASE MONDAY, SEPTEMBER 15, 1986

**EXCISE TAXES HIT THE POOR HARDEST,  
NEW STUDY RELEASED BY COALITION CONFIRMS**

Families earning less than \$10,000 pay more than triple their share of some federal excise taxes, according to a new study released by the Coalition Against Regressive Taxation (CART).

In contrast, families with more than \$100,000 of income pay a smaller share of these taxes than the poorest families pay.

"These facts highlight the folly of boosting excise taxes when Congress is trying to lower tax burdens on low- and middle-income Americans," commented CART President Thomas J. Donohue, who is also president and CEO of the American Trucking Associations.

CART, an alliance of companies and associations representing a broad range of industries affected by excise taxes, released a report entitled "An Analysis of the Regressivity of Excise Taxes." The report was prepared by an independent, national economic consulting firm, Policy Economics Group, based in Washington, DC.

Policy Economics analyzed federal excise taxes on tobacco, gasoline, beer, wine, and distilled spirits paid by various income and demographic groups. Charts depicting the tax burden for each product are attached. Shares of federal income and social security taxes were also computed.

Only the income tax was found to be progressive--that is, the higher the income, the bigger the share of income that is paid in taxes. All of the excise taxes were regressive: the share of each tax paid by lower income taxpayers was higher than their share of total income, while higher income taxpayers paid less of the taxes than their income warrants.

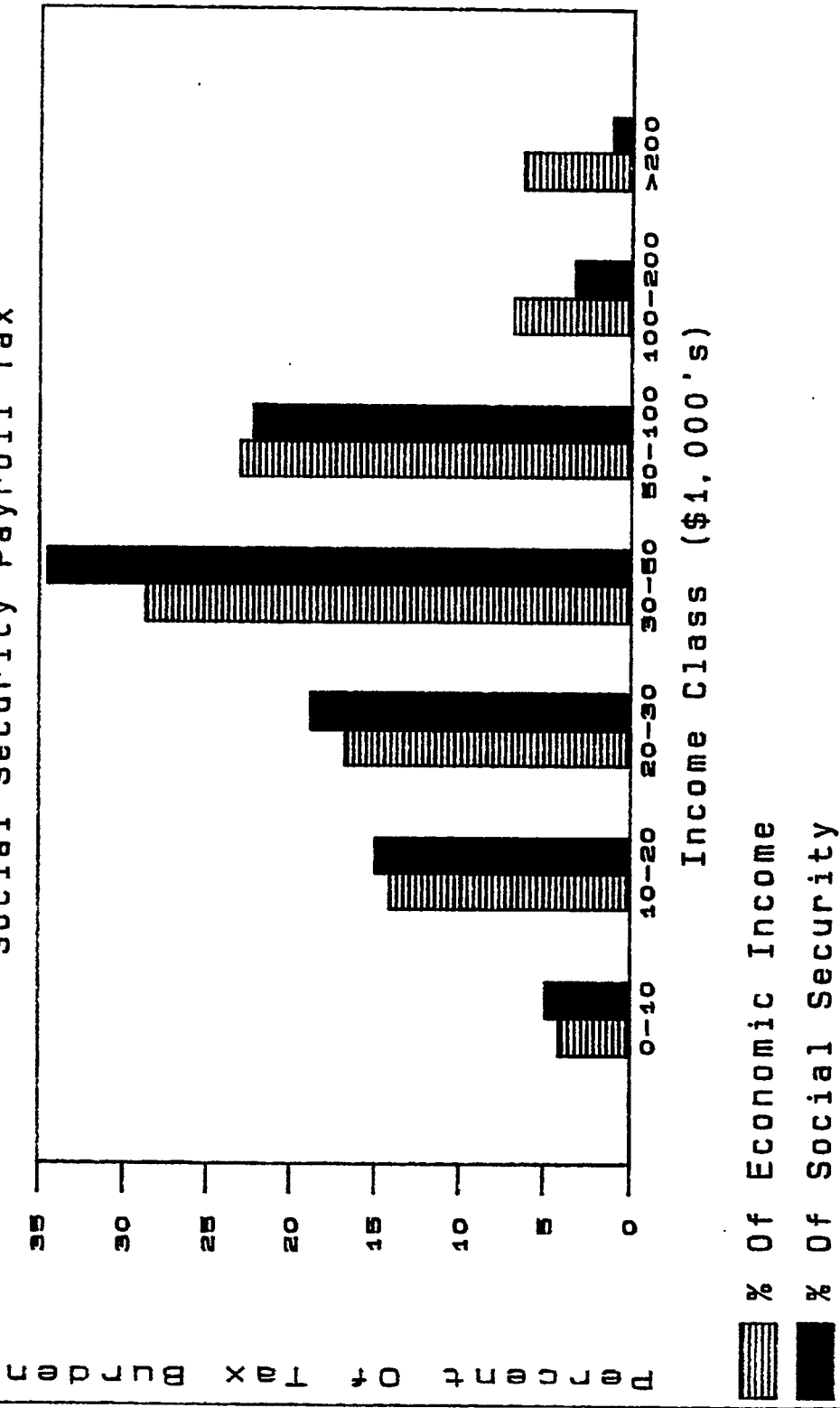
"Hiking excise taxes would fall more heavily on the poor as well as to workers and small-business owners in a wide variety of industries. This study makes it plain that Congress should leave excise taxes alone if it is truly concerned about providing relief to poor and middle-income Americans," warned Donohue.

NOTE: The full study, as well as an earlier analysis of the impact of ending deductibility of excise taxes that CART released in April, are available from CART, at 301/565-5184.

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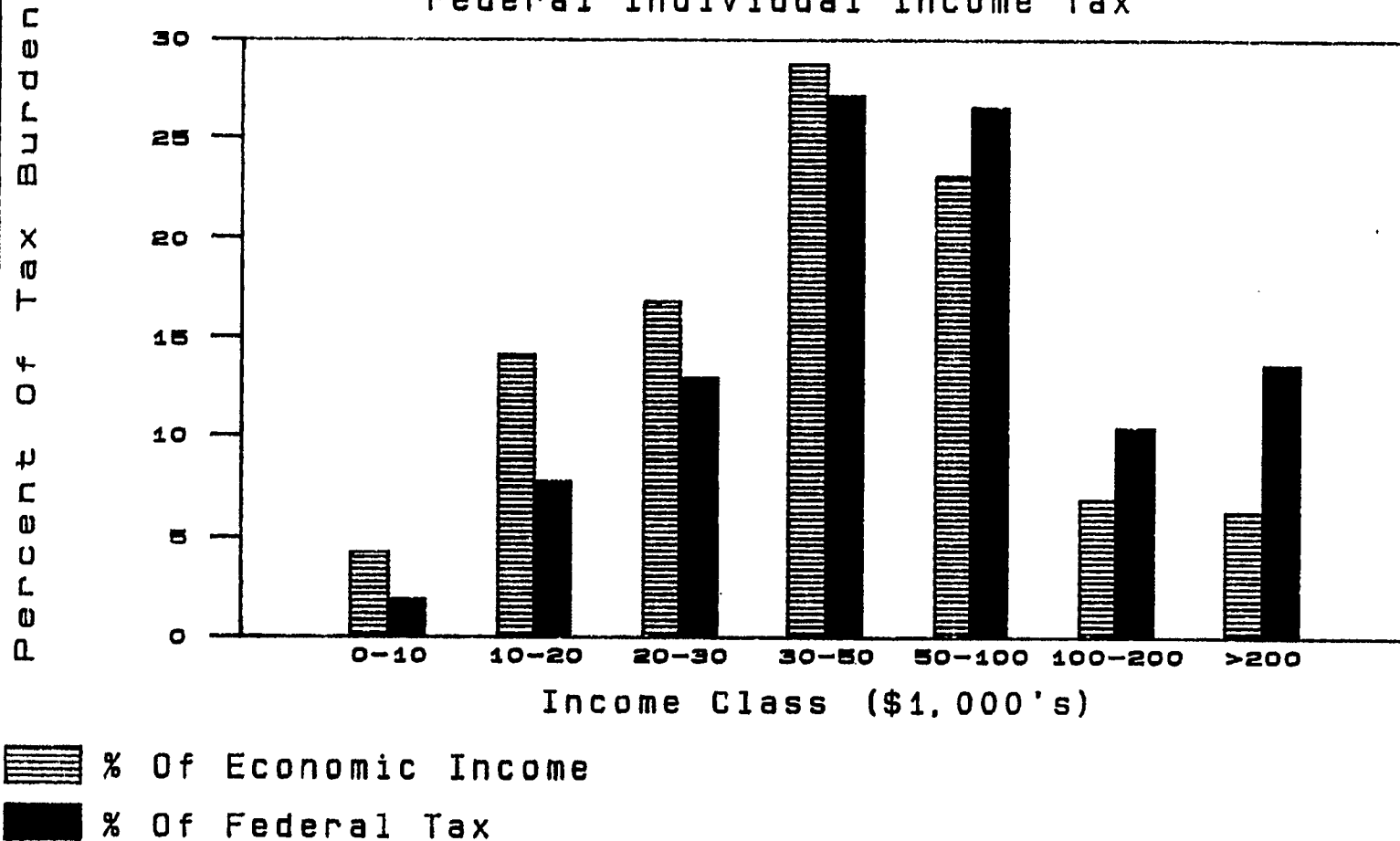
# Tax Burden Absorbed by Each Income Class

Social Security Payroll Tax



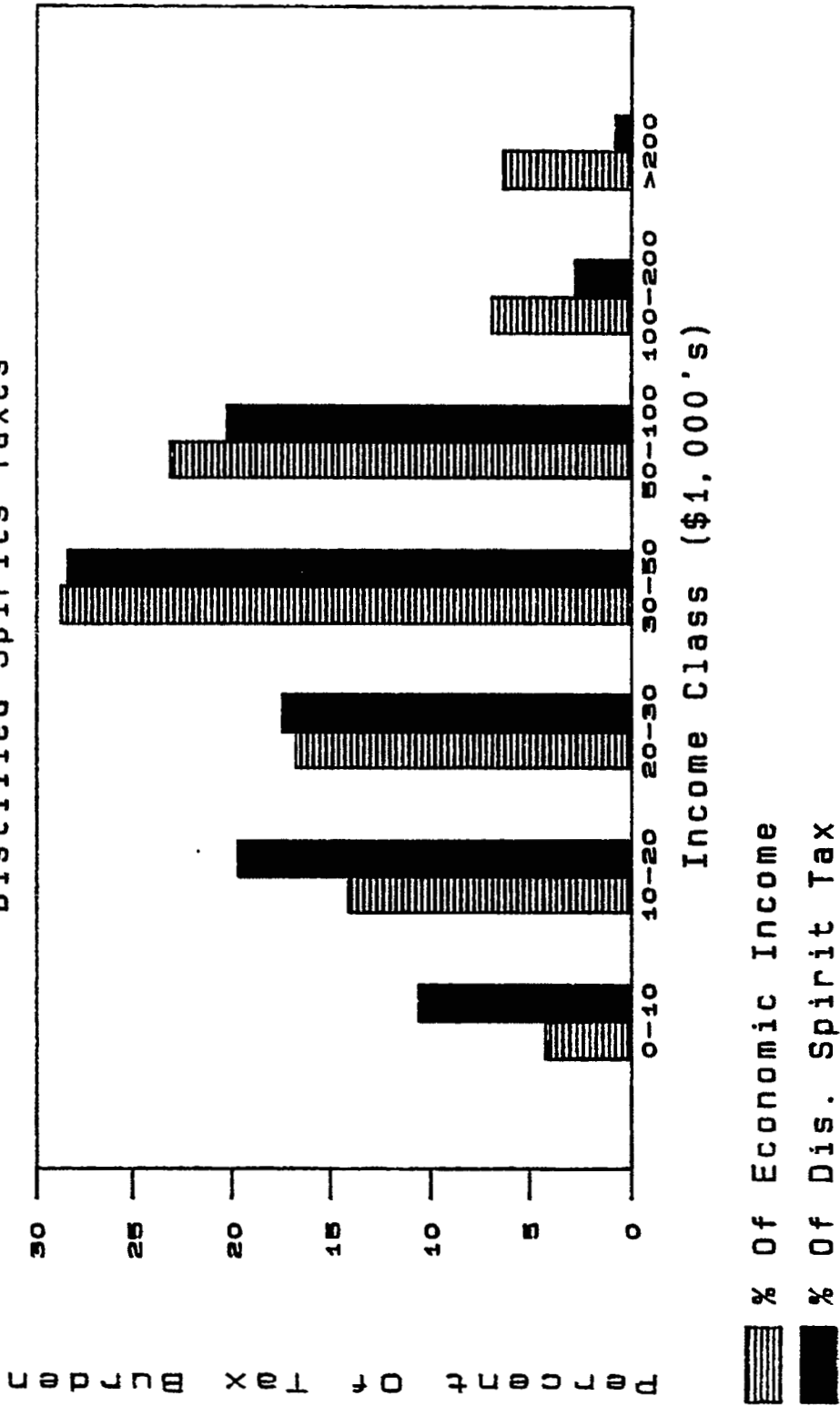
# Tax Burden Absorbed by Each Income Class

## Federal Individual Income Tax



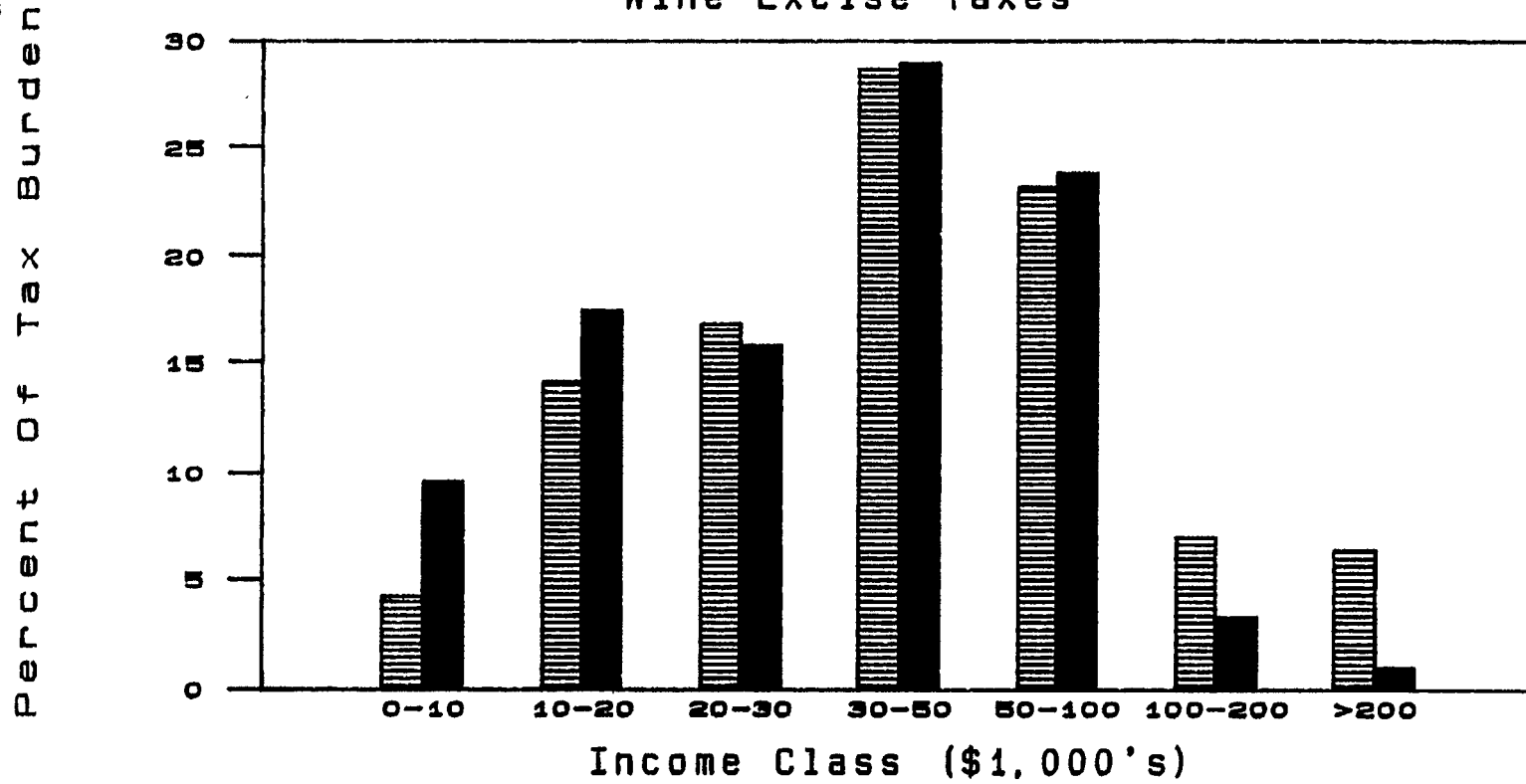
# Tax Burden Absorbed by Each Income Class



## Distilled Spirits Taxes



# Tax Burden Absorbed by Each Income Class

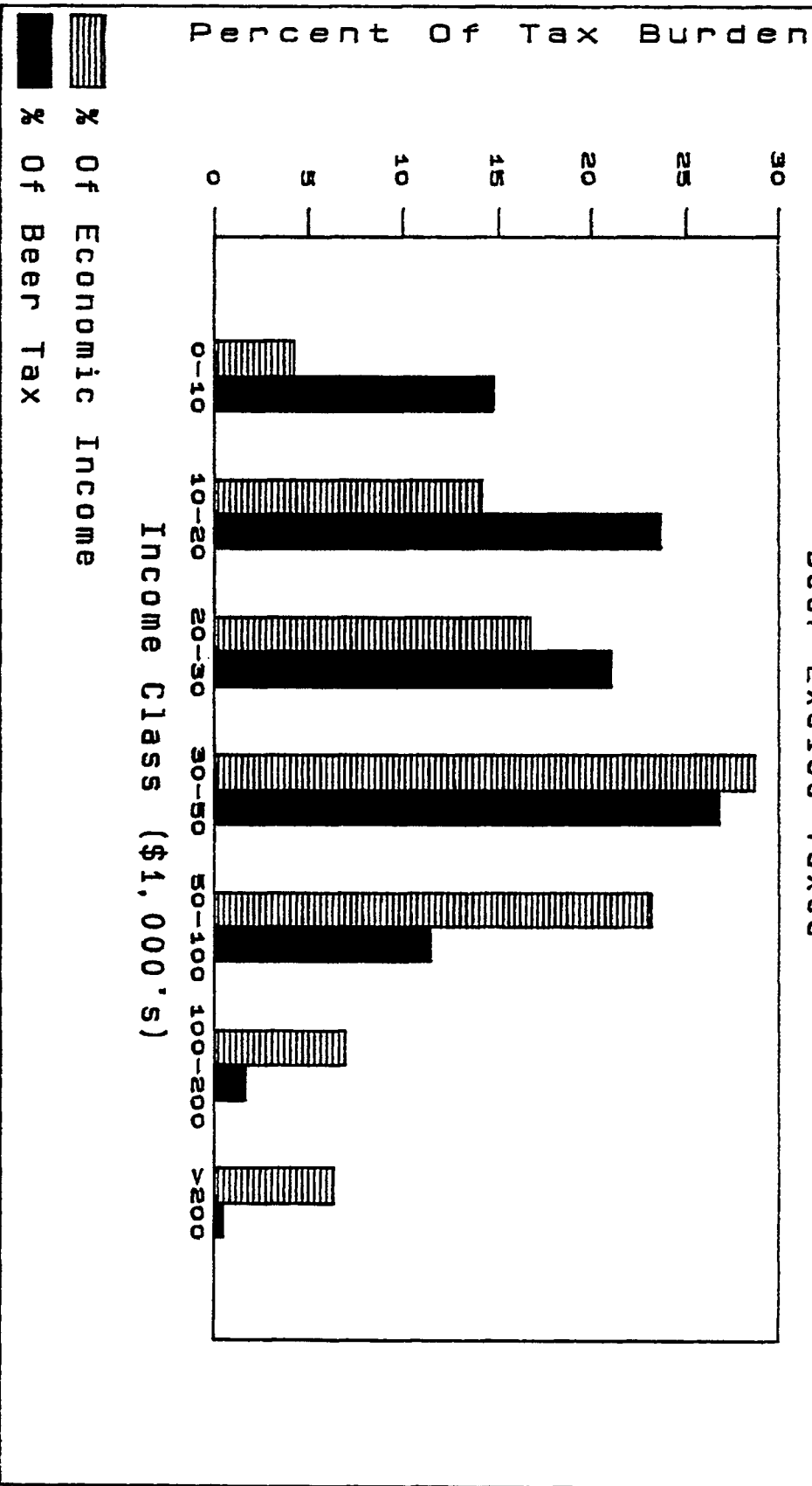
## Wine Excise Taxes



 % Of Economic Income  
 % Of Wine Tax

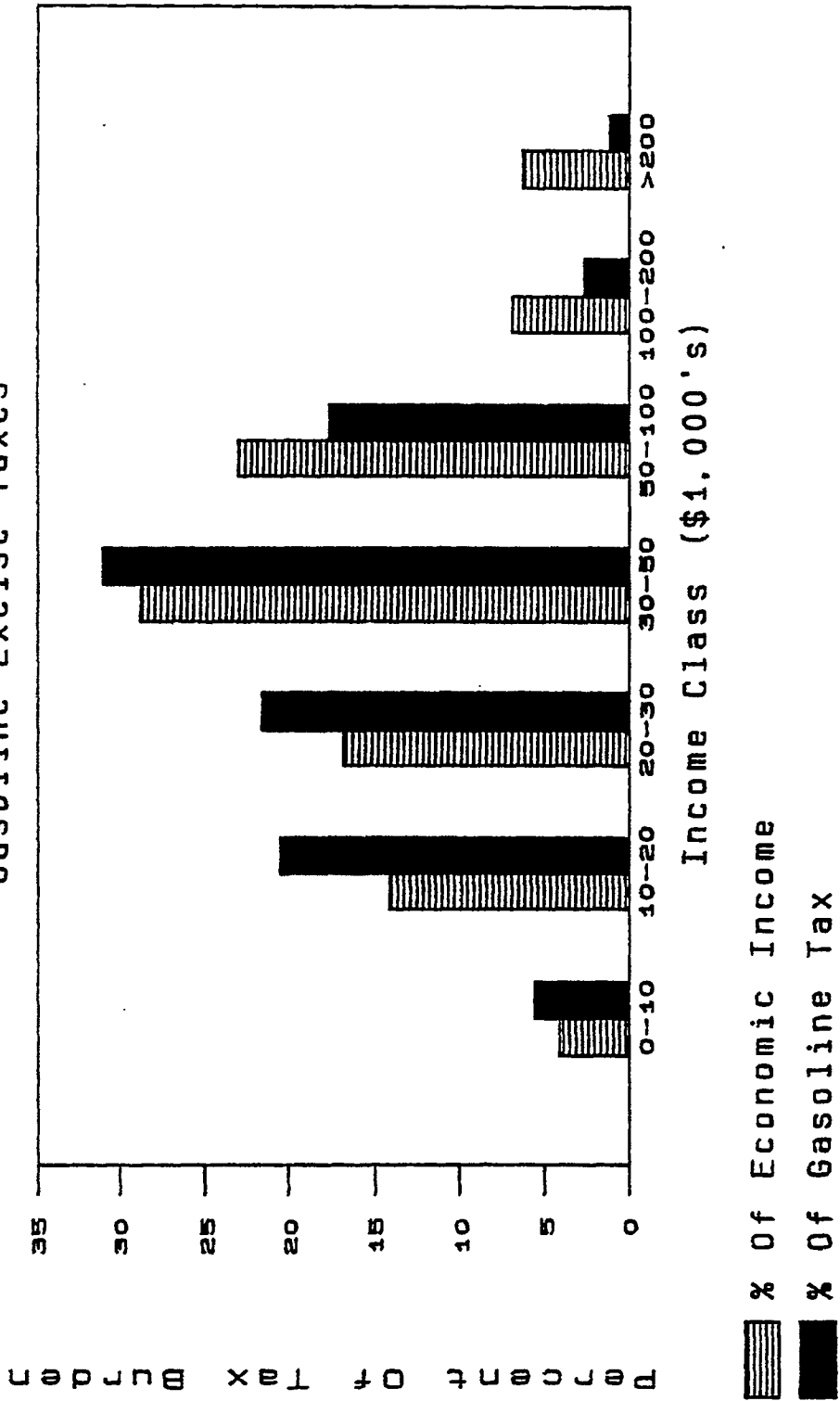
# Tax Burden Absorbed by Each Income Class

## Beer Excise Taxes



# Tax Burden Absorbed by Each Income Class

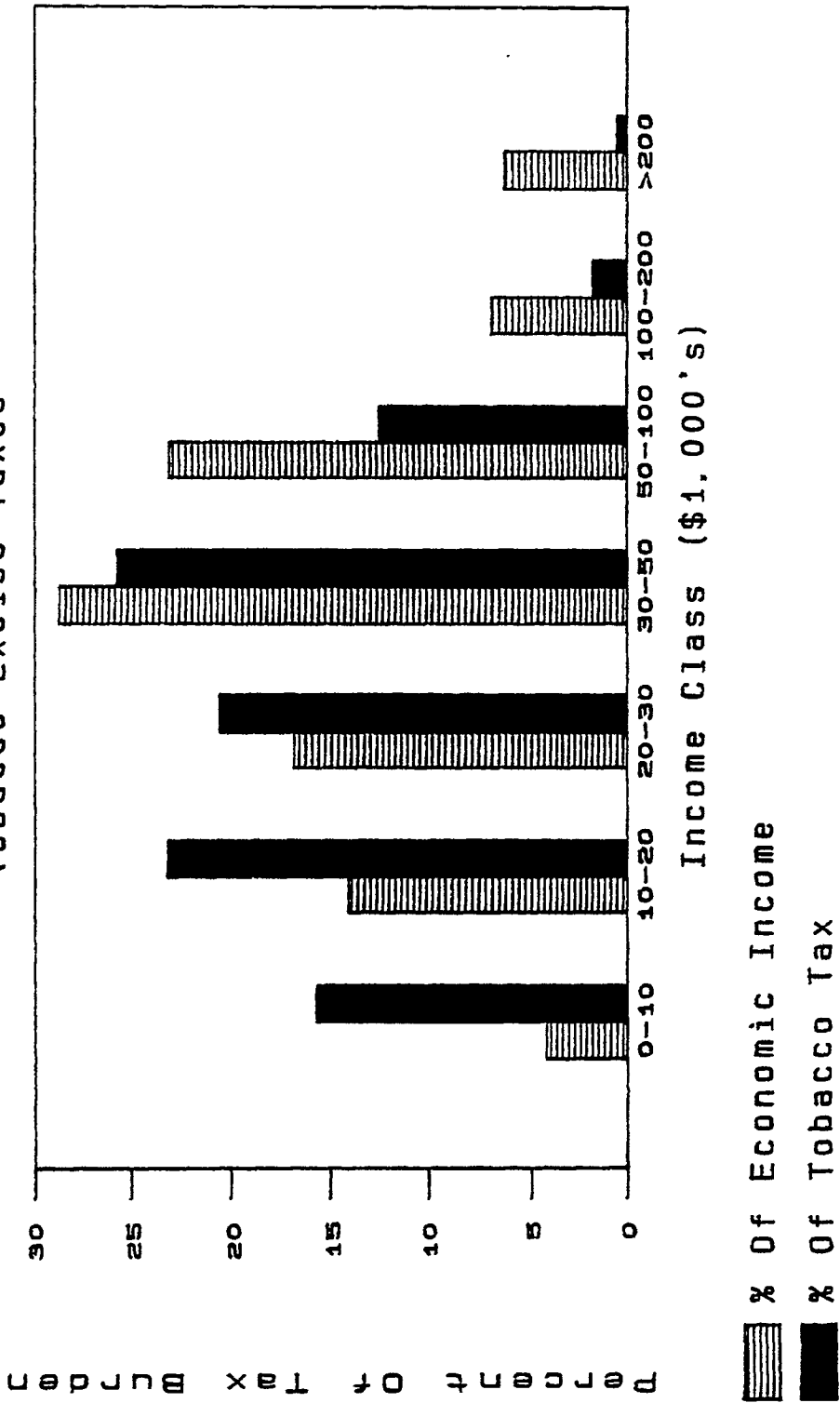
## Gasoline Excise Taxes





# Tax Burden Absorbed by Each Income Class

## Tobacco Excise Taxes



GRASS  
ROOTS  
Report to  
SDC  
P Lewis  
PS

*Full - Advertising  
& Consumption*

sumers' switching over time to cigarettes from other forms of tobacco consumption, the large unexplained shift down in actual cigarette consumption in the last decade is eliminated, and with it, the large residuals to be explained by the ban.

Given the trivial effect of advertising on aggregate cigarette consumption, governmental prohibition of broadcast cigarette advertising could not have had any significant effect in terms of reducing demand. Instead, we find that the policy actually increased demand, producing detrimental effects on both social health and consumer welfare. The decrease in the quantity and effectiveness of advertising expenditures produced by the ban is likely to have lowered the quality (utility) of cigarettes consumed by making it more costly for consumers to buy the "advertising services" they demand. In addition, the decrease in advertising expenditures appears to have led to a lower (non-quality-adjusted) cigarette price and hence to increased consumption. Further, the ban increased consumption via the elimination of the antismoking commercials. Finally, the ban substantially increased the cost to firms of introducing new low-tar brands and the cost to consumers of obtaining information about these newer brands, thus slowing down the movement to these lower-tar cigarettes.

Our results indicate that in the post-1971 period consumers continued to respond to the health dangers associated with smoking. By 1978, per capita tobacco consumption was nearly 50 per cent lower than it would have been in the absence of the 1953 and 1964 health reports. The government-imposed ban on cigarette advertising only slowed down this significant movement by consumers away from smoking.

#### APPENDIX

##### DATA SOURCES

**C** Per capita consumption of cigarettes, domestic and overseas forces, population aged 14 and older (number). (1) Tobacco Situation, No. 113, Sept. 1965 (U.S. Dep't Agriculture, Econ., Stat. & Co-operatives Service); *id.*, No. 147, March 1974; *id.*, No. 163, March 1978; *id.*, No. 173, Sept. 1980. (2) U.S. Bureau of the Census, Historical Statistics, Series A29-42; Annual Estimates of the Population by Age: 1900-1970. (3) Current Population Reports, Series P-25, Nos. 614, 645, and 875 (U.S. Bureau of the Census).

**P** Retail price index for cigarettes deflated by the consumer price index for all commodities. (1) Neil H. Borden, *The Economic Effects of Advertising* (1944). (2) Consumer Price Index, Price Indexes for Selected Items and Groups, 1935-1961

(U.S. Dep't of Labor, Bureau of  
terly Price Indexes for Selected  
(U.S. Dep't of Labor, Bureau of  
sumer Price Indexes for Selected  
1965, December 1965-December  
Congress Pursuant to the Federal  
(6) U.S. Department of Commer-  
Economic Growth, 1860-1970. (7)  
(various issues, 1970-1975).

**A** Advertising stock, created using  
William H. Nicholls, Price Policies  
Schmalensee, *The Economics of*  
issues). (4) Printer's Ink (various  
to Congress Pursuant to the Federal  
1970, 1975, 1977, 1978. (6) Lead  
tising Investments, 1948-1967. (7) In  
tising Investments, 1945-1948.

**F** Market share of filter cigarettes  
Agriculture, Econ., Stat. & Co-  
Trade Commission, Report to Con-  
ing and Advertising Act (1978).

**L** Market share of low tar cigarette  
Report to Congress Pursuant to the  
Act (1978). (2) Maxwell Associat  
(Virginia, 1977).

**D<sub>F</sub>** Antismoking commercials (num  
World Conference on Smoking an  
Education Council, 1971).

**P<sub>T</sub>** Tobacco price index deflated by  
(1) Ada Beney, *Cost of Living in*  
1936). (2) U.S. Department of La  
996. (3) U.S. Department of Lab  
Labor Statistics 1974. (4) Tobacco  
Agriculture, Econ., Stat. & Co-op  
sion, Report to Congress Pursuan  
tising Act (1978). (6) U.S. Depart  
sis, *Long Term Economic Growth*