

For review by legal counsel Remes

DRAFT

MEMORANDUM

May 19, 1995

TO: Brennan Dawson

FROM: Walter Woodson

SUBJECT: Tax Plans

---

Many within the Administration, in Congress and in state and local governments view tobacco tax increases as a politically appealing way to raise revenues to make up budget shortfalls or help fund programs ranging from health care reform to the building of sports facilities. There is no shortage of anti-tobacco groups, media elites and others willing to echo that message and suggest tobacco tax increases for projects of all stripes.

One of the industry's goals must be to illustrate to lawmakers, the media and the general public that tobacco taxes are not a proper or fitting funding solution. There are several programs in existence, in development or worth developing to help us achieve that goal. What follows is a look at several key objectives and how they might best be addressed.

### OBJECTIVE

*Ensure appropriate awareness of the problem of cross border and other tax avoidance sales of tobacco products.*

Current state tax rates range from a low of 2.5 cents/pack in Virginia to a high of 75 cents/pack in Michigan. On July 1, 1995, Washington becomes the highest tax state at 81.5 cents/pack. [See attachment for state-by-state breakdown] Wide ranging state tax rates, coupled with Native American tobacco sales, which are exempt from state tax rates, have led to increased bootlegging activity (criminal and "casual"), lost state revenues, financial losses to businesses that sell tobacco products, an underground economy, as well as a disrespect for law.

### **Strategies/Tactics**

A. Encourage a national study of the current state tax situation. For example, The Alexis de Tocqueville Institution (AdTI) should commission a study by the Auburn University economic group. The study would center its attention on the most glaring cross border areas, as well as other areas with significant populations such as the

following: Michigan; Arizona; California; Washington state; Washington DC; and New England (Massachusetts, Vermont, New Hampshire).

A key factor for study and promotion is the apparent trend that suggests cigarette sales are the same in a group of relatively low tax states (NC, KY, VA, TN, IN, NH, MO) with one-half the population of another group of relatively high tax states (CA, MI, NY, MA)

While AdTI appears to have a keen interest in this subject, several other groups might also be approached to look at the cross border situation: Tax Foundation, Citizens for a Sound Economy, Americans for Tax Reform (Grover Norquist), NFIB, CATO, ALEC, the Public Choice Group at George Mason University.

In addition to AdTI or other "think tanks," it may be prudent to encourage retailer and/or law enforcement groups as co-sponsors of the research.

After the research is completed, the researchers and sponsoring organization(s) should hold a press event. The story should be pitched nationally, with special emphasis on the preparation and placement of op-eds in the *Wall Street Journal*, the *Washington Times* and in areas of the country where the effects are particularly dramatic.

AdTI members would author the WSJ and WT op-eds. Local economists could be enlisted to author op-eds in other areas of the country. Consideration should be given to establishing a formal AdTI Economic Cross Border Advisory Group of economists so that there is a pool of geographically diverse economists on hand and prepared to deliver the message.

Data from many of the high tax states will not be available in significant detail until later in the year. For example, the Vermont tax increase does not go into effect until July 1st; the same day the Washington state rate goes from 56.5 to 81.5 cents/pack. For this reason, as well as for utmost usefulness with state legislators, it is recommended that the study be released and promoted in either the last quarter of 1995 or early in the first quarter of 1996.

B. In addition to media opportunities, the cross border message should be delivered to state lawmakers, preferably by their retailer constituents or by law enforcement officials through letters and personal visits. Key districts in key states should be identified in conjunction with State Activities experts. Identification of appropriate allied spokespersons and proper education of retailers and other potential allies would be accomplished in conjunction with State Activities experts.

To help spread the message to state lawmakers, ALEC could be commissioned to produce a "white paper" on the subject and/or hold a seminar on cross border activity at one of its

Reports of quantity  
PM  
(including revenues  
groups?)  
include  
general  
media

How  
to supplement  
CO  
W

GAP

following: Michigan; Arizona; California; Washington state  
 England (Massachusetts, Vermont, New Hampshire).

A key factor for study and promotion is the apparent trend  
 the same in a group of relatively low tax states (NC, KY, V  
 one-half the population of another group of relatively high

While AdTI appears to have a keen interest in this subject,  
 also be approached to look at the cross border situation: T  
 Sound Economy, Americans for Tax Reform (Grover Norq  
 the Public Choice Group at George Mason University.

In addition to AdTI or other "think tanks," it may be prudent to encourage retailer and/or  
 law enforcement groups as co-sponsors of the research.

After the research is completed, the researchers and sponsoring organization(s) should  
 hold a press event. The story should be pitched nationally, with special emphasis on the  
 preparation and placement of op-eds in the *Wall Street Journal*, the *Washington Times*  
 and in areas of the country where the effects are particularly dramatic.

AdTI members would author the WSJ and WT op-eds. Local economists could be  
 enlisted to author op-eds in other areas of the country. Consideration should be given to  
 establishing a formal AdTI Economic Cross Border Advisory Group of economists so  
 that there is a pool of geographically diverse economists on hand and prepared to deliver  
 the message.

Data from many of the high tax states will not be available in significant detail until later  
 in the year. For example, the Vermont tax increase does not go into effect until July 1st;  
 the same day the Washington state rate goes from 56.5 to 81.5 cents/pack. For this  
 reason, as well as for utmost usefulness with state legislators, it is recommended that the  
 study be released and promoted in either the last quarter of 1995 or early in the first  
 quarter of 1996.

B. In addition to media opportunities, the cross border message should be delivered to  
 state lawmakers, preferably by their retailer constituents or by law enforcement officials  
 through letters and personal visits. Key districts in key states should be identified in  
 conjunction with State Activities experts. Identification of appropriate allied  
 spokespersons and proper education of retailers and other potential allies would be  
 accomplished in conjunction with State Activities experts.

To help spread the message to state lawmakers, ALEC could be commissioned to produce  
 a "white paper" on the subject and/or hold a seminar on cross border activity at one of its

Law groups?

CANADA

Focus on Rozelle

ALEC → perform  
 about 5000  
 where  
 organized  
 groups.

Chubbins / AdTI  
 Panels  
 meeting legislative  
 relevant committees

w

are

A)

Put  
 in  
 state  
 activities  
 meeting

How  
 re  
 rep

C Int

regular sessions. The message should also be shared with appropriate leaders of the NCSL and CSG. Consideration should be given to enlisting prominent former state lawmakers with tax/revenue committee backgrounds as spokespersons on this issue. It would be prudent to enlist the aide of two prominent lawmakers: one Republican and one Democrat.

C. Member company staff are currently devoting much time and many resources to the cross border situation. TI should work closely with member company representatives to ensure all resources and efforts are maximized.

### **OBJECTIVE**

*Diffuse the “social costs” arguments frequently raised by anti-tobacco zealots.*

Many of those favoring increases in federal and state excise taxes base their arguments on the so-called social costs of tobacco use. They maintain that tobacco use “costs” government significant revenues and those “costs” should be recouped from smokers through higher excise taxes on tobacco products. Legislative allies must be made to understand that this is a fallacious argument which, if followed by higher tobacco taxes, would lead to an unfair outcome.

### **Strategies and Tactics**

Illustrate that even if one buys off on the anti-smokers “social costs” concept, smokers are still subsidizing nonsmokers rather than the other way around.

A. Encourage Member(s) of Congress to request that the Congressional Research Service look into the so-called social costs of smoking. The results of such a CRS investigation should become the subject of one-minute speeches in the U.S. House, the subject of op-ed pieces authored by reputable economists and shared with all Members of Congress through one or a series of “dear colleagues” signed by at least a dozen Members. Members should be readied with responses to the likely counter dear colleagues by anti-tobacco MC’s.

The results also should be shared with state lawmakers through legislative representatives, op-eds, media tour programs. Media work outside Washington also should target areas where critical Members of Congress reside.

B. Through George Mason University’s Public Choice encourage further academic study of the “social cost” issue, in addition to any appropriate data from a CRS study. A network of economists could be used in key states and districts to get the message out through op-eds and other means. In the process, conduct focus group testing to see which

messages resonate most positively with the citizenry on the tax issue. These findings would be used in future tax related matters of all sorts.

## **OBJECTIVE**

***Ensure broad knowledge and understanding of the economic importance of tobacco to the U.S. economy.***

Within the next several weeks 1994 data on tobacco's contribution to the nation's economy will be available. That information should receive appropriate distribution from the best sources. In conjunction with the dissemination of the information, it should be made clear that unreasonable tax increases jeopardize tobacco's contribution.

### **Strategies/Tactics**

A. Through the Labor Management Committee encourage dissemination of the economic information. <sup>industry</sup> Get the word out that tobacco industry jobs support communities in ways that cannot be duplicated. Conduct a study of the Petersburg plant closing experience to illustrate the lack of other jobs at comparable salaries/benefits and the ineffectiveness of job retraining programs.

B. Through the agricultural community illustrate the inter-relationship between tobacco production and life in the rural Southeast. Use the Tobacco Ambassadors network and others to ensure wide dissemination of the economic bounty of tobacco. Emphasize the fact that crop diversification will not work. In addition, work through the Federation of Southern Cooperatives to show the special challenges black farmers face and how those challenges would be magnified if tobacco taxes were raised.

C. Through retailers, wholesalers, manufacturers and others show the importance of the industry to the economies of areas not normally considered "tobacco country."

D. Promote further understanding of the significant number of women and minorities working within the industry. Encourage CLUW, APRI, LCLAA and others to carry that message within their own communities and to lawmakers and the general public.

E. In these times of severe balance of trade deficits, place an emphasis on the fact that the export of tobacco and tobacco products provides one of the few bright spots on that front.

## **OBJECTIVE**

***There are numerous federal and state programs and projects that most people deem good and necessary and require funding through tax dollars. Ensure that lawmakers understand that tobacco taxes are inherently unstable and unfair to middle and lower income Americans.***

Health care reform, Medicare and Medicaid funding, deficit reduction, support for education are just the tip of the iceberg when it comes to federal and state programs many Americans deem as either advisable or essential. Present suitable funding alternatives and explain why tobacco tax increases are unwise and unfair.

### **Strategies/Tactics**

A. Continue to encourage Citizens for Tax Justice to point out the inequities within the "Contract with America," especially as they relate to tax cuts that could place additional pressure on the states to increase their taxes in FY 96 or beyond to meet the inevitable "unfunded mandates" that states will assuredly be asked to address.

Promote CTJ media appearances and the dissemination of CTJ's studies and reports on the subject of corporate loopholes and alternative sources of revenue. Encourage CTJ to articulate not only progressive alternatives, but also to point out the negative, regressive and unfair nature of excise taxes. Prepare and disseminate documents showing that increased excises could more than wipe out other gains or benefits for low or middle income persons.

Through the Economic Policy Institute or similar group illustrate the unstable nature of excise taxes as a reliable source of funding. Keep the issue before the public by using the EPI report as the basis for op-eds.

B. Encourage agricultural allies to go to their lawmakers and the media to tell the story about the unfairness of tobacco taxes. Note that federal excise increases will disproportionately hurt those in the Southeast. Encourage minority farming leaders to make their case within their own communities, to their lawmakers and before the general public through print and electronic media pieces.

C. At the state level continue to work through the LMC with Citizen Action, CTJ and seniors' groups to promote reasonable progressive tax alternatives to fund health care and other needs and/or to stave off excise increases which are called for by those seeking such things as property tax relief.

**OBJECTIVE**

*There are numerous federal and state programs and projects good and necessary and require funding through tax dollars. Understand that tobacco taxes are inherently unstable and income Americans.*

*Budget grows?  
Revenue analysis?*

Health care reform, Medicare and Medicaid funding, deficit education are just the tip of the iceberg when it comes to federal programs many Americans deem as either advisable or essential. Present alternatives and explain why tobacco tax increases are unwise.

**Strategies/Tactics**

A. Continue to encourage Citizens for Tax Justice to point out the inequities within the "Contract with America," especially as they relate to tax cuts that could place additional pressure on the states to increase their taxes in FY 96 or beyond to meet the inevitable "unfunded mandates" that states will assuredly be asked to address.

Promote CTJ media appearances and the dissemination of CTJ's studies and reports on the subject of corporate loopholes and alternative sources of revenue. Encourage CTJ to articulate not only progressive alternatives, but also to point out the negative, regressive and unfair nature of excise taxes. Prepare and disseminate documents showing that increased excises could more than wipe out other gains or benefits for low or middle income persons.

Through the Economic Policy Institute or similar group illustrate the unstable nature of excise taxes as a reliable source of funding. Keep the issue before the public by using the EPI report as the basis for op-eds.

B. Encourage agricultural allies to go to their lawmakers and the media to tell the story about the unfairness of tobacco taxes. Note that federal excise increases will disproportionately hurt those in the Southeast. Encourage minority farming leaders to make their case within their own communities, to their lawmakers and before the general public through print and electronic media pieces.

C. At the state level continue to work through the LMC with Citizen Action, CTJ and seniors' groups to promote reasonable progressive tax alternatives to fund health care and other needs and/or to stave off excise increases which are called for by those seeking such things as property tax relief.

D. As appropriate, encourage the Consumer Tax Alliance to point out the unfair nature of excise and to offer alternative funding sources, such as through taxes on private health care plans as deemed acceptable by a recent court decision regarding ERISA. Messages of these types could be delivered by CTA through direct mail, media campaigns and other means.

E. There has been talk about changing the mix of the CPI. Commission a study to illustrate what tobacco tax increase might mean for the CPI as currently formulated or as reformulated. Ensure that Members of Congress understand the results and potential inflationary consequences.

F. Encourage dissemination of information on the effects of a large federal tax with regard to smuggling from Mexico and elsewhere. This information could be made a part of the cross border study or prepared as a separate research project under the banner of an appropriate group.

(ANNEX)