

April 18, 1986

The Honorable Bob Packwood  
Chairman, Committee on Finance  
United States Senate  
Washington, D.C. 20510

Dear Mr. Chairman:

We appreciate the fact that you have decided to hold hearings on the excise tax provisions of the proposed tax legislation pending before the Committee on Finance. We oppose those excise tax increases, including those that would result indirectly by the elimination of the excise tax deduction, and request that our letter be included in the hearing record.

The economic reality is that excise taxes are not borne by the corporations who collect those taxes and pay them to the Federal Government. Rather, there is clear evidence that excise taxes are paid by consumers. In some instances the excise tax is directly reflected in the cost to consumers. In other instances -- the various excise taxes paid by the trucking industry are good examples -- the excise taxes become an indirect cost of products on which an excise tax is not applied directly. Of course some products are affected both directly and indirectly.

It is also true that excise taxes are inflationary since they result in price increases without any inherent increase in the value of goods purchased.

In addition, the fundamental regressivity of excise taxes has long been an accepted fact. Recent studies that show how lower income families will lose more of their income tax cut to increase excise taxes than higher income individuals confirm this well established economic reality. Moreover, the fact that excise taxes on such luxury items as furs and jewelry have been repealed exacerbate the unfairness of seeking revenue by raising the remaining excise taxes.

For these reasons, we oppose the provisions of the mark-up vehicle that would repeal the deduction for excise taxes and tariffs, that would raise wine excise taxes, and that would index various excise taxes to future price increases.

We know that the Committee will receive vast amounts of detailed testimony on this issue, including general comments and other comments more specifically directed to the affected industries. Our purpose in writing is not simply to add to a substantial hearing record. Rather, we felt you should be aware of our feelings on this matter so that the efforts of the Committee on Finance to fashion a major tax bill may take into account the view of some of us in the House on this issue.

Obviously we are pleased that the House-passed tax bill did not increase excise taxes. In the end, the purposes for which you and so many others have labored so long to overhaul the tax code could be lost by seeking to use excise tax increases as the device through which we pay for lower tax rates.

Thank you for considering our views, which we hope you will share with your colleagues on the Committee.

Yours very truly,

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