PHILIP MORRIS COMPANIES INC.

WASHINGTON RELATIONS OFFICE

TAX AND BUDGET BRIEFING

May 6, 1993

Prepared for:

Bob Reese

PHILIP MORRIS COMPANIES INC.

BUDGET AND TAX BRIEFING

MAY 6, 1993

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FEDERAL BUDGET PICTURE

Table 2-4.
The Budget Outlook Through 2003 (By fiscal year)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
						In Billions of Dollars					
Revenues	1,143	1,215	1,291	1,356	1,414	1,482	1,540	1,600	1,664	1,733	1,804
Outlays											
Discretionary	547	539	539	554	569	584	600	616	633	650	668
Mandatory											
Social Security	302	319	335	351	368	385	403	420	439	459	480
Medicare	146	167	188	211	234	259	286	316	350	389	432
Medicaid	80	92	105	118	131	146	162	179	198	219	240
Civil Service and Military Retirement	61	64	67	71	75	79	82	85	89	93	97
Other	180	175	171	163	176	182	187	192	197	203	208
Subtotal	770	816	866	913	984	1,051	1,119	1,193	1,274	1,362	1,457
Deposit insurance	3	10	11	-1	-14	-10	-9	-10	-10	-9	-9
Net interest	198	211	231	250	270	292	314	339	368	400	437
Offsetting receipts	-65	-68	-72	-73	-76	-78	-81	-84	-87	-91	-94
Total	1,453	1,507	1,575	1,643	1,733	1,839	1,943	2,055	2,178	2,312	2,458
Deficit	310	291	284	287	319	357	404	455	513	579	653
Deficit Excluding Deposit Insurance	307	282	273	288	333	367	413	465	523	589	663
Debt Held by the Public	3,290	3,585	3,874	4,169	4,496	4,863	5,275	5,739	6,261	6,850	7,512
						As a Percentage of GDP					
Revenues	18.5	18.7	18.8	18.8	18.7	18.8	18.8	18.7	18.7	18.7	18.7
Outlays											
Discretionary	8.9	8.3	7.9	7.7	7.5	7.4	7.3	7.2	7.1	7.0	6.9
Mandatory											
Social Security	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	5.0
Medicare	2.4	2.6	2.7	2.9	3.1	3.3	3.5	3.7	3.9	4.2	4.5
Medicaid	1.3	1.4	1.5	1.6	1.7	1.9	2.0	2.1	2.2	2.4	2.5
Civil Service and Military Retirement	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other	2.9	2.7	2.5	2.3	2.3	2.3	2.3	2.2	2.2	2.2	2.2
Subtotal	12.5	12.5	12.6	12.7	13.0	13.3	13.7	14.0	14.3	14.7	15.1
Deposit insurance	a	0.1	0.2	a	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Net interest	3.2	3.2	3.4	3.5	3.6	3.7	3.8	4.0	4.1	4.3	4.5
Offsetting receipts	-1.1	-1.0	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Total	23.5	23.2	23.0	22.8	23.0	23.4	23.7	24.1	24.5	24.9	25.4
Deficit	5.0	4.5	4.1	4.0	4.2	4.5	4.9	5.3	5.8	6.2	6.8
Deficit Excluding Deposit Insurance	5.0	4.3	4.0	4.0	4.4	4.7	5.0	5.4	5.9	6.3	6.9
Debt Held by the Public	53.3	55.1	56.5	57.9	59.6	61.8	64.4	67.2	70.3	73.8	77.6

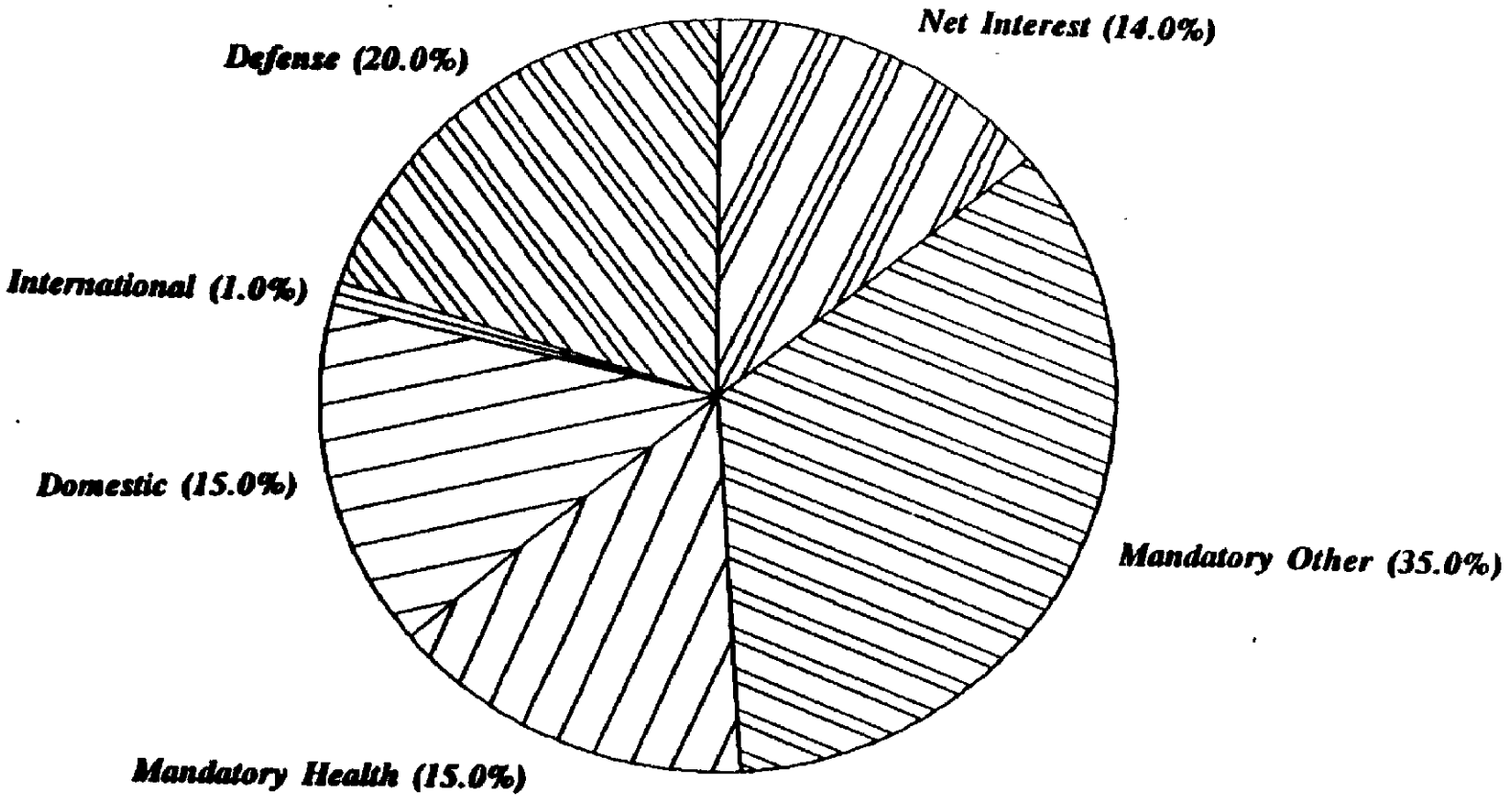
SOURCE: Congressional Budget Office.

a. Less than 0.05 percent of GDP.

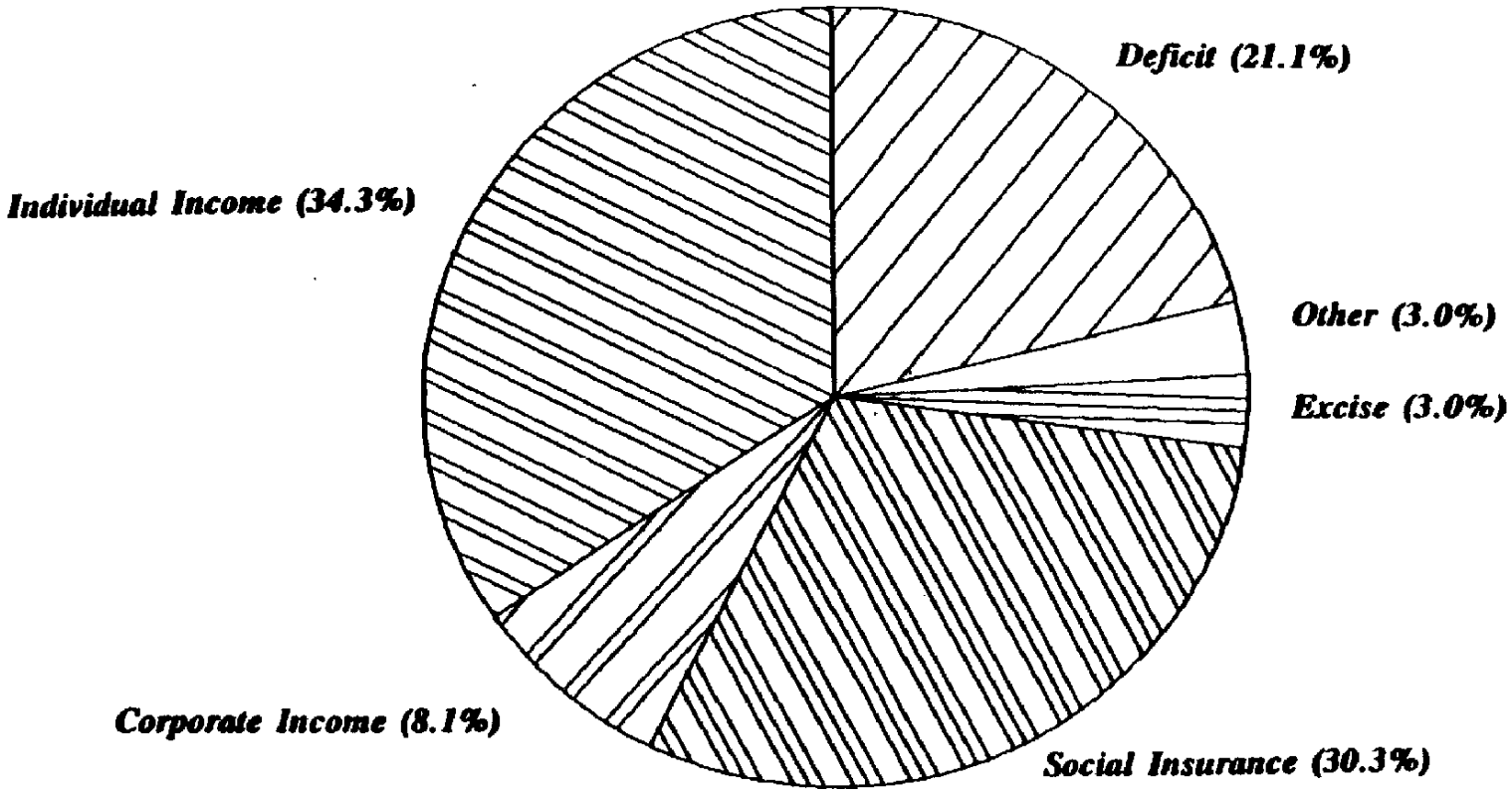
Published by THE BUREAU OF NATIONAL AFFAIRS, INC., Washington, D.C. 20037

RECEIPTS AND OUTLAYS

Federal Spending by Category : FY1993



Federal Funding by Source : FY1993



IMPORTANT DATES

IMPORTANT DATES IN FISCAL 1994 BUDGET PROCESS

DATE	*ACTION*
Jan. 5	New Congress convenes; President Bush expected to submit a budget package to Congress
Jan. 13-14	Senate Governmental Affairs holds confirmation hearings for OMB Director-designate Rep. Leon Panetta (D-Calif)
Jan. 20	Presidential Inauguration
Jan. 21	President required to notify Congress of optional adjustment to maximum deficit amounts for FY 1994-95
Jan. 26	Anticipated release of CBO's Economic and Budget Outlook for FY 1994-98
Feb. 1	Statutory deadline for President's budget submission and OMB's FY 1994 sequestration preview report
Feb. 10	Anticipated release of CBO's annual publication on deficit reduction options
April 15	Statutory deadline for adoption of the congressional budget resolution for FY 1994
July 15	OMB submits mid-session budget review
Aug. 15	CBO submits FY 1994 budget update
Aug. 20	OMB submits FY 1994 sequestration update
Oct. 1	Fiscal 1994 begins
10 days after end of session	CBO submits final FY 1994 sequestration of report
15 days after end of session	OMB submits final FY 1994 sequestration report; president issues any necessary sequestration order
45 days after end of session	GAO submits compliance report

B

CLINTON PROPOSALS

Joint Committee on Taxation
May 4, 1993
JCX-2-93
PRELIMINARY

ESTIMATED BUDGET EFFECTS OF THE ADMINISTRATION'S REVENUE PROPOSALS CONTAINED IN THE FISCAL YEAR 1994 BUDGET (1)

Fiscal Years 1994-1998

[Millions of Dollars]

Provision	Effective	1994	1995	1996	1997	1998	1994-98
I. REVENUE-RAISING PROVISIONS							
A. Individual Income and Estate and Gift Tax Provisions							
1. Increase tax rates paid by high-income individuals (2)..... [a.] Add fourth bracket at 36% rate for taxable income over $140,000 (joint), $127,500 (head of household), $115,000 (single). [b.] Impose a 10% surtax on regular taxable income over $250,000 (not applicable to capital gains). [c.] Increase minimum tax rate to 26% for AMTI of less than $175,000 and 28% for AMTI over $175,000; increase AMTI exemption to $45,000 (joint) and $37,500 (single). [d.] Extend itemized deduction limitation and personal exemption phaseout scheduled to expire for 1996 and 1997, respectively.	1/1/93	25,937	17,288	20,371	24,509	26,351	114,455
2. Repeal Health Insurance (HI) wage base cap (3).....	1/1/94	2,750	6,030	6,374	6,808	7,200	29,161
3. Reinstate top estate and gift tax rates at 53% and 55%.....	1/1/93	475	512	553	598	647	2,785
4. Reduce deductible portion of business meals and entertainment from 80% to 50%.....	1/1/94	1,839	3,151	3,315	3,478	3,636	15,420
5. Deny deduction for club dues.....	1/1/94	134	229	239	250	261	1,112
6. Deny deduction for executive pay over $1 million.....	1/1/94	43	56	59	78	108	345
7. Reduce compensation that can be taken into account for purposes of benefits and contributions under qualified retirement plans to $150,000 in 1994 (1993 cap is $235,840).....	1/1/94	174	542	555	556	556	2,383
8. Disallow moving expense deduction for meals and real estate expenses.....	1/1/94	36	362	381	407	442	1,627
9. Increase taxable portion of Social Security and Railroad Retirement Tier 1 benefits.....	1/1/94	2,859	6,104	6,891	7,683	8,462	31,998

Provision	Effective	1994	1995	1996	1997	1998	1994-98
B. Provisions Affecting Businesses							
1. Increase corporate tax rate to 36% for taxable income above $10 million (phaseout benefit of 34% rate beginning at $15 million) (2)	1/1/93	8,510	5,417	5,677	5,942	6,147	31,694
2. Deny deduction for lobbying expenses	tyba 12/31/93	105	179	188	197	203	873
3. Require securities dealers to mark-to-market	tyeo/a 12/31/93	845	814	824	835	572	3,890
4. Prohibit double-dip related to FSLIC assistance (4)	3/4/91	142	92	2	172	254	661
5. Extend corporate estimated tax rules	1/1/97	--	--	--	4,301	884	5,185
6. Limit section 936 credit to 60% of compensation	tyba 12/31/93	111	526	1,575	2,320	2,314	6,846
7. Enhance "earnings stripping" rules	tyba 12/31/93	65	80	85	90	95	415
C. Provisions Affecting International Businesses							
1. Repeal deferral for excessive accumulated foreign earnings	tyba 9/30/93	72	150	180	192	204	798
2. Royalties in passive basket of foreign tax credit; 100% R&E allocation	tyba 12/31/93	151	770	628	639	646	2,835
3. Revise foreign tax credit for oil and gas and shipping income	tyba 12/31/92	638	451	473	497	522	2,581
4. Transfer pricing compliance initiative (enhanced penalty provision)	tyba 12/31/93	75	75	75	75	75	375
D. Energy and Motor Fuels Provisions							
1. Modified BTU tax	6/1/94	1,990	9,997	16,191	20,437	21,929	70,544
2. Extend 2.5 cents/gallon motor fuels tax (1/1/95 - 9/30/99); transfer revenues to Highway Trust Fund	10/1/95	--	--	2,595	2,670	2,651	7,916
3. Increase inland waterways fuel tax	1/1/94	19	91	195	289	323	917
E. Compliance Provisions							
1. Service industry non-compliance initiative	1/1/94	27	91	97	102	106	423
2. Raise standard for accuracy-related and preparer penalties	1/1/94	--	--	--	--	--	...
3. Modified substantial understatement penalty	1/1/94	86	108	104	97	88	484
4. Increase enforcement of harbor maintenance tax (5)	1/1/94	--	3	9	11	12	35
F. Miscellaneous Revenue-Raising Provisions							
1. Substantiation and disclosure of charitable contributions (6)	1/1/94	9	60	64	68	72	273
2. Expand 45-day interest rule for certain refunds (outlays) (3)	1/1/94	44	64	64	64	64	300
3. Deny business travel deductions for spouse and dependents on non-business travel	1/1/94	2	20	21	23	24	90
4. Increase withholding rate on bonuses to 28%	1/1/94	188	9	10	10	11	228
G. Other Provisions							
1. Permanent extension of tax information access for Department of Veterans Affairs	10/1/97	--	--	--	--	136	136

Provision	Effective	1994	1995	1996	1997	1998	1994-98
2. BATF user fees for alcohol labeling and formula applications (3)	10/1/93	5	5	5	5	5	25
3. Permanent extension of vaccine excise tax	4/1/93	181	124	124	124	124	676
TOTAL REVENUE-RAISING PROVISIONS		**47,512**	**53,400**	**67,924**	**83,527**	**85,124**	**337,486**
II. REVENUE-REDUCTION PROVISIONS							
A. Training and Education							
1. Extend employer-provided educational assistance permanently (7)	7/1/92	-641	-490	-520	-552	-586	-2,789
2. Targeted jobs tax credit and youth apprenticeship program:							
a. Extend targeted jobs tax credit permanently	7/1/92	-287	-308	-363	-410	-452	-1,819
b. Youth apprenticeship credit	1/1/94	-14	-52	-106	-171	-236	-580
B. Investment Incentives							
1. Temporary incremental tax credit for large businesses and permanent investment tax credit for businesses with gross receipts under $5 million	ppisa 12/3/92	-12,875	-6,586	-3,631	-3,274	-4,003	-30,370
2. Extend research and experimentation credit permanently	7/1/92	-2,219	-1,569	-1,878	-2,151	-2,391	-10,208
3. Targeted capital gains incentives for investment in small businesses	1/1/93	-17	-124	-206	-276	-329	-952
4. Modify AMT depreciation schedule	ppisa 12/31/93	-433	-1,507	-2,212	-1,959	-1,906	-8,017
5. Exempt high-speed rail bonds from private activity bond caps	1/1/94	-4	-17	-35	-57	-68	-182
6. Extend small-issue manufacturing and agricultural bonds permanently	7/1/92	-17	-33	-48	-61	-71	-230
C. Expand Earned Income Tax Credit (EITC) (8)	1/1/94	-397	-4,328	-7,571	-7,860	-8,180	-28,336
D. Real Estate Investment Provisions							
1. Extend mortgage revenue bonds permanently	7/1/92	-70	-137	-194	-242	-280	-924
2. Extend low-income housing credit permanently	7/1/92	-376	-601	-945	-1,305	-1,672	-4,899
3. Provide passive loss relief for real estate professionals	1/1/94	-261	-471	-436	-491	-578	-2,237
4. Facilitate pension investments in real estate	1/1/94	-36	-46	-49	-54	-59	-245
5. Increase recovery period for non-residential real property to 37 years	1/1/94	15	110	323	567	908	1,922
E. Other Provisions							
1. Extend AMT treatment of gifts of appreciated property to charities permanently	(9)	-100	-77	-78	-80	-82	-417

Provision	Effective	1994	1995	1996	1997	1998	1994-98
2. Extend General Fund transfer to railroad retirement fund permanently	(3)	*No Revenue Effect*					
3. Extend 25% deduction for self-employed health insurance through 12/31/93	7/1/92	-566	--	--	--	--	-566
F. Customs Overtime Pay Provision (Oversight Subcommittee) (3)	10/1/93	18	18	18	18	18	90
G. Empowerment Zones	1/1/94	-562	-944	-992	-1,016	-1,036	-4,550
TOTAL REVENUE-REDUCTION PROVISIONS		**-18,842**	**-17,162**	**-18,923**	**-19,374**	**-21,003**	**-95,309**
NET TOTAL - REVENUE INCREASE		**28,670**	**36,238**	**49,001**	**64,153**	**64,121**	**242,177**

Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

Legend for "Effective" column: ppisa = property placed in service after
tyba = taxable years beginning after
tyeo/a = taxable years ending on or after

(1) Revenue estimates are provided based on information on the proposals from the U.S. Treasury Department; however, all estimates are subject to change.

(2) Effective 1/1/93, but no penalties for underwithholding or estimated tax in 1993.

(3) Estimate for this provision provided by the Congressional Budget Office (CBO).

(4) Because the provision to prohibit double-dipping by thrifts receiving Federal financial assistance affects both Federal revenues and outlays, the net budget effects of this proposal are included in this table. The estimate includes an increase in outlays of $136 million in 1994, a decrease of $14 million in 1995, an increase of $29 million in 1996, an increase of $95 million in 1997, and an increase of $109 million in 1998. According to CBO, Budget Act requirements may prohibit counting this provision for pay-as-you-go purposes.

(5) Subject to passage of legislation to appropriate funds from the Harbor Maintenance Trust Fund. Estimate does not include effect on outlays.

(6) Substantiation requirement for charitable contributions in excess of $750; disclosure related to quid pro quo contributions.

(7) FICA portion of estimate (on budget): $176 million for 1994, $193 million for 1995, $204 million for 1996, $217 million for 1997, and $230 million for 1998; HI portion (off budget): $40 million for 1994, $44 million for 1995, $47 million for 1996, $49 million for 1997, and $52 million for 1998.

(8) Estimate includes outlays of $339 in 1994, $3,735 in 1995, $6,895 in 1996, $7,191 in 1997, and $7,518 in 1998.

(9) Effective for contributions of tangible personal property made after June 30, 1992, and for contributions of all property made after 1992.

KEY TAX ISSUES

ADVERTISING DEDUCTIBILITY

THE WHITE HOUSE

WASHINGTON

April 23, 1993

Members of the Advertising
Tax Coalition
Suite 810
1101 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Friends:

Thank you for writing and for sending your thoughtful analysis of the effect of advertising cost deduction limitations.

In the economic package I proposed to Congress, I included numerous provisions that boost long-term investment, create economic growth, and help make American business more competitive in the global economy.

Currently I am not planning to propose any limit on any types of advertising cost deductions. However, I appreciate hearing your concerns on this issue.

Sincerely,

Bill Clinton

2077415228

ADVERTISING TAX COALITION

American Advertising Federation
American Association of Advertising Agencies
Association of National Advertisers
Direct Marketing Association
Grocery Manufacturers of America
Magazine Publishers of America
National Association of Broadcasters
National Newspaper Association
Newspaper Association of America
Yellow Pages Publishers Association

April 15, 1993

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

As the leaders of the associations representing the advertising and media communities, we are writing to express our concern over the growing number of proposals to tax advertising. We particularly are concerned about comments from Office of Management and Budget Director Leon Panetta that your administration is willing "to work with the Congress in putting forward" a proposal to limit some advertising cost deductions. We urge you, in the strongest terms, to reject any proposal to limit the deduction of advertising costs on an across-the-board, or product specific basis.

We support your administration's commitment to the revival of our country's stagnant economy, and your efforts to help create new jobs and businesses. Advertising plays a central role in selling goods and services in any market economy, which in turn helps create jobs. We believe it would send exactly the wrong signal to American businesses to urge them to hire new employees, expand their operations, and then announce plans to tax one of their primary marketing tools. Making the selling process more expensive will hurt business, hurt sales, and undermine job creation in this country.

Advertising Promotes Competition In Our Economy

We all firmly believe that advertising performs an indispensable role in a vibrant and growing economy. To help demonstrate this fact, in 1990 we asked two Nobel prize winning economists, Dr. Kenneth Arrow and the late Dr. George Stigler, to examine the role of advertising in our economy and to evaluate the basis for proposals to limit this business expense deduction. Stigler and Arrow affirmed in their report that advertising is a powerful tool of competition that provides valuable information about products and services in an efficient and cost-effective manner. In this way, advertising helps the economy to function smoothly, it keeps prices low, and it facilitates the entry of new products and new businesses into the marketplace. Drs. Stigler and Arrow also reviewed the literature on the deduction of advertising costs and concluded that "proposals to change the tax treatment of advertising are not supported by the economic evidence."

Despite these facts, there are some in this country who would tax advertising just because they believe it is another way to raise revenue without calling it a tax increase. Others suggest that we tax those forms of advertising that promote a product or service that the government does not like in an effort to discourage or silence non-conforming messages. Critics who favor product specific limitations on advertising deductions often describe these deductions as a government subsidy of advertising, or even an endorsement of specific products that are advertised. *This deduction is no more a subsidy of advertising than any other business expense deduction is a subsidy of the cost of rent, lighting, pencils, paper, or employee salaries.*

1101 Pennsylvania Avenue, N.W., Suite 6810, Washington, D.C. 20004
202-638-1101 Fax: 202-638-1108

Government Does Not Endorse Every Advertised Product

Moreover, it is foolish to claim, as some do, that the government gives its imprimatur to every product or service that any business advertises. This view suggests that the ordinary business expense deduction for advertising costs represents a Federal government endorsement of breakfast cereals, automobiles, family restaurants, airline companies, and every other advertised product or service.

Last year, the Senate defeated an amendment 56-38, which would have limited the deduction for the cost of tobacco advertising and marketing. The debate on that amendment has invited a parade of proposals to tax other forms of speech that offend different groups -- a vivid testimonial to the reason why limits on tobacco advertising deductions represent the first step on a long and slippery slope. One group now is asking to impose the same type of limits on alcohol advertising and all marketing programs aimed at children. More recently, Senate critics of the pharmaceutical industry have advocated limits on the amounts prescription drug manufacturers can deduct as a business expense as one response to increased product marketing costs.

Targeting Products for Tax Punishment Undermines Freedom of Speech

If the federal government can deny, on a selective basis, the business expense deduction for every printed or broadcast message that does not meet with governmental approval, we will undermine the principle of freedom of expression, which is one of the greatest strengths of our political system.

Such a policy will not stop with tobacco products, alcohol products, children's advertising, or pharmaceutical products. If the opponents of any product are successful in limiting the deduction of its advertising costs, it will be like pouring gasoline on a fire. Everyone who is offended by any product or service will attempt to limit the deduction of their advertising costs.

We firmly believe that it is both unwise and unconstitutional to attempt to deny the business expense deduction of advertising for specific products, because it singles out a specific form of speech and, because of its content, attempts to suppress it. Moreover, we are joined in that view by both the American Civil Liberties Union and the Washington Legal Foundation, along with a number of constitutional scholars.

In the 19th Century, advertising helped establish the economic and political independence of the American press, freeing it from the control of the government and political parties. Newspapers in this country might have remained little more than newsletters for urban political factions or government owned enterprises without the growth of advertising as a means to finance their operations and maintain their independence.

Advertising not only has helped assure the independence of the American media, it has helped produce its diversity. From 1975 to 1988, the number of new media outlets in this country has expanded dramatically, offering our citizens a broad range of competing viewpoints and a rich array of information and entertainment choices.

During the recent recession, however, a good deal of this progress has been reversed. Many media outlets have been forced to close, or to substantially cut back their operations, because of a decline in advertising revenues. A tax on any form of advertising could deepen the recession in the advertising and media industries.

We urge you in the strongest terms to reject any effort to tax advertising and other forms of commercial speech. We would welcome the opportunity to discuss these vital issues with you directly.

Respectfully,

Wallace S. Snyder
President
American Advertising Federation

Donald D. Kummerfeld
President
Magazine Publishers of America

Harold A. Shoup
Executive Vice President and Director
American Association of Advertising Agencies

Edward O. Fritts
President and Chief Executive Officer
National Association of Broadcasters

DeWitt F. Helm, Jr.
President
Association of National Advertisers

Frank W. Gerard
Chairman
National Newspaper Association

Jonah Gitlitz
President
Direct Marketing Association

Cathleen Black
President and Chief Executive Officer
Newspaper Association of America

C. Manly Molpus
President and Chief Executive Officer
Grocery Manufacturers of America

James C. Logan, Jr.
President
Yellow Pages Publishers Association

2077415231

G★M★A
GROCERY MANUFACTURERS OF AMERICA

MEMORANDUM

TO: GMA Washington Representatives
GMA-WRC

FROM: Mary Sophos
Senior Vice President, Government Affairs

DATE: April 20, 1993

RE: Advertising Tax Coalition Hill Meetings

The Advertising Tax Coalition is in the process of setting up grassroots meetings with targeted members of the House Ways & Means and Senate Finance Committees. These office visits will be arranged on Mondays and Fridays to coincide with the Members' district schedules. If you are interested in participating in any of these meetings, please complete the information below and return to my office by fax (202) 337-4508 as soon as possible. Note: the meeting with Mike McNulty has been scheduled for Friday, April 23rd.

- ☐ Charlie Rangel (D-NY) ✓
- ☐ Pete Stark (D-CA) ✓
- ☐ Harold Ford (D-TN)
- ☐ John Lewis (D-GA) ✓
- ☐ Lewis Payne (D-VA) NO
- ☐ Richard Neal (D-MA) ?
- ☐ Peter Hoagland (D-NE) NO
- ☐ Mike McNulty (D-NY) NO

Chris Cleveland

2077415232

1010 Wisconsin Avenue, N.W. ★ Suite 900 ★ Washington, D.C. 20007 ★ 202/337-9400 ★ FAX: 202/337-4508

LEO BURNETT COMPANY, INC.
OFFICE MEMO

Confidential

April 22, 1993

TO:	Mike Breslin	- 34	Michael Conrad	- 22
	Tom Dudreck	- 19	Rick Fizdale	- 22
	Roger Haupt	- 22	Jim Jenness	- 25
	Bill Lynch	- 22	Jim Oates	- 22
	Kerry Rubie	- 22	Jack Smith	- 22
	Ella Strubel	- 22	Pete Volz	- 19
cc:	Carolyn Daniels	- 34	Kathy Ring	- 34
	Judy Pyke	- 34	Patty Siebert	- 34
FROM:	Carla R. Michelotti	- 34		

Re: **Meeting with Representative Daniel Rostenkowski (D-IL)**

On behalf of the Chicago Advertising Federation, we coordinated a meeting with Chairman Dan Rostenkowski on April 15, 1993 at the offices of Helene Curtis.

In attendance at the meeting were representatives of leading Chicagoland advertisers, agencies and media. Present were:

Ron Gidwitz, President & CEO of Helene Curtis Inc.
Irv Koppel, Director of Government Affairs, Helene Curtis Inc.
Joe Cappo, Vice President and Group Publisher, Crain Communications, Inc.
Jim Oates, Chairman, Leo Burnett U.S.A.
Tom Buerger, Midwest Sales Manager, Sports Illustrated
Kathleen Spear, Vice President & Deputy General Counsel, Kraft General Foods
Steve McNeely, President, Patrick Media Group, Inc.
Jeff Dixon, Senior Vice President of Public Affairs, Patrick Media Group, Inc.
Clark Hine, Vice President of Advertising and Marketing Communications, The Quaker Oats Company
Carla Michelotti, Senior Vice President and Director of Government Affairs, Leo Burnett Company, Inc.

The meeting lasted for over an hour and a half. Key arguments in opposition to changing the tax treatment for advertising expenses were presented. Particularly emphasized was the fact that according to the Penner Lilley study the Chicagoland area would stand to lose more jobs than any other commercial center if the tax treatment of the advertising expenses were to be changed. Chairman Rostenkowski seemed surprised to hear that Chicago (rather than Madison Avenue, New York) has more jobs potentially jeopardized if legislation affecting advertising were imposed.

Our group was able to successfully present the arguments supporting the importance of advertising. We explained that advertising is the necessary fuel to help make the economy grow.

The bottom line: Chairman Rostenkowski understood the issues, appreciated the audience and asked twice whether everyone in the room was really from Chicago. He seemed somewhat surprised and pleased that everyone was from the Chicagoland area. He also seemed surprised to learn that Chicago was the economic center of advertising for this country. He told us that he would "help us". He told us that he had not heard anything about any proposals to change the tax treatment of advertising expenses. At some length he encouraged us by saying that he was not hearing much about such proposals. We told him that certainly he would know more than us and that's why we needed to talk to him as our representative in Congress.

The advertisers in the room each expressed concern about any category specific proposal regarding tax deductibility. Although such proposals may be pharmaceutical, tobacco or alcohol specific, the concern was expressed that to the extent such legislative attempts would be precedent setting, such efforts may quickly be expanded to reach other advertising categories.

We discussed the benefit advertising has on media growth, and the importance of advertising to manufacturers in order to introduce new products and encourage product innovation in the marketplace.

In summary, there was a very positive atmosphere in the room. We were encouraged that the Chairman reported that he had not been lobbied by either side about changing the tax treatment of advertising expenses to date.

The most ominous comment from the Chairman was about the reality of his role. He is in fact, according to him, a "revenue raiser". As he said it, "I'm the guy who pulls the widow out of the house". And, if in fact "the winds change" and that "it" becomes part of the "recommendation", then he perhaps could do nothing about it. But, so far he said that he hasn't heard anything and he doesn't expect to hear anything.

We discussed the Moran and Harkin bills at some length; he seemingly was unaware that they had been introduced. We told him that Senator Dole had been rather ominous at the AAF meeting about the battle which the advertising industry would face this year regarding ad tax deductibility. He said that Senator Dole is very good at "throwing in a bone when he's trying to protect his own". Senator Dole is much more concerned about doing away with the luxury tax; thus, perhaps, Dole is raising the concern level about ad tax deductibility.

We met in one of the conference rooms atop the Helene Curtis headquarters. The room is walled on three sides by windows - all of which were open to a great view of the Chicago river and skyline. The quote of the meeting was from Clark Hine of Quaker Oats who said: "Look over my shoulder Mr. Chairman. All of those buildings are named after great advertisers." And, sure enough, in a row starting with the Helene Curtis building in which we sat were the Quaker Oats building, the Leo Burnett building, the Wrigley building, the Sun-Times building, the Tribune building, the Time Life building and the NBC Tower. It was a great visual and dramatic demonstration of exactly the importance of advertising to the city of Chicago.

The meeting was very positive and well received by both sides. Since the meeting, I've talked to several people who were in attendance. They all thought it went as well as could be expected.

Should anyone have any questions, please don't hesitate to call.

Carla

Carla R. Michelotti

CRM/tr

CORPORATE INCOME TAX

CORPORATIONS	ROSTENKOWSKI	GIBBONS	PICKLE	RANGEL	STARK	JACOBS	FORD	MATSUI	KENNELLY	COYNE	ANDREWS	LEVIN	CARDIN	MCDERMOTT	KLECZKA	LEWIS	PAYNE	NEAL	HOAGLAND	MCNULTY	KOPETSKI	JEFFERSON	BREWSTER	REYNOLDS	ARCHER	CRANE	THOMAS	SHAW	SUNDQUIST	JOHNSON	BUNNING	GRANDY	HOUGHTON	HERGER	MCCRERY	HANCOCK	SANTORUM	CAMP
BAXTER INTERNATIONAL																																					
E.I.du PONT							•				•	•					•								•				•			•					
EMERSON ELECTRIC CO.																																				•	
GENENTECH, INC.								•																													
GENERAL ELECTRIC CO.	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•												
GENERAL MILLS		•															•							•	•			•			•	•	•				
GENERAL MOTORS CORP.						o						•	•											o						o				o			•
GRAND METROPOLITAN																																					
HALLMARK CARDS, INC.																																					
HEWLETT-PACKARD CO.	•			•	•			•			•		•	•					•		•						•										
HONEYWELL, INC.		•						•																		•							•				
IBM CORPORATION		•	•					•			•														•				•							
KELLOGG COMPANY																																•					
LEVI STRAUSS & CO.																																					
MERCK & CO.			•					•	•	•	•		•		•	•			•			•	•					•	•	•	•		•				
3M COMPANY																																					
PEPSICO, INC.																																					
PHILIP MORRIS CO.							•									X	•				•		•					•	•					•			
PROCTER & GAMBLE	•				•			•					•			•		•				•		•													
QUAKER OATS CO.																									•						•		o				
SARA LEE CORP.																																					
WESTINGHOUSE																																					

• Definite Contact
o Possible Contact

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POSSIBLE MODIFICATION TO ADMINISTRATION'S TAX PROPOSAL

[$ billions: cumulative amount, 1994-1998*]

Drop proposed investment tax credits for large and small businesses	29.5
Drop proposed treatment of foreign royalties as passive income, and proposed R&E allocation	- 2.8
Drop proposed repeal of deferral for certain foreign earnings	- 0.8
Increase top corporate income tax rate to 35 percent	- 16.5
Net revenue surplus from possible modification	9.4

* Preliminary estimates

COMPANIES THAT HAVE AGREED TO SUPPORT THE BILL
IF THE 4-PART TAX AMENDMENT IS ADOPTED

Company

ANHEUSER BUSCH
DOW CORNING
EMERSON ELECTRIC
GENERAL ELECTRIC
GENERAL MILLS

GENERAL MOTORS
HALLMARK
HEWLETT-PACKARD
HONEYWELL
IBM

KELLOGG
MERCK
3M
PHILIP MORRIS
PREMARK

PILLSBURY
PROCTER & GAMBLE
SARA LEE
WESTINGHOUSE
TEXTRONICS

April 22, 1993

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

The undersigned companies fully share the President's twin objectives of a lower federal budget deficit and a more productive economy. We believe that a well-ordered corporate income tax is important to the achievement of both objectives.

The signatories have for many years advocated that the corporate income tax should have the broadest possible tax base and the lowest possible tax rate. The great majority of tax economists and practitioners in the United States believe it as well. The broad-base and low-rate principle is the organizing principle of federal corporate tax law. It is how the government gets the best results from its corporate tax policy, whether judged by economic efficiency, equity, or administrability.

We urge the President and Congress to be steady about keeping a broad-base, low-rate corporate income tax. An increased corporate tax rate to pay for an investment tax credit would be a regression toward the broad-loophole, high-rate system which Congress repudiated in 1986 as economically inefficient, unfair, and complex. We believe that the current corporate tax rates should be maintained and that the proposed investment credits should be withdrawn.

<u>Congressional Intent: The 1986 Act</u>

The current structure of the corporate income tax was enacted in 1986, after 18 months of Congressional inquiry and debate that resulted in the Tax Reform Act of 1986 and a corporate income tax increase averaging $30 billion per year.

What did Congress think it was achieving? The House Committee on Ways and Means gave this comprehensive explanation:

"To correct the many problems of the present tax system, the committee believes that it is of utmost importance to reduce marginal tax rates. Lower rates reduce the tax burden on many taxpayers, the predominance of tax considerations in business and personal decisions, and the bias in favor of consumption over saving. The goal of lower marginal rates can best be achieved by reducing and eliminating inefficient subsidies and unintended preferences in the Code. By closing loopholes and eliminating abuses, this bill helps ensure that no individual or corporation will excessively transfer tax burdens to other taxpayers by manipulating the tax system. The bill contributes greatly to improving the equity of the tax system and the efficiency of the economy, without altering the total tax revenues collected."

The Senate Committee on Finance was more pointed:

"The current tax system intrudes at nearly every level of decision-making by businesses and consumers. The sharp reductions in personal and corporate tax rates and the elimination of many preferences will directly remove or lessen tax considerations in business and consumptions decisions. Business will be able to compete on a more equal basis, and business winners will be determined more by serving the changing needs of a dynamic economy, and less by reaping the subsidies provided by the tax code."

Why Corporate Income Tax Rates Matter So Much

* The corporate income tax is a tax on investment returns. The nation's economic welfare in the future depends on the investments that we make today. Raising the tax rate on investment returns will mean less investment, less employment, and less improvement in living standards than otherwise would occur.

* The corporate income tax is a double tax. Returns to equity investments in corporations are taxed twice--once at the corporate level and again at the personal level when dividends are paid or stock is sold. The U.S. is the only major industrialized country that does not mitigate this double tax, which can be more than 50 percent. Raising the income tax rate would levy an even steeper double tax on investment returns in the U.S.

* Higher corporate income tax rates will inevitably be followed by the reinstitution of tax preferences for some.--This was the very tax structure that Congress worked so hard to be rid of, for reasons quoted above. That high tax rates are the economic and political fuel for special tax preferences or "incentives" is simply a matter of record. Indeed, the Administration's own budget proposal contains an investment tax credit--available only to certain businesses that buy certain kinds of property during a certain time period--to counteract the anti-investment effects of higher tax rates.

* Higher corporate income tax rates will impair our international competitiveness.--Numerous countries cut their corporate income tax rates in response to the lower U.S. rates enacted in 1986. If we were now to raise our tax rates and others followed with higher tax rates too, worldwide taxes on investment returns to U.S.-based companies would go up by more than any gain to the U.S. Treasury. In that case, investors in foreign-based companies would be less affected because of corporate integration mechanisms that the U.S. does not have. On the other hand, if our competitors do not follow our higher rates, then the U.S. itself would become a less attractive site for investment.

* Arbitrage? For a while, a theory of "arbitrage" was circulating to the effect that the corporate income tax rate must go up, for technical reasons, if the top individual income tax rate were increased. Otherwise, unincorporated businesses would reorganize as corporations in order to enjoy an apparently lower tax rate. The "arbitrage" theory has died out, however, because it lacks realism. As noted above, incorporation is generally the ticket to double taxation, not to tax savings. Because of

double taxation, equality of the corporate and individual income tax rates is a false harmony that is not required for technical reasons of sound tax policy.

Du Pont Company
Emerson Electric Company
Genentech, Inc.
General Electric Company
General Mills, Inc.
Hallmark Cards, Inc.
Honeywell, Inc.
IBM Corporation
Merck & Co, Inc.
3M Company
PepsiCo, Inc.
Philip Morris Companies, Inc.
The Pillsbury Company
The Procter & Gamble Company
The Quaker Oats Company
Sara Lee Corporation
Westinghouse Electric Corp.

WHY NOT INCREASE
THE CORPORATE INCOME TAX RATE?

Questions and Answers

Question #1: Fiscal Importance of Corporate Tax

Aren't corporations getting off easy? In 1991, corporate income taxes were just 9.3 percent of all federal receipts and were only 17 percent of all federal income tax collections.

Answer: The federal tax is tougher on corporate income than it is on noncorporate income.

According to statistics available from the Bureau of Commerce for the latest year, corporate profits in 1991 were only 7.6 percent of the national income, including wages, rents, interest, and so on. Compared to the case in which all types of income would be taxed at the same rate, the actual tax system collects more than two times too much from corporate income. Said again, corporate profits are only 7.6 percent of national income, but federal income tax on corporate profits are 17 percent of federal income taxes (corporate plus individual).

Question #2: Share of budget receipts

If corporate income taxes are so high, why are they only 9 percent of federal revenue? They were 22 percent of federal receipts in 1965.

Answer: The effective rate of federal income taxation at the corporate level is about as high now as it was in 1965. In recent years, federal income taxes at the corporate level took 33 percent of all corporate profit. That's nearly the same percentage as in the mid-1960s (36 percent), after which it has fluctuated between 26 percent and 48 percent.

Even though federal corporate income taxes are about as stiff as they were in the mid-1960s, they are a lesser percent of total federal receipts for two main reasons:

* The very rapid growth of Social Security taxes--half of which are paid by business employers; and

* Corporate profits have grown much more slowly than other kinds of income (possibly as a reaction to double taxation). In fact, to get corporate income taxes collections up to 22 percent of all federal receipts would now require a corporate income tax rate that is well over 75 percent.

Question #3: Comparisons with Recent History

Why the excitement over the proposed 36-percent rate? Not very long ago, the corporate income tax rate was 46 percent until it was reduced by the Tax Reform Act of 1986.

Answer: Today's tax is a tougher tax at a 34-percent rate than was the early 1980s tax at a 46-percent rate. Specifically, the latest report on corporate tax rates from the General Accounting Office says:

> "The average U.S. effective tax rate for the companies GAO reviewed increased from 18.6 percent in 1986 [when the statutory tax rate was 46 percent] to 32.9 percent in 1989 [when the statutory tax rate was 34 percent]."

The pre-reform corporate income tax system had impressively high "advertised" tax rates. But the pre-reform corporate tax base was so perforated by special exemptions, deductions, and investment credits, that the high advertised rate didn't apply to a lot of income.

Tax reform fixed that in 1986. Even though the advertised rate was lowered to 34 percent, the tax base was broadened so much that the 1986 Act increased corporate income taxes by $120 billion over a 5-year period, according to the Joint Committee on Taxation.

Question #4: Equity

Why should corporations continue to pay only a 34 percent tax rate, when the President wants wealthy individuals to pay a top tax rate of nearly 40 percent on their income?

Answer: The total amount of federal income tax that is typically collected when a corporation earns $100 is now over $50. Seeking "equitable contributions" from everyone is no reason for raising the corporate income tax rate, because corporate income is by far the most heavily taxed kind of income already.

The reason that the federal government now collects an out-of-the-ordinary amount of tax per $100 of corporate income is double taxation. Of the $100 that is earned on behalf of an individual shareholder, $34 is taken away in corporate income tax; and when the remaining $66 is paid as a dividend, another $9.90 to $20.46 is taken away in individual income tax (depending on his or her tax bracket). That's a total income tax rate of 43.9 percent to 54.4 percent under present law.

Under the President's plan, the top total tax rate on corporate

income would go up to 61.3 percent due to higher individual and corporate income tax rates.

Question #5: International comparisons

How can our corporate income tax rate be called high by international standards? Aren't the statutory corporate income tax rates in Germany and Japan higher than ours?

Answer: If the President's proposal goes through, the "advertised" corporate income tax rates in Japan (37.5 percent), Germany (36 percent), and the U.S. will be very close. But the true, effective corporate income tax rates will clearly be higher in the U.S.

The reason is double taxation. We have it. Other countries don't have it or they have found a way to abate it. That includes Germany and Japan.

If the President's proposal goes through, the typical total tax rate on corporate income will be--

* 7 percent higher in the U.S. than in Germany,
* 14 percent higher in the U.S. than in Japan, and
* 32 percent higher in the U.S. than in the United Kingdom.

Question #6: Progressivity

Back to fairness. If the corporate income tax is really a tax on individual shareholders, isn't it a highly progressive tax? The conventional wisdom is that very rich people own most of the stock.

Answer: According to analysis by the Congressional Budget Office, the corporate income tax functions for most of the population as a proportional tax, not as a progressive tax.

Yes, less-well-off families own less stock. But their corporate-source income is generally as important relative to other kinds of income as it is for more-well-off families. As a result, CBO finds that the corporate income tax takes--

* The same percentage of income (1.6 percent or 1.7 percent) from 60 percent of the population; and
* Nearly the same percentage of income (1.0 percent to 1.7 percent) from 90 percent of the population, with only the richest 10 percent paying a notably different proportion (4.7 percent).

ROYALTIES

COVINGTON & BURLING
1201 PENNSYLVANIA AVENUE, N.W.
P.O. BOX 7566
WASHINGTON, D.C. 20044
(202) 662-6000

TELEFAX (202) 662-6291
TELEX 89-593 (COVLING WSH)
CABLE COVLING

RONALD A. PEARLMAN
DIRECT DIAL NUMBER
(202) 662-5577

ADELAIDE HOUSE
46 HERTFORD STREET
LONDON W1Y 7TF ENGLAND
TELEPHONE 44-71-495-5655
TELEFAX 44-71-495-3101

BRUSSELS CORRESPONDENT OFFICE
44 AVENUE DES ARTS
BRUSSELS 1040 BELGIUM
TELEPHONE 32-2-512-9890
TELEFAX 32-2-502-5946

April 14, 1993

Dear CORT member:

We need your help.

Attached is a letter to Secretary Bentsen we helped draft for Congressman Peter Hoagland (D-Neb.). Congressman Hoagland, after discussing the Administration's royalty proposal with representatives of Kellogg Co. and others, is prepared to send this draft to the Secretary, provided that a "critical mass" of Ways and Means Committee Members join him. We think a critical mass is about 10 signatories, of which at least 6 must be Democrats.

The Hoagland letter comes at a very important juncture. The efforts of CORT and others have tagged the royalty proposal as one of the most controversial parts of the Administration's package. Ways and Means is expected to mark-up the package in early May. Congressman Hoagland wants to gather the signatures and send the letter to Secretary Bentsen by the end of next week. If we help the Congressman meet his goal, he also may follow-up this letter with a "Dear Colleague" letter to the entire House of Representatives.

This letter could help persuade the Administration that this is one fight they don't need. It is important that you promptly contact Ways & Means Committee Members to urge their participation in this effort. Interested Committee Members should contact Congressman Hoagland or his assistant, Roger Blauwet, to sign-on.

When you speak with Members and staff about the Hoagland letter you can tell them that the language is not cast in concrete. Congressman Hoagland is looking for suggestions, particularly if a change will bring additional Committee Members on board. You also can tell Members and staff that Congressman Hoagland is mindful of the importance of keeping Chairman Rostenkowski apprised of his efforts and has taken steps to do so.

The Hoagland letter won't happen unless members of CORT beat the bushes for support. Ways and Means Committee Members and their staff need to be contacted immediately to meet next week's deadline. In order that we coordinate our efforts, I would appreciate your letting one of us know whom you have contacted.

Thanks for your help.

Sincerely,

Ronald A. Pearlman

Attachment

Congress of the United States
Washington, DC 20515

April 21, 1993

The Honorable Lloyd Bentsen
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Ave., N.W.
Washington, D.C. 20220

Dear Secretary Bentsen,

We would like to take this opportunity to express our concern regarding two of the international tax proposals included in the Administration's budget plan; the treatment of royalties as passive income for purposes of the foreign tax credit limitation and the cutback on deferral for certain controlled foreign corporations.

As presented by the Administration, the proposal to treat royalties as passive income was intended to increase U.S. employment by scaling back a perceived incentive for U.S. companies to manufacture U.S. developed products abroad. Instead, we are afraid that from both an economic and tax policy perspective, the proposal may have detrimental effects on U.S. companies trying to compete in international markets.

U.S. businesses license intangibles in order to manufacture abroad for a multitude of business reasons. Some are as basic as foreign content requirements that necessitate product assembly in that country. Added transportation costs is another substantial consideration for many U.S. companies trying to compete with foreign companies in local markets. For many consumer goods, foreign market entrance duties present other additional costs. Changes in the U.S. tax law that would impose a higher tax burden on the foreign operations of our most competitive industries would undermine their ability to sustain a competitive advantage; such a policy would also hurt U.S. exports and U.S. jobs.

From a tax policy perspective, we appreciate that current law permits foreign taxes paid on other types of foreign source active income to be cross credited against active business royalties. This cross-crediting, however, is neither bad tax nor bad economic policy.

One of the fundamental decisions made in the Tax Reform Act of 1986 was to permit companies to treat their active business operations as a unit for foreign tax credit purposes. The ability to "basket" different types of active business income together encourages companies to repatriate (through dividends) foreign source earnings. Those dividends carry with them the taxes paid on the underlying foreign earnings and, absent a cross crediting mechanism, their repatriation could have a significantly increased U.S. tax cost. Thus, if the royalties proposal were enacted, it would be more cost efficient in many cases for U.S. companies to reinvest those earnings in productive activities abroad, rather than in the United States.

The second proposal would cutback the benefit of deferral for those companies that have been our country's strongest research and development performers. While also intended to scale back a perceived incentive for U.S. companies to operate abroad, this proposal actually would have the perverse effect of providing an even greater incentive for U.S.-based firms to operate abroad and expand overseas operations. Because it would add an additional cost to U.S.-based firms not borne by their foreign competitors (most of whom enjoy some form of tax exemption with respect to foreign profits), this proposal will make it more difficult for U.S. firms to maintain, let alone increase, their market share in world markets.

From a tax policy perspective as well, the deferral proposal is flawed. It arbitrarily reaches far beyond the "incorporated foreign pocketbooks" you are concerned with and establishes an unprecedented retroactive tax on previously acquired assets and retained, not just current earnings. Moreover, the 25% threshold calculation is too low, particularly for technology companies which tend to license rather than own their valuable intangible assets, and as a result have relatively high rates of return on assets. The proposal would force these R&D companies to

Michael G. Fornaciari
Michael A. Andrews

Mel Reynolds
Mel Reynolds

William Cayne
William Cayne

L.F. Payne
L.F. Payne

Phil Crane
Philip M. Crane

Rick Santorum
Rick Santorum

Jim Bunning
Jim Bunning

Bill Thomas
William M. Thomas

HOUSE WAYS & MEANS COMMITTEE MEMBERS

DEMOCRATS

(Listed by Seniority)

Dan Rostenkowski, Chair
Sam M. Gibbons
J.J. Pickle*
Charles B. Rangel ✓
Fortney Pete Stark
Andrew Jacobs, Jr.
Harold E. Ford
Robert T. Matsui* - JPW
Barbara B. Kennelly - JPW
William J. Coyne*
Michael A. Andrews*
Sander M. Levin
Benjamin L. Cardin
Jim McDermott*
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John Lewis*
L.F. Payne*
Richard E. Neal
Peter Hoagland*
Michael R. McNulty*
Michael J. Kopetski*
William J. Jefferson*
Bill K. Brewster*
Mel Reynolds*

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(Listed by Seniority)

Bill Archer*, Ranking Minority Member
Philip M. Crane*
William M. Thomas*
E. Clay Shaw, Jr.*
Don Sundquist*
Nancy L. Johnson*
Jim Bunning*
Fred Grandy*
Amo Houghton*
Wally Herger*
Jim McCrery ✓
Mel Hancock*
Rick Santorum*
Dave Camp*

* Signed letter to Secretary Bentsen

May 3, 1993

COMMITTEE ON ROYALTY TAXATION

The Substantial Increase In Foreign Source Royalties Since 1986 Is Not Attributable To The 1986 Corporate Tax Rate Change

In a briefing paper, dated April 14, 1993, the Treasury staff states that the 1986 reduction of the corporate tax rate "created incentives for [many U.S.] * * * companies to generate low-taxed (or untaxed) royalties income." The paper cites increases in royalties since 1985 as evidence that taxpayers "responded to those incentives."

CORT members think the Treasury staff assertion is incorrect. Rather, the following factors explain the increase in royalty volume:

- International business growth - Royalties typically are calculated as a percentage of revenues; increases in revenues earned by foreign affiliates results in increased royalties payable to the U.S. parent.

  U.S. companies, encouraged by their government, have aggressively expanded overseas markets. Thus, overseas service activities have increased significantly, resulting in increased royalty payments. Wall Street Journal, April 21, 1993 at 1, col. 6. Likewise, computer software royalties, which represent a large portion of royalties payable to U.S. companies and generally are higher as a percentage of revenues than royalty rates for other intangibles, have experienced tremendous growth since 1986.

- Aggressive enforcement of intellectual property rights, a weaker dollar and the "unblocking" of royalty payments by foreign countries.

- 1986 Act (Section 482) commensurate with income standard - As a result of the 1986 Act, U.S. companies are required - indeed forced in some cases by IRS audit adjustments - to increase royalty charges to their foreign affiliates. These increases are not the result of tax planning; they are the result of tax compliance. Moreover, as recognized in 1986, because royalty payments generally are deductible abroad, they actually may enhance the U.S. tax base by reserving more of the pre-credit U.S. tax on foreign earnings than is the case with dividend payments. Staff of the Joint Committee on Taxation, General Explanation of the Tax Reform Act of 1986, 866 (1987).

Attached is a summary of reasons for increased royalty payments to several members of CORT since 1986.

received shall be increased by the amount determined under this subsection as in effect on the day before the date of the enactment of the Revenue Reconcilation Act of 1993."

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall apply to taxable years beginning after September 30, 1993.

PART II—ALLOCATION OF RESEARCH AND EXPERIMENTAL EXPENDITURES; TREATMENT OF CERTAIN ROYALTIES

SEC. 2311. ALLOCATION OF RESEARCH AND EXPERIMENTAL EXPENDITURES.

(a) GENERAL RULE.—Paragraph (1) of section 864(f) (relating to allocation of research and experimental expenditures) is amended by striking subparagraphs (B) and (C) and inserting the following:

"(B) In the case of any qualified research and experimental expenditures (not allocated under subparagraph (A))—

"(i) to the extent such expenditures are attributable to activities conducted in the United States, 100 percent of such expenditures shall be allocated and apportioned to income from sources within the United States and deducted from such

income in determining the amount of taxable income from sources within the United States, and

"(ii) to the extent such expenditures are attributable to activities conducted outside the United States, such expenditures shall be allocated and apportioned on the basis of gross sales."

(b) CONFORMING AMENDMENTS.—

(1) Subsection (f) of section 864 is amended by striking paragraph (5) and inserting the following:

"(5) REGULATIONS.—The Secretary shall prescribe such regulations as may be appropriate to carry out the purposes of this subsection, including regulations relating to the determination of whether any expenses are attributable to activities conducted in the United States or outside the United States and regulations providing such adjustments to the provisions of this subsection as may be appropriate in the case of cost-sharing arrangements and contract research."

(2) Subparagraph (D) of section 864(f)(4) is amended by striking "subparagraph (C)" and inserting "subparagraph (B) or (C)".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1993.

SEC. 2312. ROYALTIES TREATED AS PASSIVE INCOME FOR PURPOSES OF SEPARATE APPLICATION OF FOREIGN TAX CREDIT.

(a) GENERAL RULE.—Subparagraph (A) of section 904(d)(2) (defining passive income) is amended by redesignating clauses (iii) and (iv) as clauses (iv) and (v), respectively, and by inserting after clause (ii) the following new clause:

"(iii) INCLUSION OF ROYALTIES.—Except as provided in clause (iv), the term 'passive income' includes—

"(I) any royalty in respect of any intangible property described in section 936(h)(3)(B) (whether or not the requirements of paragraph (2)(A) or (3)(A)(ii) of section 954(c) are met), and

"(II) any other payment for the use of, or for the right or privilege to use, any intangible property so described and any payment made in consideration of a sale or other dis-

position of any such intangible property to the extent that such payment is contingent on the productivity, use, or disposition of such property."

(b) DETERMINATION OF WHETHER ROYALTIES ARE HIGH-TAXED INCOME.—Subparagraph (F) of section 904(d)(2) is amended by adding at the end thereof the following new sentence: "For purposes of this subparagraph, all items of income described in clause (iii) of subparagraph (A) shall be treated as 1 item of income."

(c) LOOK-THRU RULES NOT APPLICABLE TO CERTAIN ROYALTIES.—Paragraph (3) of section 904(d) is amended by adding at the end thereof the following new subparagraph:

"(J) LOOK-THRU RULES NOT APPLICABLE TO CERTAIN ROYALTIES.—For purposes of this paragraph, the term 'royalty' shall not include any royalty in respect of intangible property described in section 936(h)(3)(B)."

(d) CONFORMING AMENDMENTS.—

(1) Clause (ii) of section 904(d)(2)(A) is amended by striking "clause (iii)" and inserting "clause (iv)".

(2) Subclause (II) of section 904(d)(2)(C)(i) is amended by striking "subparagraph (A)(iii)" and inserting "subparagraph (A)(iv)".

(3) Subclause (I) of section 904(d)(3)(F)(ii) is amended by striking "paragraph (2)(A)(iii)" and inserting "paragraph (2)(A)(iv)".

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1993.

PART III—OTHER PROVISIONS

SEC. 2231. REPEAL OF CERTAIN EXCEPTIONS FOR WORKING CAPITAL.

(a) PROVISIONS RELATING TO OIL AND GAS INCOME.—

(1) AMENDMENTS TO SECTION 907.—

(A) Paragraph (1) of section 907(c) is amended by adding at the end thereof the following new flush sentence:

"Such term does not include any dividend or interest income which is passive income (as defined in section 904(d)(2)(A)).".

(B) Paragraph (2) of section 907(c) is amended by adding at the end thereof the following new flush sentence:

COVINGTON & BURLING
1201 PENNSYLVANIA AVENUE N.W.
P.O. BOX 7566
WASHINGTON, D.C. 20044
(202) 662-6000

RONALD A. PEARLMAN
DIRECT DIAL NUMBER
(202) 662-5727

April 29, 1993

BY FACSIMILE

To: Committee on Royalty Taxation

FROM: Ronald A. Pearlman

We are pleased to advise you that Congressman Hoagland will join us at a CORT meeting on Monday, May 3. The meeting will be held in Covington & Burling's main conference room on the 11th floor. We expect the Congressman to arrive between 12:15-12:30. Therefore, I would appreciate those of you who plan to attend to arrive no later than 12:00.

Following Congressman Hoagland's visit, we will discuss efforts that CORT should undertake in connection with the Ways & Means markup. We expect to adjourn no later than 2:00 p.m.

We have promised to provide the Congressman with a list of attendees by noon tomorrow. Therefore it is very important that you RSVP my secretary, Barbara Angier, at 202-662-5746 prior to that time.

INTANGIBLES

COALITION ON OPEN YEAR SETTLEMENT OPTION
AMORTIZATION OF INTANGIBLES - TAX SIMPLIFICATION
April 28, 1993

TALKING POINTS

THE PROBLEM

- For years, the tax treatment of acquired intangible assets has been uncertain and controversial. Intangible assets include customer lists, workforce in place, information base, know-how, and supplier contracts, as well as goodwill and going-concern value.

- The Treasury Department has explicitly recognized since 1919 that intangible assets may be amortized for tax purposes. An unbroken string of regulations since 1919 has allowed a depreciation deduction for intangible assets that are used in a trade or business and which have a determinable useful life and value. It has also been clear, since at least 1927, that goodwill and going concern value are not amortizable for tax purposes.

- It is a required practice -- for both financial statement accounting and tax accounting -- for a company that purchases assets to allocate the purchase price among those assets and then to give each of those assets their proper accounting treatment. Companies need certainty in the tax and financial statement treatment of their purchases, both to ensure they pay a proper price for the assets and also to allow financial operations for future years to be planned.

THE CONTROVERSY

- Despite the clear statement of the regulations, the IRS has persistently challenged deductions taken for amortization of intangible assets.

- The IRS challenges have been based on both factual issues and legal issues. The factual issues have been whether an asset has a determinable useful life and whether it has a determinable value. The principal legal issue has been whether customer-based assets and other intangibles are *per se* indistinguishable from goodwill and going-concern value. A GAO report issued in 1991 stated that 70 percent of the IRS-taxpayer disputes over intangible assets the GAO studied involved this legal issue.

- Unfortunately, the existing regulations encourage taxpayers that acquire assets to take tax-return positions that feed directly into an IRS challenge. By nature, intangibles are difficult to quantify. Because a taxpayer must allocate the purchase price among the assets acquired, and because goodwill is clearly nonamortizable, taxpayers have an incentive to

allocate purchase price to intangible assets other than goodwill. A deduction that is never claimed by the taxpayer will never give the taxpayer any tax benefit.

- Under current law, there is no mechanism short of negotiation with the IRS to determine the "correct" amount of an amortization deduction in this context. Many intangible assets, if purchased singly instead of in an acquisition that requires allocation, would never have their amortization deductions questioned.

- Taxpayers have won an impressive array of court victories on whether they can amortize their acquired intangibles, but the IRS challenges have continued. In 1974, following a taxpayer victory in the *Houston Chronicle* Court of Appeals case, the IRS even issued a revenue ruling saying it would no longer rule, as a matter of law, that customer-based intangible assets are "indistinguishable from goodwill possessing no determinable useful life." In practice, however, the IRS has continued to challenge amortization deductions.

- The likelihood of an IRS challenge has made it impossible for businesses that purchase assets to carry on their financial operations with any certainty. The uncertain tax liability is only part of it: the possibility of needing to pay additional tax in the future restricts a company's available capital for investment in plant and equipment and its ability to create new jobs. A company with uncertain tax liability has less access to the capital markets and to lenders. Instead, a company that makes an asset acquisition must assume that it will be negotiating and litigating the tax treatment of that acquisition for many years.

NEWARK MORNING LEDGER

- On April 20, 1993, the U.S. Supreme Court, in *Newark Morning Ledger*, held definitively that a taxpayer may depreciate an intangible asset if the taxpayer can prove that the asset has a value and a limited useful life, "regardless of how much the asset appears to reflect the expectancy of continued patronage." This holding directly overrules the IRS's argument that some definable intangible assets are *per se* indistinguishable from goodwill and going concern value.

- While *Newark Morning Ledger* is a great victory for taxpayers, the decision falls far short of settling all issues the IRS has raised in the past concerning intangibles amortization. Although the Supreme Court squarely settled the legal issue, it also made clear that taxpayers must prove, as a factual issue, that their intangible assets have a value and a limited useful life. The Supreme Court set no limits on the IRS's discretion to continue to challenge these factual issues; we

believe the IRS will prosecute these factual issues perhaps with as much vigor as ever.

- Even with the resolution of *Newark Morning Ledger*, there is a large backlog of cases, at different levels of jurisdiction, involving taxpayer-IRS disputes over the proper treatment and definition of intangible assets. Some of these cases have been open for years. *Newark Morning Ledger*, which involved an acquisition in 1977, and did not involve significant factual issues, took 16 years to be resolved. The Supreme Court decision does not promise an early resolution of these other cases.

LEGISLATIVE SOLUTIONS

- Some people had hoped that the Supreme Court would make the intangibles issue "go away" by deciding *Newark Morning Ledger* in favor of the IRS. The clear statement of the Supreme Court that taxpayers may amortize their acquired intangible assets if they are proven to have a value and life means the issue will not "go away": a legislative solution is more compelling now than ever to avoid the endless controversy that will otherwise persist.

- We believe the only way to end this chain of controversy and uncertainty is to enact a legislative settlement. A properly drafted legislative solution:

  - could put a stop to pointless litigation over old transactions,

  - could give the business community the sense of certainty they need to plan their future operations,

  - could set clear boundaries about intangibles amortization that avoid nit-picking over questions of fact that probably can never be totally resolved,

  - could stop the IRS from trying to take away from taxpayers what the Treasury regulations have long said they are entitled to, and

  - could accomplish these goals without a revenue cost to the U.S. government.

- We believe that the intangibles legislation that has been sponsored by House Ways and Means Committee Chairman Rostenkowski will achieve these goals. His legislation would spare taxpayers and the IRS from arguing over the useful life and the amortizable value of specific acquired intangible assets. Instead, Rostenkowski's legislation would give all intangible assets -- including goodwill and going concern

value -- the same tax treatment: they would all be amortized for tax purposes over 14 years on a straight-line basis.

Retroactivity

- In H.R. 4210, which Congress approved in March 1992, the Rostenkowski proposal was expanded to apply -- at the taxpayer's election -- to past intangible acquisitions in open years, but with a 17-year amortization period. This expansion would have gone much further to eliminate controversies, and would have been revenue neutral to the government.

- In Chairman Rostenkowski's initial draft of H.R. 11, he included a similar retroactive provision to that included in H.R. 4210, but with a 19-year amortization period. Ultimately, H.R. 11 did not include a retroactive provision, but the chairman's approach -- treating all taxpayers equally, regardless of their tax return provision, and providing essentially the same policy both for open years and going forward -- is the best one.

- Another proposal, known as "Fresh Start," was discussed by Chairmen Rostenkowski and Bentsen in the conference negotiations on H.R. 11, but was ultimately dropped. Under "Fresh Start," taxpayers could elect to recapture over a five-year period previous amortization of intangible assets acquired in open years. At the same time, the taxpayer would begin amortizing all intangible assets plus goodwill and going concern value, over the same period time as used in the going forward piece.

- H.R. 11, which Congress approved in October 1992, included the intangibles legislation without the retroactivity election. Although it was not included in the final bill, the Senate Finance Committee included a different elective retroactive provision in its version of the tax bill: 75 percent of the assets claimed on the taxpayer's returns for open years (other than goodwill) would be amortized using the method and life claimed on the returns; the remaining 25 percent would be denied, and recaptured on the current year's tax return.

- This proposal has the unfortunate effect of rewarding taxpayers who took aggresive positions on their tax returns, while penalizing taxpayers who took conservative positions. This effect is totally inconsistent with the premises of a voluntary compliance system.

Revenue Effect

- The Joint Tax Committee and the Treasury have not yet issued a revenue estimate for the Rostenkowski legislation based on the taxpayer victory in *Newark Morning Ledger*. It seems

reasonable to believe, however, that prospective legislation would raise revenue. Taxpayers would be willing to take a generally longer amortization period than they would be entitled to under a purely factual approach to gain the certainty the legislation provides. Furthermore, a retroactive provision could be drafted to raise additional revenue.

Background On Legislative Proposals

- The Rostenkowski legislation has been scrutinized for almost two years now. Congress twice approved this legislation, in slightly different formats, in March 1992 as H.R. 4210 and again in October 1992 as H.R. 11. This intangibles legislation would now be law if those bills had not been vetoed for unrelated reasons.

- Rostenkowski's original proposal in July 1991 to provide a prospective legislative solution was recognized as a compromise, but a good compromise: for many intangibles, a 14-year amortization period would be longer that the period a taxpayer would claim on a tax return, but the reduced cost of negotiation and litigation would more than make up for it.

- The main benefit of the Rostenkowski proposal has always been that it eliminates the controversy and allows both taxpayers and the IRS to tackle more important concerns.

- The Rostenkowski intangibles legislation has been introduced in 1993 as part of H.R. 13, a proposal to simplify many tax provisions. The Clinton Administration has not directly stated a position on either H.R. 13 or the intangibles legislation. We believe the intangibles legislation fits within the overall goals of the Clinton Administration tax package: it would eliminate an unproductive administrative drag on the economy, remove an impediment to investment and job formation for companies that have this issue, and would not lose revenue. Congress should have no reason to think the President would not welcome the addition of the intangibles legislation to his tax package.

RESPONSE TO OPPONENTS

- Some people have argued that allowing taxpayers full amortization deductions for their acquired intangibles would encourage a wave of corporate takeovers and buyouts like those which typified the early 1980s. The Rostenkowski legislation would apply, for the most part, only when one company buys the specific assets of another company, not when it purchases the other company's stock. Other changes to the tax law over the past decade have made asset purchases unattractive. We

believe enactment of the intangibles legislation should not affect a company's decision whether to buy assets or stock. What it should affect is the ability of a company that acquires assets to carry on with its operations without being enmeshed in a dispute with the IRS for the indefinite future.

Under the tax laws of most of our major trading partners, including Japan, Germany, the United Kingdom, Korea, and Canada, goodwill as well as other intangible assets are amortizable. Japan even allows this amortization over a five-year period. Providing a 14-year amortization period for all acquired intangibles would eliminate some of the U.S. business community's competitive international disadvantage, as well as eliminating needless domestic controversies with the IRS.

Peat Marwick

2001 M. Street, N.W.
Washington, DC 20036

Telephone 202 467 3800

Telefax 202 822 9887

Date	April 13, 1993	**Steno Ref**	
To Office	Coalition on Open Year Settlement Option	**Enc cc**	
From Office	Gillian Spooner/Bill Fant Washington National Tax		
Subject	**Update**		

REMINDER: The next coalition meeting will be on April 20 at 2 p.m., 6th Floor Conference Room, 2001 M Street, N.W.

Attached are materials we have sent to you previously, including:

- talking points, for possible use with members of Congress and staff;
- background talking points, not intended for distribution;
- a chronology of developments with the legislation, dating back to 1991;
- a list of different revenue estimates of the various proposals that have been made during the process; and,
- the vote tally on the Dorgan amendment last year.

Also attached is a draft letter to Chairman Rostenkowski that the Davidson/Klein group is preparing for circulation among businesses and trade groups.

Finally, also attached are some recent articles, from *Tax Notes* and the *Journal of Commerce*, on the treatment of intangible assets.

If you have any questions, please call Gillian Spooner (202-467-3813), Mark Springer (202-467-3888), or Bill Fant (202-467-3421).

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Member Firm of
Klynveld Peat Marwick Goerdeler

COALITION ON OPEN YEAR ELECTIONS
AMORTIZATION OF INTANGIBLES -- TAX SIMPLIFICATION
February 15, 1993

- For years the tax treatment of acquired intangible assets has been uncertain and controversial. Intangible assets include customer lists, workforce-in place, information base, know-how, supplier contracts and other similar intangibles, and goodwill and going-concern value.

- Intangible assets distinguishable from goodwill and going concern value and with a determinable value and life, are amortizable. However, goodwill and going concern value are not amortizable under current law. At the heart of the controversy is a dispute over whether certain assets are distinguishable or indistinguishable from goodwill and going concern value. A GAO report, issued in 1991, stated that 70 percent of IRS-taxpayer disputes over intangible assets involved this issue.

- The IRS contends that many customer-based and other intangible assets are indistinguishable from goodwill and going concern value, and therefore may not be amortized. Taxpayers have contended that certain assets are distinguishable from goodwill and going concern value, and in many cases the courts agreed. One such case involving an IRS-taxpayer dispute over newspaper subscriber lists, *Newark Morning Ledger*, is before the U.S. Supreme Court. A decision is expected within the next few months.

- A considerable backlog of cases exists, at different levels of jurisdiction, involving taxpayer-IRS disputes over the proper treatment and definition of intangible assets. A legislative solution appears to be the best method for both resolving these old disputes and clarifying the law for future transactions.

- In recognition of the existing uncertainty and complexity, House Ways and Means Committee Chairman Rostenkowski, in July of 1991, introduced legislation that provided, on a prospective basis, a solution to the problem of whether certain intangible assets are distinguishable from goodwill. Goodwill and other intangible assets would receive the same treatment (14-year amortization), thus eliminating the chief controversy.

- In H.R. 4210, Rostenkowski backed a rule providing essentially the same treatment to past transactions, but with a slightly longer amortization period (17 years) to provide revenue neutrality.

- Twice last year Congress approved and sent to President Bush legislation that would have provided for uniform treatment of acquired intangible assets on a prospective basis.

President Bush vetoed both bills (H.R. 4210 and H.R. 11). H.R. 4210 included language resolving past disputes; H.R. 11 did not.

- Congress has considered several elective alternatives (see attached chronology) for intangibles issues for open years, including:

  1) 17-year amortization of intangible assets (including goodwill) acquired in open years (included in H.R. 4210, as approved by Congress and vetoed for unrelated reasons by President Bush);

  2) 19-year amortization of intangible assets (including goodwill) acquired in open years (included in Chairman Rostenkowski's "mark" for Ways and Means Committee markup of H.R. 11; the committee later voted to drop the retroactive portion);

  3) 75 percent of assets claimed on the taxpayer's return (not including goodwill) filed for open years, with the remaining 25 percent recaptured in the current year (included in H.R. 11 as approved by the Senate Finance Committee);

  4) recapture of previous claimed intangibles over five-year period, with 14-year amortization from date of enactment of all acquired intangibles and goodwill (discussed in H.R. 11 conference negotiations between Chairmen Rostenkowski and Bentsen).

  5) 67 percent of assets claimed on the taxpayer's return (not including goodwill) filed for open years, with the remaining 33 percent recaptured in the current year and then amortized over a 40-year period (considered during Senate deliberations of H.R. 11).

- Under the tax laws of most of our major trading partners, including Japan, Germany, the U.K., Korea, and Canada, goodwill is amortizable. In Japan, companies are allowed to amortize goodwill over a five-year period. Thus, foreign corporations have a competitive advantage over U.S. businesses.

- According to the GAO report (GGD-91-88, August 1991), 65 percent of intangible asset allocations claimed on tax returns are never challenged by the IRS.

- The current cost of litigation, disputes, and negotiations over intangible asset is enormous; an open year legislative resolution would wipe out most of these current costs, and a prospective rule, as contained in H.R. 13, would prevent non-productive allocation of resources in the future.

FOR BACKGROUND PREPARATION
HIGHLIGHTS OF ARGUMENTS USED IN THE PAST

- Current law rules on the amortization of intangibles are both unclear and unfair. Different taxpayers with similar facts are treated inconsistently in numerous ongoing negotiations with the IRS. A legislative change that both clarifies the law for future transactions and eliminates the huge backlog of pending cases is necessary.

- The intangibles legislation is not "special interest" legislation -- it affects a broad spectrum of companies, with widely varying results.

- The intangibles proposal in H.R. 13 (sponsored by Chairman Rostenkowski) provides meaningful simplification for future transactions. It does this by providing a uniform recovery period for the amortization of all intangible assets without regard to whether some portion of the assets represents goodwill.

- The legislation is "rough justice" in that under current law some taxpayers have assets with shorter lives or less goodwill, while others have longer lives or more goodwill. Indeed many taxpayers will have some acquisitions where they are somewhat worse off and others where they are somewhat better off. The resulting trade-off between simplification and certainty on the one hand, and a purer recognition of all the facts and circumstances that apply to each transaction on the other hand, is exactly the issue in all simplification efforts.

- The intangibles provision in H.R. 13 could be improved, as Chairman Rostenkowski acknowledged in a statement accompanying its introduction. The provision as it is currently written does not address ongoing IRS-taxpayer disputes. Resolving the existing controversies will yield a savings of an enormous amount of resources that currently are being employed by the government and taxpayers. Intangibles cases are consuming the resources of taxpayers, the IRS, and the courts. Substantial sums are being spent on identification, valuation, and allocation issues.

- The open-year election adopted last year in H.R. 4210 is entirely consistent with the general theme of accomplishing simplification. It would allow taxpayers to elect a single 17-year life for all intangible assets. Of course, there will be some winners and losers from a tax liability perspective. That is always the price we pay for simplification. However, if we do not solve the open-years problem there will only be losers. Both the government and the taxpayers will be worse off because both will expend resources resolving issues that

have no precedential value and where the inconsistent treatment of these issues by the Service and the Courts have made any particular outcome highly uncertain.

- Under the open years election provision in H.R. 4210, taxpayers would have certainty regarding the treatment of certain intangibles they acquired in past years. This approach solves what former Assistant Secretary Goldberg called "this source of waste, inefficiency, and controversy," which "no amount of after the fact enforcement and litigation can possibly remedy."

- The existing controversies will not be resolved by waiting until the Supreme Court resolves the "Newark Morning Ledger" case. That case, while important, addresses only one type of intangible asset -- customer lists, and could focus just on the specific facts presented.

- Supporters of this legislation have no desire to see the deficit increased as a result of its passage. This strong support exists even among some taxpayers who, in making the election for this provision, would find themselves in a deficiency situation, owing taxes and interest to the IRS.

- The policy debate over intangibles amortization has shown that this is a tax issue that affects nearly every industry, not just a few "special interests." It affects a broad spectrum of companies, with widely varying results.

- Commentary in the media has suggested that enactment of intangibles legislation will create a so-called merger boom. This suggestion is fallacious on its face -- existing open years' disputes in this respect are the result of mergers/acquisitions that:

  1) Went forward due to compelling economic/competitiveness reasons, despite the foreknowledge that uncertainty regarding intangibles' treatment could be unresolved for years to come.

  2) Going forward, while some companies may experience an increase in overall value, this value will be reflected in share price and will not precipitate the "bargain" hunting that drove a number of mergers/acquisitions in the 1980's.

  3) The treatment of intangibles is only an issue in a limited class of mergers/acquisitions -- those involving "step-up" basis, rather than the more common "carryover" basis.

CHRONOLOGY OF LEGISLATION AFFECTING AMORTIZATION OF INTANGIBLE ASSETS

1/18/91 -- Rep. Donnelly introduces H.R. 563, legislation that would render intangible assets unamortizable

3/18/91 -- Rep. Vander Jagt introduces H.R. 1456, legislation clarifying that certain intangible assets are amortizable

7/25/91 -- Chairman Rostenkowski introduces H.R. 3035, legislation simplifying the treatment of intangible assets

8/91 -- GAO report on intangible assets issued

10/02/91 -- Public hearing held by House Committee on Ways and Means (In the press release announcing the hearing, a specific request for comments on retroactivity was included)

10/29/91 -- Public hearing held by House Committee on Ways and Means

11/26/91 -- House approves H.Res. 292, conveying the sense of the House of Representatives on an elective effective date (July 25, 1991 -- date of introduction of H.R. 3035) for intangibles legislation

2/20/92 -- Ways and Means Committee approves intangibles provision, including elective retroactive application (17 years)*

2/27/92 -- House approves H.R. 4210, which includes both intangibles provisions as approved by the Ways and Means Committee, including elective retroactive application (17 years)*

3/3/92 -- Senate Finance Committee approves its version of H.R. 4210, without intangibles provision

3/13/92 -- Full Senate approves H.R. 4210, without intangibles provision

3/20/92 -- Congress sends conference report on H.R. 4210, including elective retroactive application (17 years), to President Bush, who vetoes the legislation*

4/28/92 -- Finance Committee holds public hearing on amortization of intangibles, with much attention given to question of retroactive treatment; Joint Committee modifies estimate

6/16/92 -- Senate Finance reports H.R. 3040, which includes provision allowing taxpayers 75 percent of intangibles claimed on tax return in open year*

* July 25, 1991 effective date election for prospective treatment included

6/25/92 -- House Ways and Means votes to drop retroactive treatment from H.R. 11 (Dorgan amendment to strike 19-year retroactive election from "chairman's mark"; approved by 22-11 vote)

6/25/92 -- Ways and Means reports H.R. 11 (without retroactive election)*

7/2/92 -- House approves H.R. 11 (without retroactive election)*

7/29/92 -- Senate Finance reports its version of H.R. 11, incorporating intangibles provision (including 75-percent election) of H.R. 3040*

9/29/92 -- Senate approves its version of H.R. 11 (after defeating Simon amendment striking goodwill from prospective application and approving Metzenbaum amendment limiting retroactive election to 50 percent)*

10/5/92 -- House approves conference report on H.R. 11*

10/8/92 -- Senate approves conference report on H.R. 11*

11/5/92 -- President Bush vetoes H.R. 11*

1/5/93 -- Rostenkowski introduces H.R. 13 and says, "I believe, however, that [amortization of intangibles] could be improved to make it even more meaningful and equitable, and I anticipate that in the 103d Congress there will be an opportunity to consider such improvements."*

* July 25, 1991 effective date election for prospective treatment included

REVENUE ESTIMATES
January 27, 1992

Item	1992	1993	1994	1995	1996	1997	'92-97 (as app.)
10/2/91 No official est. Unofficially raised $200 million							
2/18/92 House Bill (17 yrs. retro) JCT 92-4035	2.0	1.9	-0.5	-0.9	-1.2	-1.5	-0.2
3/18/92 House Bill JCX-12-92 Revised	2.0	1.9	-0.5	-0.9	-1.2		1.3*
3/20/92 Conf. HR 4210 (17 yrs. retro) JCT 92-0091	1.5	3.5	-0.5	-1.2	-2.0		1.2*
4/28/92 (17 yrs. retro)	1.4	3.1	-0.8	-1.6	-2.4	-3.3	-3.6
4/28/92 Unofficial	1.4	3.0	-0.7	-1.5	-2.2	-3.1	-3.1
6/16/92 SFC markup of HR 3040 (75% retro) JCT 92-2143	0.7	2.5	1.7	-0.3	-0.8	-1.4	2.4
6/24/92 HR 11 W&M Rosty Mark (19 yrs. retro)	1.9	4.4	-0.4	-1.0	-1.2	-2.6	0.6
7/92 HR 11 W&M Comm. (post-Dorgan) 102-631	-0.03	-0.03	0.07	0.1	0.1	0.2	0.4
7/29/92 SFC HR 11 (75% retro) JCX-29-92	0.9	5.4	-0.2	-0.6	-1.2	-1.9	2.5
9/25/92 HR 11, Senate floor JCT 92-4199		6.3	-0.2	-0.6	-1.2	-1.9	2.5
10/1/92 Sen. HR 11 JCX-36-92		5.9	-0.2	-0.6	-1.1	-1.8	2.1
10/5/92 Conf. HR 11 JCT 92-0211		-0.06	0.07	0.1	0.1	0.2	0.4
Fresh Start (10/92)							6.1
66/33 Proposal (Senate)		8.4	-0.4	-0.8	-1.4	-2.1	3.8

Dorgan Amendment to Strike Retroactive Application of Intangibles Provision

[yes = strike, no = retain]

Yes	No
Gibbons	**Pickle**
Rangel	Jenkins
Stark	Anthony
Jacobs	**Coyne**
Ford	Moody
Downey	Vander Jagt
Guarini	**Crane**
Pease	**Thomas**
Matsui	McGrath
Dorgan	**Sundquist**
Kennelly	**Rostenkowski**
Donnelly	
Andrews	
Levin	
Cardin	
McDermott	
Archer	
Schulze	
Shaw	
Johnson, N.	
Bunning	
Grandy	

Not voting - Russo, Chandler, Gradison

No proxies were cast.

Bold = member of Ways and Means currently (as of 103rd Congress)

Dear Chairman Rostenkowski:

The undersigned organizations affirm their support of your proposal to simplify an important area of the tax law by using a 14-year amortization schedule for all purchased intangible assets. We are prepared to work for its enactment into law this year.

We are aware that Mr. W. L. Baker, representing the United Food and Commercial Workers International Union (UFCW) has testified in opposition to your proposal, and that perhaps other union officials have voiced similar opposition. As we understand it, their concerns center on the claim that the proposal provides a tax subsidy to mergers and buyouts which in turn threaten jobs. We have considered this claim in light of our own experiences and have discussed it with our economists. We believe that Mr. Baker and others may have a misunderstanding of what the proposal's effects are likely to be. It is our view that the proposal is very unlikely to affect the overall incidence of mergers and buyouts, but it is very likely to greatly simplify an area of the tax law badly in need of simplification.

For a change in the tax law to make a merger or buyout more attractive than under current law, it would have to change the net present value, after tax, of a business. Otherwise, no change in the number of firms merged or sold would be expected to occur. Using the General Accounting Office's data on tangible and intangible assets from the tax returns of merged or sold businesses, we have constructed the simple attached table. The table shows, for various combinations of tangible and intangible asset acquisitions, what the effect of the proposed change in the law is, assuming various discount rates and either zero or 4% inflation. As the table shows, at a 7.5% real after tax discount rate, offer prices for the average business would rise about 1 percent. And at a 12.5% discount rate with 4 percent inflation, offer prices would fall .2%. These cases and the other ones shown on the table demonstrate that changes in the net present value of a business are so small that it is unreasonable to expect any increase or decrease in the number of firms merged or sold as a result of the proposal.

We would also point out that it is not realistic to expect that mergers and sales of businesses by themselves either create or reduce jobs. Exchanges of existing assets, individually or in the aggregate, do not by themselves alter the economy's total worth or productivity--they merely rearrange the ownership of the existing assets. Since there is no reason to expect buyers of existing businesses to be less astute business persons than

sellers, on average, there is also no reason to expect that the level of a business activity under new ownership will be greater or smaller. Consequently, aggregate employment will likely be unaffected by business mergers or buyouts. Although Mr. Baker and others may argue to the contrary, we respectfully disagree on the basis of logic and experience.

Yours very truly,

KPMG Peat Marwick

2001 M. Street, N.W.
Washington, DC 20036

Telephone 202 467 3800

Telefax 202 822 3887

Date	April 5, 1993	**Steno Ref**	
To Office	Coalition on Open Years Settlement Option	**cc**	**Enc**
From Office	Gillian Spooner/Bill Fant Washington National Tax		
Subject	**Meetings with members**		

Although the House will be out of session for the next ten days or so, we again want to encourage everyone to step up the pace of your visits to members of Congress on the intangibles issue. We understand that senior Ways and Means Committee staff have indicated opponents of the intangibles issue, i.e., the unions, currently are having a greater impact with their lobbying than the proponents, i.e., us and other groups. That this impression exists at a high level at Ways and Means should be a matter of concern for all of us.

Attached is a recent newspaper article as an example of the type of success the unions are having.

Reminder: the next coalition meeting will be on April 12, Fifth Floor Conference Room, 2001 M Street, N.W., at 2:00 p.m.

The following week we will meet on Tuesday, April 20, at 2:00 p.m., Fifth Floor Conference Room.

If you have any questions, please call Gillian Spooner (202) 467-3813, Mark Springer (202) 467-3888, or Bill Fant (202) 467-3421.

2077415279

Orton fights corporate tax break

By Lee Davidson
Deseret News Washington correspondent

WASHINGTON — Rep. Bill Orton, D-Utah, began battling this week to stop what he says would be a tax break for corporate raiders that could eat up all revenue from proposed taxes on the middle class.

The fight pits Orton, a former tax attorney, against powerful House Ways and Means Committee Chairman Dan Rostenkowski, D-Ill. — with whom most House members prefer not to tangle because his panel oversees revenue and can cut purse strings to local projects.

Orton is upset that a tax provision Rostenkowski is championing could provide up to $4 billion over five years in tax breaks to help large corporations seeking to complete leveraged buyouts.

"This amount is roughly equal to the projected increases in taxes to be paid by all Americans making between $30,000 and $45,000 under the Clinton plan," Orton said.

"In other words, over 100,000 Utahns would pay higher taxes so that big corporate raiders can enjoy tax breaks while they break up companies and put employees out of work. This is not my idea of shared sacrifice."

The provision is not part of Clinton's tax package but is in a separate bill sponsored by Rostenkowski. The chairman is expected to try to add it to the president's package during committee consideration.

Rostenkowski's proposal would allow corporations to take tax deductions when they buy another company at a premium price, referred to as "amortization of goodwill."

Orton said it "would primarily serve to promote increased hostile takeovers and leveraged buyouts. In the 1980s, we saw the result of this — massive corporate debt, huge employee layoffs and numerous bankruptcies."

UFCW

Willie L. Baggett, Jr.
International Vice President
Director, Public Affairs Department

March 9, 1993

Dear Member of Congress:

On behalf of the 1.3 million members of the United Food and Commercial Workers International Union I would like to take this opportunity to urge you to oppose a proposed historic change in tax law which could cost the federal treasury billions, and which investment analysts believe may trigger a new round of corporate takeovers. This major revision of long-standing tax law would allow the amortization of goodwill. This proposal -- part of last year's vetoed tax bill -- is now embodied as part of H.R. 13 in the House, the Tax Simplification Act of 1993.

The enclosed article from the January 9th edition of the National Journal quotes from a memorandum by Harry L. Gutman, Chief of Staff of the Joint Committee on Taxation which states that the amortization of goodwill would lose "significant revenue" outside the five-year budget window. Jane Gravelle, a senior economic specialist for the Congressional Research Service is also quoted regarding her estimate that the long-term budget loss could be in excess of $2 billion per year. Ms. Gravelle states: "It is possible that the loss could be smaller, but it is more likely that the loss would be even larger."

In addition, University of Texas professor of law Calvin Johnson notes that allowing goodwill to be amortized means that "takeovers [would] have a lower effective tax rate than anything else."

I am sure you will agree that this proposed change deserves greater scrutiny by Congress than it has received heretofore. I trust you will join the UFCW in both calling for further hearings on this issue, and opposing this ill-advised measure when it comes before you for your consideration.

I look forward to hearing from you at your earliest convenience regarding your opinion of the above noted proposal to amortize goodwill.

Sincerely,

Willie L. Baggett, Jr.
International Vice President
Director, Public Affairs Department

Enclosures

William H. Wynn
International President

Jerry Montgomery
International Secretary-Treasurer

United Food & Commercial Workers International Union, AFL-CIO & CLC
1775 K Street, N.W.
Washington, D.C. 20006-1598
(202) 223-3111 FAX (202) 466-1562

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UFCW

FACTS YOU SHOULD KNOW ABOUT THE PROPOSAL TO ALLOW AMORTIZATION OF GOODWILL

FACT: **ALLOWING THE AMORTIZATION OF GOODWILL WILL CREATE A TAX BENEFIT FOR FUTURE TAKEOVERS AND MERGERS**

A professor at the University of Texas asserts that this proposal "would cut the tax rate for [takeovers] almost in half" from 34 percent to 17 percent (quoted in *National Journal*, January 9, 1993)

A vice-president of County NatWest Securities says, "Yes, we think it would spark some mergers and takeovers," [especially of companies with recognized brand names]. (quoted in *National Journal*, January 9, 1993)

Partners in the Chicago-based law firm Mayer, Brown & Platt state: "This would appear to eliminate a major U.S. barrier against takeovers." (quoted in the *Financial Times*, London, January 30, 1992)

FACT: **THE AMORTIZATION OF GOODWILL IS A LONG TERM MAJOR REVENUE LOSER, ACCORDING TO THE JOINT COMMITTEE ON TAXATION**

The Joint Committee on Taxation concluded in April 1992 that "The proposal would lose significant revenue after the budget period," and that "The revenue loss attributable to deductions for goodwill would not decrease over time." (memorandum from JCT to Senator Lloyd Bentsen, April 1992)

According to the Congressional Research Service's Jane Gravelle, the ultimate cost of the amortization of goodwill is likely to exceed $2 billion per year. (CRS memorandum, August 5, 1992)

FACT: **THE HOUSE OF REPRESENTATIVES ITSELF REJECTED A DEDUCTION FOR INTANGIBLE ASSETS AND GOODWILL IN THE OMNIBUS BUDGET RECONCILIATION ACT OF 1987**

In 1987, both the House Ways and Means Committee and the full House of Representatives explicitly rejected tax deductions for customer or workforce based intangibles, and for goodwill. The Committee Report (Report 100-391) stated that "the committee believes that assets that share many of the characteristics of goodwill and going concern value should not be depreciated more rapidly than such assets...the committee believes it is appropriate to deny amortization or depreciation deductions for intangible assets representing the value of existing customer base or market share." The bill provided that "any amount paid or incurred to acquire customer base, market share, or any renewing or similar intangible property...is not amortizable or depreciable...any asset that is renewed through the expenditure of costs that are currently deductible is not amortizable or depreciable."

2077415282

William H. Wynn
International President
AFL-CIO

Jerry Shuggaza
International Secretary-Treasurer

United Food & Commercial Workers International Union, AFL-CIO & CLC
1775 K Street, N.W.
Washington, D.C. 20006-1598
(202) 223-3111 FAX (202) 466-1562

KPMG Peat Marwick

2001 M. Street, N.W.
Washington, DC 20036

Telephone 202 467 3800

Telefax 202 822 8887

Date	March 24, 1993	**Steno Ref**	
To Office	Coalition on Open Year Settlement Option	**cc**	**Enc**
From Office	Gillian Spooner/Bill Fant Washington National Tax		
Subject	**Legislative Strategy**		

With former Congressman Ed Jenkins as our guest, the coalition today discussed possible strategies in light of Congressman Cooper's "Dear Colleague" letter. The following represents a rough consensus of opinion regarding strategy:

- Coalition members should let Chairman Rostenkowski know of their continued support for and interest in intangibles legislation.
- In a low key way, coalition members should communicate to other members of the House, both Ways and Means members and outside of the committee, their continued support for and interest in intangibles legislation.
- In initial meetings with members of Congress, the issue of intangibles as a whole probably should be discussed (addressing retroactivity too early runs the risk of losing a contact that can be developed over time).
- We should avoid activities that might tend to elevate the intangibles issue into the media spotlight.

If you have any questions, please call Gillian Spooner (202-467-3813), Mark Springer (202-467-3888), or Bill Fant (202-467-3421).

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Tax Pkg

IM COOPER
DISTRICT TENNESSEE

COMMITTEES
BUDGET
COMMERCE

WASHINGTON OFFICE
1 CANNON BUILDING
HINGTON, DC 20515-4204
PHONE: 202-225-4831

Congress of the United States
House of Representatives
Washington, DC 20515-4204

DISTRICT OFFICES
210 EAST DEPOT STREET
P.O. BOX 736
SHELBYVILLE, TN 37160
TELEPHONE: 615-684-1114

CITY HALL
7 SOUTH MAIN STREET
WINCHESTER, TN 37398
TELEPHONE: 615-967-4150

SUITE ONE
308 EAST FIRST NORTH STREET
P.O. BOX 2026
MORRISTOWN, TN 37816
TELEPHONE: 615-587-6000

216 LANTANA ROAD
P.O. BOX 646
GREENEVILLE, TN 37744
TELEPHONE: 615-454-1964

March 16, 1993

Dear Colleague:

We are writing to express our concern about a proposal to allow the amortization of goodwill in recently introduced tax legislation. The proposal, presented as tax simplification, will have a serious impact on the nation's enormous budget deficit AND introduce a new tax incentive for leveraged buyouts. **WE URGE YOU TO OPPOSE INCLUSION OF THIS PROPOSAL IN TAX LEGISLATION TO BE CONSIDERED LATER THIS YEAR.**

Broad-based amortization of goodwill was included in last year's vetoed H.R. 11 and has been reintroduced as part of the so-called "Tax Simplification Act of 1993". It's special interest legislation, pure and simple. For those of us working to bring down the deficit, this proposal is a giant step backward. According to Jane Gravelle, senior economic policy specialist for CRS, the amortization of goodwill will eventually drain over $2 billion each year from the Treasury. Last year, the Joint Tax Committee noted in a private memo that the revenue loss would be "significant...and would not decrease over time."

Increasing the deficit is not the only likely result. This proposal also provides a taxpayer subsidy for new mergers and acquisitions activity by allowing one company to buy another at inflated prices and take huge deductions at taxpayer expense. We know from recent experience that these transactions will likely cost jobs and threaten long-term productive investment. In fact, some investment analysts have already named potential buyers and takeover targets in the event this proposal become law.

Those who support this provision justify it on the grounds that it will stop the current litigation over the deduction of intangibles. That's true. But we shouldn't deal with the legal nightmare we've created by simply giving in to big business. The majority of the litigation revolves around big businesses whose attorneys and accountants use creative approaches to justify higher tax deductions. These companies have the resources to get a fair hearing in the courts, and they want Congressional approval for their aggressive tactics. Well, the price of "clarification" is just too high.

The current system does need to be fixed. Some small businesses should receive deductions for certain intangibles which arguably have a finite life. Some customer-based intangibles should be explicitly allowed. To address these concerns, a number of us will be working together to develop a legislative alternative to the current law.

Last year, the goodwill provision was included in H.R. 11 with little public debate or consideration. By the time the provision came to the floor, it was too late to stop it without killing the entire tax bill. We cannot allow this to happen again this year. Therefore, we urge the Ways and Means Committee to hold hearings on the amortization of goodwill and ultimately reject the current legislative proposal on this subject.

Sincerely,

Jim Cooper

William H. Orton

2077415284

Charlie Stenholm

Jim Slattery

Steve McCurdy

Glenn English

Tim Johnson

Tim Penny

Tim Roemer

Dick Swett

Jill Long

April 28, 1993

Dear Representative:

Congress has the opportunity this year to reform and simplify the Tax Code with respect to the treatment of intangible assets. The undersigned organizations are writing to ask you to contact Ways and Means Committee Chairman Rostenkowski and offer your support for early action on the Chairman's intangible asset simplification proposal.

Chairman Rostenkowski, on January 5, 1993, introduced H.R. 13, a bill which largely is identical to provisions contained in the final version of H.R. 11, to simplify the law for amortizing intangible assets over a 14-year period on a going forward basis. In his introductory remarks, the Chairman said, "There is widespread agreement that this provision would eliminate a major source of uncertainty and controversy in the tax law." We agree, and we believe it is important to the simplification of Federal tax policy to include the intangibles title in the reconciliation legislation which the Committee soon will begin work.

The importance of acting now has been underscored by the recent decision of the United States Supreme Court in *Newark Morning Ledger v. United States*. This long-awaited decision affirms the ability of a taxpayer to amortize and deduct the cost of intangible assets acquired as part of the purchase of a trade or business if the taxpayer can establish the life and value of the asset. The decision, however, invites the adoption of Chairman Rostenkowski's legislation, because it leaves unresolved the issue of how to distinguish the value of the intangible asset from the value of a company's goodwill. That is the remaining task, and that is the most important feature of the intangibles title of H. R. 13, because by combining goodwill with a company's intangible asset value, it eliminates the need for this distinction.

The law regarding the taxation of intangible assets is complex and archaic. It has cost taxpayers and the IRS considerable sums in time-consuming disputes over what constitutes an intangible asset, and how the asset is to be distinguished from goodwill. The simplification title in H.R. 13 is the product of a two-year cooperative effort between the Committee on Ways and Means and the Committee on Finance, the Treasury Department, the General Accounting Office, the Tax Section of the American Bar Association, and the American Institute of Certified Public Accountants.

Opposition to Chairman Rostenkowski's proposal for intangibles simplification has been expressed by Mr. W. L. Baker, who represents the United Food and Commercial Workers International Union (UFCW). As we understand it, the objection of Mr. Baker and the union centers on the concern that the proposal will provide a tax incentive for mergers and buyouts, which in turn would threaten jobs. We believe that the concerns of Mr. Baker are unfounded.

First, to make a merger or buyout more attractive than under current law, a change in the tax law would have to change the net present value, after tax, of a business. Absent such a change in present value, Congress should expect no change in the number of firms merged or sold. In order to determine the estimated change in the maximum price offered for a business resulting from the adoption of a 14-year amortization proposal, we constructed the enclosed table using General Accounting Office data on tangible and intangible asset acquisitions from the tax returns of merged or sold businesses. The table shows, for various combinations of tangible and intangible asset acquisitions, what the effect of the proposed change in the laws would be, assuming various discount rates, and either zero or 4 percent inflation.

As the table shows, at a 7.5 percent real after tax discount rate, offer prices for the average business would rise about 1 percent, and at a 12.5 percent discount rate with 4 percent inflation, offer prices would fall 0.2 percent (see shaded boxes within Table 1). These cases, and the others illustrated on the table, demonstrate that changes in the net present value of a business are so small that it is unreasonable to expect that any behavioral response to this change in the law would result in an increase or decrease in the number of firms merged or sold.

Second, the critics of the proposal have drawn the wrong conclusion from merger and acquisition activities of the 1980's that resulted, in many instances, in the layoff of workers. Exchanges of existing assets, individually or in aggregate, do not by themselves alter the economy's total net worth or productivity -- they merely rearrange the ownership of existing assets. Assuming that there are no other reasons for contracting the size of acquired businesses, there is no reason to expect buyers of existing businesses to be less astute at operating the businesses than the sellers, and there also is no reason to expect the level of a firm's activity to be greater or smaller, under new ownership. Even if mergers or buyouts were to occur in response to this proposal, and we do not believe that they will, aggregate employment should be unaffected. If employment is affected, it likely will be attributable to other factors, such as, for example, the amount of debt assumed to finance the acquisition.

Third, to the extent there was a tax incentive for new mergers and acquisitions, it has been eliminated. The Tax Reform Act of 1986 repealed the *General Utilities* rule, which allowed the purchase of assets of another company along with a step up in basis without any tax consequence. That benefit no longer is possible and there has been a corresponding reduction in acquisitions since that law became effective.

It is significant to note that both the Joint Committee on Taxation and the Treasury Department believe this simplification proposal is revenue neutral. It provides no net benefits to the corporate community, and no new tax incentives. What results, however, is much needed simplification in the administration of the Tax Code and fewer costly disputes between taxpayers and the IRS.

We feel that it is very important for you to express your support for this proposal to Chairman Rostenkowski, and to ask him to include the intangibles simplification legislation, as he introduced it, in the forthcoming reconciliation legislation. Your support also can help make the new Administration aware of the importance of this issue and show how cooperation and compromise between taxpayers and the government can achieve true tax simplification.

Respectfully,

Enclosure

D

HEALTH CARE REFORM

PAYING THE BILL
THE COST OF HEALTH CARE REFORM

Reform's Economic Side Effects

Clinton Prescription Runs the Risk of Slowing Recovery

First of four articles

By Steven Pearlstein
Washington Post Staff Writer

As he considers the various strategies for curing the ills of the nation's health care system, Dr. Clinton faces a dilemma: The medicines are likely to have significant, and in some cases unpleasant, economic side effects.

The Clinton program, as outlined so far, runs the risk of adding slightly to inflation and unemployment and slowing economic growth in the first two years after enactment, according to economists interviewed recently.

But most of the analysts said these short-term risks to economic recovery must be weighed against the long-term risk of doing nothing and allowing health care costs to consume more of the nation's output.

The health care industry now approaches one-sixth of the total output of the U.S. economy.

If health care spending is not slowed, economists predict, Americans would face the almost certain prospect of a triple whammy: lower wages as employers pass on the rising cost of health insurance; higher federal budget deficits as Medicaid and Medicare costs skyrocket; and higher trade deficits as health care costs are added to the cost of goods and services sold in world markets.

"Sometimes to solve a big problem in the economy you have to create some small problems," said Laurence Meyer, an economic forecaster who has worked with the Clinton White House.

The health care industry has become such a force in the U.S. economy—at $900 billion a year, approaching one-sixth of the total

See REFORM, A22, Col. 1

REFORM, From A1

U.S. output—that it is almost impossible to think about restructuring it without affecting the performance of the overall economy.

The crux of the Clinton plan is to harness the forces of free-market competition to slow the growth in the health sector by eliminating administrative waste, curtailing unnecessary medical procedures, holding down drug prices and doctors' salaries, and discouraging companies from developing medical technologies for which the costs outweigh the benefits.

At the same time, health insurance would be extended to all Americans, in most cases through their employers, who would be required to offer a minimum package of benefits.

For many, the period of transition to a system of "managed competition" would be wrenching, as billions of dollars—and millions of jobs—are shifted around the economy, and 37 million Americans without insurance are absorbed into the health care system.

Companies that don't offer coverage would be forced to spend an additional $40 billion a year on health insurance, while firms that now offer insurance would receive a $10 billion windfall, according to an estimate by Lewin-VHI Inc., an economic forecasting firm in Fairfax.

Regions with high medical costs or concentrations of health care workers, such as Boston and Philadelphia, are likely to feel the pinch from restructuring; states in the Southeast and Southwest would not feel it as much.

Within the health care industry, spending would shift to low technology, such as home health care, from high technology, such as magnetic resonance imaging machines. And the jobs would shift to those performing direct services to patients—nurses, for example—from those performing administrative functions, such as health insurance companies.

A Drag on Growth?

These shifts would occur largely beneath the surface of the overall economy. In many instances, winners and losers would cancel out each other and the impact on the size and direction of a $6 trillion economy would be relatively minor.

But at least in the short term, economists predict that the Clinton health plan will be a drag on growth as the economy adjusts to those structural changes and absorbs the one-time increase in health costs associated with augmenting health services for the uninsured and underinsured.

Determining the extent of those added costs—estimates range from $45 billion to $90 billion—and how they will be apportioned among government, business and consumers are the key issues still to be decided.

"You'd much rather do this when the economy was growing 4 percent a year than 1 [percent] or 2 percent, which is closer to where we are now," said Lester Thurow, dean of the management school at the Massachusetts Institute of Technology.

Walt Bottiny, a health economist with DRI/McGraw-Hill Inc., a Lexington, Mass., economic forecasting firm, estimated that reform with midrange costs could knock half a percentage point off the growth in the gross domestic product during the two years after enactment—an estimate shared by several other forecasters. Slower growth means a less robust economic recovery with fewer new jobs and wages that rise more slowly.

Even administration economists admit that the higher taxes and business costs needed to finance the startup of the Clinton program run a risk of slowing the nation's economic recovery. Members of the White House Council of Economic Advisers are working with the health care task force on strategies to minimize that risk, primarily by phasing in more slowly some of the more costly facets of the reform program.

Weighing Cost vs. Benefit

In theory, it shouldn't matter economically whether more is spent on health as long as less is spent on other things. But economists also know that not all spending is created equal.

Health care, economists believe, has become less efficient and productive than other sectors of the economy, where market forces do a better job of allocating resources and keeping prices in line with value. Most consumers make decisions about health care without regard to cost because all or most of it is paid for by insurance. Other consumer purchases, such as a car, involve some calculation of cost versus benefit.

Health care also has become less productive than sectors such as manufacturing because its work cannot be easily done by machines, so technology has not been harnessed to lower costs and improve productivity. Health care wages also have become higher than elsewhere in the economy.

Because of all these factors, another dollar of spending on health yields less than a dollar's worth of benefit—and less benefit than if it had been spent or invested elsewhere in the economy.

"It's pretty clear the last dollar we are spending on health care isn't buying very much," said Joseph Newhouse, an economist and professor of health policy at Harvard University.

Putting a number to this level of inefficiency of the health care sector is tricky business, involving a fair number of subjective judgments. But Gary Robbins, an economic forecaster in Arlington, using data from the Health Care Financing Administration, has calculated that half of every additional dollar spent on health care is lost to inefficiency or generates excess inflation.

The Clinton administration's goal for health care reform is, of course, to squeeze out these inefficiencies over time. But the prospect of shifting additional resources to this relatively wasteful sector is what leads economists to predict the lower employment, lower incomes and slower economic growth in the short run.

Small-business groups have decried the portion of the Clinton health plan that would require all employers to offer a basic package of health insurance to all employees.

Firms with fewer than 100 employees have accounted for more than 90 percent of the jobs created during the past five years, according to a study released last week by Cognetics Inc. of Cambridge, Mass. Yet government surveys show that about a quarter of these firms' workers have no employer-provided insurance.

By imposing new costs on these firms, the Clinton plan risks idling the only engine of job creation the economy has, according to small-business critics.

A mandate like that envisioned by the Clinton task force would effectively add $1.50 to hourly labor costs at firms that pay, on average, about $10 an hour. The added costs would drive firms that are barely surviving to close their doors, while others would have to lay off workers or defer hiring, according to small-business advocates.

But nearly all economists tend to discount these arguments. In the short term, they say, many small businesses should be able to pass on a portion of the cost to consumers in the form of higher prices, knowing that most of their competitors would be facing the same predicament.

In the long run, economists say that nearly all of the cost of health insurance is passed on by employers to their workers in the form of deferred wages and less generous non-health benefits.

John Shiels, a health economist with Lewin-VHI, predicted a health care mandate would result in a modest loss of about 100,000 jobs among companies that now don't offer insurance, most of them at or near the minimum wage. That is a fraction of the 48 million jobs at companies with fewer than 100 employees, and less than the 150,000 new jobs per month that the economy has been generating this year.

Others argue that a plan of universal coverage may not result in any net job reduction at all because it would spur offsetting job growth in firms that now offer insurance.

For example, most employees of firms that do not offer health insurance pay for some of their medical services out of their own pockets. But when these employees require hospitalization and cannot afford to pay, they are treated for free. The cost of that "free care" is passed on to other customers, including private employers who offer insurance, in the form of higher prices and higher insurance premiums.

Companies with health benefit plans also generally cover medical costs for spouses who work at companies that offer no coverage or less generous coverage.

Taken together, these two types of "cost shifting" amount to a $14 billion a year subsidy by firms that offer insurance to the employees of firms that do not, according to Shiels. The Clinton plan, by requiring all firms to offer a basic package of insurance, would eliminate that cost shifting and put competing firms on a more even playing field in terms of their labor costs.

Bolstering Competitiveness

Administration and private economists also point out that a system of universal health coverage would bolster the competitiveness of the U.S. economy.

Health costs, for example, account for about $1,000 of the price of the average American-made automobile that competes in world markets, compared with cars from countries where health care costs are hundreds of dollars less per auto.

A recent study by researchers at the University of Pennsylvania's Wharton School found that such differentials reflect bad management as much as they do inflated U.S. health care costs. But similar complaints are now being voiced by a broad array of strong export industries, from aerospace to computers.

Fear of losing health insurance coverage also has reduced the willingness of workers to leave one job for another. A CBS/New York Times poll found that one in three Americans said they or someone in their household was stuck in a job because of concerns over health coverage.

Requiring that all employers offer a basic package of insurance without reference to prior medical conditions would reduce that job-lock and encourage labor mobility. That mobility has been a traditional strength of the U.S. economy in the economic battles against Europe and Japan, where economies are slower to adjust to changes because workers and companies are more closely tied to each other.

Nonetheless, the administration is likely to propose some sort of government aid to take the financial sting out of the proposed health insurance mandate. By using tax credits for small businesses, the administration is likely to propose that the government pay for whatever a company pays for basic health coverage above some percentage of its total payroll costs—in effect, a subsidy for companies with low-wage workers.

The tax credits could cost the Treasury $20 billion to $30 billion a year, depending on how the program is structured. Economist Shiels said such a program would reduce the job loss at small businesses to between 20,000 and 60,000.

Concerns About Inflation

Inflation is the other major economic risk from the Clinton health plan, and one reason that the administration is considering voluntary or mandatory price controls as part of the package.

Rising medical costs have been the single biggest factor in rising consumer prices over the past decade. Although medical prices have begun to slow in the last two years—to an annual inflation rate of 6 percent last year from 10 percent in the mid-1980s—some economists fear the rate could pick up again as some businesses pass on the added cost of health insurance to their customers.

In addition, as uninsured workers are offered insurance, they are expected to begin demanding more health services—40 percent more, according to a study by the Rand Corp. Some economists fear that such a sudden increase in demand could lead to a sharp increase in prices.

"There is a significant risk on the inflation side," said Allen Sinai, chief economist for the Boston Co. Several forecasters predicted that universal coverage would add 0.5 to 1 percentage point to the inflation rate, which was 2.9 percent in 1992.

But other analysts discount the inflation risk. In standard economic theory, whether rising demand generates rising prices depends on the cost and availability of additional supply. And right now, the health care system suffers from excess supply of such things as hospital rooms, personnel and machinery.

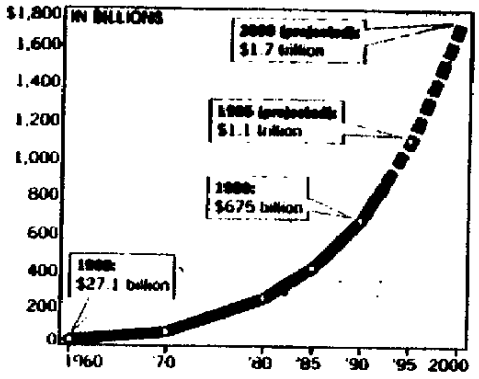
Brookings Institution economist Henry Aaron said he sees very little inflationary impact from the Clinton reform plan. Extending benefits to the uninsured and uninsured will increase demand, he said, but other parts of the Clinton plan will tend to dampen it—such as shifting more Americans into competing "managed care" programs, among them health maintenance organizations (HMOs).

The Congressional Budget Office estimated that consumers' demand for health services typically declines 10 percent when they transfer to HMOs from traditional insurance coverage. A Rand Corp. study found even greater savings.

"There will be very little effect [on overall demand for health services] if these various initiatives are instituted in tandem," Aaron said.

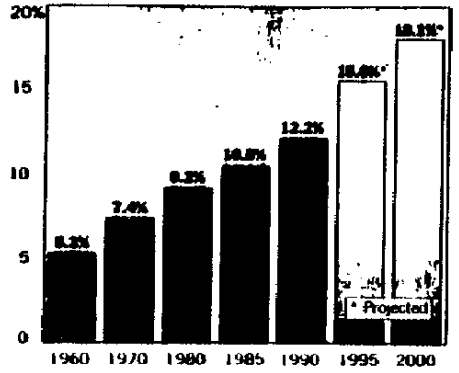
SPENDING MORE FOUR SNAPSHOTS

Total spending on health care has risen dramatically in the past decade and is projected to approach $2 trillion by 2000 . . .



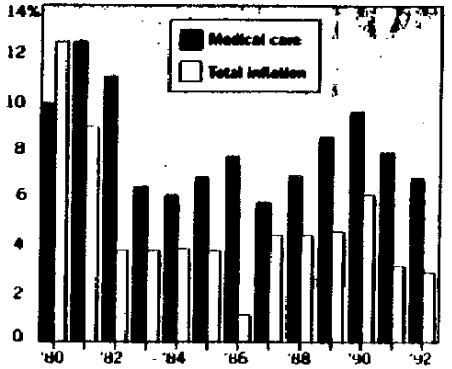
SOURCE Health Care Financing Administration

. . . At the same time, total health care spending has become a much greater percentage of the gross domestic product.



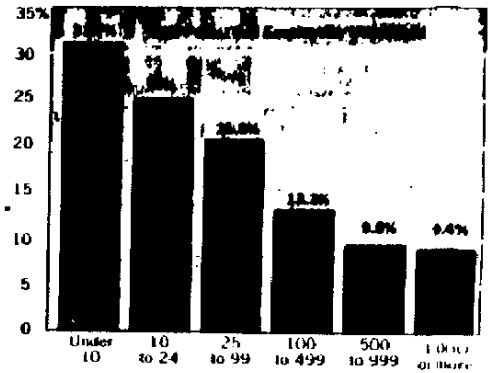
SOURCE Health Care Financing Administration

Health care prices have outpaced the general inflation rate for more than a decade . . .



SOURCE Bureau of Labor Statistics

. . . And spawned an array of uninsured workers at small businesses.



SOURCE Employee Benefit Research Institute, 1992

THE WASHINGTON POST

Scope of Reform Points to Sizable Tax Burden

Second of four articles

By Steven Mufson
Washington Post Staff Writer

Last year, candidate Bill Clinton said that savings from his health care plan would be big enough to pay for benefits for 37 million uninsured Americans.

"It does not require new taxes," he said, describing a utopian vision for health care in a campaign speech Sept. 24 at Merck & Co. headquarters in Rahway, N.J.

Now President Clinton's aides estimate that health care reform could end up costing the federal government an extra $30 billion to $90 billion a year, even after savings from holding down hospital costs and doctors' fees.

The anticipated savings have proven elusive, at least for several years, and some aides want an expansive reform program that would improve coverage for Americans deemed "underinsured" and would cover long-term care, mental health and prescription drugs.

Unless the price tag is added to the federal budget deficit, Clinton's health plan would mean new taxes, the total of which could rival all other tax increases in Clinton's economic plan combined.

To pay for a medium-size health reform program, Clinton aides are leaning toward proposing sharply higher cigarette and alcohol taxes, an excise tax on hospitals and doctors, and limits on corporate deductions for health care benefits. Beyond that, Clinton would have to look at even more unpopular alternatives, such as a value-added tax or a payroll tax.

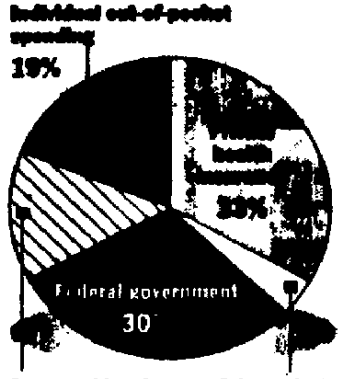
The daunting size of the taxes needed could constrain the generosity of benefits offered in the Clinton health care plan for the uninsured or lengthen the time proposed to fully phase in those benefits until the year 2000, according to administration members involved in the planning process. The desire to avoid a big tax increase also could push the administration toward mandating employers to make more payments toward workers' insurance.

After Clinton's proposal lands in Congress, the tax side of health care reform could sink the entire initiative or bog it down in a legislative quagmire.

"This could be his domestic Vietnam," said Stuart

See REFORM, A8, Col. 1

PICKING UP THE TAB
SPENDING ON HEALTH CARE IN 1991



SOURCE: Congressional Research Service

THE WASHINGTON POST

REFORM, From A1

Butler, a domestic policy analyst with the Heritage Foundation, a conservative think tank here.

"We can't digest all of this, given that we're going into writing a massive tax bill," said Rep. Robert T. Matsui (D-Calif.), a member of the tax-writing House Ways and Means Committee. "To take up another major tax bill before November or December could be very difficult to swallow for the economy, and politically as well."

Still, many Clinton aides fear that the administration's momentum will dissipate after Clinton's first year and they want to push ahead quickly.

A central problem is that most of the tax proposals being considered would tax the entire population for benefits that mostly would go to just one-seventh of the people—those who are not now insured. The dynamics would be the inverse of the Clinton income tax increase, which mostly was limited to the top 2 percent of income earners.

"Ordinary Americans are insured and satisfied with medical services even if they are worried about costs," Butler said. "And the more you talk about taxes, the more people are going to start to wonder whether it's worth it or not."

"I'm troubled because the country is not ready for the challenge of providing the kind of coverage that we want to do to ensure universality," House Speaker Thomas S. Foley (D-Wash.) recently told the annual meeting of the Associated Press.

Foley recalled the fiasco of 1989, when Congress overwhelmingly repealed a bill passed just 17 months earlier that would have imposed an income surtax on the better-off 40 percent of senior citizens to expand Medicare to cover health catastrophes.

The measure provoked a storm of protest from senior citizens who did not believe they were at risk or who already were covered for health catastrophes through other insurance plans.

The Clinton health plan, if it includes a broad-based tax, would redistribute income among regions as well. In Texas, Oklahoma, New Mexico, Mississippi, Louisiana, Florida, California, Arkansas and the District, more than 20 percent of the residents were uninsured in 1990.

States that would benefit least would be Connecticut, Hawaii, Iowa, North Dakota and Wisconsin—states where fewer than 10 percent of the residents lacked health care insurance that year. Michigan, New Jersey, Massachusetts and Minnesota also had relatively few uninsured people.

In Maryland, 16 percent of residents were uninsured in 1990; in the District, 23.9 percent; in Virginia, 18.9 percent.

Clinton has said that he believes the American people are willing to pay a little more in taxes if they get some benefits. In an effort to spread the benefits further, some Clinton advisers want a new health plan to cover the costs of long-term care, prescription drugs and mental health—all expensive items. People with minimal health insurance, known as the "underinsured," as well as the uninsured could benefit.

"If it makes life better, they're willing to contribute to it," said Stanley Greenberg, a pollster for Clinton. Greenberg said people will oppose taxes in isolation, but support them "in the context of an overall plan." He said that the new taxes are more easily accepted if they are directly linked to new health care programs.

"The issue is whether the package is fair and whether it is burdensome," Greenberg said.

A survey by the Gallup Organization released last month supports his belief: Two-thirds of those polled said they are willing to pay slightly higher taxes to provide health insurance for all Americans.

But the Gallup poll only asked if people would be willing to pay $10 a month more, enough to raise just a small fraction of what a comprehensive plan would cost the government.

Moreover, the benefits of health care reform will be elusive for most Americans. Their share of annual health insurance premiums and their out-of-pocket costs might go up less than they would otherwise, but they still would go up.

Clinton has stressed that health reform could help the entire economy by slowing the fastest-growing component of inflation in recent years.

As part of general labor costs, medical inflation has pushed up the costs of non-medical goods.

But giving health coverage to the uninsured would increase demand for medical services, and the effects on inflation are difficult to predict.

The clearest benefit would be lowered anxieties about the possibility of losing health insurance.

"Anxiety is a huge part of the problem," said Michael Podhorzer, issues campaign director of Citizen Action, a consumer advocacy group. "People are willing to pay more for health coverage to be sure that they and their families will always be covered. That will be a big part of the job of selling the plan."

The costs of a comprehensive health reform plan, however, would be more tangible to the average American. The leading candidates for raising money to pay for a Clinton health plan are the following:

'SIN' TAXES

■ A tax of $2 a pack on cigarettes would raise $15 billion to $20 billion a year. A tax of $1 a pack would raise about $10 billion a year. Because smoking sharply increases the risks of medical problems, the tax would come closest to making the consumers of health care pay for it.

But the tax would severely hurt tobacco-growing states such as North Carolina. It also would make it tough for all states to turn to cigarette taxes to finance state government. Moreover, the tax would discourage people from smoking and drinking, and budget experts say it would raise less money every year.

Still, a cigarette tax of $2 a pack, perhaps coupled with higher taxes on alcohol, would be enough initially to finance a modest program phased in gradually. A tax of $1 for a six-pack of beer would raise about $6 billion a year.

LIMIT ON TAX DEDUCTIONS FOR HEALTH CARE PLANS

■ Under current law, companies can deduct from their taxable income the entire cost of health care insurance provided to employees. Under some proposals, companies would be able to deduct only the cost of a basic package as defined by the government. The value of benefits above that amount would be taxed.

If the basic package were set at $3,600 for tax purposes and a company provided employees insurance at $5,000, the company would be taxed on $1,400.

This effectively would tax employers with the most generous plans. Those employers would be pressed to pass through the additional tax bill to workers.

Many health reformers like the plan because it would discourage companies and workers from having excessively generous plans that help fuel inflation in medical care.

But labor unions, which have bargained hard to improve health care benefits for their workers, are sharply opposed to the plan. And many companies say they would be penalized for taking care of their employees. The measure also could prompt companies to squeeze wages to cover the increased cost of health benefits.

According to the congressional General Accounting Office, the tax would raise $20 billion to $30 billion a year if companies pay taxes on benefits greater than $100 a month for individuals and $300 a month for families.

HEALTH BENEFITS TAX

■ Health benefits are really a form of compensation, though most workers think of it as something that goes along with the job.

This tax would be similar to taking away the tax deduction from companies. It probably would be structured the same way, taxing benefits in excess of a basic package, and would raise about the same amount of money.

EXCISE TAX ON HEALTH CARE PROVIDERS

■ The theory behind taxing health care providers is that the Clinton health reform plan would eliminate deadbeat patients for hospitals, doctors, insurers and other companies providing medical care, theoretically lowering their losses, and that the government should "recapture" some of those savings.

One administration official compared it to a "windfall profits" tax.

But an excise tax on health care providers probably would be passed on to patients in the form of higher charges or at least make certain that providers would not pass through cost savings to patients by cutting their fees, thus doing little to control health care costs for consumers, economists say.

The cost savings also would not be distributed evenly across the health care industry, although the tax would be spread evenly. The average operating profit margin at hospitals is about 5 percent, according to the Congressional Budget Office. But a substantial number of hospitals lose money and are ill-able to afford an excise tax even if a reform plan cuts their costs of paperwork and indigent patients.

The GAO said that a 3 percent tax on hospital revenues and doctors' incomes would raise $10 billion to $12 billion a year.

PAYROLL TAX

■ A payroll tax for health would work like the payroll tax for Medicare. The 1.45 percent tax finances hospital insurance for senior citizens. A new payroll tax could be dedicated to providing health coverage to uninsured Americans.

The disadvantage: It increases the cost of employing people and could slow hiring.

The tax would fly directly in the face of Clinton's campaign promise not to raise taxes on the poor and middle class. If structured like payroll taxes, which now apply only up to a certain income level, it would also be a regressive tax, the burden of which falls most heavily on those least able to afford it.

A 2 percent payroll tax, half paid by workers and half by employers, would raise about $25 billion a year, based on current receipts from payroll taxes. But one person close to the administration said recently "that one has been pretty much discarded."

VALUE-ADDED TAX

■ Though dismissed by many as politically infeasible, the value-added tax (VAT) comes up frequently because it is the tax that would raise the most money, though still not enough to cover a generous universal health insurance plan by itself.

If a 5 percent tax were imposed on all goods, with exceptions for food, housing and medical care, the tax would raise about $60 billion a year.

Economists like the tax because it taxes consumption and encourages savings and investment. People would buy less and save more.

But the tax is regressive, falling most heavily on the poor and middle class, who spend a greater portion of their income because they don't make enough money to put much away. Political analysts warn that it could prove politically fatal to Clinton.

House Speaker Foley and Senate Majority Leader George J. Mitchell (D-Maine) have expressed doubts about financing health care reforms with a value-added tax.

Foley said it would be "extremely difficult" to get a value-added tax enacted by Congress, noting that liberals believe it penalizes poor people and conservatives fear that the vast revenue it produces would lead to expanded government.

"The only way I can imagine a VAT going forward is with bipartisan support," Foley said, "or as a substitute for another tax."

Health experts also worry that the tax would provide no cost control for the health care sector. There would be no connection between the tax and the use of medical services.

A combination of these tax measures is sure to dim the outlook for health care reform this year, most experts acknowledge.

"It's going to be a tough sell," GAO health analyst Janice Schikles said. "The public feels it shouldn't be asked to pay more."

But, she said, "there aren't that many options."

Workers Likely to Face Higher Payments for Health Insurance

By Kathleen Day
Washington Post Staff Writer

The yearly out-of-pocket cost of buying health care insurance would increase between $200 to $900 per household under the reform package the White House is expected to unveil this month, according to health care analysts.

Workers, who now pay an annual average of about $300 for an individual and $1,200 for a family, would certainly pay more under a new health system, the analysts said, because the system as planned would be absorbing 37 million people who do not now have insurance.

But how much more depends on what other elements the eventual reform package contains and consumers' willingness to support the increase, said Robert J. Blendon, a professor of health policy at the Harvard University School of Public Health.

The administration might decide that, politically, it can raise the cost of coverage paid directly by consumers who already are insured by only a few hundred dollars a year and raise the rest of the money needed by taxing business or special-interest groups, such as smokers, Blendon said.

Economists expect the cost of President Clinton's reform to be higher in the beginning, but over the long term, the goal of the reform package will be to dampen the upward spiraling costs of the health care system.

"My guess is that people will probably pay more at first and then less over time than they otherwise would have had to pay without reform," said Jack Meyer, a Washington-based health care economist and consultant.

Today, an employee typically pays out of pocket 13 percent of the total cost for health insurance for single coverage—premiums that the Health Insurance Association of America (HIAA) estimates cost a total of $2,300 a year on average. Employers pay the remaining 87 percent.

For family coverage, employees typically pay as much as 28 percent of the total premium cost, which runs upward of $4,300 a year, according to the HIAA.

Bringing the uninsured people into the system would cost anywhere from $30 billion to $90 billion, depending on what the White House includes in the basic benefits package all Americans would be guaranteed, Meyer said.

Among the most expensive variables that could be in the plan are coverage for dental work, psychiatric care, prescription drugs, drug abuse treatment and long-term and home care.

For example, a comprehensive long-term care package alone would require $40 billion on top of the roughly $900 billion now being spent on health care, Meyer and Blendon said.

Most of the additional money needed will have to be subsidized by people who now have insurance, by employers or by taxpayers.

That means regardless of how Clinton collects the money to pay for the new health care system—through payroll deductions, through a monthly bill Americans pay directly to a medical provider, or through taxes on income, tobacco or other goods and services—consumers who now have coverage are likely to pay several hundred dollars more a year, experts said.

Michael Carter at the benefits consulting firm of Hay/Huggins in Washington agrees. But, he said, "We think the additional costs will be closer to the high end than the low end" of the $200 to $900 range. Meyer estimates it will be nearer to $400 to $500 more.

Meyer cautions against looking only at the short-term increases in the yearly bill for health care and ignoring the long-term benefits. But Blendon warned that the administration has to be careful because the amount people pay initially is what they will use to judge whether they like the Clinton reform package.

Polls show that Americans are willing to pay more for health care in exchange for having the security of knowing they will receive affordable coverage even if they lose their jobs. But only to a point.

Blendon said enthusiasm for reform diminishes as the price tag goes up and, based on an analysis of three recent polls, he said support tends to evaporate for many Americans if the price increase they pay directly, either through a payroll deduction or through a sales tax, surpasses $200 a year.

For that reason, the White House may prefer to collect a large slice of the additional funding it needs for health care reform by taxing businesses, which indirectly pass through to both customers and workers the same costs.

COMPANY COST

One model shows how much a "managed competition" plan would cost employers, by firm size, in billions.

Number of employees	Firms that now insure	Firms that don't insure
1-9	$0.7	$18.6
10-24	2.1	6.4
25-99	1.4	3.1
100-999	13.4	2.8
1,000 or more	11.1	0.3
ALL FIRMS	28.8	31.4

SOURCE: Lewin VHI estimates using the Health Benefits Simulation model

THE WASHINGTON POST

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FEDERAL EXCISE TAXES

FET Plan

I. Overview

Problem Statement:

Excise tax increases adversely impact the retail price of cigarettes, contributes to the speculation of major decline in industry volume, and therefore, depresses industry investment values.

Current Situation:

- Federal excise taxes on a pack of cigarettes has risen 200% since 1982. At that time, the rate per pack of twenty cigarettes was 8 cents. After two rate increases (one in 1982, from 8 cents to 16 cents and another in 1991, up to 20 cents), rate increased again on 1/1/93 to 24 cents per pack.

- President Clinton and others are considering raising the federal excise tax on cigarettes by as much as $2 per pack. The rationale for such a huge increase would be to fund a significant portion of the President's promised (but yet released) health care package.

II. Objectives

- Defeat all proposed increases to the federal cigarette excise tax rate; and

- De-couple cigarette excise taxes from a government sponsored universal health care program.

FET Plan

III. Strategies

General Strategy Statement:

The industry and its allies will assertively attack excessively high excise taxes on the following grounds:

- An excise tax increase will hinder economic growth, especially in the South;
- Additional excise taxes are an invitation to increased criminal activity in the form of bootlegging and theft of cigarettes;
- Raising the federal excise tax will deplete a traditional source of revenue for states and localities;
- Increased excise taxes are unfair and regressive; and
- Health care cost containment is the key to providing services to all Americans.

Tactical Strategies:

- Assist/enlist industry core and supplier groups with informing congressional, state, and White House officials regarding the potential economic blight a massive tax increase will have;
- Enlist and assist third party groups in the development, release, and publicizing of studies/polls/research which support our position;
- Coordinate media hits to coincide with the health care committee/congressional calendar(s); and
- Promote alternative solutions.

IMPACTS OF A FEDERAL CIGARETTE EXCISE TAX CHANGE

The current **federal** cigarette tax in the United States is $2.40/carton. A $2.60/carton federal excise tax increase would raise the federal excise tax on cigarettes to $5.00/carton, representing an 108% increase.

TAX BURDEN - The tax burden on cigarettes is **currently** (FY'93*) $5.75/carton or 31.3% of the price of a carton of cigarettes.

- $2.20/carton **federal excise** tax**
- $2.60/carton **state excise** tax
- $0.87/carton **state sales** tax
- $0.08/carton **local** taxes
- $18.40/carton **average retail price**

If a **federal** excise tax increase of $2.60/carton was to be enacted 1/1/94, the tax burden on cigarettes is estimated to increase to $8.87/carton. Total **local, state, federal,** and **sales** cigarette taxes will represent 39% of the price per carton.

- $5.00/carton **federal excise** tax
- $2.70/carton **state excise** tax
- $1.09/carton **state sales** tax
- $0.08/carton **local** taxes
- $22.92/carton **average retail price**

UNFAIR - Smokers in the United States **currently** pay approximately $13.3 billion in cigarette taxes. ($5.119 billion **federal**, $6.050 billion **state**, $2.1 billion **sales**, and $.2 million **local**) This contribution is too great for any one group of consumers to bear when these taxes benefit everyone in the state. (Based on preliminary Tobacco Institute data for FY'92 and estimates for FY'93)

REGRESSIVE - Federal consumer excise taxes in the United States, such as those on tobacco, take nearly **three times** the amount from the poorer consumers than from the middle class. (Source: U.S. House of Representatives, Committee on Ways and Means)

JOBS - The tobacco industry creates 2.7 million jobs in the United States and these tobacco-related employees receive almost $69.49 billion in compensation. **Total jobs lost due to the potential cigarette tax increases = 110,618.** (Based on TMA/WEFA 1990 data)

- **102,100** from a **$2.60/carton federal excise** tax increase
- **2,987** from a **$0.10/carton state excise** tax increase
- **5,531** from a **$0.22/carton state sales** tax increase

REVENUE EROSION - The $2.60/carton federal excise tax increase would also result in approximately 1.3 billion packs lost over a two year period (FY'94 and FY'95). In fact, the federal government will generate about $11.5 million less per penny after the increase. States and localities stand to lose nearly $370.3 million in cigarette excise tax revenues alone. (Based on Tobacco Institute and NCSL Study: Effect of Proposed Federal Excise Tax Rate Increases on State Excise Tax Revenues, 7/90)

* Fiscal Year represents July 1 through June 30 of the following year, i.e. FY'93 = 7/1/92 - 6/30/93.

** Federal excise tax rate for first half of FY'93 = $2.00/carton, then increased to $2.40/carton for the second half of FY'93. The average federal excise tax rate for FY'93 is equal to $2.20/carton.

IMPACTS OF STATE AND FEDERAL CIGARETTE EXCISE TAX CHANGES IN ARKANSAS

The current **federal** cigarette tax in the United States is $2.40/carton. A $2.60/carton federal excise tax increase would raise the federal excise tax on cigarette to $5.00/carton, representing a 108% increase.

TAX BURDEN - The tax burden on cigarettes in Arkansas is **currently** (FY'93*) $5.69/carton or 32% of the price of a carton of cigarettes.

- $2.20/carton **federal** tax**
- $0.77/carton **sales** tax
- $2.72/carton **state** tax
- $17.79/carton **average retail price**

If a **federal** excise tax increase of $2.60/carton was to be enacted 1/1/94, the tax burden on cigarettes in Arkansas would increase to $9.13/carton. Total state, federal, and sales cigarette taxes will represent 40% of the price per carton.

- $5.00/carton **federal** tax
- $0.98/carton **sales** tax
- $3.15/carton **state** tax
- $22.74/carton **average retail price**

UNFAIR - Smokers in Arkansas **currently** pay approximately $161 million in cigarette taxes. ($63 million **federal**, $77 million **state**, and $21 million **sales**). This contribution is too great for any one group of consumers to bear when these taxes benefit everyone in the state. (Based on preliminary Tobacco Institute data for FY'92 and estimates for FY'93)

REGRESSIVE - Excise taxes in Arkansas, such as those on tobacco, take about **three times** the amount from the poorer consumers with incomes below $10,200 than from the middle class with incomes exceeding $41,000. (Source: Citizens for Tax Justice)

JOBS - The tobacco industry creates 16,000 jobs in Arkansas and these tobacco-related employees receive almost $337 million in compensation. **Total jobs lost due to the potential federal cigarette excise tax increase = 660.** (Based on TMA/WEFA 1990 data)

- **630 from a $2.60/carton federal cigarette tax increase**
- **30 from a $0.19/carton cigarette sales tax increase**

Approximately **18% of the job losses, 116 will occur in the core and supplier sectors. Tobacco core and supplier sector jobs include tobacco growers, warehouse auctioneers, manufacturers, wholesalers, retailers, and direct supporters (i.e. chemical, paper, machinery, and plastics employees).**

REVENUE EROSION - The $2.60/carton federal cigarette excise tax increase would result in approximately 11 million packs lost over a two year period (FY'94 and FY'95). In fact, the state stands to lose nearly $2.5 million in state excise tax revenues alone. (Based on Tobacco Institute and NCSL Study: Effect of Proposed Federal Excise Tax Rate Increases on State Excise Tax Revenues, 7/90)

* Fiscal Year represents July 1 through June 30 of the following year, i.e. FY'93 = 7/1/92 - 6/30/93.
** Federal excise tax rate for first half of FY'93 = $2.00/carton, then increased to $2.40/carton for the second half of FY'93. The average federal excise tax rate for FY'93 is equal to $2.20/carton.

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IMPACTS OF STATE AND FEDERAL CIGARETTE EXCISE TAX CHANGES IN KANSAS

The current **federal** cigarette tax in the United States is $2.40/carton. A $2.60/carton federal excise tax increase would raise the federal excise tax on cigarette to $5.00/carton, representing a 108% increase.

TAX BURDEN - The tax burden on cigarettes in Kansas is **currently** (FY'94*) $5.36/carton or 29% of the price of a carton of cigarettes.

- $2.20/carton **federal** tax**
- $2.40/carton **state** tax
- $0.76/carton **sales** tax
- $18.53/carton **average retail price**

If a **federal** excise tax increase of $2.60/carton was to be enacted 1/1/94, the tax burden on cigarettes in Kansas would increase to $8.34/carton. Total state, federal, and sales cigarette taxes will represent 36% of the price per carton.

- $5.00/carton **federal** tax
- $2.40/carton **state** tax
- $0.94/carton **sales** tax
- $23.09/carton **average retail price**

UNFAIR - Smokers in Kansas **currently** pay approximately $113 million in cigarette taxes. ($47 million **federal**, $51 million **state**, and $15 million **sales**). This contribution is too great for any one group of consumers to bear when these taxes benefit everyone in the state. (Based on preliminary Tobacco Institute data for FY'92 and estimates for FY'93)

REGRESSIVE - Excise taxes in Kansas, such as those on tobacco, take nearly **three times** the amount from the poorer consumers with incomes below 12,400, than from the middle class with incomes exceeding $49,600. (Source: Citizens for Tax Justice)

JOBS - The tobacco industry creates 23,400 jobs in Kansas and these tobacco-related employees receive almost $530 million in compensation. **Total jobs lost due to the potential federal cigarette excise tax increase = 964.** (Based on TMA/WEFA 1990 data)

- **923** from a **$2.60/carton federal** cigarette tax increase
- **41** from a **$0.18/carton** cigarette **sales** tax increase

Approximately **16%** of the job losses, **150**, will occur in the core and supplier sectors. Tobacco core and supplier sector jobs include tobacco growers, warehouse auctioneers, manufacturers, wholesalers, retailers, and direct supporters (i.e. chemical, paper, machinery, and plastics employees).

REVENUE EROSION - The $2.60/carton federal cigarette excise tax increase would result in approximately 16 million packs lost over a two year period (FY'94 and FY'95). In fact, the state stands to lose nearly $3.75 million in state excise tax revenues alone. (Based on Tobacco Institute and NCSL Study: Effect of Proposed Federal Excise Tax Rate Increases on State Excise Tax Revenues, 7/90)

* Fiscal Year represents July 1 through June 30 of the following year, i.e. FY'93 = 7/1/92 - 6/30/93.
** Federal excise tax rate for first half of FY'93 = $2.00/carton, then increased to $2.40/carton for the second half of FY'93. The average federal excise tax rate for FY'93 is equal to $2.20/carton.

IMPACTS OF STATE AND FEDERAL CIGARETTE EXCISE TAX CHANGES IN SOUTH CAROLINA

The current **federal** cigarette tax in the United States is $2.40/carton. A $2.60/carton federal excise tax increase would raise the federal excise tax on cigarette to $5.00/carton, representing a 108% increase.

TAX BURDEN - The tax burden on cigarettes in South Carolina is **currently** (FY'93*) $3.65/carton or 23% of the price of a carton of cigarettes.

- $2.20/carton **federal** tax**
- $0.75/carton **sales** tax
- $0.70/carton **state** tax
- $15.69/carton **average retail price**

If a **federal** excise tax increase of $2.60/carton was to be enacted 1/1/94, the tax burden on cigarettes in South Carolina would increase to $6.65/carton. Total state, federal, and sales cigarette taxes will represent 33% of the price per carton.

- $5.00/carton **federal** tax
- $0.95/carton **sales** tax
- $0.70/carton **state** tax
- $19.99/carton **average retail price**

UNFAIR - Smokers in South Carolina **currently** pay approximately $155 million in cigarette taxes. ($93 million **federal** , $30 million **state**, and $32 million **sales**). This contribution is too great for any one group of consumers to bear when these taxes benefit everyone in the state. (Based on preliminary Tobacco Institute data FY'92 and estimates for FY'93)

REGRESSIVE - Excise taxes in South Carolina, such as those on tobacco, take nearly **two and one half times** the amount from the poorer consumers with incomes below 11,900, than from the middle class with incomes exceeding $50,100. (Source: Citizens for Tax Justice)

JOBS - The tobacco industry creates 39,600 jobs in South Carolina and these tobacco-related employees receive almost $735 million in compensation. **Total jobs lost due to the potential federal cigarette tax increase = 1,631.** (Based on TMA/WEFA 1990 data)

- **1,549** from a **$2.60/carton federal** cigarette tax increase
- **82** from a **$0.20/carton** cigarette **sales** tax increase

Approximately **48%** of the job losses, **758** will occur in the core and supplier sectors. Tobacco core and supplier sector jobs include tobacco growers, warehouse auctioneers, manufacturers, wholesalers, retailers, and direct supporters (i.e. chemical, paper, machinery, and plastics employees).

REVENUE EROSION - The $2.60/carton federal cigarette excise tax increase would result in approximately 17 million packs lost over a two year period (FY'94 and FY'95). In fact, the state stands to lose nearly $1.2 million in state excise tax revenues alone. (Based on Tobacco Institute data and NCSL Study: Effect of Proposed Federal Excise Tax Rate Increases on State Excise Tax Revenues, 7/90)

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* Fiscal Year represents July 1 through June 30 of the following year, i.e. FY'93 = 7/1/92 - 6/30/93.

** Federal excise tax rate for first half of FY'93 = $2.00/carton, then increased to $2.40/carton for the second half of FY'93. The average federal excise tax rate for FY'93 is equal to $2.20/carton.

IMPACTS OF STATE AND FEDERAL CIGARETTE EXCISE TAX CHANGES IN CONNECTICUT

The current **federal** cigarette tax in the United States is $2.40/carton. A $2.60/carton federal excise tax increase would raise the federal excise tax on cigarette to $5.00/carton, representing a 108% increase.

TAX BURDEN - The tax burden on cigarettes in Connecticut is **currently** (FY'93*) $7.90/carton or 37% of the price of a carton of cigarettes.

- $2.20/carton **federal** tax**
- $1.20/carton **sales** tax
- $4.50/carton **state** tax
- $21.28/carton **average retail price**

If a **federal** excise tax increase of $2.60/carton was to be enacted 1/1/94, the tax burden on cigarettes in Connecticut would increase to $10.98/carton. Total state, federal, and sales cigarette taxes will represent 42% of the price per carton.

- $5.00/carton **federal** tax
- $1.48/carton **sales** tax
- $4.50/carton **state** tax
- $26.16/carton **average retail price**

UNFAIR - Smokers in Connecticut **currently** pay approximately $207 million in cigarette taxes. ($58 million **federal**, $119 million **state**, and $30 million **sales**). This contribution is too great for any one group of consumers to bear when these taxes benefit everyone in the state. (Based on preliminary Tobacco Institute data for FY'92 and estimates for FY'93)

REGRESSIVE - Excise taxes in Connecticut, such as those on tobacco, take about **two and one half times** the amount from the poorer consumers with incomes below $17,600, than from the middle class with incomes exceeding $64,600. (Source: Citizens for Tax Justice)

JOBS - The tobacco industry creates 40,600 jobs in Connecticut and these tobacco-related employees receive almost $1.2 billion in compensation. **Total jobs lost due to the potential federal cigarette excise tax increase = 1,672.** (Based on TMA/WEFA 1990 data)

- 1,572 from a $2.60/carton **federal** cigarette tax increase
- 100 from a $0.28/carton cigarette **sales** tax increase

Approximately **22%** of the job losses, **366** will occur in the core and supplier sectors. Tobacco core and supplier sector jobs include tobacco growers, warehouse auctioneers, manufacturers, wholesalers, retailers, and direct supporters (i.e. chemical, paper, machinery, and plastics employees).

REVENUE EROSION - The $2.60/carton federal cigarette excise tax increase would result in approximately 13 million packs lost over a two year period (FY'94 and FY'95). In fact, the state stands to lose nearly $5.8 million in state excise tax revenues alone. (Based on Tobacco Institute and NCSL Study: Effect of Proposed Federal Excise Tax Rate Increases on State Excise Tax Revenues, 7/90)

* Fiscal Year represents July 1 through June 30 of the following year, i.e. FY'93 = 7/1/92 - 6/30/93.
** Federal excise tax rate for first half of FY'93 = $2.00/carton, then increased to $2.40/carton for the second half of FY'93. The average federal excise tax rate for FY'93 is equal to $2.20/carton.

IMPACTS OF STATE AND FEDERAL CIGARETTE EXCISE TAX CHANGES IN CALIFORNIA

The current **federal** cigarette tax in the United States is $2.40/carton. A $2.60/carton federal excise tax increase would raise the federal excise tax on cigarette to $5.00/carton, representing a 108% increase.

TAX BURDEN - The tax burden on cigarettes in California is currently (FY'93*) $7.23/carton or 32% of the price of a carton of cigarettes.

- $2.20/carton **federal** tax**
- $1.53/carton **sales** tax
- $3.50/carton **state** tax
- $22.63/carton **average retail price**

If a **federal** excise tax increase of $2.60/carton was to be enacted 1/1/94, the tax burden on cigarettes in California would increase to $10.37/carton. Total state, federal, and sales cigarette taxes will represent 37% of the price per carton.

- $5.00/carton **federal** tax
- $1.87/carton **sales** tax
- $3.50/carton **state** tax
- $27.68/carton **average retail price**

UNFAIR - Smokers in California currently pay approximately $1,320 million in cigarette taxes. ($409 million **federal**, $651 million **state**, and $260 million **sales**). This contribution is too great for any one group of consumers to bear when these taxes benefit everyone in the state. (Based on preliminary Tobacco Institute data for FY'92 and estimates for FY'93)

REGRESSIVE - Excise taxes in California, such as those on tobacco, take more than **three times** the amount from the poorer consumers with incomes below $11,700, than from the middle class with incomes exceeding $59,000. (Source: Citizens for Tax Justice)

JOBS - The tobacco industry creates 310,600 jobs in California and these tobacco-related employees receive almost $9.0 billion in compensation. **Total jobs lost due to the potential federal cigarette excise tax increase = 12,789.** (Based on TMA/WEFA 1990 data)

- 11,862 from a $2.60/carton **federal** cigarette tax increase
- 927 from a $0.34/carton cigarette **sales** tax increase

Approximately 12% of the job losses, 1,533, will occur in the core and supplier sectors. Tobacco core and supplier sector jobs include tobacco growers, warehouse auctioneers, manufacturers, wholesalers, retailers, and direct supporters (i.e. chemical, paper, machinery, and plastics employees).

REVENUE EROSION - The $2.60/carton federal cigarette excise tax increase would result in approximately 113 million packs lost over a two year period (FY'94 and FY'95). In fact, the state stands to lose nearly $39.4 million in state excise tax revenues alone. (Based on Tobacco Institute and NCSL Study: Effect of Proposed Federal Excise Tax Rate Increases on State Excise Tax Revenues, 7/90)

* Fiscal Year represents July 1 through June 30 of the following year, i.e. FY'93 = 7/1/92 - 6/30/93.
** Federal excise tax rate for first half of FY'93 = $2.00/carton, then increased to $2.40/carton for the second half of FY'93. The average federal excise tax rate for FY'93 is equal to $2.20/carton.

THIRD PARTY ACTIVITIES

COALITION AGAINST REGRESSIVE TAXATION

CART

April 29, 1993

M E M O R A N D U M

TO: CART Vice Presidents

FROM: Kenneth Stinger K.S.

RE: CART VP Meeting

There will be a CART Vice Presidents meeting on Friday, May 7, 1993 at 8:30 a.m. You are also invited to a **Washington Representatives Meeting on May 5, 1993 at 8:00 a.m. with Rep. John Lewis (D-GA) as the guest speaker. Representative Lewis is on the House Ways and Means Committee.**

The breakfast meeting on May 5, 1993 will be held in the 3rd Floor Conference Room and the CART Vice Presidents' meeting will be held in the 4th Floor Conference Room at American Trucking Associations' Capitol Hill Building, 430 First Street, S.E.

Please call Juanita Peoples at (202) 544-6245 to RSVP if you plan to attend these meetings. Thank you.

/jp

2077415310

430 FIRST STREET, SE WASHINGTON DC 20003 202.544.6145

COALITION AGAINST REGRESSIVE TAXATION

CART

FOR IMMEDIATE RELEASE

CONTACT: Mike Mason
(703) 838-7935

NEW STUDIES SHOW EXCISE TAXES DISCRIMINATE AGAINST MOST AMERICANS, WILL COST MORE THAN 300,000 JOBS

WASHINGTON (March 15) -- Two new studies charging that excise taxes currently under discussion discriminate against lower- and middle-income families and will cost more than 300,000 U.S. jobs were presented today by Thomas J. Donohue, president of the Coalition Against Regressive Taxation (CART).

Donohue, who also president and CEO of the American Trucking Associations, presented the studies, prepared by the economic research firm of Peat Marwick, which demonstrated the inequitable economic impact of the proposed taxes.

"Excise taxes unfairly hit families making under $30,000 per year," said Donohue quoting the studies, "and fifty-four percent (54%) of America's families earn less than $30,000 per year."

Among the studies' other findings:

- Families making under $30,000 per year pay twice as high a percentage of income on excise taxes as families making $30,000-$60,000 and five times as high as families earning more than $60,000 per year.
- A doubling of federal excise taxes on gasoline, alcohol and tobacco products will result in the displacement of 300,000 U.S. jobs.

(more)

"These are the wrong taxes paid by the wrong people and they'll get the wrong results," said Donohue. "They discriminate and they cost jobs. We're just here to ask for fairness. If we have to collect a tax, let it be from the 'haves,' not the have-nots."

"Just because a tax is easy to hide, easy to collect and easy to rationalize, doesn't mean it's fair or equitable," Donohue said.

Donohue noted that the proposed tax on natural gas, coal and nuclear power would be 25.7 cents per million Btu's. But the tax on oil would be 59.9 cents per million Btu's -- more than twice the tax on other energy sources.

Rural residents, who drive more than urban dwellers and have no access to subsidized transit systems, would pay 62 percent of the total gasoline tax, even though a majority of Americans live in metropolitan areas.

CART indicated a willingness to pay what they call a "fair share" of the tax burden and vowed to work together with Congress to see that the final economic package is equitable.

"Let's not make one income group, or one industry, or one geographic area pay for a deficit that we all created," said Donohue.

###

Coalition Against Regressive Taxation (CART)

Membership Includes:

American Wholesale Marketers

Smokeless Tobacco Council

DISCUS

Tobacco Institute

American Trucking Associations

Beer Institute

Wine & Spirits Wholesalers Association

R.J.R. Nabisco

National Beer Wholesalers Association

Cassidy & Associates

Philip Morris, Inc.

Hecht, Spencer & Associates, Inc.

Cigar Association of American

# # #

Statement by
Tom Donohue
President and CEO, American Trucking Association
President, Coalition Against Regressive Taxation (CART)

Press Conference
March 15, 1993
8:30 a.m.
National Press Club
Topic: Excise Taxes

I'm Tom Donohue, president and CEO of American Trucking Associations, and president of CART, the Coalition Against Regressive Taxation. We're here to talk about two new studies containing evidence that proves excise taxes are regressive and harmful to lower- and middle-income families and that increasing these taxes will result in the loss of more than 300,000 jobs.

According to the studies by the Policy Economics Group of Peat Marwick, fifty-four percent of America's families earn less than $30,000 per year. The families earning less than $30,000 per year are this Administration's constituency. Yet, these are precisely the people who will be unfairly hit by these taxes.

According to the studies, families making under $30,000 per year pay twice as high a percentage of income on excise taxes as families in the next income bracket ($30,000-$60,000). These lower-income families pay five times as high as families earning more than $60,000 per year.

Now let's put these two facts together and show both the share of income and the share of excise taxes born by each of these income groups (see accompanying charts).

Families making under $30,000 receive 19 percent of the total income in the United States. Yet, they're paying 43 percent of all federal and state excise taxes on gasoline, alcohol and tobacco. It doesn't take a math wizard to see that these people are being disadvantaged.

Families earning $30,000 to $60,000 receive about 33 percent of the total income and pay about 35 percent of the excise taxes. Now that's a little more balanced.

But families earning over $60,000 receive 48 percent of the total income, while only paying 22 percent of the excise taxes. This is unfair and unacceptable.

Now, I also said excise taxes unfairly target by industry and geography. Since I am most familiar with trucking, let me use that industry as an example.

Some weeks ago, we spoke out against fuel taxes. We are very pleased by the Administration's decision not to include them in their program. Instead, they chose a Btu tax which, if equitably applied, would at least be fair and balanced.

However, it is not equitable. The proposed tax on natural gas, coal and nuclear power would be 25.7 cents per million Btu's. But the tax on oil would be 59.9 cents per million Btu's -- more than double the tax on other energy sources ... that is grossly unfair.

When fully phased in by mid-1996, the tax would push up the cost of all petroleum products, including gasoline and diesel fuel, by roughly 8 cents per gallon. That works out to $3 billion of tax on commercial truck owners alone. So the "broad based energy tax" becomes a camouflaged fuel tax, and another unfair excise tax.

Fuel taxes not only target the lower- and middle-income groups, and certain industries, they also hit harder at certain geographic areas. In rural areas, for example, the average household generates over 40 miles of daily auto travel as compared to about 25 miles for motorists in large metropolitan areas. Also, metropolitan areas offer subsidized mass transit systems.

As a result, rural America will shoulder a 62 percent greater burden per capita, than will urban residents. Friday's *Journal of Commerce* reported that the Petroleum Marketers Association of America predict that households in New England and the Mid-Atlantic states will pay at least 10 percent more in energy taxes than those in other regions, and 25 percent more than those in the South Central region. Why should certain regions or particular industries assume more of the tax burden? It is obvious that they should not.

The Marwick studies also demonstrate that a doubling of federal excise taxes on gasoline, alcohol and tobacco products will result in the displacement of 300,000 U.S. jobs:

- Doubling the federal gasoline tax would displace about 130,000 workers.
- Doubling federal receipts from beer, wine and distilled spirits would displace over 110,000 workers.
- Doubling the federal take from tobacco would knock out 60,000 jobs.

Pundits will argue that these jobs will show up elsewhere in the economy, but try explaining that the people who have families to feed. These job losses will cause real pain to real people in selected states, industries and occupations.

Before we slap a tax on targeted industries, we should look at the current taxes:

- Current federal tax on cigarettes is 24 cents a pack.
- Current federal gasoline tax is 14.1 cents-per-gallon.
- Current federal diesel tax is 20.1 cents-per-gallon.

Don't forget the states collect taxes too. The average state tax on a pack of cigarettes is 27.5 cents. When combined with the federal tax, the total tax per pack is about 51-and-a-half cents.

The average state tax on gasoline is 18 cents-per-gallon, and many local governments exact additional taxes bringing the total average to 40 cents-per-gallon.

But government wants more. We hear from some state officials that they're going to support the federal excise taxes because the states want to use the federal tax hikes as a cover for increased state excises taxes. So what you get is tax upon tax on targeted products that the lower- and middle-income workers will have to pay -- and more lost jobs.

The problem with excise taxes is they tax the wrong people, they discriminate and they cost jobs. Excise taxes are unequal in their collection, targeting certain groups of people, individual industries, particular geographic areas.

Remember the important numbers from the studies:

-- 54 percent of American families earn less than $30,000

-- That 54 percent pays twice as high a percentage of their income as the next income group ($30,000 to $60,000), and five times as high as the wealthy (over $60,000)

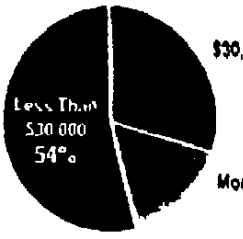
-- 300,000 lost jobs

We're just here to ask for fairness. If we have to collect a tax, let it be balanced. And let's not make one income group, or one industry, or one geographic region pay for a deficit that everyone created.

We're willing to pay our fair share, and we'll work together with Congress to see that the final economic package is equitable. Thank you for coming. We'll be happy to take your questions now.

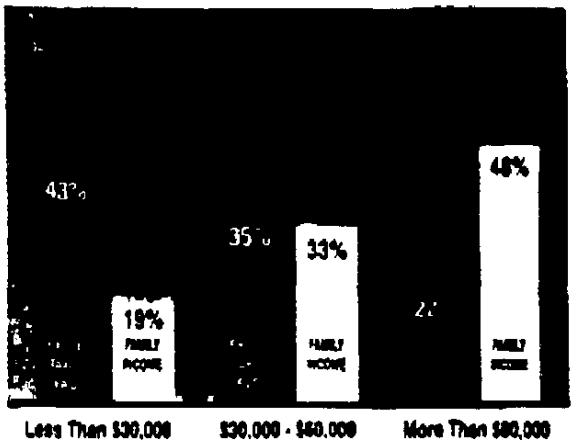
# # #

If You're Wondering Why Raising Consumer Excise Taxes Is A Bad Idea, Just Ask Low- and Middle-Income Americans



- 54 Percent of American Families Earn Less Than $30,000 Per Year
- These Families Account For Only 19 Percent of Family Income
- But They Pay A Staggering 43 Percent of Excise Taxes
- As A Percentage Of Income, They Are Taxed Five Times As Much As Families Earning More Than $60,000 Per Year

SOURCE: Policy Economics Group of Price Waterhouse for CART



Why Take The Most From Those Who Have The Least?

The 239 Congressional Districts listed below cover 43 states. The median household income for each is below $30,000.

Congressional District	Median Household Income
ALABAMA	
01	$ 22,881*
02	24,374
03	21,504
04	20,877
06	29,364
07	16,590
ARIZONA	
02	$ 20,258
03	27,627
06	27,047
08	25,710
ARKANSAS	
01	$ 18,180
02	25,142
03	21,903
04	19,621
CALIFORNIA	
02	$ 24,807
06	29,974
18	28,394
19	29,153
20	21,140
21	29,943
30	23,435
32	28,339
33	20,708
35	25,481
37	27,127
44	29,049
50	27,645
COLORADO	
01	$ 24,870
03	24,521
04	29,377
FLORIDA	
01	$ 25,868
02	23,368
03	19,780
05	21,374
06	28,025
09	29,283
10	25,146
11	26,188
12	25,315
13	27,816
14	28,629
15	29,756
17	21,888
18	25,537
22	29,595
23	23,038
GEORGIA	
01	$ 25,265
02	17,942
05	25,892
07	28,431
08	25,744
09	26,561
10	27,553
11	24,763
IDAHO	
01	$ 25,066
02	25,446
ILLINOIS	
01	$ 24,140
04	23,083
07	25,220
12	25,032
15	28,788
17	25,195
19	22,979
20	26,173
INDIANA	
08	$ 25,188
09	28,478
06	27,895
07	28,080
08	25,242
09	26,908
10	25,304
IOWA	
01	$ 29,544
02	25,016
03	24,787
04	26,561
05	24,180
KANSAS	
01	$ 23,633
02	24,903
04	29,306
KENTUCKY	
01	$ 20,331
02	23,212
03	26,814
04	26,382
06	15,052
08	25,377
LOUISIANA	
01	$ 27,877
02	18,367
03	23,813
04	14,515
05	22,903
06	25,251
07	21,442
MAINE	
02	$ 24,672
MARYLAND	
07	$ 25,094
MICHIGAN	
01	$ 22,788
02	28,905
04	25,898
06	26,312
08	28,453
09	29,976
14	25,079
15	15,264
MINNESOTA	
01	$ 29,371
02	27,026
06	28,634
07	22,893
08	24,667
MISSISSIPPI	
01	$ 20,867
02	18,630
03	21,829
04	20,234
05	21,702
MISSOURI	
01	$ 24,983
04	25,064
06	26,968
08	27,186
07	21,712
08	18,207
09	26,055
MONTANA	
AL	$ 22,900
NEBRASKA	
01	$ 25,763
03	22,344
NEVADA	
01	$ 29,611
NEW JERSEY	
10	$ 28,849
13	29,721
NEW MEXICO	
01	$ 27,074
02	21,486
03	23,610
NEW YORK	
16	$ 23,164
11	26,148
12	20,444
15	19,238
16	15,080
17	27,727
23	26,155
24	25,687
29	28,951
30	26,263
31	29,126
NORTH CAROLINA	
01	$ 18,226
02	27,771
03	24,553
06	25,543
07	24,708
08	26,180
10	28,911
11	23,564
12	23,068
NORTH DAKOTA	
AL	$ 23,213
OHIO	
01	$ 25,405
04	27,312
06	21,781
09	28,858
11	22,458
14	28,184
16	27,524
17	26,220
18	22,808
OKLAHOMA	
01	$ 27,472
02	20,633
03	18,384
04	25,391
05	28,348
06	21,797
OREGON	
02	$ 23,949
03	27,150
04	24,593
06	28,608
PENNSYLVANIA	
01	$ 20,372
02	24,880
03	29,157
04	26,782
05	23,934
06	28,768
08	24,309
10	25,648
11	24,310
12	22,084
14	24,761
18	28,003
20	28,284
21	25,845
SOUTH CAROLINA	
01	$ 28,705
03	25,897
04	27,703
05	25,215
06	19,254
SOUTH DAKOTA	
AL	$ 22,503
TENNESSEE	
01	$ 21,952
02	25,267
03	24,687
04	20,686
05	28,209
06	28,234
07	29,242
08	22,622
09	22,117
TEXAS	
01	$ 21,897
02	21,218
04	26,874
06	24,046
08	29,420
10	27,200
11	22,263
12	27,286
13	20,807
14	23,812
15	17,888
16	22,632
17	21,532
18	22,531
19	27,367
20	22,372
23	21,566
24	27,535
27	21,852
28	30,270
29	20,612
30	23,144
UTAH	
03	$ 26,570
VERMONT	
AL	$ 29,798
VIRGINIA	
03	$ 22,568
05	24,807
06	27,155
08	20,857
WASHINGTON	
03	$ 29,154
04	25,066
06	25,107
08	27,883
07	29,767
WEST VIRGINIA	
01	$ 21,993
02	22,253
03	18,188
WISCONSIN	
08	$ 26,758
05	26,267
06	28,038
07	25,277
08	26,189
WYOMING	
AL	$ 27,088

* Median Household Income
SOURCE: U.S. Census Bureau

CART COALITION AGAINST REGRESSIVE TAXATION
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Why Take The Most From Those Who Have The Least

The 239 Congressional Districts listed below cover 43 states. The median household income for each is below $30,000.

Congressional District	Household Income
ALABAMA	
01	$ 22,881*
02	24,374
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06	25,710
ARKANSAS	
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02	25,142
03	21,903
04	19,621
CALIFORNIA	
02	$ 24,807
05	29,974
18	28,324
19	29,153
20	21,140
21	28,943
30	23,435
32	28,332
33	20,708
35	25,481
37	27,127
44	29,049
50	27,655
COLORADO	
01	$ 24,870
03	24,521
04	26,577
FLORIDA	
01	$ 25,886
02	23,388
03	19,780
05	21,374
06	26,625
09	28,293
10	25,145
11	26,166
12	25,315
13	27,616
14	29,620
15	29,755
17	21,899
18	25,537
22	29,595
23	23,039
GEORGIA	
01	$ 25,265
02	17,942
05	25,892
07	28,831
08	25,744
09	26,581
10	27,553
11	24,763
IDAHO	
01	$ 25,986
02	25,446
ILLINOIS	
01	$ 24,140
04	23,083
07	25,220
12	25,032
15	28,760
17	25,195
19	22,979
20	26,173
INDIANA	
02	$ 26,185
03	29,470
05	27,693
07	28,080
08	25,242
09	28,900
10	25,394
IOWA	
01	$ 29,544
02	25,010
03	24,767
04	28,591
05	24,150
KANSAS	
01	$ 23,433
02	24,903
04	28,308
KENTUCKY	
01	$ 20,331
02	23,212
03	26,614
04	28,362
05	15,052
06	25,377
LOUISIANA	
01	$ 27,877
02	18,367
03	23,813
04	14,515
05	22,903
06	25,251
07	21,442
MAINE	
02	$ 24,672
MARYLAND	
07	$ 25,684
MICHIGAN	
01	$ 22,788
02	28,905
04	25,888
05	28,312
06	28,453
07	29,976
14	25,079
15	15,264
MINNESOTA	
01	$ 28,371
02	27,024
05	28,634
07	22,693
08	24,667
MISSISSIPPI	
01	$ 20,867
02	15,530
03	21,625
04	20,234
05	24,702
MISSOURI	
01	$ 24,963
04	23,064
05	26,968
06	27,165
07	21,712
08	18,207
09	26,055
MONTANA	
AL	$ 22,988
NEBRASKA	
01	$ 25,763
03	22,344
NEVADA	
01	$ 29,641
NEW JERSEY	
10	$ 28,849
13	28,721
NEW MEXICO	
01	$ 27,074
02	21,456
03	23,610
NEW YORK	
10	$ 23,164
11	26,148
12	20,444
15	19,238
16	15,060
17	27,227
23	26,156
24	25,687
29	28,951
30	26,263
31	25,124
NORTH CAROLINA	
01	$ 18,226
02	27,271
03	24,553
05	25,543
07	24,708
08	26,160
10	28,511
11	23,564
12	23,068
NORTH DAKOTA	
AL	$ 23,213
OHIO	
01	$ 25,405
04	27,312
06	21,761
09	28,656
11	22,459
14	28,184
16	27,524
17	25,220
18	22,908
OKLAHOMA	
01	$ 27,472
02	20,633
03	18,394
04	25,391
05	28,348
06	21,797
OREGON	
02	$ 23,949
03	27,150
04	24,593
05	28,608
PENNSYLVANIA	
01	$ 20,372
02	24,880
03	29,157
04	26,792
05	23,934
06	28,766
09	24,309
10	25,648
11	24,310
12	22,024
14	24,751
18	29,003
20	26,294
21	25,845
SOUTH CAROLINA	
01	$ 28,705
03	25,897
04	27,700
05	25,215
06	19,254
SOUTH DAKOTA	
AL	$ 22,503
TENNESSEE	
01	$ 21,952
02	25,267
03	24,687
04	20,685
05	28,208
06	29,234
07	29,242
08	22,622
09	22,117
TEXAS	
01	$ 21,697
02	21,216
04	26,974
05	24,045
09	29,420
10	27,280
11	22,283
12	27,366
13	20,907
14	23,812
15	17,666
16	22,632
17	21,532
18	22,531
19	27,267
20	22,372
23	21,555
24	27,535
27	21,552
28	20,276
29	20,612
30	23,144
UTAH	
03	$ 28,570
VERMONT	
AL	$ 29,792
VIRGINIA	
03	$ 22,556
05	24,807
06	27,155
09	20,857
WASHINGTON	
03	$ 29,154
04	25,055
06	25,107
06	27,882
07	29,707
WEST VIRGINIA	
01	$ 21,903
02	22,253
03	18,166
WISCONSIN	
03	$ 25,758
05	26,267
06	28,038
07	25,277
08	28,169
WYOMING	
AL	$ 27,096

* Median Household Income

SOURCE: U.S. Census Bureau

CART COALITION AGAINST REGRESSIVE TAXATION

430 First Street, SE
Washington, DC 20003
1-202/675-8540

RESPONSIBLE BUDGET ACTION GROUP
220 ½ "E" STREET, N.E.
WASHINGTON, D.C. 20002

(202) 547-4484
FAX #(202) 547-4476

FOR IMMEDIATE RELEASE
For further information contact Susan Tanaka
(202) 547-4484

The Committee for a Responsible Federal Budget today released a report on the first phase of their Health Care Reform Project. Henry Bellmon, Republican Co-Chairman of the group, describes the report as "a budgeteer's eye view of health care reform issues." Governor Bellmon points out that there is much speculation, but little hard data available in the health care reform debate. "We are budget experts, not health care experts," he said, "but this analysis leads us to recommend a cautious approach to health care reform."

Robert N. Giaimo, Democratic Co-Chairman of the CRFB, underscores the need for caution. He says: "There is a temptation to believe that reform will bring better care to more people, nobody will have to give up anything and everybody will pay less." Mr. Giaimo said, "In one very important way, the health care reform debate is like the budget deficit debate. The most important conclusion we reach is that there are no easy choices or quick fixes."

Susan Tanaka, Committee Vice President and project director says historically there has been a tendency to underestimate costs and overestimate savings from politically popular proposals. Ms. Tanaka says, "The interaction of costs and savings across the Federal budget, national health and the national economy -- as well as the interaction of the three economic sectors -- is not now well understood by health care analysts, economists, politicians and the American people. Solving the health care problem will require significant changes in the attitudes and behavior of consumers, providers and other players in the health care industry. For reform to be durable, all parties will have to commit themselves over the long term to making the necessary changes." She also says, however, "While we do not know how long it will take to forge a national consensus on system-wide reform, there are steps government might take immediately that could begin to expand access, achieve modest savings, and improve the prospects for more ambitious reform."

Committee President Carol Cox Wait says there is a direct relationship between rising health care costs and rising Federal deficits. She concludes, "Costs already are growing too fast. Adding more demand and new funding will only make this situation worse. It could be like throwing gasoline on a fire. Federal government efforts must focus on health cost containment. Expanded access may be financed gradually as savings are achieved."

The second phase of the project will focus on system wide health care reform proposals -- what they cost or save -- and the distribution of cost and savings across the economy.

Conclusions

Health Care Reform Project

Phase I: Cost Containment and Incremental Reform

For twelve years, the Committee for a Responsible Federal Budget has worked to educate the public on the federal budget and related issues. Today, all roads lead to health care spending in the budget.

- If government were to raise revenues and reduce non-health care spending enough to balance the budget next year, within a decade we once again would face $300 billion per year deficits, unless we did something to restrain the rate of growth in health expenditures.

- Health spending is growing more than twice as fast as the economy. Federal revenue growth only keeps pace with economic growth.

- ***We cannot solve the budget deficit problem anytime in the foreseeable future unless something is done substantially to restrain the general rate of growth in heath care spending and, specifically, the growth in the costs of Federal programs.*** **This is true even assuming no new programs and no expansion of current benefits under existing programs.**

As budget experts, not health care experts, our Committee undertook this study of health care reform to assess the likely cost and savings associated with frequently mentioned proposals. The Committee examined the inefficiencies and perverse incentives in the current system, identified incremental reforms proposed to mitigate or eliminate these factors, and estimated the budget savings that these measures would produce.

As budgeteers, we recognized that economic savings, health care savings, and budget savings are three different concepts. Furthermore, because "savings" in one sector are often costs to another, we looked at impacts across the economy. Our analysis highlights the three sectors affected by health care reform: individual, large and small employers, and Federal, State and local governments.

The most important conclusion we reach, in the first phase of our Health Care Reform Project, is that there are ***no easy choices or quick fixes.***

- The illusion of easy solutions misdirects our efforts to accomplish meaningful reform.

It exacerbates our tendency to underestimate the cost and overestimate savings associated with politically popular goals.

We are concerned, for instance, that the politicians and the public could be tempted to rely on price controls to finance expanded health care benefits just as they have been tempted for so long to believe that we could solve the budget deficit problem if we only eliminate waste fraud and abuse in government. Or, constituencies only focus on problems most apparent to them, argue for individual remedies, and ignore the potential cross-sectoral impact of change.

- The interaction of costs and savings across the Federal budget, national health, and the national economy -- as well as the interaction of the three economic sectors -- is not now well-understood by health care analysts, economists, politicians, and the American people.

  The thoughtful measurement of the *cumulative* effect of these interaction is essential if health care reform is to generate sustainable solutions to our health care cost and access problems.

- While it is seductive to say that health care costs are "societal" and to expect government to pay for what we want, in the end, health care consumers are individuals, and we must pay for what we consume, either as individual consumers or collectively as taxpayers.

- Historically, there has been a tendency to overestimate potential savings to be derived from changes in public policy.

  Government commits to new programs and increased spending, assuming that the increased outlays will be offset by projected savings.

  Too often, the projected savings do not materialize, government remains committed to higher spending, and the deficit goes up.

  In addition, it is difficult to measure accurately the impact of individual proposals. Each analysis requires a number of assumptions. The ability to develop good estimates is limited by available data and knowledge and the use of static, rather than dynamic, analytic techniques.

  - Using different assumptions can result in wide swings in projections. In their budgets, public policy makers must make allowances for major deviations.

Although we cannot afford to avoid any longer the tough decisions that have to be made, health care reform need not be an all or nothing proposition. Rising annual deficits projected by the President beginning in 1998 and continuing through the first decade of the 21st century are due largely to rising health care costs, in the nearer-term. Therefore, Federal government efforts must focus on cost containment. Expanded access may be financed gradually as savings are achieved.

- While we do not know how long it will take to forge a national consensus on system-wide reform, there are steps government might take immediately that could begin to expand access, achieve modest savings, and improve the prospects for more ambitious reform.

- The health care system should "self-finance" any expanded benefits with savings from incremental measures. Costs are already growing too fast. Adding more demand and new funding will only make this situation worse. It could be like throwing gasoline on a fire.

  Our experience shows that third-party payors have helped to eliminate traditional restraints on the demand for health care and have helped fuel rising costs. we must be careful not to further exacerbate this growth in cost. Therefore, expansion of coverage and benefits must be phased-in after we have demonstrated that we have replaced an uncontrollable system with one that has effective controls over costs.

  Fiscal discipline can help to focus the debate by making it more difficult to avoid the difficult choices necessary to make the health care system affordable.

  Absent effective fiscal constraints, adding to the demand for care could jeopardize the effort to achieve meaningful cost containment.

Incremental reforms can add to our knowledge base, reduce the risk of unacceptable outcomes, alleviate some of the access problems, and help prepare public opinion for the types of changes that will have to be made.

The following are examples of measures that can begin to control costs:

- Implementation of compatible electronic billing and claim processing systems;
- Medical malpractice reform;
- Outcomes research, enforcement of medical practice guidelines;
- Increased enrollment in effective managed care plans;
- Capping the tax deductibility of employer-paid health benefits; and
- Relaxing Federal Medicaid mandates and anti-trust provisions that impede State innovation.

The following are examples of measures that can help increase access to care:

- Small group market reform;
- Pre-emption of State-mandated benefits;
- Pre-emption of State legislative barriers to managed care;
- Capping the tax deductibility of employer-paid health benefits; and
- Relaxing Federal Medicaid mandates and anti-trust provisions that impede State innovation.

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In addition, the Federal government could provide leadership through example by reforming Federal health care programs (e.g., consolidating programs and closing underutilized facilities) and by converting the Federal Employee Health Benefit program (FEHBP) to managed competition to test the approach.

In the longer term, effective reform will have to target two, often conflicting, but inter-related objectives:

- *Cost containment.* Meaningful reform must save money relative to the projected trend. Failure to do so will impede, if not prevent, the achievement of the second goal of universal access.

  Effective, long-term cost containment will require consumers to accept limits on what we demand and to pay more for what we get.

- *Access.* Assuring that all citizens have access to quality health care is a desirable social goal. Universal coverage may prove to be a precondition to long-term cost control and stability.

  Expanded access could easily go beyond providing those who need care, but cannot afford its cost. To some, expanding access means more and better benefits, lower out-of-pocket individual cost, broader coverage, even greater convenience. Any movement in this direction will require fiscal constraint until costs can be contained.

Solving the health care problem will require significant changes in the attitudes and behaviors of consumers, providers, and other players in the health care industry. For reform to be durable, all parties will have to commit themselves over the long term to making the necessary changes.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

Mr. Eduardo Peña, Jr.
Chairman of the Board
LULAC Foundation, Inc.
1314 19th Street N.W.
Washington, D. C. 20005

Dear Mr. Peña:

Thank you for your letter and the study by the KPMG Peat Marwick Policy Economic Group. I appreciate your interest in health care reform and your contribution to our effort.

Your letter makes an excellent point, that the selection of health care reform financing has critical and vital implications. Consequently, we are carefully examining the economic effects of alternatives, even though we do not expect to need much added revenue.

The materials you sent indicate that of the five types of tax, excise taxes are the most regressive and would be the most onerous for the certain low-income populations in the Latin community. Because the President is aware of the possible burden, he and the Task Force will continue to consider alternatives. I am pleased to see that the materials you sent will be included with other resources we will be using in the coming months.

Thank you again for sharing the information with us.

Sincerely,

Gerald H. Britten
Acting Assistant Secretary
for Planning and Evaluation

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LULAC FOUNDATION, INC.

Contact: Eduardo Peña, Jr.,
Chairman, LULAC Foundation
(202) 835-1555

NEW STUDY EXAMINES IMPACT OF NATIONAL HEALTH CARE REFORM FINANCING OPTIONS ON U.S. HISPANIC COMMUNITY

WASHINGTON, D.C., March 25 -- A new study, analyzing potential funding mechanisms for national health care reform, reveals the detrimental impact some of those new taxes could have on the Hispanic American community and on the working poor of America as well.

The major findings of the study show that three widely discussed ways to pay for health care reform -- taxing workers on a portion of their employer-provided health benefits, increased excise taxes, and taxing employers on a portion of the health care benefits they provide to their workers -- would hit America's working poor, including Hispanics, the hardest.

The study, Financing Health Care Reform: The Impact Of Potential Tax Increases On The Hispanic Community, was prepared for the League of United Latin American Citizens Foundation (LULAC Foundation) by the Policy Economics Group of KPMG Peat Marwick.

"Health care reform is critical to the Hispanic community," said Eduardo Peña, Chairman of the LULAC Foundation. "We believe rapid movement towards universal access is necessary and applaud President Clinton's commitment to make health care available to all Americans. However, an equally critical issue in the health care reform debate is how universal access can be paid for without further impoverishing those most in need."

A recent report by the U. S. Bureau of the Census states that more than 31% of the Hispanic community -- 7 million people -- are not covered by either private or public health insurance.

"A key reason millions of Hispanics do not have health insurance is because they cannot afford it," said Mr. Peña. "It would be totally counterproductive for health care reform to be funded through new taxes that place a disproportionate financial burden on those who are least able to pay. "

Mr. Peña went on to note that in such a situation, the government would essentially be telling this group of already hard-pressed Americans: "We will give you the health care coverage you previously could not afford -- you just have to pay for it."

The study examined five alternative financing methods, each designed to raise $20 billion in new taxes annually, to assess how fair they would be to the lower- and lower-middle income classes where Hispanic families are disproportionately represented.

"Fairness in taxation is usually looked at in terms of whether taxes are progressive and based on a person's ability to pay," said Fernando Ramos from the KPMG Peat Marwick Policy Economics Group.

• OVER •

The five financing options examined were: a uniform health care income tax surcharge; a payroll tax increase brought about through the removal of the Social Security and Medicare hospital insurance tax caps; increased excise taxes on alcohol, tobacco and gasoline; taxing workers on a portion of their health benefits; and taxing employers on a portion of their health care expenditures.

"These five taxes are either commonly recognized as potential broad based revenue sources or have been discussed as funding sources for health care reform," said Mr. Ramos. "Although there are obviously many others, the five selected are sufficiently varied to help illustrate the broad differences in fairness that may exist among the various financing options available."

The study demonstrates that the most regressive forms of funding are excise tax increases which take a far larger proportion of earned income from the poorest segments of society than from those in the upper class. Taxing portions of employer health care expenditures and employee health care benefits are the next most regressive taxes to lower income groups.

In contrast, the health care income tax surcharge is a relatively fair tax because it reflects the progressive characteristics of the existing tax system. The most fair is the payroll tax option, which has virtually no effect on lower income Americans.

The purpose of the study was to highlight important considerations in developing financing for national health care reform. "We hope that this study provides some answers to how health care reform can best be financed so that the President and Congress do not inadvertently worsen the lot of the Hispanic community and that of many other Americans," Mr. Peña concluded.

The League of United Latin American Citizens Foundation (LULAC Foundation) is a nonprofit organization affiliated with the League of United Latin American Citizens (LULAC). LULAC, the nation's oldest and largest Hispanic civic organization with approximately 115,000 members throughout the United States, was established in 1929 to improve the quality of life for Americans of Hispanic descent. LULAC and the LULAC Foundation provide direct services, research and advocacy on virtually all social, political and economic issues of concern to the Hispanic community.

# # #

TRADE ASSOCIATION

April 28, 1993

MEMORANDUM

TO: Derek Crawford, Philip Morris
Mike Forscey, Wunder, Diefenderfer, Cannon & Thelen
Peter Harris, Capital Communication Strategies
Jim Healey, Black, Manafort, Stone and Kelly
John Jarvis, The Jarvis Company
Tommy Payne, R.J. Reynolds Nabisco
Edward Porcaro, CHCS
Bob Reese, Philip Morris
Jim Savarese, Savarese & Associates
Eric Shulman, Ogilvy Adams & Rinehart
Robin Tallon
Dick White

FR: Calvin George CG

RE: Tax Issue Meeting

This memo confirms that our next tax issue meeting will be on:

Monday, May 3
at 3:00 pm
TI board room

Please let me or Christine Patterson know if you are unable to make this meeting. Thank you.

cc: Bob Lewis
Bob McAdam
Bill Orzechowski
Susan Stuntz
Walter Woodson

TINA, JAY
HERE'S THE LATEST
FET CONGRESSIONAL
CONTACT INFO.
MARY

MEMORANDUM

April 16, 1993

TO: Walter Woodson

FROM: John Leeper

SUBJECT: FET Update from Region VIII

Below is a summary of our results so far. We have started typing the individual reports so they are more readable.

Attached are copies of all reports we have received so far.

ARKANSAS	CONTACT	AFFILIATION	COMPLETED
Dickey	Joe Bell	RJR	X
Lambert	Joe Bell	RJR	X
Thornton	Stewart Bell	TI	X
Bumpers	Earl Jones	PM	X
Pryor	Joe Bell	RJR	X
KANSAS			
Glickman	John Bottenberg	PM	X
Slattery	John Bottenberg	PM	X
Dole	Bill Henry	PM	X
Kassebaum	Ron Hein	RJR	X
MISSOURI			
Clay	Ken Rothman	TI-Local	
Danner	Louis Smither	Burley Tobacco Growers	X
Gephardt	Ken Rothman	TI-Local	
Skelton	John Britton	TI	X
Volkmer	John Britton	TI	X
Wheat	Randy Morris	TI	X
Bond	Ken Rothman	TI-Local	X
Danforth	John Britton	TI	

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NEBRASKA

Hoagland	Bill Peters	TI	X

OKLAHOMA

Brewster	Ken Nance	TI	X
English	• Mandell Matheson	RJR	X
Synar (We do not have anyone who can contact Synar)			
Nickles	Ken Nance	TI	

• New contact person.

JL/cb

CC: Matt Paluszek
Joe Murray
Hurst Marshall

Region VIII FET Summary, April 22, 1993

Arkansas	For	Against	Undecided	No Response
Dickey		X		
Lambert			X	
Thornton			X	
Bumpers			X	
Pryor	X			
*Hutchinson		X		
Kansas				
Glickman	X			
Slattery			X	
Dole			X	
Kassebaum		X		
Missouri				
Clay			X	
Danner			X	
Gephardt		X		
Skelton			X	
Volkmer		X		
Wheat			X	
Bond		X		
Danforth				X
*Talent		X		
Nebraska				
Hoagland			X	
Oklahoma				
Brewster		X		
English			X	
Synar				X
Nickles				X
	2	8	11	3

*Not on original list

MEMBER: Congressman Jay Dickey/Republican/4th District/Arkansas

TIME & DATE OF CONTACT: March 26, 1993

PERSONAL VISIT OR CONTACT BY TELEPHONE: visit X telephone___

THE INDUSTRY PERSON(S) MAKING THE CONTACT: Joe Bell, RJR, Arkansas

WAS THE CONTACT DIRECTLY WITH THE MEMBER? yes X no___
IF NOT, NAME OF THE STAFF PERSON(S):

MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:

For_____ Against___X_____ Undecided_____

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES:

Health Care and related Budget Package is so complex that no workable solution is soon forthcoming. An increase in cigarette taxes is not something he will vote for.

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER:

Congressman Dickey is pro-business, pro-agriculture, and generally anti-tax. Joe Bell suggests waiting until the Health Care Package is published before re-contacting.

OTHER COMMENTS:

Joe Bell and Congressman Dickey were in law school together and have a good one-on-one relationship. Joe Bell is the appropriate person to follow up with Congressman Dickey at a later date.

Joe Bell and John Leeper to write follow-up letters.

MEMBER: Congresswoman Blanche Lambert/Dem/1st Dist/Arkansas

TIME & DATE OF CONTACT: April 14, 1993

PERSONAL VISIT OR CONTACT BY TELEPHONE: visit____ telephone X___

THE INDUSTRY PERSON(S) MAKING THE CONTACT: Joe Bell, RJR, Arkansas

WAS THE CONTACT DIRECTLY WITH THE MEMBER? yes X___ no____
IF NOT, NAME OF THE STAFF PERSON(S):

MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:
For_____ Against_____ Undecided___X_____

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES:

Health Care Reform must be accomplished, but excise tax on tobacco might not be part of the answer. Congresswoman Lambert promised Joe Bell she would be "equitable".

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER:

Any industry facilities in the 1st District should contact her. This would include Kraft, etc. Local wholesalers, especially Bob Douglas, members of the tobacco states and Washington staff should furnish Congresswoman with one page bullet paper(s) on the Price-Waterhouse findings. Bob Douglas should make a call or visit. State Representative Bobby Hogue, one of her constituents, is also willing to help with her.

OTHER COMMENTS:

Joe Bell also talked with Russ Orvin, her "tax" staffer, by phone in her Washington office. He is a smoker (who wants to quit); however, it is felt he would listen to our Washington people.

Joe Bell and John Leeper to write follow-up letters.

MEMBER: Congressman Ray Thornton/Democrat/2nd District/Arkansas

TIME & DATE OF CONTACT: April 15, 1993 and April 19, 1993

PERSONAL VISIT OR CONTACT BY TELEPHONE: visit X telephone___

THE INDUSTRY PERSON(S) MAKING THE CONTACT: Stewart Bell, T.I. Arkansas, and Joe Bell, RJR Arkansas, visited with Ed Fry on 4/15/93, and Joe Bell talked with Ray on the telephone on 4/19/93.

WAS THE CONTACT DIRECTLY WITH THE MEMBER? yes X no___
IF NOT, NAME OF THE STAFF PERSON(S): Ed Fry was contacted first, and then Congressman Thornton was spoken with on the telephone.

MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:

For_____ Against_____ Undecided___X_____

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES:

Congressman Thornton, in a telephone visit on 4/19/93, expressed opposition to regressive excise taxes, but thought that a "fair and equitable" tobacco tax was "likely" as part of a health care reform effort. These same thoughts were expressed in a letter to Joe Bell on that same date.

* A copy of the letter to Joe Bell is attached.

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER:

Local wholesalers, members from the tobacco states and Washington staff should furnish Congressman with one page bullet paper(s) on the Price-Waterhouse findings.

OTHER COMMENTS:

Congressman Thornton's chief Legislative Assistant in Washington is very friendly and accessible. Ed Fry is very familiar with the subject. Both Joe Bell and I see him often, in Little Rock and when we are in Washington.

Stewart Bell and John Leeper to write follow-up letters.

Copy of Thornton's letter to Joe Bell - Attachment 1.

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MEMBER: Senator Dale Bumpers/Democrat/Arkansas

TIME & DATE OF CONTACT: 9:20 a.m. on April 16, 1993

PERSONAL VISIT OR CONTACT BY TELEPHONE: visit____ telephone_X___

THE INDUSTRY PERSON(S) MAKING THE CONTACT: Earl Jones

WAS THE CONTACT DIRECTLY WITH THE MEMBER? yes____ no_X___
IF NOT, NAME OF THE STAFF PERSON(S): Rich Glick

MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:

For_____ Against_____ Undecided_____

"Too Early" - proposal to come May 5th. Will state position after that.

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES:

Does not believe vat will get there.

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER:

I believe all of the Arkansas delegation Democrats will have to go with Clinton. In my opinion Senator Pryor should be targeted to try to help moderate the tax as much as possible. Regardless, I think Bumpers will take his lead from Pryor.

OTHER COMMENTS:

Follow-up letters from Jones and T.I.

MEMBER: Senator David Pryor/Democrat/Arkansas

TIME & DATE OF CONTACT: April 20, 1993

PERSONAL VISIT OR CONTACT BY TELEPHONE: visit____ telephone_X___

THE INDUSTRY PERSON(S) MAKING THE CONTACT: Joe Bell, RJR, Arkansas

WAS THE CONTACT DIRECTLY WITH THE MEMBER? yes____ no__X__
IF NOT, NAME OF THE STAFF PERSON(S): Frank Thomas, Administrative Assistant, and Steve Glaze, Administrative aide.

MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:

For___X_____ Against_____ Undecided_____

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES:

Tobacco use causes diseases, which smokers and the industry should be held accountable for, in the form of higher taxes to fund health care reform.

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER:

Recontact Steve Glaze, after Health Care Reform Plan is presented to Congress.

OTHER COMMENTS:

Pryor is very anti-tobacco, after suffering a heart attack. He wa a smoker. His aide, Steve Glaze, was very cool, also.

Follow-up letters from Joe Bell and John Leeper.

MEMBER: Congressman Jim Slattery/Democrat/2nd District/Kansas

TIME & DATE OF CONTACT: 11 a.m. on April 14, 1993

PERSONAL VISIT OR CONTACT BY TELEPHONE: visit___ telephone_X___

THE INDUSTRY PERSON(S) MAKING THE CONTACT: John C. Bottenberg

WAS THE CONTACT DIRECTLY WITH THE MEMBER? yes_X___ no____
IF NOT, NAME OF THE STAFF PERSON(S):

MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:
For_____ Against_____ Undecided____X_____

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES:

Too much for Congress to handle! Very soft on excise taxes. Worried about "Joe Sixpack". He has some Indian Shops in his district. Very concerned that the House will pass and Senate kills.

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER:

Show the problems that the Indian Shops create.

OTHER COMMENTS:

Showing more concern about Clinton's proposals. His support is getting weaker.

Follow-up letters from Bottenberg and T.I.

2077415338

MEMBER: Senator Dole

TIME & DATE OF CONTACT:
Apr. 21, 1993

PERSONAL VISIT OR CONTACT BY TELEPHONE: visit___ telephone ✓

THE INDUSTRY PERSON(S) MAKING THE CONTACT:
Bill Henry, Philip Morris U.S.A, Topeka

WAS THE CONTACT DIRECTLY WITH THE MEMBER? yes___ no ✓
IF NOT, NAME OF THE STAFF PERSON(S):
Greg Schnacke

MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:
For_____ Against_____ Undecided ✓

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES: Senator Dole is currently opposed to any tax increases for the budget. He believes spending cuts must be made before he will support any tax increase, excise or otherwise for the budget. He also wants more detail on Clinton's health care plan before he commits to any tax increase for the plan.

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER:

Vicky Hart is the Senator's staff person on health issues (her phone # is 202-224-3135 in the leadership office)
Nina Oviedo is the Senator's Tax Counsel and is a key player in the GOP Caucus position on taxes. I have not spoken to Nina but she can communicate the Senator's feeling on any tax issue including our excise tax issue.

OTHER COMMENTS:

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MEMBER: Senator Nancy Kassebaum/Republican/Kansas

TIME & DATE OF CONTACT: April 13, 1993

PERSONAL VISIT OR CONTACT BY TELEPHONE: visit___ telephone_X___

THE INDUSTRY PERSON(S) MAKING THE CONTACT: Ronald R. Hein, RJR, Kansas

WAS THE CONTACT DIRECTLY WITH THE MEMBER? yes___ no_X___
IF NOT, NAME OF THE STAFF PERSON(S): Dan Bolen

MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:

For_____ Against___X_____ Undecided_____

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES:

Opposed in general to excise taxes on tobacco and alcohol. However, if taxes are included in health care legislation, Senator Kassebaum will have to vote on the total package, and the package is not sufficiently known for her to have a committed position.

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER:

I requested about the opportunity for someone in the industry to approach Senator Kassebaum personally when the package is more specifically determined and I was advised that might be possible.

OTHER COMMENTS:

Follow-up letters from Ron Hein and John Leeper.

MEMBER: Congressman Bill Clay/Democrat/1st District/Missouri

TIME & DATE OF CONTACT: April 16, 1993

PERSONAL VISIT OR CONTACT BY TELEPHONE: visit____ telephone_X___

THE INDUSTRY PERSON(S) MAKING THE CONTACT: Karen Warren, Secretary to Ken Rothman, T.I. Local, St. Louis, Missouri

WAS THE CONTACT DIRECTLY WITH THE MEMBER? yes____ no_X___
IF NOT, NAME OF THE STAFF PERSON(S): Staff member name, Mrs. Green

MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:

For_____ Against_____ Undecided____X_____

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES:

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER:

OTHER COMMENTS:

Arrangements will be made to meet with Congressman Clay. There will also be future attempts made to gather more extensive information.

Follow-up letters from Ken Rothman and John Leeper.

2077415341

MEMBER: Congresswoman Pat Danner/Democrat/6th District/Missouri

TIME & DATE OF CONTACT: Mid January (letter), Mid February (letter, Mid March (letter)

PERSONAL VISIT OR CONTACT BY TELEPHONE: visit X telephone X
She visited opening tobacco market last fall (personal contact).

THE INDUSTRY PERSON(S) MAKING THE CONTACT:
Louis Smither and several hundred tobacco farmers.

WAS THE CONTACT DIRECTLY WITH THE MEMBER? yes X no
IF NOT, NAME OF THE STAFF PERSON(S):

MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:

For_____ Against_____ Undecided X

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES:

She wants deficit reduction and budget cuts before tax hikes are considered (so she says).

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER:

Last letter I wrote concerned my desire for her to join other tobacco congress reps and meet with Clinton. Her comments on this request have not returned to me as of this date.

OTHER COMMENTS:

Tobacco farmers from Chariton County are going to her town meeting at 1 p.m. Thursday in Keytesville. Tobacco farmers from Howard County are going to her town meeting in Fayette at 3 p.m. Thursday.

MEMBER: Congressman Dick Gephardt/Democrat/3rd District/Missouri

TIME & DATE OF CONTACT: 9:40 a.m. on April 21, 1993

PERSONAL VISIT OR CONTACT BY TELEPHONE: visit___ telephone_X___

THE INDUSTRY PERSON(S) MAKING THE CONTACT: John Britton, T.I., Missouri

WAS THE CONTACT DIRECTLY WITH THE MEMBER? yes____ no_X___
IF NOT, NAME OF THE STAFF PERSON(S): Andrew Stevens

MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:

For_____ Against___X_____ Undecided_____

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES:

Generally opposed to the idea of using excise taxes for such purposes. However, is committed to President's plans for health care reform and deficit reduction.

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER:

Corporate C.E.O.'s

OTHER COMMENTS:

Follow-up letters from John Britton and John Leeper.

Letter from Gephardt to Ken Rothman - Attachment 3.

MEMBER: Congressman Ike Skelton/Democrat/4th District/Missouri

TIME & DATE OF CONTACT: 2 P.M. on April 8, 1993

PERSONAL VISIT OR CONTACT BY TELEPHONE: visit___ telephone__X__

THE INDUSTRY PERSON(S) MAKING THE CONTACT: John Britton

WAS THE CONTACT DIRECTLY WITH THE MEMBER? yes_X__ no___
IF NOT, NAME OF THE STAFF PERSON(S):

MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:
For_____ Against_____ Undecided___X_____

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES:

Not crazy about excise taxes but would probably support an increase in cigarette tax for health care if increase was reasonable and the plan well constructed.

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER:

He has a grower in his district. Has good relationship with members of the North and South Carolina delegation.

OTHER COMMENTS:

Follow-up letter from T.I. office.

2077415344

MEMBER: Congressman Harold Volkmer/Democrat/9th District/Missouri

TIME & DATE OF CONTACT: 1:24 p.m. April 5, 1993

PERSONAL VISIT OR CONTACT BY TELEPHONE: visit___ telephone_X___

THE INDUSTRY PERSON(S) MAKING THE CONTACT: John Britton

WAS THE CONTACT DIRECTLY WITH THE MEMBER? yes_X___ no___
IF NOT, NAME OF THE STAFF PERSON(S):

MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:
For_____ Against__X_____ Undecided_____

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES:

Against all excise tax increases.

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER:

OTHER COMMENTS:

MEMBER: Congressman Alan Wheat/Democrat/5th District/Missouri

TIME & DATE OF CONTACT: p.m. 4/13/93

PERSONAL VISIT OR CONTACT BY TELEPHONE: visit____ telephone_X___

THE INDUSTRY PERSON(S) MAKING THE CONTACT: Randy Morris

WAS THE CONTACT DIRECTLY WITH THE MEMBER? yes____ no_X___
IF NOT, NAME OF THE STAFF PERSON(S):
District Director, Kansas City Office - Gerard Grimaldi

MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:

For_____ Against_____ Undecided____X_____

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES:

Congressman Wheat is favorably disposed towards the President's budget package but is reserving his options as to the Health Care reform package until a bill is filed in Congress. Congressman Wheat, while a member of the Congressional Caucus on Tobacco and Health, thinks that any serious health care reform package must include financing sufficient to cover its cost and that there must not be any "hidden costs".

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER:

A follow-up face-to-face meeting has been requested with the Congressman.

OTHER COMMENTS:

A follow-up letter has been sent from Randy and also from my office.

2077415346

MEMBER: Senator Kit Bond/Republican/Missouri

TIME & DATE OF CONTACT: 4:30 p.m. on April 8; 6 p.m. on April 15; 9:30 p.m. on April 18, 1993

PERSONAL VISIT OR CONTACT BY TELEPHONE: visit_X___ telephone_X___

THE INDUSTRY PERSON(S) MAKING THE CONTACT: Harry Gallagher, RJR, Missouri

WAS THE CONTACT DIRECTLY WITH THE MEMBER? yes_X___ no____
IF NOT, NAME OF THE STAFF PERSON(S):

MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:

For_____ Against___X_____ Undecided_____

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES:

Tobacco excise taxes - opposed.
Health care and budget packages - skeptical, wait and see.

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER:

The Senator asked that the industry keep him informed through D.C. and other avenues.

OTHER COMMENTS:

Senator Bond said on April 18 that if a package which adversely effected Social Security if an excise tax were not enacted, he could have a problem.

Follow-up letters from Harry Gallagher and John Leeper.

2077415347

MEMBER: Congressman Peter Hoagland/Democrat/2nd District/Nebraska

TIME & DATE OF CONTACT: 9 a.m. on April 21, 1993

PERSONAL VISIT OR CONTACT BY TELEPHONE: visit___ telephone_X___

THE INDUSTRY PERSON(S) MAKING THE CONTACT: Bill Peters, T.I., Nebraska

WAS THE CONTACT DIRECTLY WITH THE MEMBER? yes___ no_X___
IF NOT, NAME OF THE STAFF PERSON(S): Roger Blauwet

MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:

For_____ Against_____ Undecided____X_____

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES:

Until there are specific proposals staff is assembling research information. Staff priority until May 17 is tax bill. Major companies have already contacted and supplied information. Congressman has not discussed specifics with staff and staff does not expect discussion until after bill is introduced. Issue that appears to be of significant concern is financing health reform with unstable and disappearing tax. With regard to Health Care key issue will be role of insurance companies. (What does Mutual of Omaha want?) They are receiving low leads of concerns regarding state and local losses. Expect more when bill proposed.

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER:

This member had a very close race. He lost important labor support because of his vote on railroad strike. United Transportation Union in particular punished by withholding funds and workers. Will be trying to get back with labor while taking care of health insurance concerns.

OTHER COMMENTS:

Based on his style while in legislature as well as votes, Congressman Hoagland would vote for a tax increase if it was for a program which he supported. Would be willing to negotiate and compromise, I would be shocked if he didn't follow leadership in final analysis.

Follow-up letters from Bill Peters and John Leeper.

MEMBER: Congressman Bill Brewster/Democrat/3rd District/Oklahoma

TIME & DATE OF CONTACT: 3 p.m. on April 19, 1993

PERSONAL VISIT OR CONTACT BY TELEPHONE: visit___ telephone X___

THE INDUSTRY PERSON(S) MAKING THE CONTACT: Kenneth R. Nance, T.I., Oklahoma

WAS THE CONTACT DIRECTLY WITH THE MEMBER? yes___ no X___
IF NOT, NAME OF THE STAFF PERSON(S): Pat Raffaniello, Chief of Staff

MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:

For_____ Against___X_____ Undecided_____

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES:

Opposed to using the cigarette tax as a funding mechanism for reforming the health care system.

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER:

OTHER COMMENTS:

Follow-up letters from Ken Nance and John Leeper.

2077415349

MEMBER: Congressman Glenn English/Democrat/6th District/Oklahoma

TIME & DATE OF CONTACT: 2:58 p.m. on April 13, 1993

PERSONAL VISIT OR CONTACT BY TELEPHONE: visit___ telephone_X___

THE INDUSTRY PERSON(S) MAKING THE CONTACT: Mandell Matheson, RJR Legislative Counsel, Oklahoma

WAS THE CONTACT DIRECTLY WITH THE MEMBER? yes___ no_X___
IF NOT, NAME OF THE STAFF PERSON(S): Gary Dage, Chief AA

MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:

For_____ Against_____ Undecided___X_____

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES:

Representative English believes the President's overall program will be in one big package with House Rules limiting amendments to bare minimums. He does not want to take a fixed position on tobacco taxes or any other single point or issue. English believes locking himself in on a "yes" or "no" position would become a commitment to vote against the package, taking him out of action as a "player" in the overall process.

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER:

A.A. Gary Dage has asked me to send him our (RJR) info on FET which I will do Thursday (4-15). Continued contact via D.C. offices is recommended. I believe he may be responsive to our position depending on how package is presented in House. He is a Democrat, but represents a farm-conservative, generally, GOP area.

OTHER COMMENTS:

Follow-up letters from Matheson and T.I.

cc: SDC.
R. McAdam
B. Lewis
S. Stech
R. Moyers
J. Poole
T. Payne
G. Scott
B. Ellis
F
W

FEDERAL CONTACT PROGRAM (REGION XI)

MEMBER: Bob Filner (D) District 50 California

TIME & DATE OF CONTACT: 4/19/93

PERSONAL VISIT OR CONTACT BY TELEPHONE: TELEPHONE - X

INDUSTRY PERSON MAKING THE CONTACT: Jim Milch

WAS THE CONTACT DIRECTLY WITH THE MEMBER? YES - X

IF NOT, NAME OF THE STAFF PERSON(S):

MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:
FOR AGAINST UNDECIDED - X

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES: Congressman Filner's first questions was "What is FET?". I explained to him briefly what I thought it was and what his President was intending by it. Since he has not even heard of the FET plans, he could offer no opinions other than to agree with me that there is a point of "diminishing returns" on basing the financing of new federal programs on such a concept. He suggested that I send him a package of material which would be of help to him in evaluating an eventual position. I would suggest that we identify the precise items which wold be most effective in informing Congressman Filner of the merits of our case. From my own experience, and from my knowledge of Congressman Filner, there is a point of "diminishing returns" from bulk submittal of information. I would suggest, therefore, that we be selective in the material we send him to educate him on the subject.

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER:

OTHER COMMENTS:

DATE OF FOLLOW-UP THANK YOU LETTER TO THE MEMBER FOR TAKING THE TIME TO MEET WITH INDUSTRY:

FEDERAL CONTACT PROGRAM (REGION XI)

MEMBER: Xavier Becerra (D) District 30 California

TIME & DATE OF CONTACT:

PERSONAL VISIT OR CONTACT BY TELEPHONE: TELEPHONE - X

INDUSTRY PERSON MAKING THE CONTACT: Christina Rose (Rose & Kindel)

WAS THE CONTACT DIRECTLY WITH THE MEMBER? NO - X

IF NOT, NAME OF THE STAFF PERSON(S): Elsa Marquez, Admin. Ass't.

MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:
FOR AGAINST UNDECIDED - X

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES: No position yet on excise taxes but will most likely be supportive in general of the President's healthcare package.

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER: Expect return call from either the member or David Kim, his advisor on health and tax issues.

OTHER COMMENTS:

DATE OF FOLLOW-UP THANK YOU LETTER TO THE MEMBER FOR TAKING THE TIME TO MEET WITH INDUSTRY:

FEDERAL CONTACT PROGRAM (REGION XI)

MEMBER: Lucille Roybal-Allard (D) District 33 California

TIME & DATE OF CONTACT:

PERSONAL VISIT OR CONTACT BY TELEPHONE: TELEPHONE - X

INDUSTRY PERSON MAKING THE CONTACT: Christina Rose (Rose & Kindel)

WAS THE CONTACT DIRECTLY WITH THE MEMBER? NO - X

IF NOT, NAME OF THE STAFF PERSON(S): Joel Lane, Leg. Ass't.

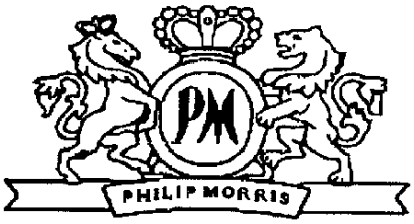
MEMBER'S POSITION ON INCREASED TOBACCO EXCISES:
FOR AGAINST UNDECIDED - X

MEMBER'S GENERAL VIEW ON TOBACCO EXCISE TAXES AND THE HEALTH CARE AND BUDGET PACKAGES: Has not yet addressed the issue of excise taxes but will most likely be supportive of the President's budget and healthcare packages in general. Also, probably supportive of excise taxes due to some anti-smoking feelings.

RECOMMENDATIONS FOR FUTURE CONTACTS/INFORMATION FOR/OTHER MATTERS WITH THIS MEMBER: Should be open to a meeting.

OTHER COMMENTS: Has been meeting with Hillary Clinton and expresses special concern about the Latino community.

DATE OF FOLLOW-UP THANK YOU LETTER TO THE MEMBER FOR TAKING THE TIME TO MEET WITH INDUSTRY:



ACTIVITIES

Congress of the United States
House of Representatives
Washington, DC 20515

March 10, 1993

President Bill Clinton
The White House
Washington, DC 20500

Dear Mr. President:

As Democrats, we want to support your efforts to stimulate the economy, reduce the budget deficit, and reform health care.

We have seen recent comments by senior members of the Administration suggesting that federal excise taxes on tobacco products might be raised as high as $2.00 a pack on cigarettes to raise revenue for health care reform.

We know that you have not made any decisions on such proposals. Therefore, we wanted to be sure you are receiving balanced information on the public policy effects of dramatic increases in tobacco excise taxes.

Tobacco has been for three centuries the economic and social bedrock of large regions in the states we represent. In colonial days, tobacco leaf literally served as currency. In today's more diversified economies, it is no less important to millions of people.

In 1985, Chase Econometrics conducted a study of the economic impact of the tobacco industry in the U.S. economy. Price Waterhouse updated the study in 1986. We believe the findings of these studies remain valid today since the industry is mature and has remained stable since 1986.

Price Waterhouse found core sector employment was 422,462 jobs, supplier sector employment was 278,421 jobs, and expenditure-induced effects sector employment was 1,647,063 jobs, for a total of over 2.3 million jobs. Total payroll in 1986 dollars was over $51.9 billion.

In 1986, GNP was $4.2 trillion. Tobacco core and supplier induced impact on GNP was $37.3 billion and tobacco expenditure-induced impact was $59.9 billion. Thus, tobacco accounted for about 2.3% of GNP.

We recite these numbers to make clear that tobacco excise tax policy is not limited to health and revenue issues as recent comments suggest. Rather, significant changes in tobacco excise taxes will have significant macro-economic effects. To ignore this would be to imperil the economic goals of the stimulus and deficit packages.

The macro-economic numbers are especially meaningful to us because the people of our states are the people behind the numbers. The economic and social structure of large portions of our states consists of tobacco quota-holders, farmers, equipment dealers and servicers, farm suppliers, bankers, warehousers, graders, plant workers, and many others. A drastic curtailment of the tobacco industry would mean that many communities would literally die.

Tobacco growing remains one of the last bastions of the family farm. The quota holders are often older people who depend on renting the quota for income. Due to the quota system and other factors, the producers are small family operations, not large business entities. The local economy in many areas has grown around and is dependent on this small operator system.

We know that your home-state is not a tobacco producing state. However, it is a relatively poor, rural state with some similarly dominant industries. You can therefore understand the dilemma we face: an ardent desire for health-care reform and economic growth running head-on against policies which threaten the economic foundation supporting many of our people.

While we believe tobacco and every other industry should pay fair shares, we will find it most difficult to support policies that would render health care reform and economic recovery meaningless for many of our people.

We look forward to working with you on a payment plan for health care reform that makes reform and recovery meaningful for all. Please let us know how we can be of assistance.

Sincerely,

Billy Scott

Carrie Meek

Olympia Snowe

L.F. Payne	David Price
Martin Lancaster	Pete Peterson
Sanford Bishop, Jr.	Bill Hefner
Tim Valentine	Charlie Rose
Steve Neal	Scotty Baesler
Nick Rahall	Leslie Byrne
Tom Barlow	Bob Clement
Norman Sisisky	Bart Gordon
Butler C. Derrick	Eva M. Clayton
James E. Clyburn	Rick Boucher
John Spratt	William H. Natcher

Bobby Scott

Carrie Meek

Owen Pickett

THE WHITE HOUSE

WASHINGTON

April 12, 1993

Dear Martin:

Thank you for your letter expressing opposition to increases in the federal excise tax on tobacco products. I appreciate hearing your views.

Tobacco and the tobacco industry play an important role in the economy of many states in the Southeast. I will take these concerns into account as part of any review of tobacco excise taxes.

With best wishes,

Sincerely,

Bill

The Honorable H. Martin Lancaster
House of Representatives
Washington, D.C. 20515

James B. Hunt, Jr.
Governor

State of North Carolina
Office of the Governor

For Release: IMMEDIATE
Date: April 23, 1993

Contact: Rachel Perry
Phone: (919) 733-5612

GOV. HUNT WRITES PRESIDENT TO PROTEST TOBACCO TAX

RALEIGH-- Gov. Jim Hunt today sent a letter to President Bill Clinton in opposition to a $2 per pack cigarette tax.

Hunt, who is from rural Wilson County -- the home of the world's largest tobacco market -- sent the 6-page handwritten letter to Clinton today. Hunt telephoned the President about the tobacco tax Thursday.

Hunt told the President that a $2 per pack tax would hurt North Carolina's economy, and would cost the state 88,000 jobs.

"I am working my head off to provide more jobs for our people of North Carolina," Hunt wrote. "But some of the proposals to increase tobacco taxes would devastate us in North Carolina."

Hunt said he and Mrs. Hunt had heard from dozens of worried tobacco families in Wilson County.

"I can only describe the reaction of my neighbors in Wilson County and rural people across North Carolina as one of 'shock, " Hunt wrote in the letter. "They are distraught. They feel an impending doom. Our phone at home on the farm rings all the time."

Hunt said he supported the President's efforts to find money for a proposed national health plan, but suggested a tobacco tax was not the best way of accomplishing that.

"A radical increase in tobacco taxes would only be a pittance in the overall cost of financing a national health plan, but it would ruin us in North Carolina," Hunt wrote in the letter. He asked Clinton to "please have all Americans contribute their fair share to support it."

Governor's Press Office
State Capitol, Raleigh, NC 27603-8001
(919) 733-5612 - Toll Free 1-800-662-7005
FAX (919) 733-5166

Post-it™ brand fax transmittal memo 7671 | # of pages ▸ 1

To Walter Woodham	From Roger Dingus
Co.	Co.
Dept.	Phone #
Fax #	Fax #

Executive Mansion
Raleigh, North Carolina

Apr. 28, 1993

President Bill Clinton
The White House
Washington, D.C.

Dear Mr. President,

Thank you for the opportunity to talk with you by phone today about the terrible impact North Carolina economy if there are raised substantially.

You were the most successful Governor in the country in recent years in building your state economy. You know how hard you worked at it and how precious jobs are, especially in rural areas in the South.

I am hard working my best to provide more jobs for our people in North Carolina, but some

Executive Mansion
Raleigh, North Carolina

The proposal to increase tobacco taxes would devastate us in North Carolina.

One person in the Administration has talked about an increase of $2.00 per pack on cigarettes. Mr. President, that would hurt us terribly. It would result in the loss of 88,000 jobs in our state and poor farmers, black, white, Indian and Hispanic, would be the hardest hit. Thousands of them would simply be thrown onto the welfare rolls, losing their jobs, their farms, and their children's future.

A $1.00 per pack increase would cost us 44,000 jobs in North Carolina, again, with the greatest impact being in low income rural areas where you and I

Executive Mansion
Raleigh, North Carolina

know it is so hard to locate manufacturing or service industries.

The doubling of the grant top from 24 cents to 48 cents would mean a loss of 13,100 jobs.

In addition to the economic threat to us, Mr. President, I want to try to describe the future of my neighbors in Wilson and surrounding counties — the people who waited three hours in the dark and cold to welcome us the night of our long bus caravan across North Carolina — remember, it was Hillary's birthday.

My people responded to your economic plan that you would protect agricultural programs, including tobacco. When you

Executive Mansion
Raleigh, North Carolina

mean to do that. But a drastic increase in taxes will eliminate the crop which produces the largest income of any in North Carolina, over $1 billion per year.

I can only describe the reaction of my neighbors and rural people about North Carolina as one of "shock." They are distraught. They feel an impending doom. And phone it here in the farm area all the time. The most pitiful calls are from elderly widows who barely make it on a small social security check and their share of the tobacco crop. (No other full crop in North Carolina yields more than 1/3 the net income of tobacco.)

Carolyn has literally talked

Executive Mansion
Raleigh, North Carolina

to older women who have broken down in tears over the phone. They don't know what will happen to them if these taxes go through. And we don't know what to tell them.

Mr. President, you are in the toughest job in the world. Your determination to see that all Americans get adequate health care is supported by the great majority of North Carolinians, and I believe you will get it done. But, please, have all Americans contribute their fair

Executive Mansion
Raleigh, North Carolina

share to support it.

A radical increase in tobacco taxes would only be a pittance in financing a national health plan. But it would ruin us in North Carolina.

Thank you, Mr. President, and please give Hillary the best wishes from Carolyn and me.

Warmest regards.

2077415368

ALABAMA STATE SENATE
ALABAMA STATE HOUSE
MONTGOMERY, ALABAMA 36130-4600

ALABAMA

FRED HORN

STATE SENATOR 16TH DISTRICT
233 18TH AVENUE S.W.
BIRMINGHAM
35211
CAPITOL OFFICE (205) 242-7880
HOME 251 8862

April 23, 1993

COMMITTEES:
CHAIRMAN, FINANCE & TAXATION
BANKING AND INSURANCE
COMMERCE, TRANSPORTATION & UTILITIES
LOCAL LEGISLATION NO. 2
FISCAL RESPONSIBILITY

The Honorable Howell Heflin
United States Senate
728 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Heflin:

As Chairman of the Senate Finance and Taxation Committee, I am concerned with reports that I read about a $2.00 tax on cigarettes at the federal level. For your benefit, I am enclosing a fact sheet which shows the net collections on cigarette tax in the State of Alabama from 1983 to present. You will note that we are two million dollars less than we were 10 years ago although there has been a slight increase in the levy since that time.

I am also enclosing a fact sheet which shows the distribution of cigarette tax revenues in Alabama. It is estimated that if the $2.00 levy is put on we could see up to a 40% reduction in the amount of taxes the State of Alabama would receive which would cause a number of bond issues to be in default as well as to seriously impair the General Fund and the Special Education Trust Fund budgets of this state.

I urge you to keep any tax on cigarettes, if indeed any is needed, to a minimum. The state of Alabama cannot afford any further decrease in its tax revenue.

Thank you for your attention to this matter. I am sure as you deliberate this issue you will keep the best interests of our great state in mind.

Sincerely,

Fred Horn

Fred Horn
State Senator

FH:PJ

2077415369

ALABAMA STATE SENATE
ALABAMA STATE HOUSE
MONTGOMERY, ALABAMA 36130-4800

ALABAMA

FRED HORN

STATE SENATOR 18TH DISTRICT
238 18TH AVENUE S.W.
BIRMINGHAM
35211
CAPITOL OFFICE (205) 242-7880
HOME 251-6882

April 23, 1993

COMMITTEES:
CHAIRMAN, FINANCE & TAXATION
BANKING AND INSURANCE
COMMERCE, TRANSPORTATION & UTILITIES
LOCAL LEGISLATION NO. 2
FISCAL RESPONSIBILITY

The Honorable Richard Shelby
United States Senate
313 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Shelby:

As Chairman of the Senate Finance and Taxation Committee, I am concerned with reports that I read about a $2.00 tax on cigarettes at the federal level. For your benefit, I am enclosing a fact sheet which shows the net collections on cigarette tax in the State of Alabama from 1983 to present. You will note that we are two million dollars less than we were 10 years ago although there has been a slight increase in the levy since that time.

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I urge you to keep any tax on cigarettes, if indeed any is needed, to a minimum. The state of Alabama cannot afford any further decrease in its tax revenue.

Thank you for your attention to this matter. I am sure as you deliberate this issue you will keep the best interests of our great state in mind.

Sincerely,

Fred Horn

Fred Horn
State Senator

FH:PJ

2077415370

ALABAMA STATE SENATE
ALABAMA STATE HOUSE
MONTGOMERY, ALABAMA 36130-4600

ALABAMA

FRED HORN
STATE SENATOR 18TH DISTRICT
333 18TH AVENUE SW
BIRMINGHAM
35211
CAPITOL OFFICE (205) 242-7880
HOME 251 8892

April 23, 1993

COMMITTEES:
CHAIRMAN, FINANCE & TAXATION
BANKING AND INSURANCE
COMMERCE, TRANSPORTATION & UTILITIES
LOCAL LEGISLATION NO. 2
FISCAL RESPONSIBILITY

The Honorable Earl F. Hilliard
U. S. House of Representatives
1007 Longworth House Office Building
Washington, D.C. 20510

Dear Congressman Hilliard:

As Chairman of the Senate Finance and Taxation Committee, I am concerned with reports that I read about a $2.00 tax on cigarettes at the federal level. For your benefit, I am enclosing a fact sheet which shows the net collections on cigarette tax in the State of Alabama from 1983 to present. You will note that we are two million dollars less than we were 10 years ago although there has been a slight increase in the levy since that time.

I am also enclosing a fact sheet which shows the distribution of cigarette tax revenues in Alabama. It is estimated that if the $2.00 levy is put on we could see up to a 40% reduction in the amount of taxes the State of Alabama would receive which would cause a number of bond issues to be in default as well as to seriously impair the General Fund and the Special Education Trust Fund budgets of this state.

I urge you to keep any tax on cigarettes, if indeed any is needed, to a minimum. The state of Alabama cannot afford any further decrease in its tax revenue.

Thank you for your attention to this matter. I am sure as you deliberate this issue you will keep the best interests of our great state in mind.

Sincerely,

Fred Horn

Fred Horn
State Senator

FH:PJ

CIGARETTE TAX

STATUTORY AUTHORITY:

Sections 40-25-1 through 40-25-47 Code of Alabama, 1975, as amended.

TAX BASE:

Privilege and use tax on the sale, storage, or distribution of cigarettes by wholesalers and retailers, and use by consumers. Tax is paid at wholesale level by affixing stamps. (See also "Tobacco Tax.")

TAX RATE:

9.25 mills per cigaretta ($0.165 per pack of 20 cigarettes).

Information regarding local levies follows LEGISLATIVE HISTORY.

COLLECTIONS:

By the State Department of Revenue on a monthly basis. Privilege (stamp) tax is collected on the 20th and Use Tax is collected on the 10th.

Fiscal Year	Net Collections	% Change
1991-92	~~$60,292,210.53~~ 66,177,210.53	~~(20.27)~~ (0.68)
1990-91	~~75,616,101.68~~ 66,634,101.00 *	~~7.26~~ (1.44)
1989-90	67,606,889.27	(1.01)
1988-89	68,300,977.51	(2.56)
1987-88	70,101,903.98	.30
1986-87	69,892,345.54	(1.03)
1985-86	70,619,653.27	1.45
1984-85	69,610,981.74	2.14
1983-84	68,155,266.52	2.62

Source: "Receipts by Revenue Object" Report - Comptroller's Office.

* $72 million Above Represents an Overdeposit to the Account of Motor Vehicle Facilities.

STATE OF ALABAMA

STATEMENT OF REVENUES BY PRINCIPAL SOURCES AND DISTRIBUTIONS OF REVENUES

All Governmental Fund Types and Expendable Trust Funds

Cash Basis

For the Fiscal Year Ended September 30, 1991

(Amounts in Thousands)

	Total Revenues	Administrative Expense	Net Revenues	Human Resources Funds	General Fund	Public School Funds	Special Educational Trust Fund	Conservation Funds
TAXES								
General Sales Tax	$946,288	$14,288	$930,000	$19,772	$17,050	-	$420,712	-
General Use Tax	105,065	1,793	103,272	-	337	-	102,934	-
Income Tax	1,289,034	18,468	1,270,561	-	-	-	1,270,561	-
Property Tax Relief	20,931	-	20,931	3,091	8,566	9,274	-	-
General Property Tax	92,993	1,858	91,130	14,062	35,815	41,253	-	-
Gasoline Taxes	228,280	6,022	222,258	-	-	-	-	473
Utilities Tax	187,776	3,958	183,818	-	-	-	183,818	-
Insurance Premium Tax	147,358	-	147,358	-	113,969	-	28,174	-
Liquor & Wine Tax	58,527	-	58,527	20,981	29,086	-	-	-
Tobacco & Cigarette Taxes	73,976	1,295	72,681	6,006	23,785	-	21,438	-
Corporation Taxes	109,027	-	109,027	17,476	80,189	-	-	-
State Beer Tax	43,852	-	43,852	8,770	15,158	-	17,541	-
Public Utilities	64,184	-	64,184	-	10,159	-	-	-
Motor Fuel Tax	55,960	1,222	54,738	-	-	-	-	-
Tennessee Valley Authority	58,182	-	58,182	-	11,026	-	-	-
Telephone Companies	25,170	-	25,170	-	-	-	10,572	-
Leasing / Renting Personal Property	35,466	-	35,466	-	21,130	-	14,336	-
Production Privilege Tax	57,789	-	57,789	-	42,224	-	-	-
Financial Institutions Excise Tax	16,643	335	16,308	-	4,245	-	-	-
Documentary Filing Taxes	29,546	-	29,546	-	29,546	-	-	-
Coal Severance Tax	8,941	-	8,941	-	3,562	-	-	-
Forestry Severance Tax	5,227	123	5,103	-	-	-	-	-
Inheritance Tax	17,505	-	17,505	-	17,505	-	-	-
Contractors Gross Receipts Tax	14,113	-	14,113	2,117	-	-	-	-
Lodgings Tax	15,523	17	15,506	-	11,087	-	-	-
Hydroelectric Companies	1,352	-	1,352	-	-	-	568	-
Lubricating Oil Tax	1,818	-	1,818	-	618	-	-	-
Motor Carriers	-	-	-	-	-	-	-	-
Pari-mutuel Betting	4,619	-	4,619	-	4,619	-	-	-
Court Cost Taxes	8,297	-	8,297	-	1,886	-	-	-
Hazardous Waste	36,415	-	36,415	-	35,000	-	-	-
Miscellaneous Taxes	3,506	-	3,506	2	3,498	6	-	-
TOTAL TAXES	$3,788,643	$51,389	$3,737,254	$94,277	$517,604	$50,533	$2,470,636	473
LICENSES, PERMITS AND FEES								
Conservation Licenses	13,008	-	13,008	-	14	-	-	12,976
Drivers Licenses & Fees	23,642	-	23,642	-	23,637	-	-	-
Motor Carrier-Truck Decal	8,520	-	8,520	-	-	-	-	-
Petroleum Products Inspection Fees	57,911	-	57,911	-	-	-	-	-
Agricultural License, Permits, Fees	5,326	-	5,326	-	-	-	-	-
Wholesale Oil Company License	2,357	-	2,357	-	2,357	-	-	-
Motor Vehicle License	101,822	-	101,822	-	31,120	-	-	-
Privilege License	21,898	1,093	20,804	-	9,561	-	365	-
Court Fees	19,382	-	19,382	-	18,691	-	-	-
Alcoholic Beverage Licenses	2,315	-	2,315	-	2,315	-	-	-
Miscellaneous Licenses, Permits, Fees	60,889	101	60,788	104	1,648	-	2	-
TOTAL LICENSES, PERMITS, FEE	316,768	1,194	315,643	104	84,306	6	367	12,976
FINES AND FORFEITS								
Court Fines & Forfeits	10,864	-	10,864	-	10,831	-	-	-
Miscellaneous Fines and Forfeits	4,388	3	4,385	-	214	1	-	782
TOTAL FINES AND FORFEITS	15,252	3	15,249	0	11,045	1	0	782
INTEREST AND DIVIDEND INCOME	114,137	-	114,137	377	48,488	197	-	-
FEDERAL REVENUES	2,092,491	-	2,092,491	100,335	88	-	-	-
Employer's Cost from Federal Funds	17,208	-	17,208	-	-	-	17,264	-
Miscellaneous Revenues	375,344	9,871	365,473	24,412	5,181	428	228	-
TOTAL REVENUES	$6,699,889	$63,257	$6,636,891	$219,505	$666,422	$51,099	$2,488,513	$14,231

Distributed To Local Governments	Debt Service Funds	Agriculture and Industries	Medicaid	Highway Department	Health General & Mental	Education Department	Economic & Community Affairs	Other	Distribution of Other Amounts
62,143	$70,332	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	
121,255	-	-	-	99,677	-	-	-	853	Aeronautics
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	5,615	-	-	-	
-	235	-	-	-	8,268	-	-	-	
-	9,018	-	-	-	10,429	-	-	4,005	State Parks
7,109	-	-	-	-	-	-	-	253	Sec of State
4,285	-	-	-	-	-	-	-	-	
-	-	-	-	-	54,025	-	-	-	
-	-	-	-	54,737	-	-	-	-	
46,075	492	-	-	-	(11)	-	-	598	
-	-	-	-	-	14,599	-	-	-	
-	-	-	-	-	-	-	-	-	
15,565	-	-	-	-	-	-	-	-	
12,063	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	
5,379	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	5,208	Forestry
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	11,996	-	-	-	
724	-	-	-	-	-	-	-	3,744	Tourism & Travel
-	-	-	-	-	784	-	-	-	
654	-	-	-	535	-	-	-	11	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	1,016	-	5,206	Fair Trial Tax Fd
1,407	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	
216,799	80,087	0	0	184,849	108,808	1,016	0	20,063	
-	-	-	-	-	-	-	-	17	
-	-	-	-	-	-	-	-	5	
-	-	-	-	7,065	-	-	-	1,488	Public Service Comm
9,281	-	2,100	-	44,530	-	-	-	-	
-	-	5,324	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	
12,854	-	-	-	57,829	-	-	-	19	
-	-	43	-	1,901	1,418	568	-	11,149	
-	-	-	-	-	-	-	-	1,131	
-	-	-	-	-	-	-	-	-	
-	-	-	5	67	35,799	-	-	23,132	
22,135	0	7,467	5	111,392	37,217	568	0	36,941	
-	-	-	-	-	-	-	-	34	
-	-	112	-	-	-	-	-	3,276	
0	0	112	0	0	0	0	0	3,310	
-	1,138	-	484	899	911	1	1,137	68,890	
-	-	2,328	799,184	268,190	193,675	100,930	161,302	119,186	
-	-	-	-	-	-	-	-	41	
1,676	4,705	243	52,276	21,362	77,408	1,840	1,211	164,492	
$240,570	$85,907	$10,150	$852,009	$426,442	$414,918	$103,675	$163,730	$407,510	

Bakery, Confectionery and Tobacco
Workers International Union

10401 CONNECTICUT AVENUE, KENSINGTON, MARYLAND 20895-3961
TELEPHONE (301) 933-8600 FAX (301) 946-8452

FRANK HURT
INTERNATIONAL PRESIDENT

April 20, 1993

Congressman Neil Abercrombie
1440 Longworth HOB
Washington, DC 20515-1101

Dear Congressman Abercrombie:

On behalf of the 125,000 members of the Bakery, Confectionery and Tobacco Workers International Union, I am writing to express our strong opposition to proposals which would increase the federal excise tax on tobacco to pay for health care reform. Our reasons for opposing such taxes are threefold: 1) the economic impact on the tobacco manufacturing states would be devastating; 2) tobacco excise taxes are inherently unfair to working people; and 3) excise taxes are an unstable source of revenue to pay for national health care reform.

The imposition of a so-called "monster" tax on cigarettes could cost our nation over 750,000 jobs. At a time when our economy is struggling out of a recession, the last thing we need to do is to threaten a multi-billion dollar industry that has created hundreds of thousands of high-paying, union jobs for Americans. BC&T strongly supports President Clinton's economic stimulus package because it is what the economy needs right now. But the effect of the package could be easily undone by large increases in tobacco taxes.

As countless studies by groups such as Citizens for Tax Justice have shown, excise taxes are unfair to low-income and working Americans. According to a recent analysis prepared by CTJ, a $35 billion increase in the federal excise tax on tobacco would turn a .1% decrease in taxes for the very poor as a result of the Clinton economic program into a 3.2% increase. Even a doubling of the current 24 cents a pack tax would significantly undermine the progressivity of the President's plan.

Recently, the Economic Policy Institute released an analysis of the distributional impact of health care spending in the U.S. It

found that low-income Americans spend twice as much a share of income on health care than do wealthy Americans, making the current system highly regressive. Therefore, raising excisetaxes to finance health care reform will add to an already highly unfair payment system.

Health care reform is in the interests of all Americans. However, it is the providers of health care that have been largely responsible for the skyrocketing costs of medical services. True health care reform must begin with strong, effective cost controls on health care providers before any new taxes are considered on consumers.

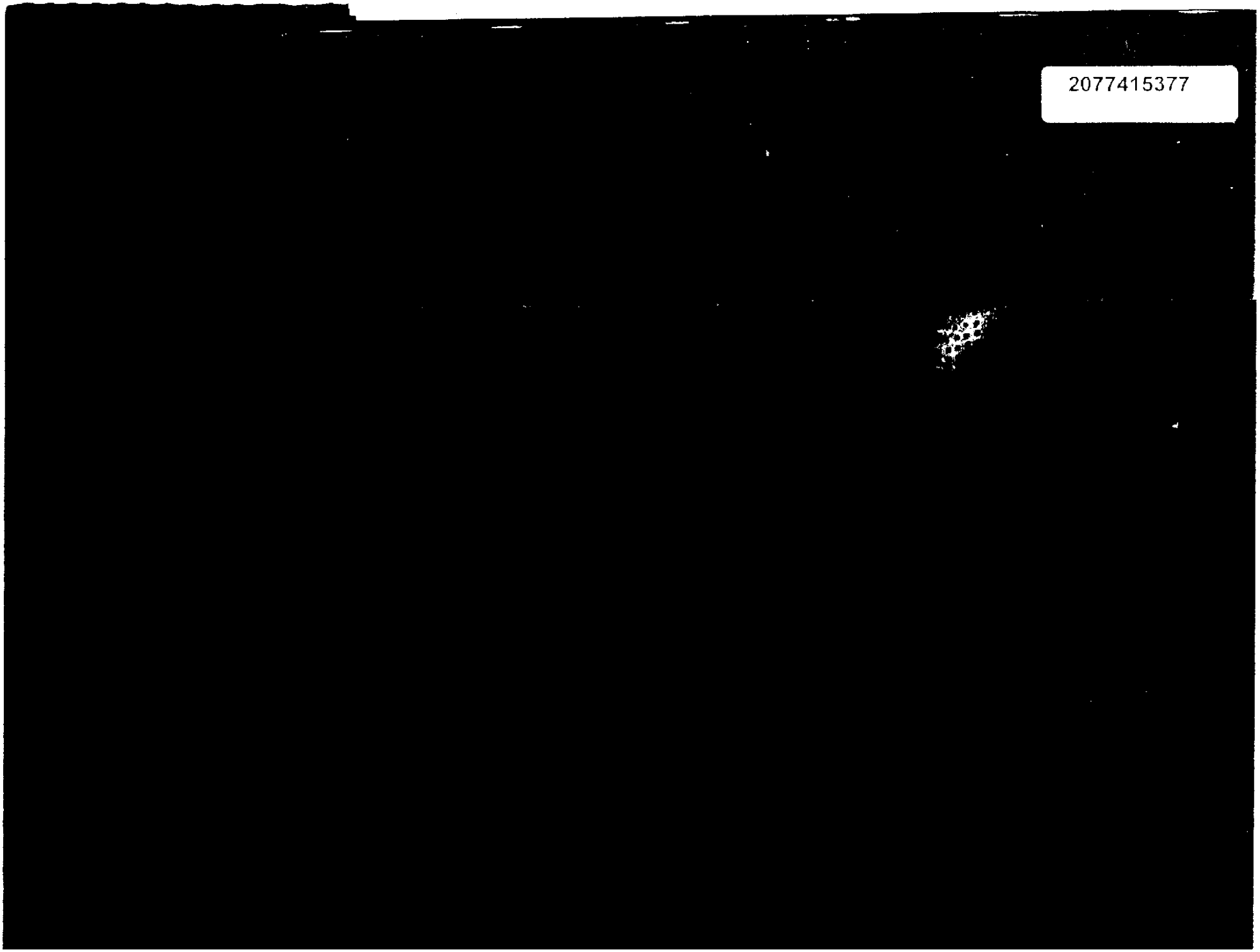
Finally, should new revenues be necessary for health care reform, these taxes should be broad based and progressive. Only in this manner can we be certain that the new program will enjoy the support of American taxpayers. This view has been strongly supported by the AFL-CIO and was explicitly stated in a 1990 statement by the AFL-CIO Executive Council. The statement also expresses the Federation's opposition to excise taxes on cigarettes, beer and wine.

I hope you will consider the views of our members and the thousands of tobacco industry workers as the health care reform program moves through Congress.

Sincerely,

Frank Hurt

Frank Hurt
International President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