

EXCISE TAXES

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Mr. BYRD of Virginia, from the Committee on Finance, submitted the following

R E P O R T

[To accompany H.R. 11376]

The Committee on Finance, to whom was referred the bill (H.R. 11376) to provide a 1-year extension of certain excise tax rates, having considered the same, report favorably thereon with amendments, and recommend that the bill as amended do pass.

I. SUMMARY

H.R. 11376, as amended, continues certain existing excise tax rates for 1 year and also converts four of the retailers' excise taxes to manufacturers' taxes.

The rates which are continued for 1 year, or until July 1, 1965, are the present rates of excise tax on distilled spirits, beer, wine, cigarettes, passenger cars, auto parts and accessories, general (previously local) telephone service, and the transportation of persons by air.

The 10-percent retailers' excise taxes which are converted to 10-percent manufacturers' excise taxes are those on jewelry and related items, furs, toilet preparations and luggage, handbags, etc. These changes from a retail to a manufacturers' basis are to be effective as of October 1, 1964.

All of the taxes extended by this bill, except those relating to general telephone service and transportation of persons by air, are taxes which were increased at the time of the Korean war. The Tax Rate Extension Act of 1959 added the latter two taxes to the list of those subject to automatic reduction (the Tax Rate Extension Act of 1962 limited the tax on the transportation of persons to transportation by air and lowered this rate to 5 percent).

Prior tax rate extension acts also affected corporate tax rates. Under the prior extension rates, the aggregate corporate rates would have gone down from 52 percent to 47 percent (this 5 percentage point reduction would have lowered the rate applicable to the first

\$25,000 of income from 30 to 25 percent). The Revenue Act of 1964 provided an aggregate corporate income tax rate of 50 percent for the calendar year 1964 and a 48-percent rate for calendar years thereafter. It also provided that the rate applicable to the first \$25,000 of income, beginning in 1964 is to be 22 percent. These rates were made permanent by that act and are not affected by this bill.

If this bill were not enacted, it is estimated that there would be a revenue loss of \$1.9 billion in a full year of operation as the result of not extending the existing excise taxes on alcoholic beverages, cigarettes, automobiles, etc. However, the conversion of the four retailers' taxes to manufacturers' taxes is expected to result in a revenue loss of \$259 million in a full year of operation. As a result, the passage of this bill, on a net basis, will preserve \$1.6 billion in revenues for the Government which would otherwise be lost.

In the fiscal year 1965 the extension of the existing excise tax rates will prevent a revenue loss of \$1.8 billion (taking into account floor stock refunds). The conversion of the four retailers' excise taxes to a manufacturers' basis is expected to result in a revenue loss in the fiscal year 1965 of \$165 million. The relatively small revenue loss in this case is due to the fact that these taxes are not changed to the manufacturers' basis until October 1, 1964.

II. GENERAL STATEMENT WITH RESPECT TO EXTENSION OF TAX RATES

The deficits now anticipated by the administration for the fiscal years 1964 and 1965 are \$8.8 billion for the fiscal year 1964 and \$5.8 billion for the fiscal year 1965.

Implicit in the action taken by Congress earlier this year in passing the Revenue Act of 1964 was the decision to extend the existing excise tax rates for another year. Congress at that time, in effect, gave precedence to reductions in individual and corporate income tax rates. Failing to extend the existing excise tax rates would increase the deficit anticipated for the fiscal year 1965 by nearly \$2 billion to a level of \$7.6 billion. Moreover, to permit these excise tax reductions to take place would immediately require a further increase in the debt limitation of approximately \$2 billion for the fiscal year 1965 above the \$324 billion provided in H.R. 11375 which also is being reported by your committee.

Your committee does not believe that automatically selecting for reduction excise taxes which were increased at the time of the Korean conflict, and those which have been added to the list of excises extended on a year-by-year basis since that time would be the most appropriate way of providing an excise tax reduction. Your committee agrees with the House that in any significant excise reduction made, it is desirable to review all excise taxes and not merely excise taxes now dealt with in this bill or any other specific category of excises. At the same time your committee recognizes the desirability of considering future reductions in the present excise tax rates. In that regard, it is pleased to be able to report that the House Committee on Ways and Means has already begun broad gage hearings on excise taxation. On June 15 and 16, the House committee heard testimony from a panel of experts on excise taxation and beginning on July 20 will begin hearing testimony from industry, labor, and consumer

groups as well as testimony of those especially affected by specific excise taxes. Your committee will, of course, promptly hold hearings on any excise tax reduction bill passed by the House.

Your committee agrees with the House that the thorough study and review of excise taxes, in hearings of the type now scheduled, is the preferable way to consider changes in excise tax rates. If instead a particular group or category of excise taxes were more or less arbitrarily selected for reduction or elimination, there is no assurance that this would best serve the needs of the country. There is no assurance in any general reduction other than that following a thorough study and review, that those excise taxes will be reduced or eliminated which are the most burdensome upon taxpayers generally.

In view of the considerations set forth above, your committee is in accord with the other body that it is appropriate to extend the existing excise tax rates at their present level for an additional year.

III. GENERAL STATEMENT WITH RESPECT TO CHANGE FROM RETAILERS' TO MANUFACTURERS' EXCISE TAXES

Despite the fact that it has recognized the desirability of not making any general excise tax rate changes at this time, your committee has amended the House bill to shift from a retailers' to a manufacturers' base the taxes on jewelry and related items, furs, toilet preparations, and luggage, handbags, etc. The tax rates applicable in these cases, however, remains at 10 percent but will apply to the manufacturers' price rather than to the retailers' price.

Your committee has made this change in the base of these four taxes because it is concerned over the problems which arise from collecting these taxes from retailers. The large number of retailers from whom these taxes must be collected presents a compliance burden for the large number of retailers involved and also an administrative burden for the Internal Revenue Service. This is especially burdensome because these retailers in many cases represent very small businesses and as a result have difficulty in complying with the recordkeeping necessary to collect these taxes. In fact, this burden, in many cases, is believed to have discouraged retailers from offering for sale products subject to these retailers' excise taxes. In addition, the retailers have had difficulties in determining which items are included, and which are not, in the bases of these various retail taxes. This has been particularly difficult because in many cases this determination must be made by relatively low-salaried clerks or part-time help.

Problems have also been presented to the retailers because individuals have become acutely aware of these taxes and aware of the fact that they can be avoided by purchasing untaxed items. In addition, problems have been raised by the fact that State and local Governments increasingly are using retailers' taxes on a broad scale.

Despite the fact that these taxes have created serious administrative and compliance problems, your committee did not want to make a determination at this time as to which items should remain subject to tax and which should not. This, as well as the rates of tax to be applied, is the subject matter of the hearings now before the House Committee on Ways and Means. Your committee, by converting these taxes from retailers' to manufacturers' bases, has met the

administrative problem involved in the present imposition of these taxes at the retail level, without prejudging the items appropriately subject to Federal excise tax.

Moreover, repealing these taxes outright would result in a loss in revenue of \$517 million a year, while it is estimated that converting these taxes from retailers' to manufacturers' taxes will result in an annual revenue loss of only \$259 million. Since under your committee's action these changes in the tax bases are not made effective until October 1, 1964, the revenue loss in the fiscal year 1965, as a result of this action, is expected to be only \$161 million. This is not large enough to have an appreciable effect on the budgetary deficit, or on the requirements for a statutory debt limitation.

In view of the considerations set forth above, your committee has amended the House bill to convert these four retailers' excise taxes to manufacturers' excise taxes effective October 1, 1964.

IV. EXPLANATION OF BILL

Tax rates extended

This bill provides a 1-year extension of the existing rates of certain excise taxes. The rates of these taxes which are extended for 1 year are, under existing law, scheduled for reduction or repeal on July 1, 1964. The rates which without this bill would be decreased or repealed as of July 1, 1964, are those on—

1. Distilled spirits, which would be reduced from \$10.50 to \$9 per proof gallon;
2. Beer, which would be reduced from \$9 to \$8 per barrel;
3. Wines, which are subject to various tax rates which would be reduced by approximately 11 percent;
4. Cigarettes, which would be reduced from 8 cents to 7 cents a pack;
5. Passenger cars, which would be reduced from 10 percent to 7 percent of the manufacturers' price;
6. Auto parts and accessories, which would be reduced from 8 percent to 5 percent of the manufacturers' price;
7. General telephone service, which would be reduced from 10 percent of the amount paid to zero; and
8. Transportation of persons by air, which would be reduced from 5 percent of the amount paid to zero.

The tax rates referred to in the first six categories listed above reflect rate increases which were initially provided in 1951 at the time of the Korean war. Elimination of the tax on general telephone service (or local telephone service, as it formerly was called) and a reduction in the rate on transportation of persons from 10 percent to 5 percent were first scheduled for July 1, 1960, in the Tax Rate Extension Act of 1959. The Tax Rate Extension Act of 1962 limited the tax on the transportation of persons to transportation by air and reduced the rate to 5 percent.

This bill also postpones for 1 more year the floor stocks refunds or credits presently effective with respect to stocks of various tax-paid products on hand on July 1, 1964. These floor stock refunds are available in the case of distilled spirits, wines and beer, cigarettes, and passenger cars.

Table 1 shows the present tax rates which are extended and those which would become effective as of July 1, 1964, in the absence of this bill.

TABLE 1.—Tax rates affected by bill

	Tax base	Present rates extended under the bill	Rates which under present law would be effective July 1, 1964
Liquor taxes:			
Distilled spirits.....	Proof gallon.....	\$10.50.....	\$9.
Beer.....	Barrel.....	\$9.....	\$8.
Wine:			
Containing not more than 14 percent alcohol.....	Wine gallon.....	17 cents.....	15 cents.
Containing 14 to 21 percent alcohol.....	do.....	67 cents.....	60 cents.
Containing 21 to 24 percent alcohol.....	do.....	\$2.25.....	\$2.
Containing more than 24 percent alcohol.....	do.....	\$10.50.....	\$9.
Sparkling wines, liqueurs, etc.:			
Champagne or sparkling wine.....	do.....	\$3.40.....	\$3.
Liqueurs, cordials, etc.....	do.....	\$1.92.....	\$1.60.
Artificially carbonated wine.....	do.....	\$2.40.....	\$2.
Tobacco taxes: Cigarettes.....	1,000.....	\$4.....	\$3.50.
Manufacturers' excise taxes:			
Passenger cars.....	Manufacturers' sale price.....	10 percent.....	7 percent.
Auto parts and accessories.....	do.....	8 percent.....	5 percent.
General (local) telephone service.....	Amount paid.....	10 percent.....	0.
Transportation of persons by air.....	do.....	5 percent.....	0.

Taxes changed from retailers' to manufacturers' excises

This bill converts from retailers' to manufacturers' excise taxes four of the five present retailers' taxes. The bill leaves unchanged the retailers' tax on diesel fuel and special motor fuels which apply to fuel used in diesel-powered highway vehicles and to fuels used in motor vehicles, motorboats, or airplanes. The tax rates of the four taxes converted from retailers' to manufacturers' taxes remain at the present 10-percent rates. In making this conversion from a retail to a manufacturers' base, no change is made in the types of items subject to tax. In the case of—

(1) the tax on jewelry and related items (new sec. 4205), the tax will continue to apply to articles commonly or commercially known as jewelry, whether imitation or real; the real or synthetic stones listed in the present tax-imposing section; articles made, ornamented, mounted, or fitted with precious metals or imitations; watches, clocks, and cases for them; gold, gold-plated, silver, or sterling flatware and silver-plated hollow ware; and opera glasses, lorgnettes, marine glasses, field glasses, and binoculars;

(2) the tax on furs (new sec. 4207), the tax will continue to apply to articles made of fur on the hide or pelt and to articles of which fur is the material of chief value of this value is more than three times the value of the next most valuable component material;

(3) the tax on toilet preparations (new sec. 4209), the tax will continue to apply to perfumes, essences, extracts, toilet water, cosmetics, petroleum jellies, hair oil, pomades, hair dressings, hair restoratives, hair dyes, and toilet powders. It will also continue to apply to other similar items used, or intended for use, for toilet purposes; and

(4) the tax on luggage, handbags, etc. (new sec. 4213), the tax will continue to apply to the articles specified in the tax-imposing section whether or not made of leather, including such items as billfolds, briefcases, purses and handbags, suitcases, wallets, and various types of bags, kits, and cases.

These taxes which are shifted from a retail to a manufacturers' tax base are shifted from chapter 31 of the code dealing with retailers' excise taxes to chapter 32 of the code dealing with manufacturers' excise taxes. To the full extent practicable the same exemptions have been maintained from the manufacturers' bases, with respect to these various taxes, as are presently applicable with respect to the retailers' excise taxes. Those exemptions which relate to a specific type or kind of article and which are not, to any appreciable extent, dependent upon the use of the article appear as exemptions in the section immediately following the tax-imposing section in each case. Those exemptions which are largely dependent upon the use of the article appear as amendments to section 4221 of the code, which in general provides for a registration or certification procedure. Provision in these latter cases is also made for credits or refunds, where the exempt use is subsequently determined, under section 6416 of the code.

It is also necessary to provide for floor stock taxes under the bill with respect to these four categories of items. The floor stock taxes apply to any inventory stocks of these articles held by a dealer for sale on October 1, 1964. By "dealer" it is in general meant any person who holds the articles for sale other than the manufacturer, producer, or importer. This includes primarily wholesalers and retailers. The tax imposed on these dealers is equal to 10 percent of the price for which they purchased the article or, if they establish the manufacturer's, producer's, or importer's price to the satisfaction of the Treasury Department, then 10 percent of this price.

The imposition of the floor stock taxes are necessary to prevent the avoidance of the manufacturers' tax at the time of the changeover from the retail to the manufacturers' taxes. Without these floor stock taxes inventory stocks could be built up immediately before this date by those, such as wholesalers or retailers, who are beyond the point of imposition of the tax.

The due date for the return with respect to the floor stock taxes is to be a date after December 31, 1964, specified by the Secretary of the Treasury or his delegate.

These floor stock taxes are not to apply to articles sold under an agreement with a supplier (under sec. 6011 (c)) where the supplier, rather than the retailer, is treated as having made a sale at retail before October 1, 1964.

V. REVENUE EFFECT

Table 2 shows the revenue effect on the tax rates extended by this bill. This table shows the effect of the changes made by the bill with respect to the fiscal year 1965 and also in a full year of operation. The full-year effect of extending these rates will be to maintain receipts of \$1.9 billion which would otherwise be lost. In the fiscal year 1965, the receipts maintained by this rate extension will amount to \$1.8 billion (taking into account the decrease in floor stock refunds).

EXCISE TAXES

TABLE 2.—Increase in revenue resulting from extension of certain excise tax rates
[In millions of dollars]

	Estimates of the Treasury Department				Estimates of the staff of the Joint Committee on Internal Revenue Taxation			
	Revenue effect, fiscal year 1965			Increase in revenue, full year	Revenue effect, fiscal year 1965			Increase in revenue, full year
	Increase in receipts	Decrease in re-funds	Total		Increase in receipts	Decrease in re-funds	Total	
Alcohol:								
Distilled spirits.....	200	150	350	204	185	120	314	188
Beer.....	85	9	94	86	99	15	114	101
Wine.....	9	5	14	9	11	5	16	11
Total alcohol taxes.....	294	164	458	299	295	149	444	300
Tobacco: Cigarettes.....	245	24	269	250	254	26	280	259
Manufacturers excises:								
Passenger automobiles.....	430	50	480	520	472	60	532	540
Auto parts and accessories.....	80		80	95	87	0	87	100
Total, manufacturers excise taxes.....	510	50	560	615	559	60	619	640
Miscellaneous excises:								
General telephone service.....	455		455	600	405	0	405	550
Transportation of persons by air.....	98		98	118	85	0	85	120
Total miscellaneous excise taxes.....	553		553	718	490	0	490	670
Total.....	1,602	238	1,840	1,882	1,598	235	1,833	1,869

Table 3 shows the revenue effect of converting the four retailers' taxes on jewelry and related items, furs, toilet preparations, and luggage, handbags, etc., to manufacturers' excise taxes. The full-year effect of shifting the base for these taxes will be a revenue loss of \$259 million. This revenue loss occurs even though the same 10-percent tax rate is maintained for the manufacturers' taxes as for the retail taxes, because the manufacturers' price to which the 10-percent tax will apply generally is considerably lower than the retailers' price to which the 10-percent tax rate presently is applicable. In the fiscal year 1965 the revenue loss is estimated at \$161 million. This loss is considerably less than the full-year loss since this change in base from retailers' to manufacturers' taxes is effective for only the last three quarters of the fiscal year 1965.

TABLE 3.—Estimated revenue loss from conversion of 4 retailers' excise taxes to 4 similar manufacturers' excise taxes, effective as of Oct. 1, 1964
[In millions of dollars]

	Fiscal 1965	Full year
Jewelry and related items.....	62	100
Furs.....	10	16
Toilet preparations.....	62	100
Luggage, handbags, etc.....	27	43
Total.....	161	259

Source: Staff of the Joint Committee on Internal Revenue Taxation, June 1964.

VI. CHANGES IN EXISTING LAW

In the opinion of the committee, it is necessary, in order to expedite the business of the Senate, to dispense with the requirements of subsection 4 of rule XXIX of the Standing Rules of the Senate (relating to the showing of changes in existing law made by the bill, as reported).

