

1 EXECUTIVE COMMITTEE MEETING ON THE TOBACCO EXCISE TAX
2 WEDNESDAY, JULY 30, 1986
3 U.S. Senate
4 Committee on Finance
5 Washington, D.C.

ORIGINAL

6 The committee met, pursuant to notice, at 9:23 a.m. in
7 Room SD-215, Dirksen Senate Office Building, the Honorable
8 Bob Packwood (chairman) presiding.

9 Present: Senators Packwood, Dole, Roth, Danforth,
10 Chafee, Heinz, Wallop, Durenberger, Armstrong, Symms,
11 Grassley, Long, Bentsen, Matsunaga, Moynihan, Baucus,
12 Bradley, Mitchell, and Pryor.

13 Also present: Bill Diefenderfer, Chief of Staff; John
14 Colvin, Chief Counsel; and Susan Taylor, Administrative
15 Director.

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1 The Chairman. While we are waiting for the remainder of
2 the members to show up, there has been a request to bring up
3 the issue of our passage of the cigarette tax and we can
4 report up until noon today to the Budget Committee to undo
5 it, and instead to adopt a variety of other taxes totally in
6 lieu of the cigarette tax.

7 And those proposals are that we would have a 4 percent
8 telephone excise tax for one year and then 2.5 percent for
9 two years after that; gasoline excise tax imposed on
10 refiners and importers rather than wholesalers, which is a
11 provision we initially put in our offer to the House in
12 conference; that state and local government payroll taxes
13 would be put on the private employer schedule. This is a
14 provision that the House has in their reconciliation package;
15 and that beer, wine and tobacco excise tax deposits be
16 accelerated so that they are paid on a 14-day basis.

17 And while we are waiting for the one or two members who
18 are not here, I would like to open that for discussion and
19 see what the members think.

20 Senator Bentsen. Do we have a copy of that?

21 The Chairman. Yes, Bob?

22 Senator Dole. Can I just say a word on this, because I
23 am the one that initiated this? And I regret that I was not
24 here the other day and maybe it will not make any difference
25 in any event. But there is nothing in the House bill about

1 a great increase in the tobacco tax. We doubled it last
2 year. We got a lot of heat from all of our governors,
3 whether they are democrats or republicans. We got a lot of
4 heat from the White House because the President made a deal
5 with some of the governors that he would not go along with
6 doubling the tax.

7 Now here we turn right around again and hit them for
8 8 cents more. And it just seems to me that we can find
9 another way to do it.

10 I know there is concern about the telephone tax, which
11 not too many years ago was 10 percent; now it is down to
12 3 percent. All we do in this package is to make it 4 percent
13 for one year and then back to 2.5 percent for the next two
14 years, which is still an average of 3 percent.

15 The other changes are bookkeeping and accounting changes.
16 And I would hope we would avoid this same problem with our
17 governors. The President has found out that he is willing
18 to oppose any increase in cigarette taxes, plus there are
19 some members on both sides I must say--about an equal number
20 on each side--who consider this to be a farm problem. And
21 right now the South is on its knees where the tobacco is
22 being grown, and we turn around and kick them again with an
23 8 cent tax increase. I would hope that we would reconsider
24 this.

25 The Chairman. I might say there is one advantage to the

1 telephone tax over the cigarette tax. The telephone tax at
2 least falls reasonably equally on business and individuals.
3 The cigarette tax is all on individuals.

4 Senator Dole. I think I was told about 70 percent on
5 business.

6 The Chairman. Discussion?

7 Senator Durenberger. Mr. Chairman.

8 Senator Chafee. Mr. Chairman.

9 The Chairman. Dave Durenberger and then John Chafee.

10 Senator Durenberger. May I raise a question about our
11 past consideration of the acceleration of the payroll tax
12 deposited by state and local governments? It seems to me we
13 visited that before. I cannot remember how we resolved it.
14 I know they do not like it.

15 The Chairman. Who is "they"?

16 Senator Durenberger. The state and local governments,
17 particularly the smaller ones, the smaller local
18 governments.

19 The Chairman. Oh.

20 Senator Durenberger. But it seems to me we have
21 considered it before.

22 The Chairman. We have considered it. My hunch is we are
23 going to consider it more seriously for two reasons: one,
24 the conferees did put it in their offer to the House; two,
25 the House has got it now in its reconciliation package. So I

1 think it is going to be very seriously considered.

2 Senator Chafee. Mr. Chairman?

3 The Chairman. John, and then Jack.

4 Senator Chafee. There was some discussion mentioned a
5 minute ago about the telephone tax falls on business, so that
6 is great. I am not so sure it is great. I just came from
7 breakfast where the issue there is our competitive situation
8 in everything we can do to relieve industry of taxes is
9 helpful in producing jobs for the nation.

10 Secondly, if we are proceeding on that basis, the
11 cigarette tax falls solely on those who smoke cigarettes.
12 And if somebody chooses to smoke cigarettes then they pay.

13 Now as a percentage of the product, cigarette taxes have
14 not kept pace -- federal cigarette taxes have not kept pace
15 with the increased price of the product over the years.

16 The Chairman. Let me interrupt you a minute.

17 Is David Boren coming today? All right. I want to get
18 the picture taken when everybody is here. But he is not here
19 yet, so go ahead.

20 Senator Chafee. And, finally, a mention about the
21 weather in the South. I have not heard--I think I would
22 have--from any sections to the South that have been -- where
23 the drought is in the South is not where the tobacco is grown,
24 to the best of my knowledge.

25 Senator Dole. It certainly is.

1 I was in a tobacco field three weeks ago in North
2 Carolina. There isn't any tobacco left.

3 Senator Chafee. Now, finally, Mr. Chairman, it seems to
4 me that the correlation between cigarette smoking and
5 increased health cost to the nation are direct. There is no
6 question about it. And I think those who smoke should help
7 pay for the bills that they are going to cause the nation to
8 incur. Therefore, I hope that we stick by our position.

9 The Chairman. Jack Danforth.

10 Senator Danforth. Mr. Chairman, the final item on this
11 list is the beer, wine and tobacco excise tax deposits on an
12 accelerated basis. It is my understanding that this applies
13 only to a domestic beer and not to imported beer, and also
14 that it includes distilled spirits. And I was wondering that
15 if you are going to do it, why exclude imported beer and why
16 include distilled spirits?

17 The Chairman. Bob Dole says put them in.

18 Senator Dole. It would be another hundred million.

19 The Chairman. Anybody on the democratic side?

20 (No response)

21 The Chairman. Steve.

22 Senator Symms. Mr. Chairman, I just want to inquire
23 about the Majority Leader's information that the President
24 is willing to oppose any increase in cigarette taxes if, in
25 his opinion, there is no agreement. I thought the leaders

1 would need the cigarette taxes in the states.

2 Senator Dole. That was the agreement, but the
3 President could not keep that agreement because we kept the
4 16 cent tax. Now they are back at it again.

5 Senator Symms. Isn't that what you are suggesting,
6 that you need this tax?

7 Senator Dole. We are going to raise it anyway. Now
8 we have doubled it. And the states have said, well, you
9 have taken the source of revenue. It gets back to the same
10 question Dave Durenberger mentioned where the new
11 federalism and all this stuff were going to reserve this
12 package to the states. I think that is the argument.

13 The Chairman. Further discussion.

14 Senator Symms. Could somebody explain to me why the
15 payments are to be accelerated on beer, wine and tobacco
16 taxes?

17 The Chairman. They now pay it, John, who knows. They
18 now pay it every 28 days?

19 Mr. Colvin. Yes, sir.

20 Senator Matsunaga. How much of that accelerated deposit
21 would be paid by tobacco?

22 Senator Dole. One hundred million.

23 The Chairman. A hundred million to 200 million.

24 Senator Dole. That is what I was told yesterday.

25 The Chairman. Further discussion.

1 Senator Bentsen. Mr., Chairman, I think we went over the
2 subject pretty well when we made our decision before, and,
3 frankly, I do not see what has changed. I think we casted the
4 last vote. And I think in this kind of a situation you are
5 talking about the health issue as well as the tax issue. And
6 I want to continue to support Senator Chafee's proposal.

7 The Chairman. Further discussion.

8 (No response)

9 The Chairman. In terms of procedures, this is
10 legitimate. Somebody asked about the calling of the
11 committee. Any time that we send out a bill and 11 members
12 want to amend it on the floor, amend it before it comes up,
13 we can do it. But what we are doing is legitimate if we do
14 it. And we are reporting to the Budget Committee in
15 addition.

16 Further discussion?

17 (No response)

18 The Chairman. Well then let me put it to a vote of the
19 committee.

20 You see the Dole substitute in front of you; very clear
21 what it is and what we are eliminating. And I think we will
22 have the Clerk call the role.

23 The Clerk. Mr. Dole?

24 Senator Dole. Aye.

25 The Clerk. Mr. Roth?

1 Senator Roth. Aye.

2 The Clerk. Mr. Danforth?

3 Senator Danforth. No.

4 The Clerk. Mr. Chafee?

5 Senator Chafee. No.

6 The Clerk. Mr. Heinz?

7 Senator Heinz. Aye.

8 The Clerk. Mr. Wallop?

9 Senator Wallop. Aye.

10 The Clerk. Mr. Durenberger?

11 Senator Durenberger. Aye.

12 The Clerk. Mr. Armstrong?

13 Senator Armstrong. No.

14 The Clerk. Mr. Symms?

15 Senator Symms. Aye.

16 The Clerk. Mr. Grassley?

17 Senator Grassley. Aye.

18 The Clerk. Mr. Long?

19 Senator Long. No.

20 The Clerk. Mr. Bentsen?

21 Senator Bentsen. No.

22 The Clerk. Mr. Matsunaga?

23 Senator Matsunaga. Aye.

24 The Clerk. Mr. Moynihan?

25 Senator Moynihan. No.

1 The Clerk. Mr. Baucus?

2 Senator Baucus. No.

3 The Clerk. Mr. Boren?

4 (No response)

5 The Clerk. Mr. Bradley?

6 Senator Bradley. No.

7 The Clerk. Mr. Mitchell?

8 Senator Mitchell. No.

9 The Clerk. Mr. Pryor?

10 Senator Pryor. No.

11 The Clerk. Mr. Chairman?

12 The Chairman. Aye.

13 Senator Long. Mr. Chairman, I inadvertently said no. I
14 meant to say aye.

15 The Chairman. You meant to say --

16 Senator Long. Aye.

17 The Chairman. Senator Long votes aye.

18 Senator Long. Senator Boren wants to be recorded no. I
19 would cast his proxy no. Boren, no; Long, aye.

20 The Clerk. Ten yeas; 10 nays.

21 The Chairman. Ten yeas; 10 nays.

22 Read off the list so we are sure we have got everybody
23 right. For some reason, I have lost track in the switch.

24 The Clerk. Yeas, Mr. Dole, Mr. Roth, Mr. Heinz,
25 Mr. Wallop, Mr. Durenberger, Mr. Symms, Mr. Grassley,

1 Mr. Long, Mr. Matsunaga, and Mr. Chairman.

2 No, Mr. Danforth, Mr. Chafee, Mr. Armstrong,

3 Mr. Bentsen, Mr. Moynihan, Mr. Baucus, Mr. Boren, by proxy,

4 Mr. Bradley, Mr. Mitchell, and Mr. Pryor.

5 The Chairman. 10-10. It loses.

6 (Whereupon, at 9:46 a.m., the executive committee meeting
7 was concluded.)

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C E R T I F I C A T E

This is to certify that the foregoing proceedings of an Executive Committee Meeting, in re: The Tobacco Excise Tax, of the United States Senate Finance Committee, held on Wednesday, July 30, 1986, were transcribed as herein appears and that this is the original transcript thereof.

William J. Moffett
WILLIAM J. MOFFETT
Official Court Reporter

My Commission expires April 14, 1989.

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