

NLWJC - Kagan

DPC - Box 053 - Folder-014

**Tobacco-Settlement: Tax Cuts -
Gramm**

THE WHITE HOUSE
WASHINGTON

May 28, 1998

NOTE FOR ERSKINE BOWLES
BRUCE REED
JACK LEW
LARRY STEIN
ELENA KAGAN

FROM: GENE SPERLING

RE: Gramm Amendment

As we discussed at yesterday's meeting, it would be helpful for us to take Gramm's words--1 in 3 dollars-- and establish that at the outset as a restricting principle to reduce the substantial risk that the size of any tax cut grows as it goes through the process. Attached is a transcript from the Congressional Record of Gramm making this point repeatedly that should be shared with Daschle.

May 21, 1998

that teach kids about tobacco in a very straightforward, good way so that they resist the temptation and peer pressure to smoke.

So I am glad to stand with my friends in the Senate who look at this as an opportunity to stop deaths, to stop the targeting of our children. And I am very hopeful, Mr. President, that we will, in fact, end up with a strong piece of anti-tobacco legislation.

Thank you very much, I say to my colleague from Texas, for his generous spirit. I yield the floor.

Mr. GRAMM addressed the Chair.

The PRESIDING OFFICER. The Senator from Texas.

Mr. GRAMM. Mr. President, let me first say if we pass this bill I hope that we will be successful in inducing not only teenagers but other Americans to come to their senses and to stop smoking.

Once in my life I was an economist. And any economist will tell you, other things being the same, at a higher price people will consume less of a given product. The problem, of course, in the real world is generally other things are not the same.

A concern I have raised that has not been dealt with is that no country in the history of the world, so far as I am aware, has ever imposed a tax at the level we are debating here and not had a black market for cigarettes develop.

In Britain, 50 percent of cigarettes are sold on the black market. In Italy it is 20 percent. Canada raised cigarette taxes to try to induce teenagers to stop smoking, but then their country was inundated with illegal cigarettes. The effect was to actually lower the price of cigarettes bought on the black market. Canada, in an extraordinary action, actually repealed the tax increase. And the minister of health said that by repealing the tax increase, and thereby forcing teenagers to attempt to buy cigarettes through legal channels they would reduce teen smoking. By limiting the economic foundation of the black market, they might be more successful in reducing teen smoking.

I am hopeful that, if in fact we raise taxes to the degree we are talking about, something good will come from it. Obviously, inducing teenagers to smoke less would certainly be a good thing.

The issue I want to address today, and the issue that I hope we will vote on before we go home for the recess, is the issue of what we are going to do with this money. We can debate endlessly what the tax increase is going to do and what it is not going to do. I am still very much troubled by the impact of this tax increase on real people.

In listening to many of the strongest proponents of this bill, you get the idea they are taxing tobacco companies. That somehow we are getting revenues from companies that have conspired to deceive the public, that have conspired to induce teenagers to smoke. Therefore, not only are we getting the good of higher prices and the impact that

might have on consumption, but in fact there is almost a retribution quality to it.

I guess I have to temper that with a cold recognition that in this bill we are not taxing tobacco companies. In fact, we have an extraordinary provision in this bill that makes it illegal for tobacco companies not to pass the cost increase through to consumers.

So except for a look-back provision, where we are actually going to poll teenagers, and if we find that teenage smoking has not declined, we will have a look-back tax on tobacco companies and target those who we find, through the poll, are the preferred brand names.

It is interesting, because article I of the Constitution gives Congress the power to impose taxes. Nowhere has it ever been contemplated we would allocate that power to a pollster. And it is clear to anyone that provision is unconstitutional. But beyond that provision every penny of taxes we impose in this bill will be paid for by people who consume cigarettes.

Now, we might wish that were not the case. I wish it were not the case. But, unfortunately, that is the way the bill is written. In fact, as I said a moment ago, the bill is actually structured so that tobacco companies could not pay the tax if they wanted to. They are forced, by law, to pass it through to the consumer.

One of the things that troubles me is who this consumer is. I mentioned these numbers the other day, but they are relevant to the amendment I want to talk about today. Thirty-four percent of the new tobacco taxes in this bill will be paid for by Americans who make less than \$15,000 a year. They do not own Philip Morris or any other tobacco company.

These people are, by the logic of this bill, victims. They have been induced to smoke. They have, in the logic of this bill, become addicted to nicotine. And if you had to classify them into a category, it would be the category of "victim." And yet for people who make less than \$15,000 a year, they are going to pay 34 percent of these taxes.

This is not a trivial amount of money. When you add up all the tax provisions in the bill, most of the estimates tend to indicate that a pack of cigarettes, which in my State sells for about \$2, will rise in price to about \$4.50 to \$4.75 a pack. These prices are for a \$1.50 per pack increase, which is substantially less than this bill will produce when you add up all its provisions.

An individual who smokes an average amount would pay ~~\$35~~ a year in new tobacco taxes. And for a couple making less than \$15,000 a year, they will pay a whopping \$712 in tobacco taxes from an effective increase in price of \$1.50 per pack. To someone making less than \$15,000 a year, \$712 a year is a lot of money.

So what concerns me, and obviously does not concern many of my colleagues, is the impact of this tax on

blue-collar workers. When I listen to the proponents of the bill, they make two things very clear. They care about driving up the price of cigarettes, and they don't care about the money. In trying to respond to the fact that 70 percent of Americans believe this bill is about taxes and not about smoking, over and over again they say, "We want the higher tax because we want to discourage smoking, not because we want the \$700 billion."

Senator GREGG has an amendment pending which I do not believe will be tabled. I intend to vote against tabling the Gregg amendment. The Gregg amendment says that we shouldn't be granting immunity to tobacco companies for future suits. Basically the Gregg amendment strikes the provision that caps liability. I intend to vote with Senator GREGG. I don't believe his amendment will be tabled.

When his amendment is acted on, I intend to offer an amendment that addresses what to do with the money. I hope my amendment will have very broad-based support. I thought I would take the time now to explain it so that if the Gregg amendment is not tabled, and I can offer the amendment at that point, people will know what is in dispute, and those who want to come and speak on it can do so. I will offer the amendment for myself and for Senator DOMENICI. I know he will want to come over at that point and speak, and I am sure many others will want to speak for and against it.

The issue here is the following: If we pass this bill, blue-collar Americans making \$15,000 a year or less will pay 34 percent of the taxes the bill will impose. Individuals making less than \$22,000 a year will pay 47 percent of the taxes that will be imposed by raising the price of cigarettes. Those making less than \$30,000 a year will pay a whopping 59 cents out of every dollar of taxes collected under this bill. In other words, this is not a tax that is randomly distributed among the general population of the country. The plain truth is, with a few exceptions, smoking in America today is a blue-collar phenomenon. The vast majority of people in America who smoke, and therefore who will pay this tax, are blue-collar workers. Almost 60 percent of this tax will be paid for by Americans who make less than \$30,000 a year.

Now, this produces some extraordinary results. Were the following numbers not from our own Joint Tax Committee, they would be difficult to believe. Let me give you just two numbers. For Americans who make less than \$10,000 a year, the taxes embodied in this bill will raise their Federal taxes by 41.2 percent in 1999. In the year 2003, when this bill is fully implemented and the tax is fully phased in, Americans who make less than \$10,000 a year will see their burden of Federal taxes rise by 44.6 percent.

If our objective is not the money but to get people not to smoke by raising the price of cigarettes, shouldn't we

take some of the money we are taking from ~~very moderate-income Americans and give it back to them~~ by cutting other taxes? Couldn't we find a tax cut that would apply to moderate-income Americans so that we wouldn't be lowering the real standard of living for people who are the victims of cigarettes by having become addicted to smoking and to nicotine?

If a motion to table the Gregg amendment fails, I will offer an amendment with Senator DOMENICI. This amendment aims to take roughly \$1 out of every \$3 collected in these cigarette taxes and give it back to Americans with family incomes of less than \$50,000 a year. We do it by repealing a provision of the Tax Code that is generally known as the marriage penalty. Let me basically explain how the marriage penalty works, what our amendment will do, and then wrap up. I see other colleagues are here to speak.

Under the existing Tax Code, we have an incredibly destructive provision that actually says when two young people meet, fall in love and get married, if they both work outside the home, they actually have to pay more taxes as a married couple than they would have to pay if they were single. Under our Tax Code, that average marriage penalty is about \$1,400 a year. Now, I think I speak for many people who are married in saying that my wife is easily worth \$1,400 a year. I would gladly pay that price and more for the privilege of being married, but I don't think the Federal Government should get that money. Maybe my wife should get that money. Also, I don't understand discouraging the creation of families when families are the most powerful instruments for human happiness and progress that have ever been created.

Let me remind my colleagues; if anyone has followed this debate, they know that everyone who has spoken in favor of this bill has said the money is incidental; that this is not about the money, they just want to raise the price of cigarettes. I will offer this amendment with Senator DOMENICI to help them fulfill that commitment and prove that is what they want. So our amendment is a very targeted tax cut that takes roughly \$1 out of every \$3 raised by this tax and gives it back to Americans with family incomes of less than \$50,000 a year.

Here is how our bill will work. It will target families that make less than \$50,000 a year. Right now, a married couple filing a joint return can earn \$6,900 before they have to start paying Federal income taxes. If they filed separately and they weren't married, they could jointly earn \$10,200 a year. If you wanted to state it dramatically, you could say that if they live in sin they can earn \$10,200 without having to pay any income taxes, but if they get married they have to start paying income taxes after they earn \$6,900. Now, almost everyone realizes this is a destructive tax policy, but we haven't been able to fix it.

What the amendment that I will offer for myself and for Senator DOMENICI will do is: for those who make less than \$50,000 a year as a family income, we will give them an additional deduction of \$3,300 a year. They will pay the same taxes whether they get married or whether they don't. The net result is a substantial tax cut for moderate-income working families. We will adjust this for inflation to assure that we preserve the real value of this deduction.

Finally, we apply it to the earned-income tax credit. As almost everybody here knows, if you work and you make modest incomes, you can get an earned-income tax credit. What we will do in our amendment is allow the marriage penalty in tax terms to apply above the line so that a working couple, a very-modest-income working couple, can deduct this correction for the marriage penalty before they calculate their eligibility for the earned-income tax credit.

Among the largest beneficiaries of the amendment that Senator DOMENICI and I will offer will be very modest income, blue-collar workers earning very low wages. What we will do is allow this deduction to apply to the earned-income tax credit.

If our amendment is adopted, roughly one-third of the tax that is collected on cigarettes would be given back to the very blue-collar families that will bear the largest burden of taxation as a result of taxing cigarettes. Some couples will pay \$712 a year in new cigarette taxes under this bill.

Under our amendment, the price of cigarettes would still go up as mandated by the underlying bill. To the degree that people respond to the higher price, we will have the impact of that rise in the price of cigarettes, but we will not be making modest-income workers poorer by the amount of the tax because we will take \$1 out of every \$3 of the tax and give it back to the very same families by repealing the marriage penalty for middle and moderate income couples.

Now, why is that important? It is important because the very people who are going to be hurt the most by this tax are moderate income people who have been victimized by tobacco companies. I am sure my colleagues are having their offices flooded with letters and postcards, as I am, from people who are basically saying, "I have a very modest income and I smoke, don't raise my taxes; tax the cigarette companies."

Well, what we are doing here in our amendment is allowing the increase in the price of cigarettes therefore discouraging smoking, but we are giving at least part of the money back to middle-income and moderate-income families.

So I hope my colleagues will support this amendment. I think it is very important that we vote on a tax cut as part of this bill before we adjourn. If we don't do this, we are going to have done something extraordinary in this

bill, and I can't help but be struck by the paradox of it. In this bill, we are saying that people who smoke have been victimized by the tobacco companies; yet, we are turning around and taxing the people who smoke because the bill prohibits tobacco companies from not passing the tax through to the people who smoke.

So while many people view this bill as firing a shot with a tax at the tobacco companies, in reality, the tax is hitting very moderate-income, working Americans. It is hitting the very people who have been victimized by the tobacco companies. The amendment that Senator DOMENICI and I will offer after the motion to table the Gregg amendment falls says, since the proponents of the tax pledge that this is not about the money, that it is not the money they want, it's the higher price of cigarettes, go ahead and take the tax, but, as a modest down payment, let's take \$1 out of every \$3 we collect in cigarette taxes and give it back to moderate- and modest-income families. Let's make it subject to the earned-income tax credit so that very low-income, working Americans will not be hurt as badly. If both members of the married couple smoke, they will be paying \$712 a year in Federal taxes under this bill. Let's eliminate the marriage penalty under the Tax Code for middle- and moderate-income families so that while the price of cigarettes goes up, they don't find themselves economically crushed by it. They will have an incentive to quit smoking, but at least a third of the money would come back to them by eliminating a discriminatory provision in the Tax Code.

I would like to go further than this amendment, and we will have an opportunity to do that. But this is a first installment. I think it is very important that we vote on this amendment before we recess, since it is clear that we will not finish the bill this week. I hope that my colleagues will support this amendment when Senator DOMENICI and I offer it to the Gregg amendment, hopefully, immediately following the motion to table the Gregg amendment.

I yield the floor.

The PRESIDING OFFICER. Under the previous order, the Senator from Illinois is recognized for 15 minutes, to be followed by the Senator from Nebraska.

Mr. CHAFEE. Mr. President, may I make a unanimous consent request? I ask unanimous consent that I might follow Senator HAGEL?

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. HATCH. Mr. President, I ask unanimous consent that I be privileged to follow the distinguished Senator from Rhode Island.

The PRESIDING OFFICER. Without objection, it is so ordered.

The Senator from Illinois is recognized.

Ms. MOSELEY-BRAUN. Mr. President, I would like to take a moment to

short at
1/3

May 21, 1998

CONGRESSIONAL RECORD—SENATE

S5293

Mr. DASCHLE. Mr. President, I ask for the yeas and nays.

The PRESIDING OFFICER. Is there a sufficient second?

There is a sufficient second.

The yeas and nays were ordered.

Several Senators addressed the Chair.

The PRESIDING OFFICER. The Senator from Arizona.

Mr. MCCAIN. Mr. President, I thank my colleagues for a very enlightening and informative debate. It has been an important discussion, not on the amendment just voted on, but on the bill itself. Obviously, we attempted to table the Gregg amendment, and it is something that is unfortunate, in my view, for the entire bill. At the same time, just like with the attorneys' fees and other aspects of this issue, we will revisit this issue again. I believe it is important for us to continue to work through the bill and get it through the U.S. Senate.

I think the American people expect us to do that, and I think it is important that we continue to work on the many amendments of significant importance to the bill. I believe this aspect of it not only will be revisited, but it is another chapter in a very long saga. Yesterday, we had two very significant victories. Today, we had a defeat. There will be more victories and more defeats as we go through this very difficult process.

But at the end of the day, I am totally confident that this body and the Congress will act in a responsible manner and adopt a comprehensive piece of legislation that will attack the nationwide problem of 3,000 children beginning to smoke every day and 1,000 of them being caused to die early as a result of tobacco-related illnesses. I thank all those who voted in favor of the amendment. And for those who opposed it, I respect the opposition. But I believe we will move forward with a comprehensive piece of legislation.

I yield the floor.

Mr. KERRY addressed the Chair.

The PRESIDING OFFICER. The Senator from Massachusetts.

Mr. KERRY. Mr. President, I will be very brief. I join my colleague in saying that I think what Senator MCCAIN and I and others hoped for was the opportunity to be able to come to the floor and fight these tough issues. That is what we did. We just had a tough vote. Clearly, some of us had hoped that the outcome would be different, because we had a different view of where the bill might travel. But this by no means prevents us in any way from continuing forward in the process of molding this legislation. This is precisely what the Senate ought to be doing. It ought to be fighting hard over these votes. We ought to be able to come to an understanding of where the 51 votes lie. And then, ultimately, we all know that hopefully we can come together with a piece of legislation that finds a conference committee and, ultimately, both Houses of Congress.

So I thank my colleagues for this spirited debate and for the fact that we have voted on two of the most critical issues with respect to this legislation. I thank Senator DURBIN for now bringing to the floor, through the leadership, an amendment on the issues of the look-back, one of the other very important issues that needs to be resolved. I am confident that we will have another healthy round of debate on that. I look forward to continuing to proceed.

Mr. GRAMM addressed the Chair.

The PRESIDING OFFICER. The Senator from Texas is recognized.

Mr. GRAMM. Mr. President, I think we have had a defining moment in this debate. Throughout this debate, our colleagues, who have brought to the floor of the Senate a bill that will raise \$700 billion in taxes, have said that they are not interested in the money, that the money is incidental, that what they want to do is raise the price of cigarettes.

We have made the point that this increase in the price of cigarettes, this tax, will fall very heavily on blue-collar workers. Those making \$15,000 or less will pay 34 percent of the cost, the taxes that are built into this bill. Those making \$22,000 or less will pay 47 percent of the cost. Those making \$30,000 or less will pay 59.1 percent of the cost of the taxes embodied in this bill.

Even if this bill only raised the price of a pack of cigarettes by \$1.50—and most estimates are that it will raise it by \$2.50 at a minimum—it would mean that an average smoker in America would pay \$356 of additional taxes as a result of this bill, and a blue-collar family where both the husband and wife smoke, would pay \$712 a year more in Federal taxes. In fact, the table put out by the Joint Committee on Taxation shows something that, over and over, those who support the bill have tried to deny or neglect, which is that for those Americans who make \$10,000 or less, their Federal taxes will rise by 41.2 percent as a result of the taxes embodied in this bill.

Now, what Senator DOMENICI and I did earlier was send an amendment to the desk that tried to give some of this money back to blue-collar workers in the form of a tax cut. Our colleagues say, it is not the money we want; they say, we just want to raise the price of cigarettes. So Senator DOMENICI and I took them at their word, sent an amendment to the desk that said raise the price of cigarettes; but since this is going to impose a bone-crushing tax on moderate-income Americans, let's take at least \$1 out of every \$3 that will be collected in this tax increase and let's give it back to working families by repealing the marriage penalty for families that make \$50,000 or less. In other words, it gets the impact on smoking that may come from a higher price as a result of the taxes in this bill but with our tax cut we avoid lowering the real income or living standards of blue-collar Americans who, after all, are the

victims here. The whole objective of the bill is to basically say people who smoke have been induced to smoke by the tobacco companies, and yet, paradoxically, the tax we are imposing is being imposed on the very people who have been exploited. In fact, the bill before us has an incredible provision which says every penny of the tax has to be passed through, and it is illegal if a tobacco company absorbs any of this tax increase. Every penny of it, 59.1 percent of the tax increase, is on families that make less than \$30,000 a year. The victims of the smoking campaign by the tobacco companies are the people who are paying the taxes.

What Senator DOMENICI, Senator FAIRCLOTH, and I have said in our amendment is this: Raise the tax, but give a third of the money back to working families by repealing the marriage penalty for couples who make less than \$50,000 a year. So you get the price impact on smoking, but you don't end up brutalizing economically moderate-income people.

I think it is very instructive that after 3 days of debate where our colleagues have said don't accuse us of wanting this money, we just want to raise the price of cigarettes, that we sent an amendment to the desk asking that \$1 out of every \$3 we are collecting in taxes be given back to moderate-income working families, and the Senate reacts in a convulsion, and the leadership uses right of privileged recognition to amend our amendment and to deny us the ability to offer a tax cut for the very people who are going to find themselves crippled economically as a result of this tax.

So let me just suggest two points:

No. 1, I think this is further evidence this bill is about money. Our amendment is hardly a far reaching amendment. We are just simply asking that roughly one out of every three dollars of the tax be given back.

Second, it also suggests, it seems to me, the objective here is to prevent us from having an opportunity to vote on a tax cut.

I want to assure my colleagues—and I know Senator DOMENICI feels exactly the same way—that there is no way we are going to be denied the right to offer this amendment. This won't be the last tax cut amendment that we are going to have. Quite frankly, I don't understand if those who are for the bill are saying what they really mean, why there isn't overwhelming support in both parties for giving a third of this tax increase back to working families.

Let me say very briefly what the amendment does and then yield the floor so that Senator DOMENICI, the co-sponsor of the amendment, will have an opportunity to speak.

Under current law if two individuals, a man and a woman, both of whom are working in the economy outside of the home, fall in love and get married, under current law they pay on average an additional \$1,400 a year in income taxes. So that, for example, if you had

Ref

AMENDMENT NO. _____ Calendar No. _____

Purpose: To eliminate the marriage penalty reflected in the standard deduction, to ensure the earned income credit takes into account the elimination of such penalty, and to provide a full deduction for health insurance costs of self-employed individuals.

Pending

IN THE SENATE OF THE UNITED STATES—105th Cong., 2d Sess.

S. 1415

To refer	AMENDMENT N^o 2686	to
pro		posed,
to	By <i>Gramm & others</i>	and,
red	Bill/Res. No. <i>to Amdt No 2437</i>	to
for		and

Referred _____ **6** Page(s) _____

GPO: 1996 25-891 (mac)

Ordered to lie on the table and to be printed

AMENDMENT intended to be proposed by Mr. GRAMM (for himself Mr. DOMENICI, Mr. ROTH, and Mr. FAIRCLOTH) ^{and} *Bond*

Viz:

- 1 At the ^{*end of the article,*} ~~appropriate place,~~ insert:
- 2 **SEC. ____ . ELIMINATION OF MARRIAGE PENALTY.**
- 3 (a) IN GENERAL.—Part VII of subchapter B of chap-
- 4 ter 1 of the Internal Revenue Code of 1986 (relating to
- 5 additional itemized deductions for individuals) is amended
- 6 by redesignating section 222 as section 223 and by insert-
- 7 ing after section 221 the following new section:

1 "SEC. 222. DEDUCTION FOR MARRIED COUPLES TO ELIMI-
2 NATE THE MARRIAGE PENALTY.

3 "(a) IN GENERAL.—In the case of a joint return
4 under section 6013 for the taxable year, there shall be al-
5 lowed as a deduction an amount equal to the applicable
6 percentage of the excess (if any) of—

7 "(1) the sum of the amounts determined under
8 subparagraphs (B) and (C) of section 63(c)(2) for
9 such taxable year (relating to the basic standard de-
10 duction for a head of a household and a single indi-
11 vidual, respectively), over

12 "(2) the amount determined under section
13 63(c)(2)(A) for such taxable year (relating to the
14 basic standard deduction for a joint return).

15 "(b) LIMITATION BASED ON MODIFIED ADJUSTED
16 GROSS INCOME.—

17 "(1) IN GENERAL.—No deduction shall be al-
18 lowed under subsection (a) if the modified adjusted
19 gross income of the taxpayer for the taxable year ex-
20 ceeds \$50,000.

21 "(2) MODIFIED ADJUSTED GROSS INCOME.—
22 For purposes of this subsection, the term 'modified
23 adjusted gross income' means adjusted gross income
24 determined—

25 "(A) after application of sections 86, 219,
26 and 469, and

1 “(B) without regard to sections 135, 137,
2 and 911 or the deduction allowable under this
3 section.

4 “(3) COST-OF-LIVING ADJUSTMENT.—In the
5 case of any taxable year beginning in a calendar
6 year after 2007, the \$50,000 amount under para-
7 graph (1) shall be increased by an amount equal to
8 such dollar amount multiplied by the cost-of-living
9 adjustment determined under section 1(f)(3) for the
10 calendar year in which the taxable year begins, ex-
11 cept that subparagraph (B) thereof shall be applied
12 by substituting ‘calendar year 2008’ for ‘calendar
13 year 1992’. If any amount as adjusted under this
14 paragraph is not a multiple of \$5,000, such amount
15 shall be rounded to the next lowest multiple of
16 \$5,000.

17 “(c) APPLICABLE PERCENTAGE.—For purposes of
18 this section, the applicable percentage shall be—

19 “(1) 25 percent in the case of taxable years be-
20 ginning in 1999,

21 “(2) 30 percent in the case of taxable years be-
22 ginning in 2000, 2001, and 2002,

23 “(3) 40 percent in the case of taxable years be-
24 ginning in 2003, 2004, and 2005,

1 “(4) 50 percent in the case of taxable years be-
2 ginning in 2006,

3 “(5) 60 percent in the case of taxable years be-
4 ginning in 2007, and

5 “(6) 100 percent in the case of taxable years
6 beginning in 2008 and thereafter.”

7 (b) DEDUCTION TO BE ABOVE-THE-LINE.—Section
8 62(a) of the Internal Revenue Code of 1986 (defining ad-
9 justed gross income) is amended by adding after para-
10 graph (17) the following new paragraph:

11 “(18) DEDUCTION FOR MARRIED COUPLES.—
12 The deduction allowed by section 222.”

13 (c) EARNED INCOME CREDIT PHASEOUT TO RE-
14 FLECT DEDUCTION.—Section 32(c)(2) of the Internal
15 Revenue Code of 1986 (defining earned income) is amend-
16 ed by adding at the end the following new subparagraph:

17 “(C) MARRIAGE PENALTY REDUCTION.—
18 Solely for purposes of applying subsection
19 (a)(2)(B), earned income for any taxable year
20 shall be reduced by an amount equal to the
21 amount of the deduction allowed to the tax-
22 payer for such taxable year under section 222.”

23 (d) FULL DEDUCTION FOR HEALTH INSURANCE FOR
24 SELF-EMPLOYEDS.—The table contained in section
25 162(l)(1)(B) is amended—

- 1 (1) by striking "and 1999",
2 (2) by striking the items relating to years 1998
3 through 2006, and
4 (3) by striking "2007 and thereafter" and in-
5 sserting "1999 and thereafter".

6 (e) CLERICAL AMENDMENT.—The table of sections
7 for part VII of subchapter B of chapter 1 of such Code
8 is amended by striking the item relating to section 222
9 and inserting the following new items:

"Sec. 222. Deduction for married couples to eliminate the mar-
riage penalty.

"Sec. 223. Cross reference."

10 (f) REDUCTION IN TRANSFERS TO NATIONAL TO-
11 BACCO TRUST FUND.—

12 (1) IN GENERAL.—Except as provided in para-
13 graph (2) and notwithstanding any other provision
14 of this Act, the amount credited to the National To-
15 bacco Trust Fund under section 401(b) of this Act
16 for any fiscal year shall be reduced by the amount
17 of the decrease in Federal revenues for such fiscal
18 year which the Secretary of the Treasury estimates
19 will result from the amendments made by this title.
20 The Secretary shall increase or decrease the amount
21 of any reduction under this section to reflect any in-
22 correct estimate for any preceding fiscal year.

23 (2) LIMITATION ON REDUCTION AFTER FISCAL
24 YEAR 2007.—

1 (A) IN GENERAL.—Except as provided in
2 subparagraph (B), with respect to any fiscal
3 year after fiscal year 2007, the reduction deter-
4 mined under paragraph (1) shall not exceed 33
5 percent of the total amount credited to the Na-
6 tional Tobacco Trust Fund for such fiscal year.

7 (B) SPECIAL RULE.—If in any fiscal year
8 the youth smoking reduction goals under sec-
9 tion 203 are attained, subparagraph (A) shall
10 be applied by substituting “50 percent” for “33
11 percent”.

12 (g) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to taxable years beginning after
14 December 31, 1998.



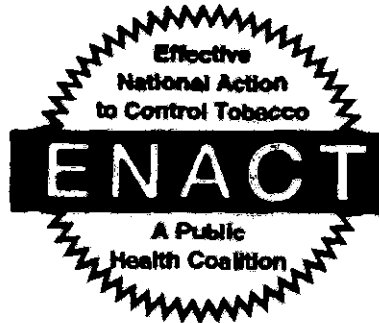
**ENACT OPPOSES
THE DASCHLE SUBSTITUTE TO THE GRAMM MARRIAGE PENALTY
AMENDMENT TO S.1415 BECAUSE IT WOULD WEAKEN THE
PUBLIC HEALTH AND RESEARCH PROGRAMS
DESIGNED TO REDUCE TOBACCO USE AMONG CHILDREN**

Senator Daschle has introduced a substitute to the amendment to S.1415 originally introduced by Senator Gramm which would use billions of dollars generated by S.1415 in order to reduce the "marriage penalty." While the Daschle substitute will cost less than the Gramm Amendment, particularly after the first five years, if adopted, this amendment would still cut back on needed funding for the bill's public health and research programs designed to reduce tobacco use and the death toll from tobacco.

ENACT opposes the Daschle substitute to the Gramm Amendment: S.1415 was introduced to reduce tobacco use, particularly among our nation's children. The money raised by the bill is to reimburse the states for medical expenditures and to help fund a solution to the tobacco problem caused by the tobacco companies. The Daschle substitute to the Gramm amendment would divert funds from tobacco related purposes, such as community prevention, public education and scientific research, to unrelated purposes. Ultimately, the Daschle substitute to the Gramm amendment would significantly weaken S. 1415's ability to protect America's kids.

The Daschle substitute to the Gramm amendment should be opposed because:

- This bill is intended to reduce tobacco use; its funds should be used for this purpose first and foremost. Regardless of the pros and cons about the "marriage tax," the Gramm amendment would seriously undermine the goal of protecting kids from tobacco. If Congress wishes to reduce the "marriage tax," it should do so in separate legislation, not by gutting this effort to combat the use of tobacco by children.
- The money raised by S.1415 is barely enough to provide resources to reimburse the states and to allocate funds for critical tobacco-related public health programs and research. The Daschle substitute to the Gramm Amendment will divert \$12 billion over the first five years, \$17 billion over the second five years and each five years thereafter from these important tobacco control purposes.



**ENACT OPPOSES
THE GRAMM MARRIAGE PENALTY AMENDMENT
TO S.1415 BECAUSE IT WOULD GUT THE PUBLIC HEALTH AND
RESEARCH PROGRAMS
DESIGNED TO REDUCE TOBACCO USE AMONG CHILDREN**

Senator Gramm has introduced an amendment to S.1415 which would use billions of dollars generated by S.1415 in order to reduce the "marriage penalty." If adopted, this amendment would undermine funding for the bill's public health and research programs designed to reduce tobacco use and the death toll from tobacco in the first five years and virtually eliminate funding for them thereafter.

ENACT opposes the Gramm Amendment: S.1415 was introduced to reduce tobacco use, particularly among our nation's children. The money raised by the bill is to reimburse the states for medical expenditures and to help fund a solution to the tobacco problem caused by the tobacco companies. The Gramm amendment would divert funds from tobacco related purposes, such as community prevention, public education and scientific research, to unrelated purposes. Ultimately, the Gramm amendment would cripple S. 1415's ability to protect America's kids.

The Gramm amendment should be opposed because:

- This bill is intended to reduce tobacco use; its funds should be used for this purpose first and foremost. Regardless of the pros and cons about the "marriage tax," the Gramm amendment would seriously undermine the goal of protecting kids from tobacco. If Congress wishes to reduce the "marriage tax," it should do so in separate legislation, not by gutting this effort to combat the use of tobacco by children.
- This amendment is part of a strategy meant to slow the process and destroy the bill. Senator Gramm opposes this bill. A vote for the Gramm amendment is a vote to destroy the McCain bill.
- The money raised by S.1415 is barely enough to provide resources to reimburse the states and to allocate funds for critical tobacco-related public health programs and research. The Gramm Amendment, even if reduced in cost to \$16-17 billion over the first five years, will balloon to twice that amount in the next five years and cost \$52 billion dollars in the third five years.

Modified Gramm Amendment Would Consume Nearly 80% of Tobacco Revenues from 2008-2022

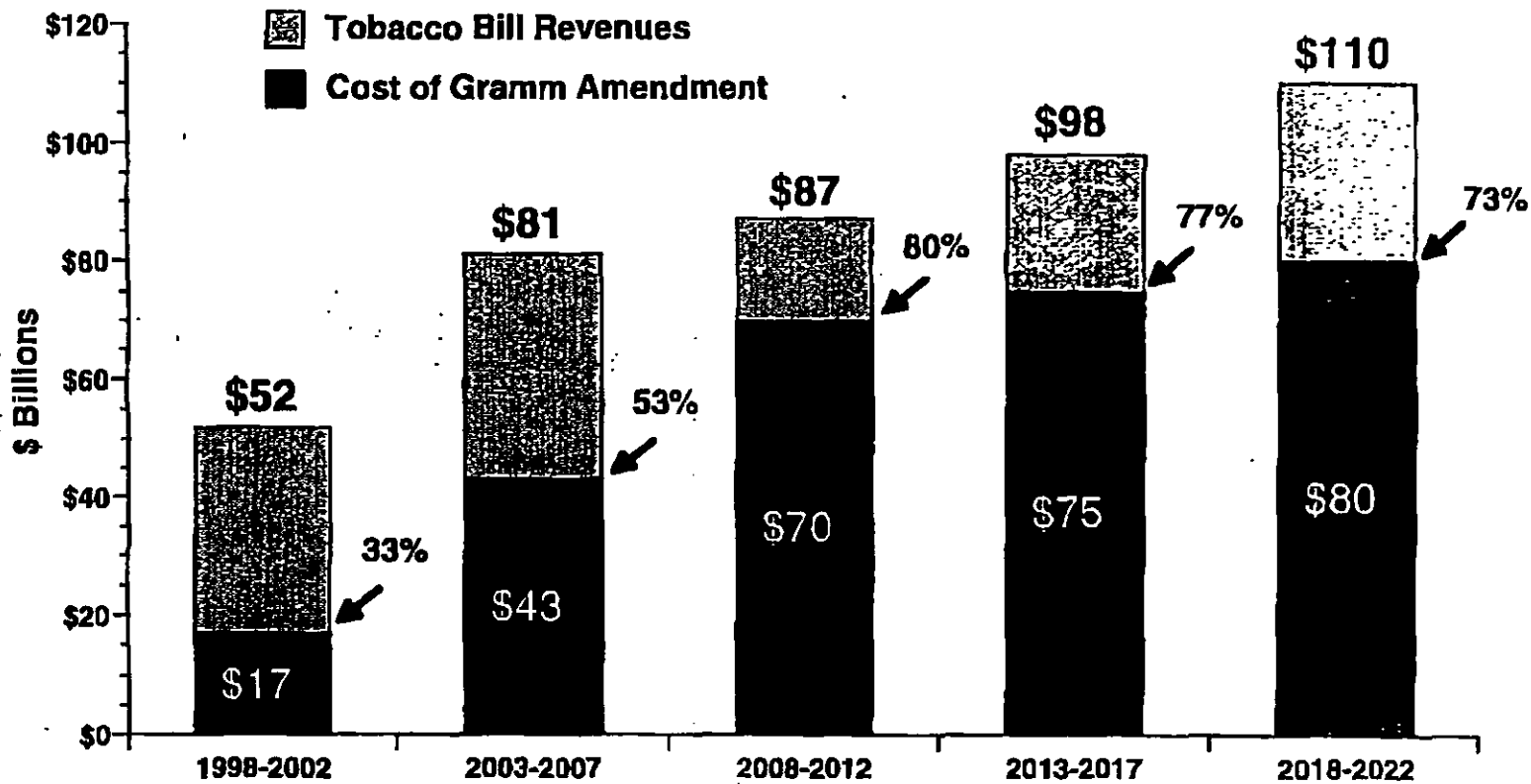
Background note: This analysis is based on figures provided by Senate Democratic staff based on Joint Tax Committee estimates. Senator Gramm has not made public his modified proposal, and these numbers might change.

Talking Points:

- I strongly urge you to vote against the Gramm amendment because it would prevent the legislation from achieving important health goals.
- Over the first four years, the Gramm amendment would spend \$17 billion for tax cuts, or 33 percent of the \$52 billion in spending under the McCain bill. If funding for states and farmers is held constant, funding for public health and research would be reduced by 73 percent.
- Over the next five years, the Gramm amendment would spend an additional \$43 billion on tax cuts, or 53 percent of the \$81 billion in the McCain bill allocated for spending. If states and farmers get first priority in terms of funding, the amendment would *completely eliminate* all funding for public health and medical research during those years. In addition, in order to provide full funding for states, funding for farmers would be reduced by 54 percent.
- In the next five years, the Gramm amendment explodes: it would absorb \$70 billion for tax cuts, or 80 percent of the \$87 billion dollars in the McCain bill allocated for spending, leaving no funding available for public health, health research, or farmers. Even state funding would be cut by 51 percent.
- The Gramm amendment would thus eviscerate funding for critical public health programs such as smoking cessation, education and counteradvertising. This would significantly undermine efforts to reduce youth smoking in this country and help adults who want to quit. Critical funding for medical research would also be cut drastically, including research into smoking-related diseases such as cancer and heart disease.
- Additionally, States would be expected to forgo their claims in court and receive, in exchange, minimal compensation for their enormous expenditures related to smoking-related illnesses. Funding would also be significantly reduced for tobacco farmers, who have done nothing wrong and who deserve to be compensated for the losses they will suffer as a result of tobacco legislation.

The Gramm Tax Amendment Would Consume Nearly 80% of Tobacco Revenues from 2008-2022

Would Defund Commitments to States, Farmers, and Public Health



Source: Senate Democratic staff analysis based on Joint Tax Committee estimates.

		1998-2002	2003-2007	2008-2012
A	Tobacco revenues	52	81	87
B	Tax cut	17	43	70
C	Amount left after tax cut	35	38	17
D	Amount that should go to states (A*.4)	21	32	35
E	Amount that should go to farmers (A*.16)	8	13	14
F	Amount that should go to public health (A*.22)	11	18	19
G	Amount that should go to health research (A*.22)	11	18	19
H	Amount left for public health and research if states and farmers held constant (C-D-E)	6	None	None
I	Percent reduction in amount for public health and research $((F+G)-H)/F+G$	73%		
J	Amount left for farmers if states held constant and no funding for public health and research (C-D)		6	None
K	Percent reduction in amount for farmers $(E-J)/E$		54%	
L	Amount left for states if no funding for public health, research, or farmers (C)			17
M	Percent reduction in amount for states $(D-L)/D$			51%

**Gramm Amendment would Undermine Public Health Efforts,
Slash Funding for Health Research,
and Drastically Reduce Funding for States**

(with proposal)

The Gramm amendment would cost approximately \$46 billion over 5 years. It would provide a tax deduction of \$3,450 to married couples filing a joint return with adjusted gross incomes below \$50,000. Because couples in this income range are in the 15 percent tax bracket, the deduction is worth about \$518 per year. **The amendment would also cut drastically spending under the McCain bill for public health programs, medical research, assistance to farmers and their communities, and state programs.**

Gramm Amendment Would Require Drastic Cuts in Spending

The McCain Manager's amendment spends \$59 billion over 5 years on health research and public health programs, assistance to farmers and their communities, and the states. Under the Gramm amendment, \$46 billion would go to tax cuts, reducing the funding available for these other important purposes by 78 percent.

Gramm Amendment Would Undermine Public Health Efforts and Slash Funding for Medical Research

The Gramm amendment would eviscerate funding for critical public health programs targeting children and adults such as smoking cessation, education and counteradvertising. This would significantly undermine efforts to reduce youth smoking in this country and help adults who want to quit. Critical funding for medical research would also be cut drastically, including research into smoking-related diseases such as cancer and heart disease.

Gramm Amendment Would Reduce Significantly Funding to Settle State Lawsuits

Congress would not be considering comprehensive legislation designed to reduce youth smoking were it not for the suits brought by State Attorneys General in over 40 states. Nonetheless, the Gramm amendment would leave very little funding available for the states. Thus, states would be expected to forgo their claims in court and receive, in exchange, only minimal compensation for their enormous expenditures related to smoking-related illnesses.

Yet Gramm Amendment does not Actually Address Marriage Penalty

The Gramm amendment does not actually correct the problem of the marriage penalty. Currently, a one-earner childless couple with \$50,000 in income already has a marriage bonus of over \$3,000. The Gramm amendment would significantly increase marriage bonuses for these families. In contrast, a two-earner childless couple, each with \$25,000 in income, experiences a marriage penalty of \$200. This proposal would more than eliminate this penalty, and provide these families with a significant bonus. Given the respective magnitudes of marriage bonuses and penalties for married couples with incomes under \$50,000, this proposal (in the aggregate) sharply increases the already large marriage bonus for these families.

Gramm Amendment Would Slash Funding for Public Health, Medical Research, State Programs, and Farmers by 78 Percent

	State Programs	NIH and Other Medical Research	Public Health*	Farmers Assistance	Total
Total, FY 1999-2003					
McCain Bill	\$23.5 billion	\$13 billion	\$13 billion	\$9.4 billion	\$58.9 billion
78% Reduction under Gramm Amendment	- \$18.4 billion	- \$10.2 billion	- \$ 10.2 billion	- \$ 7.3 billion	- \$46 billion
Funding under Gramm Amendment	\$ 5.1 billion	\$ 2.8 billion	\$ 2.8 billion	\$ 2.1 billion	\$12.9 billion

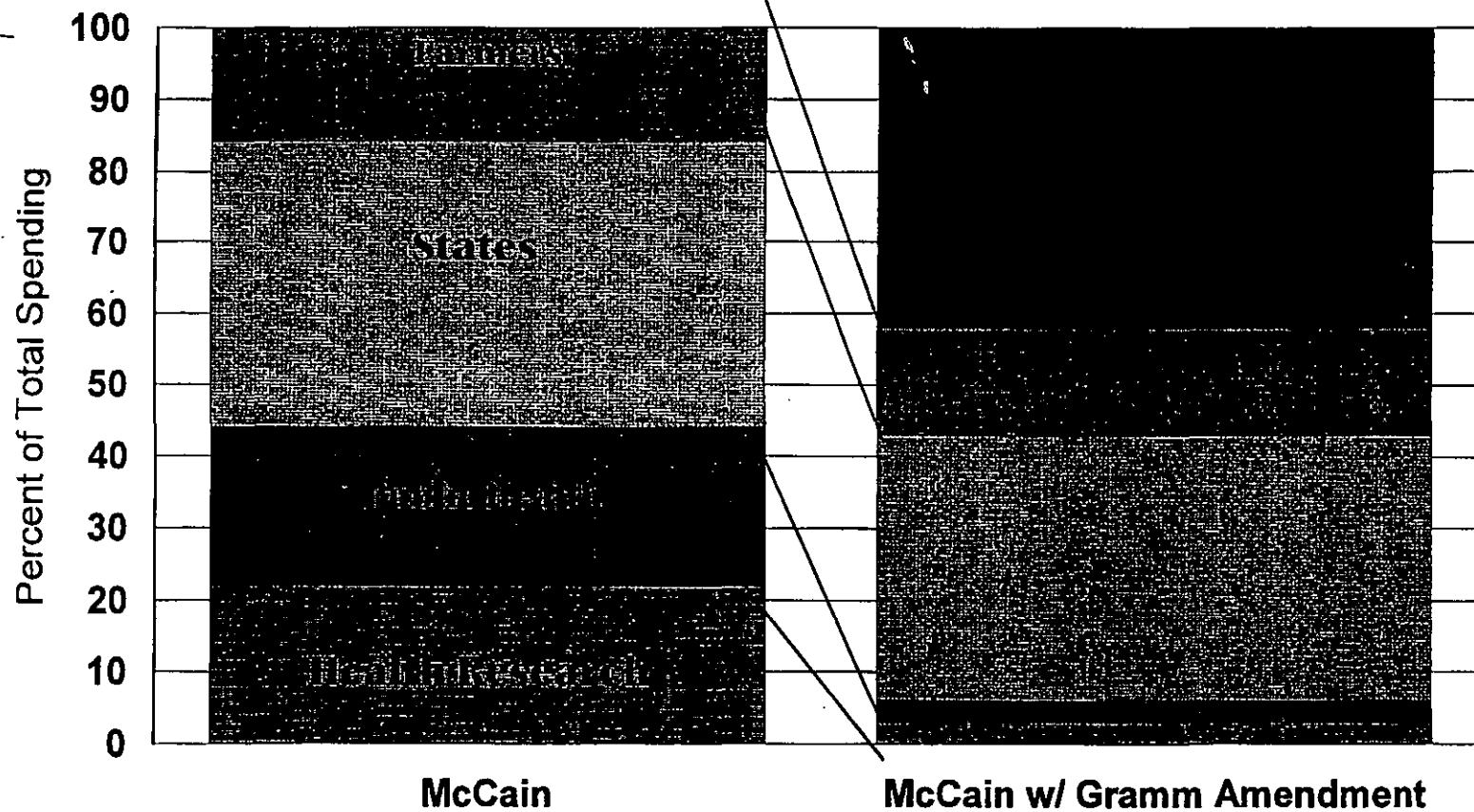
If States Receive First Priority in Terms of Funding, Gramm Amendment *Eliminates* Funding for Medical Research, Public Health, and Farmers; Cuts State Funding in Half

	State Programs	NIH and Other Medical Research	Public Health*	Farmers Assistance	Total
Total, FY 1999-2003					
McCain Bill	\$23.5 billion	\$13 billion	\$13 billion	\$9.4 billion	\$58.9 billion
Gramm Amendment	\$12.9 billion	0	0	0	\$12.9 billion
Percent reduction	-45%	-100%	-100%	-100%	-78%

* Includes Cessation, Prevention, Education, and Enforcement.

Modified Gramm Amendment Would Cut Research and Public Health by 85%

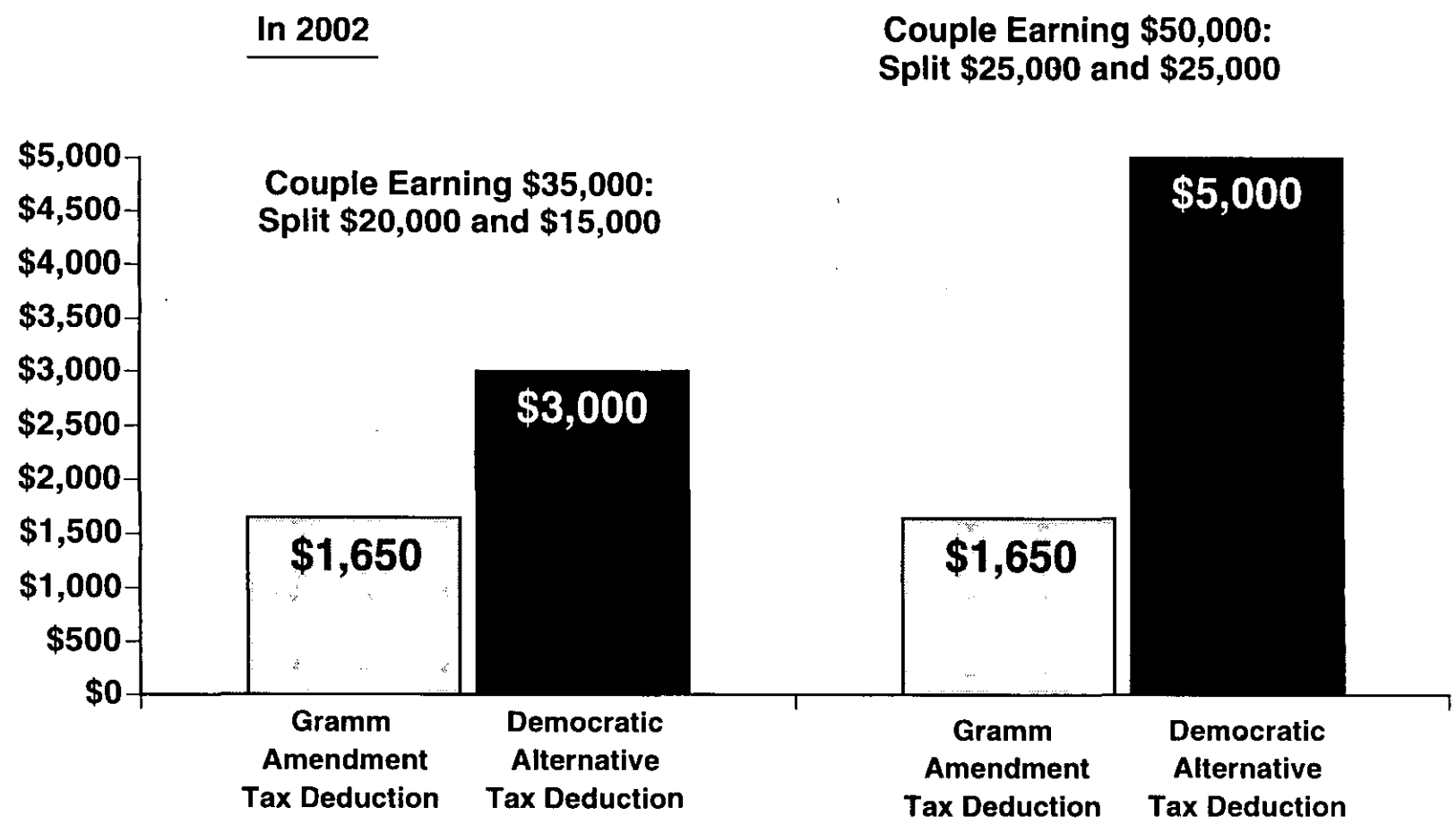
States and Farmers held harmless in years 1-5, then reduced proportionally to pay for Gramm in years 6-10, for a total 10 year reduction of 8%



Numbers based on Manager's Amendment, excluding Lugar and Veterans

To b - rr - tax cut - Gramm

Democratic Alternative Would Cut Marriage Tax Penalty More for Most Families



Source: Senate Democratic staff analysis based on Joint Tax Committee estimates.

Tob - or - tax cuts -
Gramm

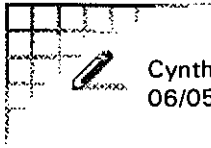
Spending Scenarios Under the Gramm Amendment

(In Billions of Nominal Dollars -- FY99-03)

(with proposal)

	McCain Base Manager's Amend.	Proportional Reduction FY99-03	% Reduction From Base	Protect States & Farmers	% Reduction From Base	Protect States Only	% Reduction From Base
RECEIPTS							
Net Receipts	58.9	58.9		58.9		58.9	
USES							
Health & Related Research	13.0	2.8	-78%	0	-100%	0	-100%
Public Health	13.0	2.8	-78%	0	-100%	0	-100%
State Funds, Direct	23.5	5.1	-78%	9.2	-61%	12.9	-45%
Farmers & Farm Communities	9.4	2.1	-78%	3.7	-61%	0	-100%
Gramm Amendment	<u>0.0</u>	<u>46.0</u>		<u>46.0</u>		<u>46.0</u>	
Total Uses	58.9	58.9		58.9		58.9	

Tobacco tax cut -
Gramm



Cynthia Dillard
06/05/98 06:36:21 PM

Record Type: Record

To: Cynthia A. Rice/OPD/EOP, Elena Kagan/OPD/EOP, Laura Emmett/WHO/EOP

cc:

Subject: revised gramm talking points



GRAMOMB5.W Here are the revised Gramm talking points that Elena requested yesterday evening using \$13 over 4 years and \$30 over the next five years.

Modified Gramm Amendment Would Consume Nearly 80 Percent of Tobacco Revenues Between 2008-2022

Background note: This is based on OMB's analysis of receipts under the McCain bill.

13/30

Talking Points:

- I strongly urge you to vote against the Gramm amendment because it would prevent the legislation from achieving important health goals.
- Over the first four years, the Gramm amendment would spend \$13 billion for tax cuts, or 28 percent of the \$45.7 billion in spending under the McCain bill. If funding for states and farmers is held constant, funding for public health and research would be reduced by 67 percent.]
- Over the next five years, the Gramm amendment would spend an additional \$30 billion on tax cuts, or 42 percent of the \$71.1 billion in the McCain bill allocated for spending. If states and farmers get first priority in terms of funding, the amendment would *completely eliminate* all funding for public health and medical research during those years.] farmer/
states?
- Between 2008 and 2022, the Gramm amendment explodes: it would absorb \$225 billion, or 78 percent, of the \$289.5 billion in the McCain bill allocated for spending. If states and farmers get first priority in terms of funding, the amendment would completely eliminate all funding for public health and medical research during those years. Funding for the states would be reduced by 62 percent, and funding for farmers would be reduced by 57 percent.]
- The Gramm amendment would thus eviscerate funding for critical public health programs such as smoking cessation, education and counteradvertising. This would significantly undermine efforts to reduce youth smoking in this country and help adults who want to quit. Critical funding for medical research would also be cut drastically, including research into smoking-related diseases such as cancer and heart disease.
- Additionally, States would be expected to forgo their claims in court and receive, in exchange, minimal compensation for their enormous expenditures related to smoking-related illnesses. Funding would also be significantly reduced for tobacco farmers, who have done nothing wrong and who deserve to be compensated for the losses they will suffer as a result of tobacco legislation.

(with proposal)

Talking Points on the Gramm Amendment

Background information:

The Gramm amendment, as offered, would cost approximately \$46 billion over 5 years. It would provide a tax deduction of \$3,450 to married couples filing a joint return with incomes below \$50,000. Because couples in this income range are in the 15 percent tax bracket, the deduction would be worth about \$518 per year. It is billed as an amendment to eliminate the marriage penalty, but it actually provides an across-the-board tax cut to all married couples with incomes under \$50,000, regardless of whether they actually experience a marriage penalty under the tax code.

Due to some members' concerns over the high price tag of this amendment, Gramm has raised the possibility of scaling back his amendment so that it would cost in the area of \$17 billion over the first 5 years, and \$38 billion over the second 5 years. This is still in flux.

Talking Points:

- I strongly urge you to vote against the Gramm amendment because it would prevent the legislation from achieving important health goals. The McCain Manager's amendment contains \$59 billion over 5 years for health research and public health programs, assistance to farmers and their communities, and the states. Under the Gramm amendment, \$46 billion would go to tax cuts, reducing the funding available for these other important purposes by *78 percent*.
- The Gramm amendment would eviscerate funding for critical public health programs such as smoking cessation, education and counteradvertising. This would significantly undermine efforts to reduce youth smoking in this country and help adults who want to quit. Critical funding for medical research would also be cut drastically, including research into smoking-related diseases such as cancer and heart disease.
- The amendment would also leave very little funding available for the states. States would be expected to forgo their claims in court and receive, in exchange, only minimal compensation for their enormous expenditures related to smoking-related illnesses.
- Finally, the amendment would leave almost nothing left over for tobacco farmers, who have done nothing wrong and who deserve to be compensated for the losses they will suffer as a result of tobacco legislation.

If asked whether the President would consider a less costly effort to lessen the marriage penalty:

- Our priority is to ensure adequate funding for public health programs to reduce youth smoking and health research to cure tobacco-related diseases, while also providing states and tobacco farmers with the compensation they deserve.
- The President will not jeopardize his youth smoking goals by supporting irresponsible tax cuts in the context of this legislation. If someone proposes a targeted and reasonable sized tax proposal that does not interfere with these goals, the Administration will review it. But so far, we have not seen any such proposals; the tax cuts being talked about now are cuts that will severely undermine the core purposes of this legislation.

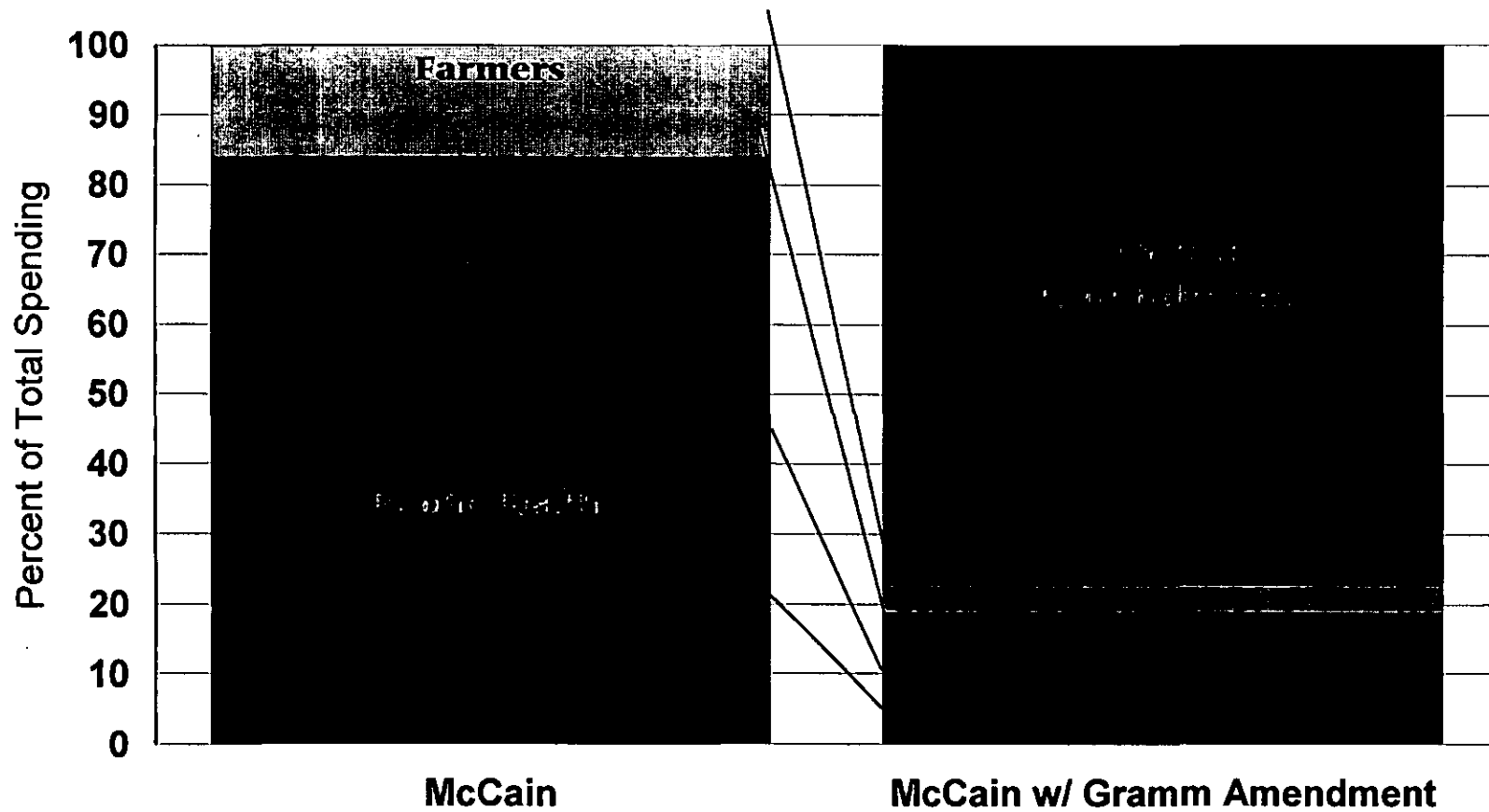
Modified Gramm Amendment Would Consume Nearly 80 Percent of Tobacco Revenues Between 2008-2022

Background note: This is based on OMB's analysis of receipts under the McCain bill.

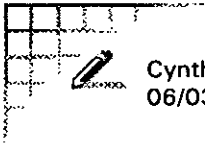
Talking Points:

- I strongly urge you to vote against the Gramm amendment because it would prevent the legislation from achieving important health goals.
- Over the first four years, the Gramm amendment would spend \$13 billion for tax cuts, or 28 percent of the \$45.7 billion in spending under the McCain bill. If funding for states and farmers is held constant, funding for public health and research would be reduced by 67 percent.
- Over the next five years, the Gramm amendment would spend an additional \$30 billion on tax cuts, or 42 percent of the \$71.1 billion in the McCain bill allocated for spending. If states and farmers get first priority in terms of funding, the amendment would *completely eliminate* all funding for public health and medical research during those years.
- Between 2008 and 2022, the Gramm amendment explodes: it would absorb \$225 billion, or 78 percent, of the \$289.5 billion in the McCain bill allocated for spending. If states and farmers get first priority in terms of funding, the amendment would completely eliminate all funding for public health and medical research during those years. Funding for the states would be reduced by 62 percent, and funding for farmers would be reduced by 57 percent.
- The Gramm amendment would thus eviscerate funding for critical public health programs such as smoking cessation, education and counteradvertising. This would significantly undermine efforts to reduce youth smoking in this country and help adults who want to quit. Critical funding for medical research would also be cut drastically, including research into smoking-related diseases such as cancer and heart disease.
- Additionally, States would be expected to forgo their claims in court and receive, in exchange, minimal compensation for their enormous expenditures related to smoking-related illnesses. Funding would also be significantly reduced for tobacco farmers, who have done nothing wrong and who deserve to be compensated for the losses they will suffer as a result of tobacco legislation.

Gramm Amendment Would Cut Other Tobacco Uses by 78 Percent



Tobacco tax cuts - Gramm



Cynthia Dailard
06/03/98 03:51:38 PM

Record Type: Record

To: Elena Kagan/OPD/EOP, Laura Emmett/WHO/EOP

cc:

Subject: revised Gramm numbers

Right after I got off the phone with you, Caroline Fredrickson called back and asked if we could use Budget Committees numbers for the Gramm chart (\$17 b for the first 5 years and \$38 billion for the next five years).

This is how they arrived at those numbers: Budget Committee scored the original Gramm at \$52 billion over the first five years, and \$81 b over the next five years. Gramm is saying that he will scale back to 1/3 of the first five years (\$17 b) and half (or slightly under half) for the second five (\$38 b).