[JOINT COMMITTEE PRINT]

SUMMARY DESCRIPTION OF USER FEES AND OTHER REVENUE PROPOSALS IN THE PRESIDENT'S FISCAL YEAR 1986 BUDGET, THE BUDGET RESOLUTION, AND CERTAIN OTHER REVENUE ISSUES

SCHEDULED FOR A HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS

ON JUNE 19, 1985

PREPARED BY THE STAFF

OF THE

JOINT COMMITTEE ON TAXATION

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INTRODUCTION

The Committee on Ways and Means has scheduled a public hearing on June 19, 1985, on certain user fees, revenue proposals in the President's fiscal year 1986 budget proposal, and certain other revenue proposals (including those assumed in the House Budget Resolution for fiscal year 1986).[1]

This pamphlet,[2] provides a summary description of nine revenue-related proposals listed in the Committee on Ways and Means Press Release announcing the hearing: (1) Black Lung Disability Trust Fund; (2) Pension Benefit Guaranty Corporation premiums; (3) Customs Service fees; (4) social security tax deposits by State and local governments; (5) tax treatment of Railroad Retirement benefits; (6) Internal Revenue Service fees; (7) certain other user fees (Coast Guard and waterway and harbor development fees); (8) cigarette excise tax; and (9) Medicare coverage for State and local government employees. Finally, the pamphlet provides a summary of the budget impact of the revenue proposals contained in the President's fiscal year 1986 budget and as included in the House Budget Resolution for fiscal year 1986.

The scope of the June 19 Committee hearing is not intended to cover budget revenue proposals relating to the extension and expansion of the Superfund taxes (which were subject to a separate Committee hearing on May 9, 1985),[3] nor does it include the President's budget proposal that anticipates legislation to cover railroad employees under the regular Federal-State unemployment insurance system (to be considered separately by the Subcommittee on Public Assistance and Unemployment Compensation at a later date). Further, the June 19 Committee hearing does not include any revenue losing proposals that are included in the President's Budget proposal.[4]

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[1] See, H. Con. Res. 152, *First Concurrent Resolution on the Budget—Fiscal Year 1986* (H. Rep. No. 99–133, Part 1; May 20, 1985).

[2] This pamphlet may be cited as follows: Joint Committee on Taxation, *Summary Description of User Fees and Other Revenue Proposals in the President's Fiscal Year 1986 Budget, the Budget Resolution, and Certain Other Revenue Issues* (JCS-20-85), June 18, 1985.

[3] See prior Joint Committee on Taxation pamphlet, *Background and Issues Relating to House Bills for Reauthorization and Financing of the Superfund* (JCS-13-85), May 8, 1985.

[4] These and other of the revenue-related proposals in the President's Budget proposal are summarized in a prior Joint Committee on Taxation pamphlet, *Summary of Administration's Revenue Proposals in the Fiscal Year 1986 Budget Proposal* (JCS-2-85), February 19, 1985.

I. SUMMARY DESCRIPTION OF REVENUE PROPOSALS

1. Black Lung Disability Trust Fund

Present Law

A manufacturers excise tax is imposed on domestically mined coal (other than lignite) that is sold or used by the producer of the coal. The rate of tax is $1 per ton for coal from underground mines and 50 cents per ton for coal from surface mines, but the tax cannot exceed four percent of the price for which the coal is sold.[5]

Amounts equal to the revenues collected from the coal excise tax are automatically appropriated to the Black Lung Disability Trust Fund.[6] The Trust Fund pays certain black lung disability benefits to coal miners (or their survivors) who have been totally disabled by black lung disease in cases where no coal mine operator is found responsible for the individual miner's disease.

President's Budget Proposal

The President's fiscal year 1986 budget proposal indicates that the coal excise tax would be increased sufficiently to freeze the cumulative deficit in the Black Lung Disability Trust Fund over the next five years.

Status of Black Lung Disability Trust Fund

The following table shows the receipts and expenses of the Black Lung Disability Trust Fund, for fiscal years 1978–1984.

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[5] On the earlier of January 1, 1996, or any January 1 after 1981 on which there is no balance of repayable advances to the Trust Fund and no unpaid interest on such advances, the tax rates are scheduled to return to the pre-1982 rates, which were one-half the current rates (i.e., 50 cents/ton for underground mines, and 25 cents/ton for surface mines, limited to two percent of the price for which the coal was sold).

[6] Revenues from so-called "penalty" excise taxes on certain activities (e.g., self-dealing, excess contributions) of black lung benefit trusts also are automatically appropriated to the Trust Fund.

Black Lung Disability Trust Fund Receipts and Expenses, Fiscal Years 1978–1984

[In ~~thousands~~ millions of dollars]

Fiscal year	Receipts: Coal excise tax	Receipts: Interest	Receipts: Advances from general fund (deficit)	Expenses: Benefit payments	Expenses: Adminis-trative expenses	Expenses: Interest on advances
Actual:						
1978....	92.1	1.2	18.9	76.8	35.3	....
1979....	221.6	.1	400.8	582.0	32.1	7.7
1980....	272.3	....	535.8	721.7	34.2	52.5
1981....	236.6	....	554.8	644.3	35.6	109.5
1982....	490.7	.3	283.0	578.2	35.8	160.6
1983....	493.7	.3	357.8	623.1	34.9	193.3
1984....	518.5	.4	346.1	594.2	36.6	234.5
Total..	2,325.5	2.3	2,497.2	3,820.5	244.6	758.1

Source: Fourth Annual Report on the Financial Condition and Results of Operations of the Black Lung Disability Trust Fund (Department of Treasury, Sept. 30, 1981), and Budget of the U.S. Government Appendixes for fiscal years 1984, 1985, and 1986.

Prior Action

The Black Lung Benefits Revenue Act of 1981 (P.L. 97-119) doubled the original rate of the tax, effective January 1, 1982, and made certain amendments relating to the Trust Fund.

2. Pension Benefit Guaranty Corporation Premiums

Present Law

The Employee Retirement Income Security Act of 1974 (ERISA) established a program of insurance for employee benefits under most private, domestic, defined benefit pension plans.[7] The insurance program is administered by the Pension Benefit Guaranty Corporation (PBGC), a Federal corporation within the Department of Labor. The Board of Directors of the PBGC consists of the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Commerce. The Secretary of Labor is the Chairman of the Board. Receipts and disbursements of the PBGC are included in the budget of the United States.

Under present law, a defined benefit plan that is subject to the insurance program is required to pay annual premiums to the Pension Benefit Guaranty Corporation (PBGC). The PBGC is required

[7] A defined benefit pension plan provides a specified level of benefits for participants (*e.g.,* the Federal Civil Service Retirement Plan). A church pension plan is generally exempt from the insurance program unless the plan has elected to be subject to ERISA standards. Exclusions are also provided for plans of small professional service employers and certain other employers.

by ERISA to maintain four separate premium rate and base schedules under the program. Under the Act, the PBGC maintains separate schedules for basic and nonbasic benefits under single-employer plans and corresponding schedules for multiemployer plans.[8] Insurance of basic benefits under a plan is mandatory.

Basic benefits under a single-employer plan (generally consisting of nonforfeitable retirement benefits) are insured by the PBGC up to the lesser of $750 per month, adjusted for inflation since 1974 ($1,687.50 for 1985) or a participant's average monthly compensation for the period of 5 years for which that compensation is the highest. The insurance of benefits is generally phased in over a 5-year period.

ERISA provides that the annual per-participant premium for insurance of basic benefits under a single-employer plan is $2.60. The annual per-participant premium for insurance of basic benefits under a multiemployer plan is $1.80 for plan years beginning in 1985 or 1986, $2.20 for plan years beginning in 1987 or 1988, and $2.60 for plan years beginning thereafter. Special rules are provided for cases in which an employee participates in more than one single-employer plan maintained by the same employer. Similar rules apply to employees with multiple coverage under multiemployer plans. Generally, the level of benefits guaranteed by the PBGC is lower under a multiemployer plan than under a single-employer plan.

The PBGC is authorized by ERISA to revise the premium rate and base schedules for basic benefits under single-employer plans and multiemployer plans whenever it determines that revision is necessary. Approval by the Congress is required, however, for per-participant annual premiums in excess of $2.60. A proposed change in a schedule is to be submitted to the Committee on Ways and Means and the Committee on Education and Labor of the House of Representatives and to the Committee on Finance and the Committee on Labor and Human Resources of the Senate. ERISA requires that premium rates prescribed by the PBGC must be uniform for all single-employer plans with respect to basic benefits. The PBGC is authorized by ERISA to provide a risk-related premium (within limits) for single-employer and multiemployer plans, but this authority has not been exercised .

The PBGC maintains a trust fund and a revolving fund for insurance of benefits under terminated plans. Separate funds are maintained for single-employer plans and multiemployer plans. The funds maintained by the PBGC to provide benefits under terminated single-employer plans are the sole Federal source of guaranteed benefits for single-employer plans. The funds maintained by the PBGC to provide guaranteed benefits under multiemployer plans are the sole Federal source of guaranteed benefits for those plans.

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[8] Under ERISA, a plan is a multiemployer plan if (1) more than one employer is required to make plan contributions, (2) the plan is maintained pursuant to one or more collective bargaining agreements between one or more employee organizations and more than one employer, and (3) the plan meets such other requirements as the Secretary of Labor may prescribe by regulations. In determining whether a plan is a multiemployer plan, employers under common control are treated as one employer. Special rules are provided for terminated plans and for transition cases (Code sec. 414(f) and ERISA sec. 4001(a)(3)). A single-employer plan is a plan that is not a multiemployer plan.

The PBGC is authorized to borrow up to $100 million from the Treasury of the United States.

President's Budget Proposal

The Budget Message of the President for 1986 indicated that, under current law, the deficit of the Pension Benefit Guaranty Corporation is expected to increase. According to the Message, the budget reflects the Administration's request that the Congress approve an increase in the single-employer premium to a level sufficient to cover projected claims, and amortize the current deficit over a reasonable period of time. The Message indicates that the Administration also supports "legislation to revise the insurance program for single-employer plans in order to close loopholes in the Employee Retirement Income Security Act of 1974 that allow unwarranted assignment to the Corporation of liabilities for unfunded benefits."

The PBGC presently estimates that its deficit will be $679 million at the end of the 1986 fiscal year.[9] The PBGC estimates that the deficit in its single-employer program will be $721 million at that time.

The Board of Directors of the PBGC has requested that the annual, per-participant premium for single-employer plans be increased to $7.50 from $2.60, effective for plan years beginning on or after January 1, 1985. In a letter of April 9, 1985, addressed to the Chairman of the Committee on Ways and Means, the Acting Executive Director of the PBGC stated on behalf of the Board of Directors that:

> Our current request for a $7.50 premium reflects the need to fund properly existing liabilities of approximately $1.6 billion and future losses, expected to average $185 million per year, over the next 15 years. The immediate need for the increase is now even more apparent than it was in the last session of the Congress. Sometime early in FY '85, PBGC's cash flow, as reflected in the Federal Budget accounts, turned negative, and PBGC for the first time began adding to the size of the Federal deficit. Such a trend would accelerate alarmingly in succeeding years should an increase not be adopted.

No change is requested in premiums under the multiemployer program.

The President's Budget Message stated that a legislative recommendation would be made to reduce outlays by $174.5 million in fiscal year 1986.

Budget Resolution

The House Budget Resolution assumes an increase in the PBGC premiums, characterized as outlay savings of $300 million per year in fiscal years 1986-1988.

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[9] The Budget Message of the President estimated that the deficit of the PBGC will be $853 million at the end of the 1986 fiscal year. This projection has been revised in light of more complete information with respect to the 1984 fiscal year.

Prior Action

The annual, per-participant premium for single-employer plans was initially set by ERISA at $1.00. That premium was increased by Public Law 95-214 to $2.60, effective for plan years beginning after December 31, 1977. Public Law 96-364 increased premiums for multiemployer plans from $.50 to the levels currently provided.

3. Customs Service Fees

Present Law

The U.S. Customs Service does not currently have the general legal authority to collect fees for the processing of persons, aircraft, vehicles, vessels, and merchandise arriving in or departing from the United States. They do, however, have limited authority to charge fees under certain limited circumstances, such as when they are providing services (such as pre-clearance of passengers and private aircraft) which are of special benefit to a particular individual. They also have the authority to assess fees on operators of bonded warehouses and foreign trade zones and on the entry of vessels into ports and are authorized to receive reimbursement from carriers for overtime for services provided during non-business hours and reimbursement from local authorities for services provided to certain small airports.

Budget Resolutions

Both the House and Senate Budget Resolutions contain a proposal to authorize the U.S. Customs Service to assess a fee for processing common carriers, passengers, and commercial import arrivals in the United States. The Administration is expected to submit legislation in the near future which would allow the Customs Service to assess fees on virtually all Customs import and export transactions. The fee schedule would be based on an analysis of the costs (both direct and indirect) of the services provided. It is estimated that such fees would increase fiscal year budget receipts by about $500 million per year. (The House Budget Resolution estimates that fees would amount to $473 million for 1986, $493 million for 1987, and $513 million for 1988).

4. Deposits of Social Security Taxes by State and Local Governments

Present Law

Each State may enter into a voluntary agreement with the Federal Government to provide social security coverage for employees of the State government and any of its political subdivisions. A State which enters into an agreement for social security coverage is responsible for collecting from its local subdivisions their employer taxes and the social security taxes withheld from employees.

Payments of social security taxes are first made by the local subdivisions to the State, which also is responsible for verifying the payments. Then, the State deposits with the Federal Government these payments and the appropriate amounts with respect to its own employees.

Currently, States are required to make semimonthly deposits of the social security taxes on behalf of their own employees and those of their subdivisions. Regulations provide that private employers and the federal government are required to deposit social security and withheld individual income taxes as frequently as eight times a month, when the amount of these taxes exceeds $3,000; these rules also apply to State and local governments with respect to withheld income taxes. States have been allowed longer time periods for social security contributions because of delays experienced in receiving deposits from local governments.

Late deposits by State governments are subject to a penalty charge of 6 percent. Private sector employers pay a penalty rate which is based on the prime interest rate charged by major commercial banks.

President's Budget Proposal

Two basic changes would be made under the President's proposal. First, State governments no longer would be liable for the deposits of taxes of their political subdivisions; the subdivisions would be responsible for making their own timely deposits. Second, State and local governments would be required to conform to the same deposit schedule as is required of private sector employers and for State and local government deposits of withheld individual income taxes. Also, late deposits would be subject to the prime interest rate as the penalty rate.

The changes would be phased in over a three-year period beginning on October 1, 1985. The proposed changes are estimated to increase fiscal year budget receipts by $400 million in 1986, $100 million in 1987, and $300 million in 1988.

Prior Action

In the Social Security Amendments of 1983, States were required to make semi-monthly deposits of social security taxes, effective after December 31, 1983. Prior to this Act, monthly deposits were required.

5. Tax Treatment of Railroad Retirement Benefits

Present Law

Under present law, a portion of Railroad Retirement system benefits computed by using the social security benefit formula (tier 1) are subject to Federal income tax for taxpayers whose incomes exceed certain levels (generally, $25,000 for unmarried individuals and $32,000 for married individuals filing a joint return). (These benefits may be available at an earlier age under the Railroad Retirement system than under the Social Security system). Other benefits under the Railroad Retirement system are subject to Federal income tax for all recipients to the extent the payments exceed the amount of the individual's previously taxed contributions to the plan.

President's Budget Proposal

Under the President's budget proposal, certain tier 1 Railroad Retirement benefits, which means the amount of the annuity under the Railroad Retirement Act of 1974 that would equal the Social Security benefits to which the individual would have been entitled if all of the individual's employment on which the annuity is based had been employment for Social Security benefit purposes, would continue to be taxed in the same manner as Social Security benefits. In addition, monthly annuity amounts under section 3(f)(3) of the Railroad Retirement Act of 1974 would be taxed in the same manner as Social Security benefits. Other tier 1 Railroad Retirement benefits would be taxed under the rules that apply to all other payments under the Railroad Retirement system.

The proposal would be effective on January 1, 1986, and is estimated to increase fiscal year budget receipts by $100 million per year in 1987 and 1988.

6. Internal Revenue Service Fees and Compliance Measures

a. IRS user fees

Present Law

The Internal Revenue Service (IRS) does not currently charge taxpayers for issuing determination letters or rulings. In 1983, the IRS issued 135,234 advance determination letters on the qualification of corporate and self-employed pension plans. The IRS acted on 53,947 determination letters and ruling requests from tax-exempt organizations during that year. The IRS also issued 34,399 private letter rulings in response to taxpayers' requests during that year.

President's Budget Proposal

The President's budget proposes to impose a user fee of $100 for each determination letter and private letter ruling issued by the Internal Revenue Service. These fees are proposed to become effective on October 1, 1985, and are estimated to increase budget receipts by less than $50 million in each fiscal year beginning in 1986.

b. IRS tax compliance initiative

Present Law

In fiscal year 1985, there are approximately 29,000 examination employees at the Internal Revenue Service. These employees are responsible for auditing tax returns.

President's Budget Proposal

The President's budget proposal would increase the number of examination employees by 2,500 a year for fiscal years 1987, 1988 and 1989, resulting in an aggregate increase in examination employees of 7,500 by the end of fiscal year 1989. Advance hiring would begin in fiscal year 1986.

The budget proposal estimates that fiscal year budget receipts would increase by $500 milion in 1987 and $1.5 billion in 1988.

Budget Resolution

The fiscal year 1986 House Budget Resolution assumes a funding increase of $42 million in 1986 to improve the processing and review of tax returns. The House Budget Committee Report stated that this increase would support an estimated 1,000 new IRS examiners.

Prior Action

The Administration's budget proposal for fiscal year 1983 included a requested increase of 1,000 examination employees. Section 352 of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248) contained a sense of the Congress resolution that additional funds be appropriated to provide for staffing levels beyond those proposed by the Administration so that additional tax revenues of $1 billion in fiscal year 1984 and $2 billion in fiscal year 1985 would be collected.

In fiscal year 1983, IRS staffing actually increased by approximately 5,225 employees. Of this total, 1,000 were examination employees. Most of the remaining new employees were responsible for either collecting taxes already owing or for locating taxpayers who had not filed tax returns but who were required to do so. The Administration determined that all these new employees generated approximately $3 billion in increased revenue in 1983.

7. Certain Other User Fees

a. Coast Guard fees

Present Law

There are no user fees in present law that are charged to recreational and commercial mariners to pay for services provided to them by the Coast Guard. Coast Guard expenses almost entirely are appropriated from general revenues.

The Boat Safety Account of the Aquatic Resources Trust Fund receives funds deposited from the motorboat fuel tax (9 cents per gallon) for financial assistance for the development of a coordinated national recreational boating safety program. The President has requested that $13,625,000 be transferred to the Boat Safety Account in fiscal year 1986. The 1986 budget also requests $15 million for Coast Guard operating expenses for the Boat Safety program.

President's Budget Proposal

The President's budget proposal requests that user fees be employed to recover about 19 percent of the cost of Coast Guard services for recreational and commercial mariners. (The proposal has been introduced in H.R. 1936, Mr. Conte.) The receipts from the proposed user fees are estimated at $236 million in fiscal year 1986 and $476 million annually in fiscal years 1987 through 1990.

Budget Resolution

The House Budget Resolution assumes Coast Guard user fees for commercial icebreaking operations, oil tanker inspections, and regatta safety activities to produce about $50 million in budget receipts per year.

b. Waterways and harbor user fees

Present Law

In general, Federal expenditures for construction, operation, and maintenance costs of U.S. waterways have been financed from general revenues, rather than from fees imposed on navigation users. In the Inland Waterways Revenue Act of 1978, however, the Congress imposed an inland waterways fuel excise tax, and provided for transfer of these tax revenues to an Inland Waterways Trust Fund. Amounts in the Trust Fund are available, as provided by authorization and appropriation acts, for making construction and rehabilitation expenditures for navigation on the specified waterways the commercial use of which is subject to the fuel excise tax.

The fuel tax is imposed on diesel and other liquid fuels used by commercial cargo vessels on 26 designated inland or intracoastal waterways of the United States (Code sec. 4042). Included among the specified waterways are the Mississippi River upstream from Baton Rouge, the Mississippi's tributaries, and the Gulf and Atlantic Intracoastal Waterways. The tax does not apply to fuel used by deep-draft ocean-going vessels, recreational vessels, or noncargo vessels such as passenger vessels and fishing boats.

The present tax rate of 8 cents per gallon is scheduled to increase to 10 cents per gallon on October 1, 1985. (The tax was originally enacted at 4 cents per gallon for the period October 1, 1980 through September 30, 1981; and 6 cents per gallon for the period October 1, 1981 through September 30, 1983.)

Status of Inland Waterway Trust Fund

The following table shows the budget status of the Inland Waterway Trust Fund, as proposed by the Administration.

Inland Waterways Trust Fund, Amounts Available for Appropriation, Fiscal Years 1984–1986

[In millions of dollars]

	Fiscal years		
	1984 (actual)	1985 (est.)	1986 (est.)
Unappropriated balance, start of year	91.5	133.1	192.1
Receipts:			
Inland waterway fuel tax	38.5	40.0	51.0
Interest on profits and investments	3.1	19.0	25.0
User fees (new legislative proposal)			196.0
Total available for appropriation	133.1	192.1	464.1

Inland Waterways Trust Fund, Amounts Available for Appropriation, Fiscal Years 1984-1986—Continued

[In millions of dollars]

	Fiscal years		
	1984 (actual)	1985 (est.)	1986 (est.)
Appropriation (proposed for 1986)			196.0
Unappropriated balance, end of year	133.1	192.1	268.1

President's Budget Proposal

The President's budget for fiscal year 1986 anticipates that legislation will be enacted imposing new navigation user fees to recover some or all the Federal expenses of operation, maintenance, and construction relating to the Nation's ports, harbors and inland waterways. In addition, the budget anticipates that beneficiaries of Federal water resource projects will pay a greater share of project costs through increased nonfederal financing. (The proposal relating to ports and harbors has been introduced in H.R. 1557, Mr. Howard (by request).)

8. Excise Tax Rate on Cigarettes

Present Law

An excise tax is imposed on cigarettes manufactured in or imported into the United States (Code sec. 5701). The tax is determined when the cigarettes are removed from the factory or released from customs custody. The present rate of tax on small cigarettes is $8 per thousand (i.e., 16 cents per pack of 20 cigarettes). The tax rate on large cigarettes generally is $16.80 per thousand; proportionately higher rates apply to large cigarettes that exceed 6.5 inches in length. Small cigarettes are cigarettes weighing no more than 3 pounds per thousand; large cigarettes are cigarettes weighing more than 3 pounds per thousand. Nearly all taxable cigarettes are small cigarettes.

On October 1, 1985, the present cigarette excise tax rates are scheduled to decrease to $4 per thousand (i.e., 8 cents per pack of 20 cigarettes) for small cigarettes and to $8.40 per thousand for large cigarettes. The temporary increase in cigarette tax rates was enacted in the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248).

Revenues from the excise taxes on cigarettes are deposited in the general fund of the Treasury.

Administration Proposal

The Administration's fiscal year 1986 budget proposal would not affect the scheduled reduction in the cigarette tax rates under present law.

Other Proposals

The following House bills regarding cigarette tax rates have been introduced thus far during the 99th Congress.

H.R. 236 (Mr. Stark and others).—This bill would permanently extend the present excise tax rates on cigarettes (i.e., 16 cents per pack of 20 small cigarettes).[10] In addition, the rate of the tax would be indexed for inflation in each calendar year, beginning in 1986, based on the consumer price index (CPI) for the previous October as compared with the CPI for October 1984. Any inflation increase would be rounded to the nearest one cent.[11] Revenues resulting from the extension of the present tax rate (i.e., the extra 8 cents per pack for small cigarettes), plus any rate increase resulting from inflation, would be allocated to the Medicare Trust Fund.

H.R. 844 (Mr. Shumway and others).—This bill would permanently extend the 16 cents per pack tax rate and would make available amounts received under the cigarette tax, as well as the taxes on cigars and cigarette papers and tubes, to cover deficits in the Federal Hospital Insurance (Medicare) Trust Fund. Transfers to the Medicare Trust Fund (if necessary) would be made on a month-by-month basis and would be limited to the amount of the deficit in that fund.

H.R. 951 (Mr. Beilenson and others).—This bill would increase the cigarette tax rate to 40 cents per pack, effective on the date of enactment. Revenues from the tax would continue to be deposited in general revenues.

H.R. 1053 (Mr. Jacobs).—This bill would apply a 24 cents per pack rate to cigarettes removed after September 30, 1985. The additional revenues resulting from this bill (i.e., 16 cents per pack), would be deposited in the Medicare Trust Fund. The bill also includes floor stocks provisions for cigarettes removed before October 1, 1985, and held for sale on that date.

H.R. 1200 (Mr. Boehlert and others).—H.R. 1200 would permanently extend the 16 cents per pack tax rate, with revenues from the tax continuing to be deposited in general revenues.

H.R. 1403 (Ms. Oakar and others).—This bill would extend the 16 cents per pack cigarette tax rate on an indefinite basis. Fifty percent of the total revenues from the excise taxes on cigars and cigarettes would be allocated to a new "Medicare Part C Trust Fund" created by the bill and covering certain vision, hearing, and dental services and certain prescription drugs.

H.R. 1508 (Mr. Oberstar).—This bill would set the cigarette tax rate at 32 cents per pack, effective October 1, 1985. Revenues from the tax would be allocated: (1) one-fourth (8 cents per pack) to the

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[10] Tax rates mentioned are per pack of 20 small cigarettes, unless otherwise mentioned, tax rates on large cigarettes would be raised by the same proportion as small cigarettes under each bill.

[11] The staff understands that this is intended to result in a minimum 1 cent per pack increase in each year. *See* 131 Cong. Rec. E48, January 3, 1985 (statement of Mr. Stark).

Medicare Trust Fund; (2) one-fourth (8 cents per pack) to a new "Tobacco-Related Disease Research Trust Fund," to be established in the Treasury and to fund research by the National Institutes of Health (NIH) on cancer, heart disease, and lung disease related to the use of tobacco products; and (3) the remaining one-half (16 cents per pack) to general revenues. The bill also includes floor stocks provisions for cigarettes held for sale on October 1, 1985.

H.R. 1561 (Mr. Jacobs).—This bill would set the cigarette tax rate at 32 cents per pack for cigarettes removed after September 30, 1985. The net additional revenues resulting from this increase (i.e., 24 cents per pack) would be deposited in the Medicare Trust Fund. The bill also includes floor stocks provisions.

H.R. 1594 (Mr. Tauke, Mr. Waxman, and others).—This bill would increase the cigarette tax rate to 32 cents per pack, effective October 1, 1985. Three-fourths (24 cents per pack) of the amounts received under the cigarette tax on or after October 1, 1985, would be deposited in the Medicare Trust Fund. The bill also includes floor stocks provisions.

H.R. 1969 (Mr. Roybal and others).—This bill, the "Smoking, Medicare/Medicaid, and Alternative Revenue Tax Act of 1985," would increase the excise tax rate on cigarettes to 32 cents per pack, effective October 1, 1985 (with appropriate floor stocks provisions). The tax rate also would be adjusted for inflation, beginning in fiscal year 1987, based on the CPI for the preceding fiscal year[12] compared to that for fiscal year 1985. Increases under this system would be rounded to the nearest cent.

Revenues from the cigarette tax would be allocated as follows: (1) 3/16 (i.e., 25 percent of the initial rate increase, or 6 cents per pack) to the Medicare Trust Fund; (2) 3/16 to the Federal Supplementary Medical Insurance (i.e., Medicare Part B) Trust Fund, with the intent of obviating the need for an increase in Medicare Part B premiums; and (3) 3/16 to reducing the State share of Medicaid costs. The bill also includes a sense of the Congress that 3/16 of cigarette tax revenues (i.e., the final 25 percent of the proposed rate increase) be earmarked to reduce other Medicaid appropriations and thus be applicable toward reducing the Federal deficit.

H.R. 2600 (Mr. Rose and others).—For cigarettes removed after December 31, 1985, this bill would add to the regular (i.e., the currently scheduled 8 cents per pack tax rate on small cigarettes) cigarette excise tax a new "tobacco support program tax." This tax would be imposed at a rate determined to be necessary by the Secretary of the Treasury to maintain an annual closing balance of $10,000,000 in a Tobacco Equalization Trust Fund, which would be established by the bill. The tax rate would in no event be less than two cents; additionally, any higher rate (determined as above) would be rounded to the next highest cent.

The Tobacco Equalization Trust Fund, created by the bill, would consist of (1) the tax revenues described above, and (2) the unobligated balance, as of December 31, 1985, of each No Net Cost Tobacco Fund or Account established under sections 106A or 106B of the Agricultural Act of 1949, as well as later contributions or assess-

[12] This would be determined using the average CPI for the 12-month period ending on July 31 of any fiscal year.

ments to such accounts. (The Trust Fund balance would earn interest in accordance with the general trust fund provisions of the Internal Revenue Code (sec. 9602(b).) Amounts in the Trust Fund would be available for the payment of various amounts incurred in connection with tobacco support programs. The excess (if any) over $10,000,000 in the fund, at the close of any calendar year, would revert to the general Treasury fund.[13]

The new tobacco support program tax would apply to cigarettes removed after December 31, 1985.

Prior Action

As originally passed by the House, the Tax Reform Act of 1984 (H.R. 4170) would have set the cigarette tax rate at 12 cents per pack from October 1, 1985, through December 31, 1987 (with proportionately higher tax rates on large cigarettes). However, this provision was subsequently deleted in conference.

9. Mandatory Medicare Coverage for State and Local Government Employees

Present Law

Under present law, State and local governments can decide whether their employees will participate in the medicare program — paying the medicare payroll tax (1.35 percent in 1985 and 1.45 percent in 1986 and thereafter) and subsequently becoming eligible for medicare benefits. Government units that participated in the program once had the option of subsequently withdrawing. This option was eliminated as part of the 1983 Social Security amendments.

Budget Resolution

The House Budget Resolution reconciliation instructions provide that the Committee on Ways and Means is to reduce fiscal year budget outlays for Medicare by $3,423 million in 1986, $4,277 million in 1987, and $5,145 million in 1988. The House Budget Committee Report (p. 70) indicates that the Committee on Ways and Means has the flexibiity of meeting these budget targets via outlay reductions, revenues, or any combination thereof.

Possible Proposal

The proposal would make it mandatory for all State and local government employees to pay the medicare tax starting January 1, 1986. When employees had accrued the requisite number of covered quarters, not more than 40, they would be eligible for all medicare benefits. A special transition rule would provide medicare coverage for newly-included employees nearing the normal age of eligibility who did not have the usually-required previous quarters of coverage.

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[13] Determinations regarding the trust fund balance (and thus the tax rate) would be made by the Secretary of the Treasury after consulting with the Secretary of Agriculture.

This proposal would increase fiscal year budget receipts by $1.6 billion in 1986, $2.3 billion in 1987, and $2.5 billion in 1988. Outlays would be reduced by less than $5 million annually.

II. BUDGET IMPACT OF REVENUE PROPOSALS

President's Budget Proposal

The President's fiscal year 1986 budget proposal includes revenue-increase items totaling an estimated $1.4 billion in fiscal year 1986, $1.7 billion in fiscal year 1987, and $3.1 billion in fiscal year 1988, for a total of $6.2 billion over the three-year budget period. These amounts include proposals relating to extension and expansion of Superfund tax revenues, unspecified increases in taxes for the Black Lung Disability Trust Fund and Inland Waterway Trust Fund, and certain changes in tax deposit and enforcement provisions.

Budget Resolution Revenue Proposals

H. Con. Res. 152, the House-passed budget resolution, recommends budget receipts of $794.1 billion in fiscal year 1986, $866.0 billion in 1987, and $955.6 billion in 1988. These levels include recommendations for increased revenues to finance a reauthorized and expanded Superfund, increased compliance and enforcement of trade and tax laws, and other minor changes. The increases, which are included in the totals mentioned above, amount to $1.45 billion in 1986, $1.7 billion in 1987, and $3.1 billion in 1988, for a total of $6.25 billion over the three-year budget period.

S. Con. Res. 32, the Senate-passed budget resolution, recommends budget revenue levels of $793.6 billion in fiscal year 1986, $866.3 billion in 1987, and $955.9 billion in 1988. These recommendations include increases of $0.9 billion in 1986, $2.0 billion in 1987, and $3.4 billion in 1988, for a total of $6.3 billion over the three-year budget period.

Budget Reconciliation

The reconciliation instructions in the House Budget Resolution instruct the Committee on Ways and Means to report changes in laws within its jurisdiction sufficient to reduce budget authority by $473,000,000 and outlays by $4,196,000,000 in fiscal year 1986; decreases of $493,000,000 in budget authority and $5,070,000,000 in outlays in fiscal year 1987; and decreases of $513,000,000 in budget authority and $5,958,000,000 in outlays in fiscal year 1988.

The House Committee on the Budget expressed its intent that the Committee on Ways and Means be given flexibility in meeting its outlays reconciliation instruction which is described in Section 3(k) of the Budget Resolution: "The Committee may fulfill this instruction by outlay reductions, revenue increases or any combination thereof." [14]

[14] H. Rep. No. 99-133, Part 1, p. 70.