

104<sup>TH</sup> CONGRESS  
1<sup>ST</sup> SESSION

# S. 804

To amend the Internal Revenue Code of 1986 to increase the excise taxes on tobacco products, and to use a portion of the resulting revenues to fund a trust fund for tobacco diversification, and for other purposes.

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IN THE SENATE OF THE UNITED STATES

MAY 15, 1995

Mr. BRADLEY introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to increase the excise taxes on tobacco products, and to use a portion of the resulting revenues to fund a trust fund for tobacco diversification, and for other purposes.

1        *Be it enacted by the Senate and House of Representa-*  
2        *tives of the United States of America in Congress assembled,*

3        **SECTION 1. SHORT TITLE.**

4        This Act may be cited as the “Tobacco Consumption  
5        Reduction and Health Improvement Act of 1995”.

6        **SEC. 2. INCREASE IN TAXES ON TOBACCO PRODUCTS.**

7        (a) IN GENERAL.—

1 (1) CIGARS.—Subsection (a) of section 5701 of  
2 the Internal Revenue Code of 1986 (relating to rate  
3 of tax on cigars) is amended—

4 (A) by striking “\$1.125 cents per thou-  
5 sand (93.75 cents per thousand on cigars re-  
6 moved during 1991 and 1992)” in paragraph  
7 (1) and inserting “\$5.8125 per thousand”; and

8 (B) by striking paragraph (2) and insert-  
9 ing the following new paragraph:

10 “(2) LARGE CIGARS.—On cigars weighing more  
11 than 3 pounds per thousand, a tax equal to 65.875  
12 percent of the price for which sold but not more  
13 than \$155 per thousand.”

14 (2) CIGARETTES.—Subsection (b) of section  
15 5701 of such Code (relating to rate of tax on ciga-  
16 rettes) is amended—

17 (A) by striking “\$12 per thousand (\$10  
18 per thousand on cigarettes removed during  
19 1991 and 1992)” in paragraph (1) and insert-  
20 ing “\$62 per thousand”; and

21 (B) by striking “\$25.20 per thousand (\$21  
22 per thousand on cigarettes removed during  
23 1991 and 1992)” in paragraph (2) and insert-  
24 ing “\$130.20 per thousand”.

1           (3) CIGARETTE PAPERS.—Subsection (c) of sec-  
2           tion 5701 of such Code (relating to rate of tax on  
3           cigarette papers) is amended by striking “0.75 cent  
4           (0.625 cent on cigarette papers removed during  
5           1991 or 1992)” and inserting “3.875 cents”.

6           (4) CIGARETTE TUBES.—Subsection (d) of sec-  
7           tion 5701 of such Code (relating to rate of tax on  
8           cigarette tubes) is amended by striking “1.5 cents  
9           (1.25 cents on cigarette tubes removed during 1991  
10          or 1992)” and inserting “7.75 cents”.

11          (5) SNUFF.—Paragraph (1) of section 5701(e)  
12          of such Code (relating to rate of tax on smokeless  
13          tobacco) is amended by striking “36 cents (30 cents  
14          on snuff removed during 1991 or 1992)” and insert-  
15          ing “\$16.53”.

16          (6) CHEWING TOBACCO.—Paragraph (2) of sec-  
17          tion 5701(e) of such Code is amended by striking  
18          “12 cents (10 cents on chewing tobacco removed  
19          during 1991 or 1992)” and inserting “\$6.61”.

20          (7) PIPE TOBACCO.—Subsection (f) of section  
21          5701 of such Code (relating to rate of tax on pipe  
22          tobacco) is amended by striking “67.5 cents (56.25  
23          cents on chewing tobacco removed during 1991 or  
24          1992)” and inserting “\$3.4875”.

1           (8) EFFECTIVE DATE.—The amendments made  
2           by this subsection shall apply with respect to cigars,  
3           cigarettes, cigarette paper, cigarette tubes, snuff,  
4           chewing tobacco, and pipe tobacco removed after De-  
5           cember 31, 1995.

6           (b) IMPOSITION OF EXCISE TAX ON MANUFACTURE  
7           OR IMPORTATION OF ROLL-YOUR-OWN TOBACCO.—

8           (1) IN GENERAL.—Section 5701 of the Internal  
9           Revenue Code of 1986 (relating to rate of tax) is  
10          amended by redesignating subsection (g) as sub-  
11          section (h) and by inserting after subsection (f) the  
12          following new subsection:

13          “(g) ROLL-YOUR-OWN TOBACCO.—On roll-your-own  
14          tobacco, manufactured in or imported into the United  
15          States, there shall be imposed a tax of \$20.67 per pound  
16          (and a proportionate tax at the like rate on all fractional  
17          parts of a pound).”

18          (2) ROLL-YOUR-OWN TOBACCO.—Section 5702  
19          of such Code (relating to definitions) is amended by  
20          adding at the end the following new subsection:

21          “(p) ROLL-YOUR-OWN TOBACCO.—The term ‘roll-  
22          your-own tobacco’ means any tobacco which, because of  
23          its appearance, type, packaging, or labeling, is suitable for  
24          use and likely to be offered to, or purchased by, consumers  
25          as tobacco for making cigarettes.”

1 (3) TECHNICAL AMENDMENTS.—

2 (A) Subsection (c) of section 5702 of such  
3 Code is amended by striking “and pipe to-  
4 bacco” and inserting “pipe tobacco, and roll-  
5 your-own tobacco”.

6 (B) Subsection (d) of section 5702 of such  
7 Code is amended—

8 (i) in the material preceding para-  
9 graph (1), by striking “or pipe tobacco”  
10 and inserting “pipe tobacco, or roll-your-  
11 own tobacco”, and

12 (ii) by striking paragraph (1) and in-  
13 serting the following new paragraph:

14 “(1) a person who produces cigars, cigarettes,  
15 smokeless tobacco, pipe tobacco, or roll-your-own to-  
16 bacco solely for the person’s own personal consump-  
17 tion or use, and”.

18 (C) The chapter heading for chapter 52 of  
19 such Code is amended to read as follows:

20 **“CHAPTER 52—TOBACCO PRODUCTS AND**  
21 **CIGARETTE PAPERS AND TUBES”.**

22 (D) The table of chapters for subtitle E of  
23 such Code is amended by striking the item re-  
24 lating to chapter 52 and inserting the following  
25 new item:

“CHAPTER 52. Tobacco products and cigarette papers and tubes.”

1 (4) EFFECTIVE DATE.—

2 (A) IN GENERAL.—The amendments made  
3 by this subsection shall apply to roll-your-own  
4 tobacco removed (as defined in section 5702(p)  
5 of the Internal Revenue Code of 1986, as added  
6 by this subsection) after December 31, 1995.

7 (B) TRANSITIONAL RULE.—Any person  
8 who—

9 (i) on the date of the enactment of  
10 this Act is engaged in business as a manu-  
11 facturer of roll-your-own tobacco or as an  
12 importer of tobacco products or cigarette  
13 papers and tubes, and

14 (ii) before January 1, 1996, submits  
15 an application under subchapter B of  
16 chapter 52 of such Code to engage in such  
17 business,

18 may, notwithstanding such subchapter B, con-  
19 tinue to engage in such business pending final  
20 action on such application. Pending such final  
21 action, all provisions of such chapter 52 shall  
22 apply to such applicant in the same manner  
23 and to the same extent as if such applicant  
24 were a holder of a permit under such chapter  
25 52 to engage in such business.

1 (c) FLOOR STOCKS.—

2 (1) IMPOSITION OF TAX.—On cigars, cigarettes,  
3 cigarette paper, cigarette tubes, snuff, chewing to-  
4 bacco, pipe tobacco, and roll-your-own tobacco man-  
5 ufactured in or imported into the United States  
6 which is removed before January 1, 1996, and held  
7 on such date for sale by any person, there shall be  
8 imposed the following taxes:

9 (A) SMALL CIGARS.—On cigars, weighing  
10 not more than 3 pounds per thousand, \$4.6875  
11 per thousand.

12 (B) LARGE CIGARS.—On cigars, weighing  
13 more than 3 pounds per thousand, a tax equal  
14 to 53.125 percent of the price for which sold,  
15 but not more than \$125 per thousand.

16 (C) SMALL CIGARETTES.—On cigarettes,  
17 weighing not more than 3 pounds per thousand,  
18 \$50 per thousand.

19 (D) LARGE CIGARETTES.—On cigarettes,  
20 weighing more than 3 pounds per thousand,  
21 \$105 per thousand; except that, if more than  
22 6½ inches in length, they shall be taxable at  
23 the rate prescribed for cigarettes weighing not  
24 more than 3 pounds per thousand, counting

1 each  $2\frac{3}{4}$  inches, or fraction thereof, of the  
2 length of each as one cigarette.

3 (E) CIGARETTE PAPERS.—On cigarette pa-  
4 pers, 3.125 cents for each 50 papers or frac-  
5 tional part thereof; except that, if cigarette pa-  
6 pers measure more than  $6\frac{1}{2}$  inches in length,  
7 they shall be taxable at the rate prescribed,  
8 counting each  $2\frac{3}{4}$  inches, or fraction thereof, of  
9 the length of each as one cigarette paper.

10 (F) CIGARETTE TUBES.—On cigarette  
11 tubes, 6.25 cents for each 50 tubes or fractional  
12 part thereof; except that, if cigarette tubes  
13 measure more than  $6\frac{1}{2}$  inches in length, they  
14 shall be taxable at the rate prescribed, counting  
15 each  $2\frac{3}{4}$  inches, or fraction thereof, of the  
16 length of each as one cigarette tube.

17 (G) SNUFF.—On snuff, \$16.17 per pound  
18 and a proportionate tax at the like rate on all  
19 fractional parts of a pound.

20 (H) CHEWING TOBACCO.—On chewing to-  
21 bacco, \$6.49 per pound and a proportionate tax  
22 at the like rate on all fractional parts of a  
23 pound.

1 (I) PIPE TOBACCO.—On pipe tobacco,  
2 \$2.8125 per pound and a proportionate tax at  
3 the like rate on all fractional parts of a pound.

4 (J) ROLL-YOUR-OWN TOBACCO.—On roll-  
5 your-own tobacco, \$20.67 per pound and a pro-  
6 portionate tax at the like rate on all fractional  
7 parts of a pound.

8 (2) LIABILITY FOR TAX AND METHOD OF PAY-  
9 MENT.—

10 (A) LIABILITY FOR TAX.—A person hold-  
11 ing cigars, cigarettes, cigarette paper, cigarette  
12 tubes, snuff, chewing tobacco, pipe tobacco, and  
13 roll-your-own tobacco on January 1, 1996, to  
14 which any tax imposed by paragraph (1) applies  
15 shall be liable for such tax.

16 (B) METHOD OF PAYMENT.—The tax im-  
17 posed by paragraph (1) shall be treated as a  
18 tax imposed under section 5701 of the Internal  
19 Revenue Code of 1986 and shall be due and  
20 payable on February 15, 1996, in the same  
21 manner as the tax imposed under such section  
22 is payable with respect to cigars, cigarettes, cig-  
23 arette paper, cigarette tubes, snuff, chewing to-  
24 bacco, pipe tobacco, and roll-your-own tobacco  
25 removed on January 1, 1996.

1           (3) DEFINITIONS.—For purposes of this sub-  
2 section, the terms “cigar”, “cigarette”, “cigarette  
3 paper”, “cigarette tubes”, “snuff”, “chewing to-  
4 bacco”, “pipe tobacco”, and “roll-your-own tobacco”  
5 shall have the meaning given to such terms by sub-  
6 sections (a), (b), (e), and (g), paragraphs (2) and  
7 (3) of subsection (n), and subsections (o) and (p) of  
8 section 5702 of the Internal Revenue Code of 1986,  
9 respectively.

10           (4) EXCEPTION FOR RETAIL STOCKS.—The  
11 taxes imposed by paragraph (1) shall not apply to  
12 cigars, cigarettes, cigarette paper, cigarette tubes,  
13 snuff, chewing tobacco, pipe tobacco, and roll-your-  
14 own tobacco in retail stocks held on January 1,  
15 1996, at the place where intended to be sold at re-  
16 tail.

17           (5) FOREIGN TRADE ZONES.—Notwithstanding  
18 the Act of June 18, 1934 (19 U.S.C. 81a et seq.)  
19 or any other provision of law—

20                   (A) cigars, cigarettes, cigarette paper, ciga-  
21 rette tubes, snuff, chewing tobacco, pipe to-  
22 bacco, and roll-your-own tobacco—

23                           (i) on which taxes imposed by Federal  
24 law are determined, or customs duties are  
25 liquidated, by a customs officer pursuant

1 to a request made under the first proviso  
2 of section 3(a) of the Act of June 18, 1934  
3 (19 U.S.C. 81c(a)) before January 1,  
4 1996, and

5 (ii) which are entered into the cus-  
6 toms territory of the United States on or  
7 after January 1, 1996, from a foreign  
8 trade zone, and

9 (B) cigars, cigarettes, cigarette paper, cig-  
10 arette tubes, snuff, chewing tobacco, pipe to-  
11 bacco, and roll-your-own tobacco which—

12 (i) are placed under the supervision of  
13 a customs officer pursuant to the provi-  
14 sions of the second proviso of section 3(a)  
15 of the Act of June 18, 1934 (19 U.S.C.  
16 81c(a)) before January 1, 1996, and

17 (ii) are entered into the customs terri-  
18 tory of the United States on or after Janu-  
19 ary 1, 1996, from a foreign trade zone,

20 shall be subject to the tax imposed by paragraph (1)  
21 and such cigars, cigarettes, cigarette paper, cigarette  
22 tubes, snuff, chewing tobacco, pipe tobacco, and roll-  
23 your-own tobacco shall, for purposes of paragraph  
24 (1), be treated as being held on January 1, 1996,  
25 for sale.

1 (d) ESTABLISHMENT OF TRUST FUND.—

2 (1) IN GENERAL.—Subchapter A of chapter 98  
3 of the Internal Revenue Code of 1986 (relating to  
4 trust fund code) is amended by adding at the end  
5 the following new section:

6 **“SEC. 9512. TOBACCO CONVERSION TRUST FUND.**

7 “(a) CREATION OF TRUST FUND.—There is estab-  
8 lished in the Treasury of the United States a trust fund  
9 to be known as the ‘Tobacco Conversion Trust Fund’  
10 (hereafter referred to in this section as the ‘Trust Fund’),  
11 consisting of such amounts as may be appropriated or  
12 credited to the Trust Fund as provided in this section or  
13 section 9602(b).

14 “(b) TRANSFERS TO TRUST FUND.—The Secretary  
15 shall transfer to the Trust Fund an amount equivalent  
16 to 3 percent of the net increase in revenues received in  
17 the Treasury attributable to the amendments made to sec-  
18 tion 5701 by subsections (a) and (b) of section 2 and the  
19 provisions contained in section 2(c) of the Tobacco Con-  
20 sumption Reduction and Health Improvement Act of  
21 1995, as estimated by the Secretary.

22 “(c) DISTRIBUTION OF AMOUNTS IN TRUST FUND.—  
23 Amounts in the Trust Fund shall be available to the Sec-  
24 retary of Agriculture, as provided by appropriation Acts,  
25 for making expenditures for purposes of—

1           “(1) providing assistance to farmers in convert-  
2           ing from tobacco to other crops and improving the  
3           access of such farmers to markets for other crops,  
4           and

5           “(2) providing grants or loans to communities,  
6           and persons involved in the production or manufac-  
7           ture of tobacco or tobacco products, to support eco-  
8           nomic diversification plans that provide economic al-  
9           ternatives to tobacco to such communities and per-  
10          sons.

11 The assistance referred to in paragraph (1) may include  
12 government purchase of tobacco allotments for purposes  
13 of retiring such allotments from allotment holders and  
14 farmers who choose to terminate their involvement in to-  
15 bacco production.”

16           (2) CLERICAL AMENDMENT.—The table of sec-  
17          tions for such subchapter A is amended by adding  
18          at the end the following new item:

“Sec. 9512. Tobacco Conversion Trust Fund.”

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