

Excise Taxes, Fiscal Years 1995-1997

Data Release

Excise taxes and their uses are often the subject of high profile political debates. Congress is currently considering changes regarding tobacco excise taxes and highway funding. Three Department of the Treasury agencies, the Internal Revenue Service (IRS), the Bureau of Alcohol, Tobacco and Firearms (ATF), and the Customs Service, collect and process excise taxes. This article examines the reduction in excise tax collections between Fiscal Years (FY) 1995 and 1996. Tobacco tax liabilities are shown in detail using previously unpublished data for FY 1991 through FY 1997.

Aggregate Excise Tax Data

In FY 1994, excise tax receipts were \$55.2 billion or 4.4 percent of total Federal receipts [1]. Even though excise tax receipts rose to \$56.0 billion in FY 1996, they fell as a percentage of total Federal receipts to 3.7 percent. Figure A compares total excise tax collections in FY 1995 and FY 1996. Tax *collections* are actual cash payments made by taxpayers in the form of deposits, described below, or as payments submitted with excise tax returns. The taxpayers in this case are those who file excise tax returns, primarily Form 720, *Quarterly Federal Excise Tax Return*, with the IRS (or similar returns with ATF or the Customs Service). Deposits are made semimonthly either by using Federal Deposit coupons or through electronic transfer of funds. Because deposits are made to cover a taxpayer's total excise tax liability, which may involve more than one type of excise tax, collections cannot usually be assigned to particular excise taxes. The different kinds of excise taxes for which data are presented in Table 20, in the historical section at the back of this issue of the *Bulletin*, mostly represent tax *liabilities*, which are the amounts reported on tax returns [2]. As shown in Table 20, there is a difference between total excise tax collections and total excise tax liabilities, partly due to the timing of tax return filings versus the timing of tax deposits and partly due to differences uncovered by the IRS during certification [3].

Totals reported in Table 20 are after refunds claimed on returns [4]. Refunds are granted for taxes paid on commodities used for nontaxable purposes [5]. Regular

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Figure A

Federal Excise Tax Collections and Refunds, Fiscal Years 1995 and 1996

[Money amounts are in thousands of dollars]

Item	FY 1995	FY 1996
Gross excise tax collections ¹	59,298,000	56,027,000
Internal Revenue Service ²	44,980,627	42,221,611
Customs Service and Bureau of Alcohol, Tobacco and Firearms.....	14,317,373	13,805,389
Excise tax refunds ³	2,223,296	2,074,647
Internal Revenue Service ²	1,992,897	1,825,689
Customs Service and Bureau of Alcohol, Tobacco and Firearms.....	231,534	248,958
Net excise tax receipts	57,074,704	53,952,353
Internal Revenue Service ²	43,149,961	40,222,924
Customs Service and Bureau of Alcohol, Tobacco and Firearms.....	13,924,743	13,729,429

SOURCE: 1--*Monthly Treasury Statement*, 2--*Internal Revenue Service Data Book, 1996*, 3--Excise Tax Refunds are from the *Net Tax Refund Report, Internal Revenue Service*.

excise tax filers are allowed to apply previous overpayments to excise tax liabilities on their excise tax returns. These are filers who regularly incur excise tax liability and are required to maintain accounts for their tax payments. Refunds are also claimed by persons who do not file excise tax returns by using Form 8849, *Claim for Refund of Excise Taxes*. These refunds are not included in the amounts reported in Table 20. The totals are published in the *Monthly Treasury Statement of Receipts and Outlays of the United States Government*.

The IRS reports the collections received annually in its *Data Book* and in unpublished data on a monthly basis [6]. Totals for ATF and the Customs Service are calculated for Statistics of Income by subtracting IRS collections from Treasury totals to ensure agreement of aggregate data.

Figure A shows that total excise tax collections dropped from \$59.3 billion in FY 1995 to \$56.0 billion in FY 1996. Part of this reduction can be attributed to the expiration of certain taxes. Several airline-related taxes expired on January 1, 1996, but were reinstated on August 27, 1996 [7]. Three taxes, airline passenger tax, airline freight tax, and tax on the use of international travel facilities, were effectively suspended for 8 months. The total decrease in liabilities from these taxes was approximately \$3 billion less than FY 1995 liabilities. The expiration of Superfund environmental taxes at the end of

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calendar year 1995 also contributed to the reduction in revenue from excise taxes [8]. Superfund liabilities decreased from \$617.0 million in FY 1995 to \$143.8 million in FY 1996 [9].

Other factors helped to stem this loss of revenue by increasing flows into the Treasury. Net excise tax refunds were down \$148.6 million (roughly 7 percent) in FY 1996 compared to those in FY 1995. In addition, at the beginning of FY 1996, a new tax on commercial aviation fuel was imposed at the rate of 4.3 cents per gallon. With this increase in effect, certified tax liabilities for this item jumped from \$12.8 million in FY 1995 to \$541.0 million in FY 1996.

ATF and the Customs Service also reported reduced collections in FY 1996. ATF issues a quarterly statistical release, which presents tax amounts for alcoholic beverages, tobacco products, and firearms, as well as occupational taxes [10]. Taxes on imports (provided by the Customs Service) are listed separately in the same release. Only the data for imports are actual collections. Taxes on domestic products are liabilities based on quarterly tax returns. ATF posts liabilities to the period in which they were incurred (rather than when they were reported) [11]. For each quarter, revised previous-year figures are shown alongside current-year figures in the *Statistical Release*. Revisions of previous-year figures reflect post-filing adjustments and are used to revise the amounts in historical Table 20 of the *SOI Bulletin*.

The Internal Revenue Service administers most of the excise taxes, accounting for 75 percent of all excise tax revenue. ATF assumed responsibility for collection and administration of excise taxes on alcoholic beverages and tobacco products in 1987 and for excise taxes on firearms in 1991.

Tobacco Tax Liability

Previously unpublished tobacco data are shown in Figure B. These data are before certain adjustments, and totals will not agree with Table 20. Over 95 percent of these taxes are generated from the sale of cigarettes; however, cigars have become increasingly popular since the early 1990's. This trend is depicted in Figure C.

These data do not include receipts from the taxes on floor stocks (i.e., inventories).

Legislation was passed in 1990 raising the excise tax on cigarettes from \$8 per thousand to \$12 per thousand (from 16 to 24 cents per pack) [12]. This increase took effect in two steps, \$8 to \$10 effective January 1, 1991, and \$10 to \$12 effective January 1, 1993.

Trust Funds

Revenue from excise tax collections is first deposited into the General Fund of the Treasury. Subsequent transfers of earmarked taxes are made to specific trust funds. These specific trust funds are shown in Figure D with their corresponding excise taxes. Excise taxes that are not

Figure B

Excise Taxes for Tobacco Products, Fiscal Years 1991 through 1997

[Money amounts are in thousands of dollars]

Fiscal year	Total ¹	Cigarettes	Cigars	Papers and tubes	Smokeless tobacco ²	Pipe tobacco	Imported products
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1991.....	4,949,433	4,863,520	26,024	4	21,755	5,762	32,368
1992.....	5,222,403	5,087,048	26,428	5	23,600	5,376	79,946
1993.....	5,847,939	5,649,832	30,821	6	27,117	5,769	134,394
1994.....	5,913,115	5,755,422	34,063	7	28,752	5,482	89,389
1995.....	5,985,458	5,868,246	39,109	6	28,590	5,113	44,394
1996.....	5,882,224	5,759,424	45,183	6	29,064	4,680	43,867
1997.....	5,960,181	5,814,760	58,676	5	29,033	3,901	53,806

¹ Does not reflect post-filing adjustments.

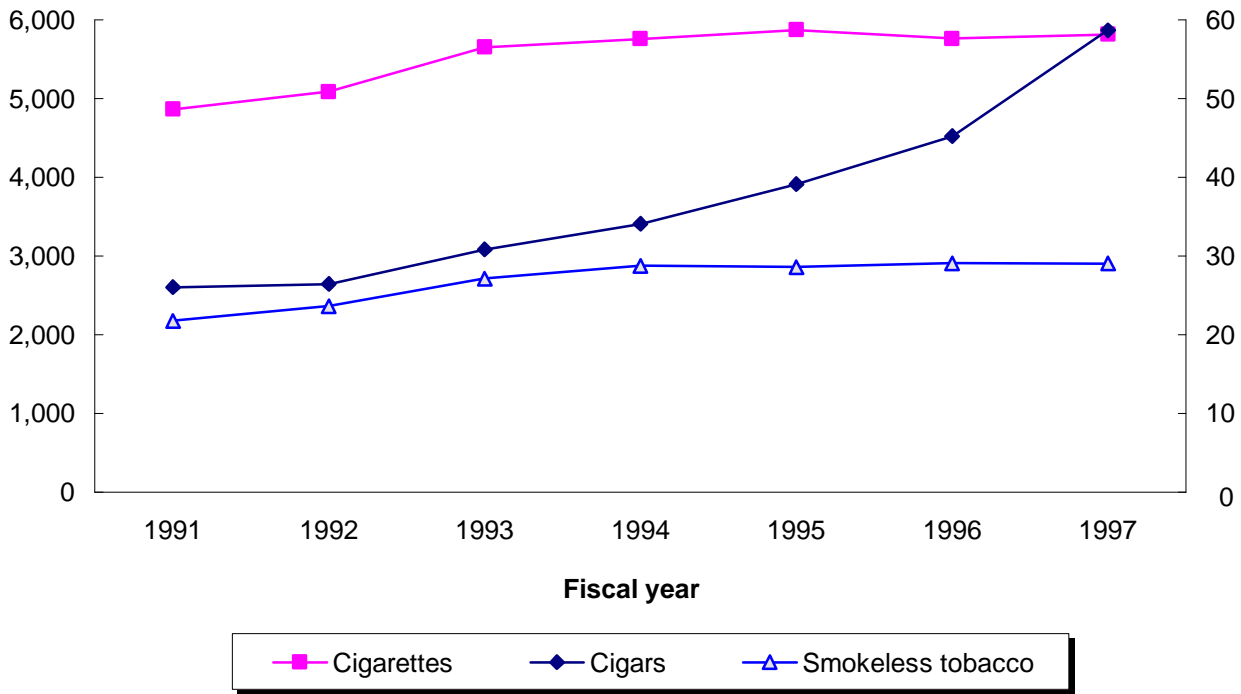
² Consists of chewing tobacco and snuff.

SOURCE: Bureau of Alcohol, Tobacco and Firearms.

Figure C

**Growth of Federal Excise Tax Liabilities for Selected Tobacco Products
Fiscal Years 1991 through 1997**

Millions of dollars



NOTE: Cigarettes--left scale, cigars and smokeless tobacco--right scale.

earmarked stay in the General Fund [13]. Excise taxes collected by the Customs Service on imported rum are transferred to the Treasuries of Puerto Rico and the Virgin Islands. Further detail for the Highway Trust Fund and the Airport and Airway Trust Fund is provided in Figure E.

Excise Taxes and Designated Trust Funds

The Highway Trust Fund and the Airport and Airway Fund are financed by several taxes and are spent on various types of projects ranging from maintenance of existing systems to research in new ones. Figure E shows the receipts and outlays for these funds for Fiscal Years 1995 and 1996.

Highway

The Highway Trust Fund, created by the Highway Revenue Act of 1956, is the oldest of the trust funds

financed by excise taxes. Trust Fund receipts increased in 1996 because an additional 2.5-cents-per-gallon tax was transferred from the General Fund to the Highway Trust Fund beginning on January 1, 1995. The Highway Trust Fund is expended through two accounts, the Highway Account and the Mass Transit Account.

The Highway Account is composed of several programs. The purpose of the Federal-Aid Highways (FAH) program is to “develop an intermodal transportation system that is economically efficient, environmentally sound, provides the foundation for the Nation to compete in the global economy, and helps move people and goods safely” [14]. Several programs under the FAH finance highway projects. The National Highway Program directs funds to interstate highways, principal rural arterials, urban freeways, and other roads. A separate Interstate Maintenance Program is dedicated to rehabilitating, restoring, and resurfacing the interstate system. The

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Figure D

Dedicated Federal Excise Taxes, Fiscal Year 1997

Type of excise tax	Trust funds													
	H	MT	LUST	AA	IW	AR	BLD	VIC	WR	HSS	OSL	VI	PR	
Special motor fuels	X	X	X											
Alcohol fuels	X	X	X											
Noncommercial aviation gasoline			X	X										
Fuels used commercially on inland waterways			X		X									
Heavy trucks and trailers	X													
Tires	X													
Gasoline except for use in gasohol	X	X	X	X										
Diesel fuel, except for trains and intercity buses	X	X	X											
Gasoline for use in gasohol by alcohol content	X	X	X											
Gasohol	X	X	X											
Noncommercial aviation fuel, except gasoline			X	X										
Commercial aviation fuel			X	X										
Coal							X							
Certain vaccines								X						
Sport fishing equipment						X								
Electric outboard motors, sonar devices						X								
Bows and arrows									X					
Transportation of persons by air				X										
Use of international travel facilities				X										
Transportation of property by air				X										
Use tax on heavy vehicles	X													
Domestic petroleum, superfund										X				
Imported petroleum, superfund										X				
Domestic petroleum, oil spill											X			
Imported petroleum, oil spill											X			
Black lung benefit trusts							X							
Distilled spirits (imports)												X	X	
Firearms and ammunition									X					

NOTE: Excise taxes not listed above are held in the General Fund. A portion of most fuel taxes, as well as 25 percent of vaccine taxes is also held in the General Fund.

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|-----|---|------|--|
| AA | Airport and Airway Trust Fund | LUST | Leaking Underground Storage Tank Trust Fund |
| AR | Aquatic Resources Trust Fund | MT | Mass Transit Account in the Highway Trust Fund |
| BLD | Black Lung Disability Trust Fund | OSL | Oil Spill Liability Trust Fund |
| H | Highway Account in the Highway Trust Fund | PR | Puerto Rico |
| HSS | Hazardous Substance Superfund | VI | Virgin Islands |
| IW | Inland Waterways Trust Fund | VIC | Vaccine Injury Compensation Trust Fund |
| WR | Wildlife Restoration Account | | |

Bridge Replacement and Rehabilitation program assists States in responding to the problem of deteriorating bridges. An Emergency Relief Program provides assistance for Federally-owned highways and others included in the FAH program to compensate for damage due to natural disasters. The Highway Account also supports research on safety and intelligent highways. The latter is concerned with advanced electronic systems to improve

the safety and efficiency of existing surface infrastructure.

Contained in the Mass Transit Account are funds for Discretionary Grants, Transit Planning and Research, and Formula Programs. Major Capital Investments fall under Discretionary Grants, which list specific projects along with their corresponding dollar amounts. Transit Planning and Research are spread across many areas. Statewide and Metropolitan planning is supported through this

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Figure E

Receipts and Outlays for Selected Trust Funds, Fiscal Years 1995 and 1996

[Money amounts are in millions of dollars]

Item	Beginning balance	Trust fund receipts		Outlays	Ending balance
		Excise taxes	Interest		
	(1)	(2)	(3)	(4)	(5)
1995					
Highway trust fund, total.....	17,872	22,612	1,168	-22,651	19,000
Highway account.....	7,927	20,420	547	-19,472	9,421
Mass transit account.....	9,945	2,192	621	-3,179	9,579
Airport and airway trust fund.....	12,386	5,606	757	-7,384	11,365
1996					
Highway trust fund, total.....	19,000	24,651	1,323	-23,354	21,620
Highway account.....	9,421	22,034	658	-20,018	12,095
Mass transit account.....	9,579	2,617	665	-3,336	9,525
Airport and airway trust fund.....	11,365	2,450	759	-6,699	7,875

SOURCE: *Budget of the United States Government, Fiscal Years 1997 and 1998.*

portion of the Mass Transit Account. At the national level, accessibility for the disabled, air quality, and traffic congestion are some of the outlays for planning and research. Formula Programs can be used for *all* transit activities. Such activities include purchases of buses and railcars, facility repair and construction, and, for locations with populations less than 200,000, operating expenses.

Airport and Airway

Treasury receipts for the airline passenger tax and several other taxes are transferred to the Airport and Airway Trust Fund under the Internal Revenue Act of 1986 (as amended). This revenue is dedicated to air travel in the form of airport improvement grants, airport facilities, and equipment, as well as research. A portion of this trust fund is used to finance operations of the Federal Aviation Administration.

Notes and References

- [1] *Monthly Treasury Statement of Receipts and Outlays of the United States Government*, Department of the Treasury, Financial Management Service, various issues.
- [2] The exceptions are the tax on heavy highway vehicles tax and the Windfall profit tax (expired, though money continues to be posted to this account).
- [3] For an expanded discussion of certification, see Davie, Bruce, "Federal Excise Taxes, Fiscal Years

1994 and 1995," *Statistics of Income Bulletin*, Volume 16, Number 2, Fall 1996.

- [4] See *Statistics of Income Bulletin*, Selected Historical and Other Data, Notes to Table 20.
- [5] See Historical Table 18, footnote 4.
- [6] Internal Revenue Service, *Data Book 1996*, October 1, 1995 to September 30, 1996, Department of the Treasury.
- [7] See Internal Revenue Code sections 4041, 4091-4092 for legislation regulating fuel. Passenger tax provisions can be found in section 4261(g).
- [8] Internal Revenue Code section 4611(e).
- [9] For more detail, see Table 20 in the historical section of this issue of the *Bulletin*.
- [10] See U.S. Department of the Treasury, Bureau of Alcohol, Tobacco and Firearms, *Statistical Release*, quarterly.
- [11] The Internal Revenue Service posts receipts when they are received.
- [12] See Internal Revenue Code section. 5701 (b).
- [13] Trust fund balances are listed in the *U.S. Budget Appendix* as "unavailable collections," which is to say they cannot be obligated elsewhere.
- [14] *U.S. Budget Appendix*, Fiscal Year 1998, p. 789. SOURCE IRS, *Statistics of Income Bulletin, Publication 1136, Spring 1998.*