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Ongoing GAO Assignment is Examining  
Luxury Excise Taxes

Statement for the Record of  
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Before the Subcommittee on Taxation  
and Debt Management  
Senate Committee on Finance



Mr. Chairman, you have asked us to prepare a statement for the record about our ongoing evaluation of the policy and administrative issues associated with luxury excise taxes. We are pleased to provide the Subcommittee with information on what we plan to accomplish in this area. We are doing this work at the request of Congressmen Hughes, Guarini and Saxton, and Senators Bradley and Lautenberg.

As you know, Congress enacted luxury excise taxes that generally took effect on January 1, 1991. These taxes are levied on the first retail sale of five products: boats costing over \$100,000, cars costing over \$30,000, airplanes costing over \$250,000, and jewelry and furs costing over \$10,000. The seller remits the excise tax to IRS, which is 10 percent of the price over these threshold amounts. Parts and accessories installed within 6 months after a vehicle is placed in service may be taxable, and some uses (such as for business purposes) are exempt.

In examining these new taxes, our objectives are to:

- evaluate IRS' current efforts and future plans to collect luxury excise taxes,
  
- identify compliance and policy issues arising from the design of the tax,

- estimate the relative tax incidence on producers and consumers of these products, and
  
- examine the impact on the boating industry.

To provide some general background, we will describe the current luxury excise taxes and describe IRS' efforts to implement the tax, including its efforts to inform taxpayers about the new taxes and process the returns. We will obtain data from the first quarterly filing results from returns filed by April 30, 1991.

In evaluating the administrative issues associated with the luxury excise taxes, we will assess IRS' examination plans and, to the extent they are available, early audit results. If possible, we will attempt to estimate the costs to IRS in administering the tax. We will also review public comments on the proposed regulations implementing the tax to determine what provisions may be causing problems.

We also will evaluate policy issues arising from the design of the tax, such as definitional ambiguities in products covered and the exclusion of some used products from the tax. To determine the relative incidence of the luxury excise tax, we will obtain and analyze data on prices, labor costs, and income over time to calculate supply and demand elasticities for each of the five

luxury products. These measures will help show how responsive demand is to price changes, such as tax increases. They will also permit us to estimate what portion of the tax will be passed on to consumers or absorbed by manufacturers. We can then be in a position to assess what portion of the tax burden falls on producers and on consumers.

An analysis of these measures should help in determining whether reported decreases in luxury item sales are due in part to the taxes and whether Congress' intent that wealthy consumers bear the burden of the tax is being achieved. We also will use this information on relative tax burden, along with other industry information, to develop an indication of the impact on each taxed industry. An important analytical question here involves sorting out the impact of the taxes from other factors likely to affect product sales, such as the general economic climate and credit availability. Although we will attempt to control for the impact of these other factors, precision is unlikely and we may not be able to quantify the impact of the tax alone.

Finally, due to our requestors' interest in the boating industry, we will study this industry in more detail. We plan to look at the number of businesses starting up and going out of business over time, interview industry members regarding the tax, and attempt to obtain information about employees and their job prospects. We will attempt to assess the significance of the

luxury excise taxes relative to other broader economic trends affecting sales in this industry.

We are in the design phase of our work, where we investigate what data is obtainable and make decisions about what information we will be able to develop in our analysis. We plan to reach this decision point in mid-July. By that time, we will determine the character and format of our final product. At a minimum, we anticipate briefing our requesters on our analyses by mid-September 1991.