

MEMORANDUM

May 20, 1982

STATE POLITICAL CAMPAIGN CONTRIBUTIONS

At a time when campaign contributions are becoming more and more of a prerequisite to political power, The Tobacco Institute is operating with a chronically underfunded PAC. While there is often talk of substantially increasing the size of our PAC, we have been unsuccessful to date.

The purpose of this memorandum is to propose that The Tobacco Institute establish a program of non-federal campaign contributions in the thirty states in which such contributions are legal. This program would be funded by non-PAC dollars collected from member companies through normal dues and assessment processes.

The reasons for making such non-federal contributions are two-fold. The first would be to increase our capability at the state level by providing campaign contributions to complement the State Activities Division and our state lobbyists. An equally important purpose of the program would be to enhance our federal programs by supporting state level friends who could be called upon to assist with their Congressmen and Senators in Washington.

Longer term relationships would accrue to the industry as former state level friends move up to federal elective offices. We could not provide them with campaign support from this program at the federal level. However, relationships would exist and continue.

Policy Considerations

In reading on from this point, it would be useful to keep in mind two policy questions:

- (1) Should this program be commenced?
- (2) If the answer is affirmative, who should the contributing organization be, the Tobacco Institute or a state campaign contributions committee?

(If it should be the Tobacco Institute, the advantages are: greater administrative ease and uniform identification for present and future purposes. The disadvantages are: possibly becoming a political and journalistic target, inviting state campaign solicitations, and becoming involved in opposing campaigns.)

Pending replies to these questions, this memorandum uses the word "we" rather than that of any organization.

Parameters

The major operational parameters of this proposed program are outlined below:

- We would work through and with state level leadership of both parties in developing this program.
- The method followed in each state would be developed in consultation with the state lobbyist. He might make recommendations, to be supplemented by legislative leaders' recommendations, or -- in strong leadership states -- he might prefer all recommendations to come from leadership, and then be supplemented by his suggestions.
- Checks would be made payable to individual candidates (not to the party organization) and then given to the state level party leadership for subsequent distribution to candidates. The purpose of this procedure would be to assist both the leadership and individual candidates. No contributions would be made to state party organizations.
- Management responsibility for administering this program would parallel our system for supervising our State Activities Division and state lobbyists. The Director of State Activities and his designated subordinates would oversee the program and be responsible for compliance with local statutes regulating contribution limits and reporting requirements.

Legal Clearances

A prerequisite to contributions in a state would be a written opinion from local counsel regarding the legality of campaign contributions in that state. As a minimum, these opinions would be updated annually. Where deemed appropriate, advance legal opinions would be obtained for specific contributions.

Taxation

Implementation of this program would not affect the tax deductibility of member company dues and assessments paid to The Institute. However, the Institute's tax-exempt status would be slightly altered. If the Institute begins making campaign contributions, it would be liable for an income tax of 45 percent on the lesser of its campaign contributions or its investment income. Based on current levels of investment income, The Institute's tax liability which would result from adopting this program would be nominal.

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Implementation

The following implementation steps are proposed with a target effective date of January 1, 1983:

- ° Obtain informal approval of the proposed program from the TI Executive Committee.
- ° Submit the proposed program to Covington & Burling for review and comments.
- ° Obtain formal Executive Committee approval of the proposed program.
- ° Incorporate funding for the proposed program into the 1983 budget process.
- ° Obtain Board of Directors approval of the program as part of their approval of the 1983 budget.
- ° Explain the proposed program to our resident lobbyists in those states where the program would be operative and ask them for a written report on the legal aspects, maximum limits, reporting requirements, etc., of the proposed program in their states.