NLWJC - Kagan

DPC - Box 043 - Folder 006

Tobacco-Excess Profits

Tob - set - excess profits

Cynthia A. Rice 12/16/98 07:23:35 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Laura Emmett/WHO/EOP
cc:
bcc:
Subject: Re: Excess Profits Tax

Treasury tax policy tells me Summers hates the second option, because it's not really an excess profits tax it's just a tax on revenue, so they weren't scoring it but could if we want them to.

Cynthia A. Rice

Cynthia A. Rice 12/16/98 12:14:35 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Laura Emmett/WHO/EOP
cc:
Subject: Excess Profits Tax

Treausury is completing their options and scores but I got a verbal run-down. Here's a summary, I have more details on assmuptions if you want them:

Size of Excess Profits

Treasury thinks we could credibly argue that the industry's making $2.5 billion a year in excess profits. The possible range is $1.5 billion a year (Gary Black's estimate) to $4 billion a year. At a volume of 20 billion, a $4 billion excess profit equals $.20 per pack.

Tax Options

Option 1: Tax the excess profits based on company's reported profits (revenues minus costs). This will be scored somewhat low, because tax policy types assume companies could re-arrange their accounting practices to lower the reported profits.

Option 2: Tax company revenue at a level that would capture the estimated excess profits. The scoring of this option will be more robust, and this tax is more likely to be passed onto price. However taxing revenue would give opponents the opportunity to argue it assumes inflated profits. This option is one that has been used for the oil industry.

Treasury is scoring these options now and they say they'll have paper in the next day or two.

Tob - scr - excess profits

Cynthia A. Rice 12/18/98 09:52:39 AM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Laura Emmett/WHO/EOP

cc:

Subject: More Detail on Excess Profit Options

Bruce you asked for more detail on the excess profits options. We now have three options. As I noted earlier, Treasury thinks we could credibly argue that the industry's making $2.5 billion a year in excess profits (the possible range is $1.5 billion a year (Gary Black's estimate) to $4 billion a year).

Option 1: Tax on Profits. Companies would be required to report 1) receipts from tobacco sales and 2) costs of producing cigarettes (e.g., labor, equipment). A tax would be levied on the difference, or the difference that is deemed to be excess profits. Companies could lower their reported profits by shifting costs from the non-tobacco parts of the company to tobacco.

Option 2: Tax on Excess Receipts. An estimate would be made of how much in excess receipts the companies were obtaining by raising their prices above that needed to fund the settlement. For example, if the companies increased price per pack by an extra $.20 an extra tax would be imposed on that amount. In practice, this would look a lot like an additional excise tax. This is the option Summers prefers.

Option 3: Surtax. The Treasury would determine what portion of company profits can be attributed to tobacco, and a surtax would be imposed as part of the corporate income tax on the tobacco-related profits. Canada is apparently currently doing this.

Treasury is working furiously through scoring an "A" list of uncontroversial offsets for the budget, and they consider this to be the top of the "B" list, and will probably get to it this weekend. In addition to talking directly to Treasury, I spoke to Chuck Marr who is pushing Treasury along as well.