News from Senator

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MAJOR OIL COMPANIES STRIKE BOTH SIDES OF TAX LEASING FOR LUCRATIVE RETURNS

WASHINGTON -- Major oil companies will use so-called safe harbor leasing provisions to trim an estimated $1.5 billion from their tax bills according to Senate Finance Committee Chairman Robert Dole.

Senator Dole (R.-Kan.) made the disclosure following a study that pinpoints the oil industry as one of the principal beneficiaries of the provision that allows corporations to buy and sell tax breaks.

According to a Treasury Department analysis of approximately 16,000 safe harbor leasing transactions, major oil companies capitalized on 21% of all the tax benefits produced by the safe harbor provision.

"This analysis clearly shows that oil companies have bee- both major buyers and sellers of tax benefits even though leasing deals have often been defended as a panacea for financially sick industries. But we are not talking here about the auto industry, or the airline industry or steel. We are talking about giant corporations enjoying huge profits and favorable tax treatment, hardly the kind of beneficiary Congress had in mind when safe harbor leasing was enacted last year," Dole said.

The Treasury report reveals that the oil industry sold tax benefits on $1.3 billion worth of equipment, and purchased tax benefits on $4.1 billion worth of equipment. The oil industry thus accounted for one-fifth of all leasing trans actions, effectively reducing its tax debt by $1.5 billion.

Some big oil companies have apparently found safe harbor leasing even more attractive than drilling for oil. For example, one of the nation's top ten oil companies stated in its annual report that it paid more than $400 million to purchase other companies' tax benefits, a move that reduced the company's federal tax liability by $159 million. At the same time, however, this profitable oil company announced it was forced to cutback its wildcat drilling by almost 20% last year. The reason? A shortage of capital necessitated the reduction in exploration.

"But as we now know, the company's missing capital had been funneled into safe harbor leasing deals," Dole said. "The case against leasing is clearly stated in a revealing portion of this oil company's annual report."

The annual report cited by Senator Dole reads as follows:

'Our company's prospects are limited not by a lack of investment possibilities, but by a tax-induced shortage of capital. With lease holdings in the U.S. much larger than our principal competitors, we have more than ample prospects for new investment. But the money to pursue all these opportunities simply is not available.'

"If this company had put $400 million into exploration instead of safe harbor leasing windfalls," Dole said, "it could have expanded its drilling budget by about 35%. This latest safe harbor leasing nightmare makes it more important than ever to alter leasing. We hope that any modification or repeal can be made effective February 19, as previously announced."

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