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From: Stephen Taufen [staufen@seanet.com]
Sent: Wednesday, May 23, 2007 5:22 PM
To: <Undisclosed-Recipient:;>
Subject: PPT v. GPT - And TRANSFER PRICING abuses. Pls read this article.

ABUSIVE TRANSFER PRICING: A factor in PPT vs. GPT, just as in fisheries

The following article discusses Pennsylvania's concerns about TRANSFER PRICING techniques used in harming (lowering) state taxes on oil producers. **Please Download MICHAEL WOOD's study (27 pgs. PDF) from the link in the article.**

Pls pass this along to your colleagues, and read the Groundswell statement that follows the article. Thank you - Stephen
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Gross Profits: Why Pennsylvania Should Enact the Oil Company Profits Tax

New Study Refutes Claims of Unconstitutionality, Direct Link to Gas Prices

Lawmakers Should Tap Oil Companies' Record Profits to Reduce Greenhouse Gases Through Investments In Public Transit

Download complete paper (Adobe PDF 1.1MB).

An Oil Company Gross Profits Tax would be a good funding source for Pennsylvania's public transit systems, according to a report released today by the Pennsylvania Budget and Policy Center.

The tax, proposed by Governor Rendell in his budget address in February, would be levied against an estimated $12.5 billion in gross profits from oil company activities in Pennsylvania, providing a large and stable source of revenue for the state's 70 transit systems.

The new PBPC study, titled *Gross Profits: Why Pennsylvania Should Enact the Oil Company Tax*, analyzes oil industry economics and suggests that, contrary to the claims of critics, the oil profits tax is unlikely to be reflected in Pennsylvania gas prices or to be borne primarily by Pennsylvanians.

The report concludes that the OCGPT is the best available option for a dedicated funding source for mass transit funding.

"Oil company profits have increased by 344% over the last four years and those profits will stay high for years to come," said Sharon Ward, director of PBPC. "Lawmakers seeking a robust and stable revenue stream to meet Pennsylvania's long-term transportation needs should give the oil tax a fresh look."

To put recent oil company profits in perspective consider that in 2006 the nation's largest retailer, Wal-Mart, earned $11.3 billion in profits on revenues of $345 billion, one-third of ExxonMobil's $36.5 billion profits on revenues of $365 billion. Other profitability measures, including return on assets and return on stockholders' equity, also show oil companies above corporate norms.

ROSTON 00257

The new report argues that the petroleum industry, which includes top producers and refiners, is a large and increasingly profitable industry. The growing world demand for oil, especially from China, coupled with industry consolidation and limited refining capacity, will keep profits high for the foreseeable future and allow the companies to absorb higher taxes.

"Lawmakers should be all over oil companies to return some of their excess profits to underwrite public investments in Pennsylvania," said Ward.

Responding to critics' claims that the tax would be passed on to consumers in spite of the proposal's legal prohibition against doing so, report author Michael Wood notes that "most economic models suggest that shareholders and not consumers pay the lion's share of profit taxes. In this respect the gross profits tax has been grossly misrepresented to the public."

"This is by far the most exportable tax of any of those under consideration," said Wood. "Unlike the gas tax, sales tax or realty transfer tax, a hefty portion of the Oil Gross Profits Tax will be paid by out-of-state shareholders."

The report also raises doubts about claims that the tax is unconstitutional, citing state precedent for unique taxes levied on banks and insurance companies.

The authors suggest that the Oil Company Gross Profits Tax is a better approach than the current Pennsylvania Corporate Net Income Tax to taxing oil companies whose vertical integration makes it too easy to legally avoid state taxes through a process known as transfer pricing.

Transfer pricing is an accounting tactic by which large firms manipulate what their subsidiaries charge each other for goods and services in order to reduce tax liabilities. Pennsylvania's proposed oil company tax legislation would eliminate such tax loopholes by requiring companies to combine the income and profits from all subsidiaries for tax purposes.

The report notes that an oil profits tax would also reduce some of the negative societal costs, or externalities, from fossil fuel use.

"Capturing oil company profits to pay for investments that reduce greenhouse gases is good social policy as well as good economic policy," says Ward.

"The health of our economy depends on our ability to move people, goods and services efficiently. Anyone who has been stuck in traffic on Schuylkill Expressway, or in the Squirrel Hill Tunnel, or on Route 322 near Harrisburg, *or on Routes 11 and 15 in Snyder County, can tell you about the cost of inadequate investment in transportation."*

Ward notes that a number of other states, such as Wisconsin, Maryland, and Washington are considering oil profits taxes.

"The larger issue," says Ward "is that the state must invest in a transportation infrastructure that will allow the *state to compete and prosper now and in the future."*

Founded in 2005, **The Pennsylvania Budget and Policy Center (www.pennbpc.org), is a nonpartisan, statewide policy research project that provides independent, credible analysis on state tax, budget, and related policy matters, with attention to the impact of current or proposed policies on working families.**

The *Groundswell Fisheries Movement* wrote proposal outlines to each of many Alaska TRANSITION TEAMs to consider the establishment of a RESOURCE ACCOUNTABILITY & TRANSPARENCY BOARD **- especially to investigate losses in Fisheries. Governor Palin, while a candidate, promised to work with us in fisheries on better transparency and accountability - and this article shows that GROUNDSWELL's leading topic of ATP is also at the heart of your concerns for Oil and Gas, and other extracted resources.**

ROSTON 00258

We will work with you at any time to explain further how such a Board could help restore the value ($2 billion/yr. in est. losses) taken from Alaska's coastal fisheries through poor Conduct of Trade behaviors, using these illicit bookkeeping techniques.

Please distribute this to your colleagues, and discuss it with Gov. Palin and her administration. Thank you, Stephen Taufen

PS: you can Google my name in double quotes and see my President's Ocean Policy Commission testimony and read the fisheries papers in it, and you can also find my Salmon Task Force testimony that Ben Stevens tried to suppress because he didn't want to upset the fish cart- or rather the cartel that fixes prices and keeps our coastal communities in economic trouble.