



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Grassley Praises Momentum to Shut Down Tax Breaks for Sewer, Bridge Leases

WASHINGTON -- Sen. Chuck Grassley, chairman of the Committee on Finance, today praised the growing momentum toward shutting down abusive leasing tax shelters that allow corporations to claim tax deductions for sewers, bridges and subways that are owned by foreign countries or paid for with U.S. taxpayer dollars. The full Senate could take up Grassley's leasing shelter shutdown measure as part of the Foreign Sales Corporation/Extraterritorial Income (FSC/ETI) legislation in early March.

"I put forward a fix of this problem last September, and the Finance Committee approved my fix," Grassley said. "The following month, the Finance Committee further exposed these schemes, thanks to anonymous testimony by a brave leasing industry executive who was outraged by these abusive deals. Now the President, the Treasury secretary, and the leaders of the Senate Budget Committee are all on board. We all agree that leasing shelter transactions are trickery at the taxpayers' expense. This great rip-off has to stop."

Last October, Grassley's Finance Committee hearing included testimony from an anonymous expert witness on how major U.S. companies receive huge tax deductions by pretending to lease the infrastructure of cities and foreign countries and then pretending to lease them back. These arrangements have resulted in U.S. taxpayers picking up the tab for a huge portion of Europe's transit infrastructure and are now proliferating in cities across the country as tax shelter promoters shop their wares to cash-strapped local governments. The promoters are using the cities to defend their schemes by calling these deals "public-private partnerships."

Grassley's international tax reform and domestic manufacturing tax relief bill -- known generally as the FSC/ETI bill and specifically as the *Jumpstart Our Business Strength (JOBS)* bill -- shuts down the loopholes that tax shelter promoters exploit for such leasing transactions. The Finance Committee passed the bill on Oct. 1, 2003. Since then, Grassley announced that he will change the effective date of his provision to Nov. 18, 2003, instead of the date of enactment, to dissuade a rush to market of last-minute deals designed to beat the legislation's effective date.

Also, Grassley plans to modify his proposal to reflect new findings from the Treasury Department showing that the leasing problem is far greater than previously known. The President's proposed Fiscal Year 2005 budget includes Grassley's proposal to clean up abusive leasing tax

shelters, with an expansion to cover all foreign party leases and appropriate carve-outs. The President's proposal raises \$33 billion over 10 years. In other words, the leasing shelters are expected to deplete federal revenues by \$33 billion over 10 years if Congress does nothing.

Last week, Treasury Secretary John Snow testified before the Senate Budget Committee that the leasing transactions are unacceptable tax avoidance schemes that "need to be stopped" and pledged to work with Congress to end the practice. Budget Committee Chairman Don Nickles said he and the panel's ranking member, Kent Conrad, plan to take action to stop the tax avoidance practice, according to media reports.

The full Senate could take up Grassley's leasing loophole closer as early as the first week of March when it considers the FSC-ETI bill. Grassley has asked Majority Leader Bill Frist to schedule floor consideration of the FSC-ETI bill as early as possible to avoid European Union sanctions over the FSC-ETI tax regime, which Grassley's bill would replace. Based on his contacts with the majority leader, Grassley expects consideration as early as the first week of March.

"My initial bill came out before we had as much knowledge on these leasing deals as we have today," Grassley said. "I'm grateful for the Administration's focus on this issue. Not only has the President embraced this issue, but he's also developed it in a substantive way and helped to draw the support of more key members of Congress. As a result, we're closer to shutting off a spigot of tax abuse before it drains the Treasury dry."