

May 29, 1941.

Senator Tom Connally,  
U. S. Senate Building,  
Washington, D. C.

Dear Tom:

Naturally I realize the difficulties you are confronted with in the matter of the new tax program. Almost everyone wants everyone else taxed except themselves. However, there must be some practical basis on which to get the money and at the same time not do any rank injustice to any industry or particular individual.

You as a member of the Senate Finance Committee which will soon consider the new tax bill, I want to call your attention to the seriousness of the present reported proposals which will have a tendency to confiscate the proceeds from production in the case of an independent oil operator, should such proposals be written into the act.

Under the present income tax laws an oil operator has the election to charge off intangible development expense each year. It is my opinion that the majority of operators have made such election. The money necessarily borrowed and used by the independent operator for this purpose becomes "Borrowed Capital" and on the books of the operator a very small sum of that amount borrowed becomes "Invested Capital".

A provision should be made in the proposed tax law for relief on prior liabilities and commitments represented by money borrowed from banks as an adjusted basis. The commitments made several years ago will range from four to ten years, the term depends upon the net oil sales, from which customarily 80 percent is used to pay interest and principal. These liabilities were made before any thought of inacting laws now proposed.

The provision should consider prior commitments and capital contracts for loans in the form of "Borrowed Capital". Further provision is necessary, the producer should be permitted to deduct as a business expense the intangible costs and depletion as provided in the present law.

Any matter pertaining to a change in the present depletion that does not recognize "Borrowed Capital" as "Investment Capital" would be a rank discrimination and work a particular hardship as stated above on all individual operators, and I hope you will bear this in mind.

With best wishes, I am

Sincerely,