

105TH CONGRESS
1ST SESSION

H. R. 1648

To encourage production of oil and gas within the United States by providing tax incentives, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MAY 15, 1997

Mr. WATKINS introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To encourage production of oil and gas within the United States by providing tax incentives, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “National Energy Secu-
5 rity Act of 1997”.

6 **SEC. 2. ELIMINATION OF NET INCOME LIMITATION ON PER-**
7 **CENTAGE DEPLETION FOR OIL AND GAS.**

8 (a) **ELIMINATION.**—

9 (1) **IN GENERAL.**—Section 613A(d)(1) of the
10 Internal Revenue Code of 1986 (relating to the limi-

1 tation based on taxable income for percentage deple-
2 tion in the case of oil and gas wells) is repealed.

3 (2) OTHER PRODUCTION.—The second sentence
4 of section 613(a) of the Internal Revenue Code of
5 1986 (relating to percentage depletion) is amended
6 to read as follows: “Except in the case of oil and gas
7 wells, such allowance shall not exceed 50 percent of
8 the taxpayer’s taxable income from the property
9 (computed without allowance for depletion).”

10 (b) EFFECTIVE DATE.—

11 (1) IN GENERAL.—The amendments made by
12 this section shall apply to taxable years beginning
13 after December 31, 1997.

14 (2) TRANSITION RULE.—

15 (A) DEDUCTION.—To the extent a deduc-
16 tion under section 613A of the Internal Reve-
17 nue Code of 1986 is disallowed under sub-
18 section (d)(1) of such section for any taxable
19 year ending on or before December 31, 1997,
20 the amount so disallowed shall be treated under
21 subsection (c) of such section as an amount al-
22 lowable as a deduction ratably over the 5-year
23 period beginning with the first taxable year be-
24 ginning after December 31, 1997.

1 (B) CERTAIN ADJUSTMENTS.—The last
 2 sentence of subsection (d)(1) of section 613A of
 3 such Code, as in effect immediately before the
 4 repeal made by subsection (a)(1) of this section,
 5 shall apply with respect to amounts allowable as
 6 a deduction under subsection (c) of such section
 7 by reason of subparagraph (A) of this para-
 8 graph.

9 **SEC. 3. HYDRO INJECTION INCLUDED AS TERTIARY RECOV-**
 10 **ERY METHOD.**

11 (a) IN GENERAL.—Paragraph (2) of section 43(c) of
 12 the Internal Revenue Code of 1986 is amended by adding
 13 at the end the following new subparagraph:

14 “(C) TERTIARY RECOVERY METHOD.—For
 15 purposes of subparagraph (A), the term ‘ter-
 16 tiary recovery method’ shall include hydro injec-
 17 tion.”

18 (b) EFFECTIVE DATE.—The amendment made by
 19 subsection (a) shall apply with respect to injections com-
 20 mencing after December 31, 1997.

21 **SEC. 4. ELECTION TO EXPENSE GEOLOGICAL AND GEO-**
 22 **PHYSICAL EXPENDITURES.**

23 (a) IN GENERAL.—Section 263 of the Internal Reve-
 24 nue Code of 1986 (relating to capital expenditures) is

1 amended by adding at the end the following new sub-
2 section:

3 “(j) GEOLOGICAL AND GEOPHYSICAL EXPENDI-
4 TURES FOR DOMESTIC OIL AND GAS WELLS.—Notwith-
5 standing subsection (a), a taxpayer may elect to treat geo-
6 logical and geophysical expenses incurred in connection
7 with the exploration for, or development of, oil or gas with-
8 in the United States (as defined in section 638) as ex-
9 penses which are not chargeable to capital account. Any
10 expenses so treated shall be allowed as a deduction in the
11 taxable year in which paid or incurred.”

12 (b) CONFORMING AMENDMENT.—Section 263A(c)(3)
13 of the Internal Revenue Code of 1986 is amended by in-
14 serting “263(j),” after “263(i),”.

15 (c) EFFECTIVE DATE.—

16 (1) IN GENERAL.—The amendments made by
17 this section shall apply to expenses paid or incurred
18 after the date of enactment of this Act.

19 (2) TRANSITION RULE.—In the case of any ex-
20 penses described in section 263(j) of the Internal
21 Revenue Code of 1986, as added by this section,
22 which were paid or incurred on or before the date
23 of enactment of this Act, the taxpayer may elect, at
24 such time and in such manner as the Secretary of
25 the Treasury may prescribe, to amortize the

1 unamortized portion of such expenses over the 36-
2 month period beginning with the month in which the
3 date of enactment of this Act occurs. For purposes
4 of this paragraph, the unamortized portion of any
5 expense is the amount remaining unamortized as of
6 the first day of the 36-month period.

7 **SEC. 5. ELECTION TO EXPENSE DELAY RENTAL PAYMENTS.**

8 (a) IN GENERAL.—Section 263 of the Internal Reve-
9 nue Code of 1986 (relating to capital expenditures), as
10 amended by section 1(a), is amended by adding at the end
11 the following new subsection:

12 “(k) DELAY RENTAL PAYMENTS FOR DOMESTIC OIL
13 AND GAS WELLS.—

14 “(1) IN GENERAL.—Notwithstanding subsection
15 (a), a taxpayer may elect to treat delay rental pay-
16 ments incurred in connection with the development
17 of oil or gas within the United States (as defined in
18 section 638) as payments which are not chargeable
19 to capital account. Any payments so treated shall be
20 allowed as a deduction in the taxable year in which
21 paid or incurred.

22 “(2) DELAY RENTAL PAYMENTS.—For purposes
23 of paragraph (1), the term ‘delay rental payment’
24 means an amount paid for the privilege of deferring
25 development of an oil or gas well.”

1 (b) CONFORMING AMENDMENT.—Section 263A(c)(3)
2 of the Internal Revenue Code of 1986, as amended by sec-
3 tion 1(b), is amended by inserting “263(k),” after
4 “263(j),”.

5 (c) EFFECTIVE DATE.—

6 (1) IN GENERAL.—The amendments made by
7 this section shall apply to payments made or in-
8 curred after the date of enactment of this Act.

9 (2) TRANSITION RULE.—In the case of any
10 payments described in section 263(k) of the Internal
11 Revenue Code of 1986, as added by this section,
12 which were made or incurred on or before the date
13 of enactment of this Act, the taxpayer may elect, at
14 such time and in such manner as the Secretary of
15 the Treasury may prescribe, to amortize the
16 unamortized portion of such payments over the 36-
17 month period beginning with the month in which the
18 date of enactment of this Act occurs. For purposes
19 of this paragraph, the unamortized portion of any
20 payment is the amount remaining unamortized as of
21 the first day of the 36-month period.

22 **SEC. 6. EXTENSION OF SPUDDING RULE.**

23 (a) IN GENERAL.—Section 461(i)(2)(A) of the Inter-
24 nal Revenue Code of 1986 (relating to special rule for

1 spudding of oil or gas wells) is amended by striking “90th
2 day” and inserting “180th day”.

3 (b) EFFECTIVE DATE.—The amendment made by
4 this section shall apply to taxable years beginning after
5 December 31, 1997.

○