

106TH CONGRESS  
1ST SESSION

# H. R. 1116

To amend the Internal Revenue Code of 1986 to establish a graduated response to shrinking domestic oil and gas production and surging foreign oil imports, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

MARCH 16, 1999

Mr. MORAN of Kansas (for himself, Mr. SESSIONS, Mr. PICKERING, and Mr. WATKINS) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to establish a graduated response to shrinking domestic oil and gas production and surging foreign oil imports, 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; AMENDMENT OF 1986 CODE.**

4 (a) SHORT TITLE.—This Act may be cited as the  
5 “Domestic Oil and Gas Crisis Tax Relief and Foreign Oil  
6 Reliance Reversal Act of 1999”.

7 (b) AMENDMENT OF 1986 CODE.—Except as other-  
8 wise expressly provided, whenever in this Act an amend-

1 ment or repeal is expressed in terms of an amendment  
2 to, or repeal of, a section or other provision, the reference  
3 shall be considered to be made to a section or other provi-  
4 sion of the Internal Revenue Code of 1986.

5 **SEC. 2. PURPOSES.**

6 The purposes of this Act are—

7 (1) to establish a graduated response to shrink-  
8 ing domestic oil and gas production and surging for-  
9 eign oil imports;

10 (2) to prevent the abandonment of marginal oil  
11 and gas wells responsible for half of the domestic oil  
12 and gas production of the United States;

13 (3) to transform earned tax credits and other  
14 tax benefits into working capital for the cash-  
15 strapped domestic oil and gas producers and service  
16 companies;

17 (4) to reverse the trend of increased dependence  
18 on foreign oil and gas by encouraging exploration  
19 and development of oil and gas reserves in the  
20 United States to achieve the goal of doubling current  
21 domestic oil and gas production; and

22 (5) to provide an emergency procedure for  
23 times when foreign imports exceed 60 percent of the  
24 total United States crude and oil product consump-  
25 tion, thereby recognizing that when imports exceed

1 a statutory level a national security threat exists  
2 that demands Presidential action.

3 **SEC. 3. FINDINGS.**

4 Congress finds the following:

5 (1) Foreign oil consumption in the United  
6 States is estimated to be equal to 56 percent of total  
7 oil consumption and could reach 68 percent by the  
8 year 2010 if current prices prevail.

9 (2) The number of oil and gas rigs operating in  
10 the United States is at the lowest count since 1944,  
11 when records of this number began to be recorded.

12 (3) If oil prices do not increase soon, the  
13 United States could lose at least half of its marginal  
14 wells which, in the aggregate, produce as much oil  
15 as the amount of oil the United States imports from  
16 Saudi Arabia.

17 (4) Oil and gas prices are unlikely to increase  
18 for the next several years.

19 (5) Declining production, well abandonment,  
20 and the lack of exploration and development are  
21 shrinking the domestic oil and gas industry.

22 (6) It is essential in order for the United States  
23 to have a vibrant economy to have a healthy domes-  
24 tic oil and gas industry.

1           (7) The world's richest oil producing regions in  
2           the Middle East are experiencing great political in-  
3           stability.

4           (8) The policy of the United Nations may make  
5           Iraq the swing oil producing nation, thereby grant-  
6           ing an enemy of the United States a tremendous  
7           amount of power.

8           (9) Reliance on foreign oil for more than 60  
9           percent of the daily oil and gas consumption in the  
10          United States is a national security threat.

11          (10) The United States is the leader of the free  
12          world and has a worldwide responsibility to promote  
13          economic and political security.

14          (11) The exercise of traditional responsibilities  
15          in the United States and abroad in foreign policy re-  
16          quires that the United States be free of the risk of  
17          energy blackmail in times of gas and oil shortages.

18          (12) The level of the United States energy secu-  
19          rity is directly related to the level of domestic pro-  
20          duction of oil, natural gas liquids, and natural gas.

21          (13) A national energy policy should be devel-  
22          oped which ensures that adequate supplies of oil are  
23          available at all times free of the threat of embargo  
24          or other foreign hostile acts.

## 1 **SEC. 4. TABLE OF CONTENTS.**

## 2 The table of contents of this Act is as follows:

- Sec. 1. Short title; amendment of 1986 Code.
- Sec. 2. Purposes.
- Sec. 3. Findings.
- Sec. 4. Table of contents.

### TITLE I—DOMESTIC OIL AND GAS PRODUCTION PRESERVATION PROVISIONS

- Sec. 101. Tax credit for marginal domestic oil and natural gas well production.
- Sec. 102. Exclusion of certain amounts received from recovered inactive wells.
- Sec. 103. Enhanced oil recovery credit extended to certain nontertiary recovery methods.

### TITLE II—DOMESTIC OIL AND GAS INDUSTRY CRISIS TAX RELIEF

- Sec. 200. Purpose.

#### Subtitle A—Credits to Cash Provisions

- Sec. 201. 10-year carryback for unused minimum tax credit.
- Sec. 202. 10-year carryback for percentage depletion for oil and gas property.
- Sec. 203. 10-year net operating loss carryback for losses attributable to oil servicing companies and mineral interests of oil and gas producers.
- Sec. 204. Waiver of limitations.

#### Subtitle B—Hard Times Tax Relief

- Sec. 211. Phase-out of certain minimum tax preferences relating to energy production.
- Sec. 212. Depreciation adjustment not to apply to oil and gas assets.
- Sec. 213. Repeal certain adjustments based on adjusted current earnings relating to oil and gas assets.
- Sec. 214. Enhanced oil recovery credit and credit for producing fuel from a nonconventional source allowed against minimum tax.

#### Subtitle C—Oil-for-Food Program Compensating Tax Benefits

- Sec. 220. Purpose.
- Sec. 221. Increase in percentage depletion for stripper wells.
- Sec. 222. Net income limitation on percentage depletion repealed for oil and gas properties.
- Sec. 223. Election to expense geological and geophysical expenditures and delay rental payments.
- Sec. 224. Extension of Spudding rule.

### TITLE III—FOREIGN OIL RELIANCE REVERSAL PROVISIONS

- Sec. 300. Purpose.
- Sec. 301. Crude oil and natural gas exploration and development credit.

### TITLE IV—NATIONAL SECURITY EMERGENCY PROVISIONS

Sec. 400. Purpose.

Sec. 401. Duties of the President.

Sec. 402. Congressional review.

Sec. 403. National security and oil production actions.

# 1 **TITLE I—DOMESTIC OIL AND** 2 **GAS PRODUCTION PRESERVA-** 3 **TION PROVISIONS**

## 4 **SEC. 101. TAX CREDIT FOR MARGINAL DOMESTIC OIL AND** 5 **NATURAL GAS WELL PRODUCTION.**

6 (a) PURPOSE.—The purpose of this section is to pre-  
7 vent the abandonment of marginal oil and gas wells re-  
8 sponsible for half of the domestic production of oil and  
9 gas in the United States.

10 (b) CREDIT FOR PRODUCING OIL AND GAS FROM  
11 MARGINAL WELLS.—Subpart D of part IV of subchapter  
12 A of chapter 1 (relating to business credits) is amended  
13 by adding at the end the following new section:

### 14 **“SEC. 45D. CREDIT FOR PRODUCING OIL AND GAS FROM** 15 **MARGINAL WELLS.**

16 “(a) GENERAL RULE.—For purposes of section 38,  
17 the marginal well production credit for any taxable year  
18 is an amount equal to the product of—

19 “(1) the credit amount, and

20 “(2) the qualified crude oil production and the  
21 qualified natural gas production which is attrib-  
22 utable to the taxpayer.

1       “(b) CREDIT AMOUNT.—For purposes of this  
2 section—

3               “(1) IN GENERAL.—The credit amount is—

4                       “(A) \$3 per barrel of qualified crude oil  
5 production, and

6                       “(B) 50 cents per 1,000 cubic feet of  
7 qualified natural gas production.

8               “(2) REDUCTION AS OIL AND GAS PRICES IN-  
9 CREASE.—

10                       “(A) IN GENERAL.—The \$3 and 50 cents  
11 amounts under paragraph (1) shall each be re-  
12 duced (but not below zero) by an amount which  
13 bears the same ratio to such amount (deter-  
14 mined without regard to this paragraph) as—

15                               “(i) the excess (if any) of the applica-  
16 ble reference price over \$14 (\$1.56 for  
17 qualified natural gas production), bears to

18                               “(ii) \$3 (\$0.33 for qualified natural  
19 gas production).

20       The applicable reference price for a taxable  
21 year is the reference price for the calendar year  
22 preceding the calendar year in which the tax-  
23 able year begins.

24               “(B) INFLATION ADJUSTMENT.—In the  
25 case of any taxable year beginning in a calendar

year after 2000, each of the dollar amounts contained in subparagraph (A) shall be increased to an amount equal to such dollar amount multiplied by the inflation adjustment factor for such calendar year (determined under section 43(b)(3)(B) by substituting ‘1999’ for ‘1990’).

“(C) REFERENCE PRICE.—For purposes of this paragraph, the term ‘reference price’ means, with respect to any calendar year—

“(i) in the case of qualified crude oil production, the reference price determined under section 29(d)(2)(C), and

“(ii) in the case of qualified natural gas production, the Secretary’s estimate of the annual average wellhead price per 1,000 cubic feet for all domestic natural gas.

“(c) QUALIFIED CRUDE OIL AND NATURAL GAS PRODUCTION.—For purposes of this section—

“(1) IN GENERAL.—The terms ‘qualified crude oil production’ and ‘qualified natural gas production’ mean domestic crude oil or natural gas which is produced from a marginal well.



1           “(2) LIMITATION ON AMOUNT OF PRODUCTION  
2       WHICH MAY QUALIFY.—

3           “(A) IN GENERAL.—Crude oil or natural  
4       gas produced during any taxable year from any  
5       well shall not be treated as qualified crude oil  
6       production or qualified natural gas production  
7       to the extent production from the well during  
8       the taxable year exceeds 1,095 barrels or barrel  
9       equivalents.

10          “(B) PROPORTIONATE REDUCTIONS.—

11           “(i) SHORT TAXABLE YEARS.—In the  
12       case of a short taxable year, the limitations  
13       under this paragraph shall be proportion-  
14       ately reduced to reflect the ratio which the  
15       number of days in such taxable year bears  
16       to 365.

17           “(ii) WELLS NOT IN PRODUCTION EN-  
18       TIRE YEAR.—In the case of a well which is  
19       not capable of production during each day  
20       of a taxable year, the limitations under  
21       this paragraph applicable to the well shall  
22       be proportionately reduced to reflect the  
23       ratio which the number of days of produc-  
24       tion bears to the total number of days in  
25       the taxable year.

1 “(3) DEFINITIONS.—

2 “(A) MARGINAL WELL.—The term ‘mar-  
3 ginal well’ means a domestic well—

4 “(i) the production from which during  
5 the taxable year is treated as marginal  
6 production under section 613A(c)(6), or

7 “(ii) which, during the taxable year—

8 “(I) has average daily production  
9 of not more than 25 barrel equiva-  
10 lents, and

11 “(II) produces water at a rate  
12 not less than 95 percent of total well  
13 effluent.

14 “(B) CRUDE OIL, ETC.—The terms ‘crude  
15 oil’, ‘natural gas’, ‘domestic’, and ‘barrel’ have  
16 the meanings given such terms by section  
17 613A(e).

18 “(C) BARREL EQUIVALENT.—The term  
19 ‘barrel equivalent’ means, with respect to nat-  
20 ural gas, a conversion ratio of 6,000 cubic feet  
21 of natural gas to 1 barrel of crude oil.

22 “(d) OTHER RULES.—

23 “(1) PRODUCTION ATTRIBUTABLE TO THE TAX-  
24 PAYER.—In the case of a marginal well in which  
25 there is more than one owner of operating interests

1 in the well and the crude oil or natural gas produc-  
2 tion exceeds the limitation under subsection (c)(2),  
3 qualifying crude oil production or qualifying natural  
4 gas production attributable to the taxpayer shall be  
5 determined on the basis of the ratio which tax-  
6 payer's revenue interest in the production bears to  
7 the aggregate of the revenue interests of all oper-  
8 ating interest owners in the production.

9 “(2) OPERATING INTEREST REQUIRED.—Any  
10 credit under this section may be claimed only on  
11 production which is attributable to the holder of an  
12 operating interest.

13 “(3) PRODUCTION FROM NONCONVENTIONAL  
14 SOURCES EXCLUDED.—In the case of production  
15 from a marginal well which is eligible for the credit  
16 allowed under section 29 for the taxable year, no  
17 credit shall be allowable under this section unless  
18 the taxpayer elects not to claim the credit under sec-  
19 tion 29 with respect to the well.”.

20 (c) CREDIT TREATED AS BUSINESS CREDIT.—Sec-  
21 tion 38(b) is amended by striking “plus” at the end of  
22 paragraph (11), by striking the period at the end of para-  
23 graph (12) and inserting “, plus”, and by adding at the  
24 end the following new paragraph:

1           “(13) the marginal oil and gas well production  
2           credit determined under section 45D(a).”.

3           (d) CREDIT ALLOWED AGAINST REGULAR AND MIN-  
4           IMUM TAX.—

5           (1) IN GENERAL.—Subsection (c) of section 38  
6           (relating to limitation based on amount of tax) is  
7           amended by redesignating paragraph (3) as para-  
8           graph (4) and by inserting after paragraph (2) the  
9           following new paragraph:

10           “(3) SPECIAL RULES FOR MARGINAL OIL AND  
11           GAS WELL PRODUCTION CREDIT.—

12           “(A) IN GENERAL.—In the case of the  
13           marginal oil and gas well production credit—

14           “(i) this section and section 39 shall  
15           be applied separately with respect to the  
16           credit, and

17           “(ii) in applying paragraph (1) to the  
18           credit—

19           “(I) subparagraphs (A) and (B)  
20           thereof shall not apply, and

21           “(II) the limitation under para-  
22           graph (1) (as modified by subclause  
23           (I)) shall be reduced by the credit al-  
24           lowed under subsection (a) for the

1 taxable year (other than the marginal  
2 oil and gas well production credit).

3 “(B) MARGINAL OIL AND GAS WELL PRO-  
4 Duction CREDIT.—For purposes of this sub-  
5 section, the term ‘marginal oil and gas well pro-  
6 duction credit’ means the credit allowable under  
7 subsection (a) by reason of section 45D(a).”.

8 (2) CONFORMING AMENDMENT.—Subclause (II)  
9 of section 38(c)(2)(A)(ii) is amended by inserting  
10 “or the marginal oil and gas well production credit”  
11 after “employment credit”.

12 (e) CARRYBACK.—Subsection (a) of section 39 (relat-  
13 ing to carryback and carryforward of unused credits gen-  
14 erally) is amended by adding at the end the following new  
15 paragraph:

16 “(3) 10-YEAR CARRYBACK FOR MARGINAL OIL  
17 AND GAS WELL PRODUCTION CREDIT.—In the case  
18 of the marginal oil and gas well production credit—

19 “(A) this section shall be applied sepa-  
20 rately from the business credit (other than the  
21 marginal oil and gas well production credit),

22 “(B) paragraph (1) shall be applied by  
23 substituting ‘10 taxable years’ for ‘1 taxable  
24 years’ in subparagraph (A) thereof, and

25 “(C) paragraph (2) shall be applied—

1 “(i) by substituting ‘31 taxable years’  
 2 for ‘21 taxable years’ in subparagraph (A)  
 3 thereof, and  
 4 “(ii) by substituting ‘30 taxable years’  
 5 for ‘20 taxable years’ in subparagraph (B)  
 6 thereof.”

7 (f) COORDINATION WITH SECTION 29.—Section  
 8 29(a) is amended by striking “There” and inserting “At  
 9 the election of the taxpayer, there”.

10 (g) CLERICAL AMENDMENT.—The table of sections  
 11 for subpart D of part IV of subchapter A of chapter 1  
 12 is amended by adding at the end the following item:

“45D. Credit for producing oil and gas from marginal wells.”

13 (h) EFFECTIVE DATE.—The amendments made by  
 14 this section shall apply to production after the date of the  
 15 enactment of this Act.

16 **SEC. 102. EXCLUSION OF CERTAIN AMOUNTS RECEIVED**  
 17 **FROM RECOVERED INACTIVE WELLS.**

18 (a) PURPOSE.—The purpose of this section is to en-  
 19 courage producers to reopen wells that have not been pro-  
 20 ducing oil and gas because the wells have been plugged  
 21 or abandoned.

22 (b) IN GENERAL.—Part III of subchapter B of chap-  
 23 ter 1 (relating to items specifically excluded from gross  
 24 income) is amended by redesignating section 139 as sec-

1 tion 140 and by inserting after section 138 the following  
 2 new section:

3 **“SEC. 139. OIL OR GAS PRODUCED FROM A RECOVERED IN-**  
 4 **ACTIVE WELL.**

5 “(a) IN GENERAL.—Gross income does not include  
 6 income attributable to independent producer oil from a re-  
 7 covered inactive well.

8 “(b) DEFINITIONS.—For purposes of this section—

9 “(1) INDEPENDENT PRODUCER OIL.—The term  
 10 ‘independent producer oil’ means crude oil or nat-  
 11 ural gas in which the economic interest of the inde-  
 12 pendent producer is attributable to an operating  
 13 mineral interest (within the meaning of section  
 14 614(d)), overriding royalty interest, production pay-  
 15 ment, net profits interest, or similar interest.

16 “(2) CRUDE OIL AND NATURAL GAS.—The  
 17 terms ‘crude oil’ and ‘natural gas’ have the mean-  
 18 ings given such terms by section 613A(e).

19 “(3) RECOVERED INACTIVE WELL.—The term  
 20 ‘recovered inactive well’ means a well if—

21 “(A) throughout the time period beginning  
 22 any time prior to January 15, 1999, and ending  
 23 on such date, such well is inactive or has been  
 24 plugged and abandoned, as determined by the  
 25 agency of the State in which such well is lo-

1 cated that is responsible for regulating such  
2 wells, and

3 “(B) during the 5-year period beginning on  
4 the date of the enactment of this section, such  
5 well resumes producing crude oil or natural gas.

6 “(4) INDEPENDENT PRODUCER.—The term  
7 ‘independent producer’ means a producer of crude  
8 oil or natural gas whose allowance for depletion is  
9 determined under section 613A(c).

10 “(c) DEDUCTIONS.—No deductions directly con-  
11 nected with amounts excluded from gross income by sub-  
12 section (a) shall be allowed.

13 “(d) ELECTION.—

14 “(1) IN GENERAL.—This section shall apply for  
15 any taxable year only at the election of the taxpayer.

16 “(2) MANNER.—Such election shall be made, in  
17 accordance with regulations prescribed by the Sec-  
18 retary, not later than the time prescribed for filing  
19 the return (including extensions thereof) and shall  
20 be made annually on a property-by-property basis.”

21 (c) MINIMUM TAX.—Section 56(g)(4)(B) is amended  
22 by adding at the end the following new clause:

23 “(iii) INACTIVE WELLS.—In the case  
24 of income attributable to independent pro-  
25 ducers of oil recovered from an inactive



1 well, clause (i) shall not apply to any  
 2 amount allowable as an exclusion under  
 3 section 139.”

4 (d) CLERICAL AMENDMENT.—The table of sections  
 5 for part III of subchapter B of chapter 1 is amended by  
 6 striking the item relating to section 139 and inserting the  
 7 following:

“Sec. 139. Oil or gas produced from a recovered inactive well.

“Sec. 140. Cross references to other Acts.”

8 (e) EFFECTIVE DATE.—The amendments made by  
 9 this section shall apply to taxable years ending after the  
 10 date of the enactment of this Act.

11 **SEC. 103. ENHANCED OIL RECOVERY CREDIT EXTENDED TO**  
 12 **CERTAIN NONTERTIARY RECOVERY METH-**  
 13 **ODS.**

14 (a) PURPOSE.—The purpose of this section is to ex-  
 15 tend the productive lives of existing domestic oil and gas  
 16 wells in order to recover the 75 percent of the oil and gas  
 17 that is not recoverable using primary oil and gas recovery  
 18 techniques.

19 (b) IN GENERAL.—Clause (i) of section 43(c)(2)(A)  
 20 (defining qualified enhanced oil recovery project) is  
 21 amended to read as follows:

22 “(i) which involves the application (in  
 23 accordance with sound engineering prin-  
 24 ciples) of—

1                   “(I) one or more tertiary recov-  
 2                   ery methods (as defined in section  
 3                   193(b)(3)) which can reasonably be  
 4                   expected to result in more than an in-  
 5                   significant increase in the amount of  
 6                   crude oil which will ultimately be re-  
 7                   covered, or

8                   “(II) one or more qualified non-  
 9                   tertiary recovery methods which are  
 10                  required to recover oil with tradition-  
 11                  ally immobile characteristics or from  
 12                  formations which have proven to be  
 13                  uneconomical or noncommercial under  
 14                  conventional recovery methods,”

15           (c) QUALIFIED NONTERTIARY RECOVERY METH-  
 16   ODS.—Section 43(c)(2) is amended by adding at the end  
 17   the following new subparagraphs:

18                   “(C) QUALIFIED NONTERTIARY RECOVERY  
 19                  METHOD.—For purposes of this paragraph—

20                   “(i) IN GENERAL.—The term ‘quali-  
 21                  fied nontertiary recovery method’ means  
 22                  any recovery method described in clause  
 23                  (ii), (iii), or (iv), or any combination there-  
 24                  of.

1 “(ii) ENHANCED GRAVITY DRAINAGE  
2 (EGD) METHODS.—The methods described  
3 in this clause are as follows:

4 “(I) HORIZONTAL DRILLING.—

5 The drilling of horizontal, rather than  
6 vertical, wells to penetrate any hydro-  
7 carbon-bearing formation which has  
8 an average in situ calculated perme-  
9 ability to fluid flow of less than or  
10 equal to 12 or less millidarcies and  
11 which has been demonstrated by use  
12 of a vertical wellbore to be uneco-  
13 nomical unless drilled with lateral hor-  
14 izontal lengths in excess of 1,000 feet.

15 “(II) GRAVITY DRAINAGE.—The  
16 production of oil by gravity flow from  
17 drainholes that are drilled from a  
18 shaft or tunnel dug within or below  
19 the oil-bearing zone.

20 “(iii) marginally ECONOMIC RES-  
21 ERVOIR REPRESSURIZATION (MERR) METH-  
22 ODS.—The methods described in this  
23 clause are as follows, except that this  
24 clause shall only apply to the first  
25 1,000,000 barrels produced in any project:

1                   “(I) CYCLIC GAS INJECTION.—

2                   The increase or maintenance of pres-  
3                   sure by injection of hydrocarbon gas  
4                   into the reservoir from which it was  
5                   originally produced.

6                   “(II) FLOODING.—The injection  
7                   of water into an oil reservoir to dis-  
8                   place oil from the reservoir rock and  
9                   into the bore of a producing well.

10                  “(iv) OTHER METHODS.—Any method  
11                  used to recover oil having an average lab-  
12                  oratory measured air permeability less  
13                  than or equal to 100 millidarcies when  
14                  averaged over the productive interval being  
15                  completed, or an in situ calculated perme-  
16                  ability to fluid flow less than or equal to  
17                  12 millidarcies or oil defined by the De-  
18                  partment of Energy as being immobile.

19                  “(D) AUTHORITY TO ADD OTHER NONTER-  
20                  TIARY RECOVERY METHODS.—The Secretary  
21                  shall provide procedures under which—

22                  “(i) the Secretary may treat methods  
23                  not described in clause (ii), (iii), or (iv) of  
24                  subparagraph (C) as qualified nontertiary  
25                  recovery methods, and

1 “(ii) a taxpayer may request the Sec-  
2 retary to treat any method not so de-  
3 scribed as a qualified nontertiary recovery  
4 method.

5 The Secretary may only specify methods as  
6 qualified nontertiary recovery methods under  
7 this subparagraph if the Secretary determines  
8 that such specification is consistent with the  
9 purposes of subparagraph (C) and will result in  
10 greater production of oil and natural gas.”

11 (d) CONFORMING AMENDMENT.—Clause (iii) of sec-  
12 tion 43(c)(2)(A) is amended to read as follows:

13 “(iii) with respect to which—

14 “(I) in the case of a tertiary re-  
15 covery method, the first injection of  
16 liquids, gases, or other matter com-  
17 mences after December 31, 1990, and

18 “(II) in the case of a qualified  
19 nontertiary recovery method, the im-  
20 plementation of the method begins  
21 after December 31, 1998.”

22 (e) EFFECTIVE DATE.—The amendments made by  
23 this section shall apply to taxable years ending after De-  
24 cember 31, 1998.

1 **TITLE II—DOMESTIC OIL AND**  
 2 **GAS INDUSTRY CRISIS TAX**  
 3 **RELIEF**

4 **SEC. 200. PURPOSE.**

5 The purpose of this title is to transform earned tax  
 6 credits and other accumulated tax benefits into working  
 7 capital for the cash-strapped domestic oil and gas pro-  
 8 ducers and service companies.

9 **Subtitle A—Credits to Cash**  
 10 **Provisions**

11 **SEC. 201. 10-YEAR CARRYBACK FOR UNUSED MINIMUM TAX**  
 12 **CREDIT.**

13 (a) IN GENERAL.—Section 53(c) of the Internal Rev-  
 14 enue Code of 1986 (relating to limitation) is amended by  
 15 adding at the end the following new paragraph:

16 “(2) SPECIAL RULE FOR TAXPAYERS WITH UN-  
 17 USED ENERGY MINIMUM TAX CREDITS.—

18 “(A) IN GENERAL.—If, during the 10-tax-  
 19 able year period ending with the current taxable  
 20 year, a taxpayer has an unused energy min-  
 21 imum tax credit for any taxable year in such  
 22 period (determined without regard to the appli-  
 23 cation of this paragraph to the current taxable  
 24 year)—

1 “(i) paragraph (1) shall not apply to  
 2 each of the taxable years in such period for  
 3 which the taxpayer has an unused energy  
 4 minimum tax credit (as so determined),  
 5 and

6 “(ii) the credit allowable under sub-  
 7 section (a) for each of such taxable years  
 8 shall be equal to the excess (if any) of—

9 “(I) the sum of the regular tax  
 10 liability and the net minimum tax for  
 11 such taxable year, over

12 “(II) the sum of the credits al-  
 13 lowable under subparts A, B, D, E,  
 14 and F of this part.

15 “(B) ENERGY MINIMUM TAX CREDIT.—For  
 16 purposes of this paragraph, the term ‘energy  
 17 minimum tax credit’ means the minimum tax  
 18 credit which would be computed with respect to  
 19 any taxable year if the adjusted net minimum  
 20 tax were computed by only taking into account  
 21 items attributable to—

22 “(i) the taxpayer’s mineral interests  
 23 in oil and gas property, and

24 “(ii) the taxpayer’s active conduct of  
 25 a trade or business of providing tools,

1 products, personnel, and technical solu-  
 2 tions on a contractual basis to persons en-  
 3 gaged in oil and gas exploration and pro-  
 4 duction.”

5 (b) CONFORMING AMENDMENTS.—Section 53(c) of  
 6 such Code (as in effect before the amendment made by  
 7 subsection (a)) is amended—

8 (1) by striking “The” and inserting:

9 “(1) IN GENERAL.—Except as provided in para-  
 10 graph (2), the”, and

11 (2) by redesignating paragraphs (1) and (2) as  
 12 subparagraphs (A) and (B).

13 (c) EFFECTIVE DATE.—The amendments made by  
 14 this section shall apply to taxable years beginning after  
 15 December 31, 1998, and to any taxable year beginning  
 16 on or before such date to the extent necessary to apply  
 17 section 53(c)(2) of the Internal Revenue Code of 1986 (as  
 18 added by subsection (a)).

19 **SEC. 202. 10-YEAR CARRYBACK FOR PERCENTAGE DEPLE-**  
 20 **TION FOR OIL AND GAS PROPERTY.**

21 (a) IN GENERAL.—Subsection (d)(1) of section 613A  
 22 (relating to limitations on percentage depletion in case of  
 23 oil and gas wells) is amended to read as follows:

24 “(1) LIMITATION BASED ON TAXABLE IN-  
 25 COME.—



1           “(A) IN GENERAL.—The deduction for the  
2           taxable year attributable to the application of  
3           subsection (c) shall not exceed the taxpayer’s  
4           taxable income for the year computed without  
5           regard to—

6                   “(i) any depletion on production from  
7                   an oil or gas property which is subject to  
8                   the provisions of subsection (c),

9                   “(ii) any net operating loss carryback  
10                  to the taxable year under section 172,

11                  “(iii) any capital loss carryback to the  
12                  taxable year under section 1212, and

13                  “(iv) in the case of a trust, any dis-  
14                  tributions to its beneficiary, except in the  
15                  case of any trust where any beneficiary of  
16                  such trust is a member of the family (as  
17                  defined in section 267(c)(4)) of a settlor  
18                  who created inter vivos and testamentary  
19                  trusts for members of the family and such  
20                  settlor died within the last six days of the  
21                  fifth month in 1970, and the law in the ju-  
22                  risdiction in which such trust was created  
23                  requires all or a portion of the gross or net  
24                  proceeds of any royalty or other interest in  
25                  oil, gas, or other mineral representing any

percentage depletion allowance to be allocated to the principal of the trust.

“(B) CARRYBACKS AND CARRYFORWARDS.—

“(i) IN GENERAL.—If any amount is disallowed as a deduction for the taxable year (in this subparagraph referred to as the ‘unused depletion year’) by reason of application of subparagraph (A), the disallowed amount shall be treated as an amount allowable as a deduction under subsection (c) for—

“(I) each of the 10 taxable years preceding the unused depletion year, and

“(II) the taxable year following the unused depletion year, subject to the application of subparagraph (A) to such taxable year.

“(ii) APPLICABLE RULES.—Rules similar to the rules of section 39 shall apply for purposes of this subparagraph.

“(C) ALLOCATION OF DISALLOWED AMOUNTS.—For purposes of basis adjustments and determining whether cost depletion exceeds

1 percentage depletion with respect to the produc-  
 2 tion from a property, any amount disallowed as  
 3 a deduction on the application of this para-  
 4 graph shall be allocated to the respective prop-  
 5 erties from which the oil or gas was produced  
 6 in proportion to the percentage depletion other-  
 7 wise allowable to such properties under sub-  
 8 section (c).”

9 (b) EFFECTIVE DATE.—The amendment made by  
 10 this section shall apply to taxable years beginning after  
 11 December 31, 1998, and to any taxable year beginning  
 12 on or before such date to the extent necessary to apply  
 13 section 613A(d)(1)(B) of the Internal Revenue Code of  
 14 1986 (as added by subsection (a)).

15 **SEC. 203. 10-YEAR NET OPERATING LOSS CARRYBACK FOR**  
 16 **LOSSES ATTRIBUTABLE TO OIL SERVICING**  
 17 **COMPANIES AND MINERAL INTERESTS OF**  
 18 **OIL AND GAS PRODUCERS.**

19 (a) IN GENERAL.—Paragraph (1) of section 172(b)  
 20 (relating to years to which loss may be carried) is amended  
 21 by adding at the end the following new subparagraph:

22 “(H) LOSSES ON MINERAL INTERESTS OF  
 23 OIL AND GAS PRODUCERS AND OILFIELD SERV-  
 24 ICING COMPANIES.—In the case of a taxpayer  
 25 which has an eligible oil and gas loss (as de-

1           fined in subsection (j)) for a taxable year, such  
 2           eligible oil and gas loss shall be a net operating  
 3           loss carryback to each of the 10 taxable years  
 4           preceding the taxable year of such loss.”

5           (b) ELIGIBLE OIL AND GAS LOSS.—Section 172 is  
 6   amended by redesignating subsection (j) as subsection (k)  
 7   and by inserting after subsection (i) the following new sub-  
 8   section:

9           “(j) ELIGIBLE OIL AND GAS LOSS.—For purposes of  
 10   this section—

11           “(1) IN GENERAL.—The term ‘eligible oil and  
 12   gas loss’ means the lesser of—

13           “(A) the amount which would be the net  
 14   operating loss for the taxable year if only in-  
 15   come and deductions attributable to—

16           “(i) mineral interests in oil and gas  
 17   wells, and

18           “(ii) the active conduct of a trade or  
 19   business of providing tools, products, per-  
 20   sonnel, and technical solutions on a con-  
 21   tractual basis to persons engaged in oil  
 22   and gas exploration and production,  
 23   are taken into account, and

24           “(B) the amount of the net operating loss  
 25   for such taxable year.

1           “(2) COORDINATION WITH SUBSECTION  
 2           (b)(2).—For purposes of applying subsection (b)(2),  
 3           an eligible oil and gas loss for any taxable year shall  
 4           be treated in a manner similar to the manner in  
 5           which a specified liability loss is treated.

6           “(3) ELECTION.—Any taxpayer entitled to a  
 7           10-year carryback under subsection (b)(1)(H) from  
 8           any loss year may elect to have the carryback period  
 9           with respect to such loss year determined without re-  
 10          gard to subsection (b)(1)(H). Such election shall be  
 11          made in such manner as may be prescribed by the  
 12          Secretary and shall be made by the due date (includ-  
 13          ing extensions of time) for filing the taxpayer’s re-  
 14          turn for the taxable year of the net operating loss.  
 15          Such election, once made for any taxable year, shall  
 16          be irrevocable for such taxable year.”

17          (c) EFFECTIVE DATE.—The amendments made by  
 18          this section shall apply to net operating losses for taxable  
 19          years beginning after December 31, 1998, and to any tax-  
 20          able year beginning on or before such date to the extent  
 21          necessary to apply section 172(b)(1)(H) of the Internal  
 22          Revenue Code of 1986 (as added by subsection (a)).

23   **SEC. 204. WAIVER OF LIMITATIONS.**

24          If refund or credit of any overpayment of tax result-  
 25          ing from the application of the amendments made by this

1 subtitle is prevented at any time before the close of the  
 2 1-year period beginning on the date of the enactment of  
 3 this Act by the operation of any law or rule of law (includ-  
 4 ing res judicata), such refund or credit may nevertheless  
 5 be made or allowed if claim therefor is filed before the  
 6 close of such period.

## 7 **Subtitle B—Hard Times Tax Relief**

### 8 **SEC. 211. PHASE-OUT OF CERTAIN MINIMUM TAX PREF-** 9 **ERENCES RELATING TO ENERGY PRODUC-** 10 **TION.**

11 (a) ENERGY PREFERENCES FOR INTEGRATED OIL  
 12 COMPANIES.—Section 56 (relating to alternative min-  
 13 imum taxable income) is amended by adding at the end  
 14 the following new subsection:

15 “(h) ADJUSTMENT BASED ON ENERGY PREF-  
 16 ERENCE.—

17 “(1) IN GENERAL.—In computing the alter-  
 18 native minimum taxable income of any taxpayer  
 19 which is an integrated oil company (as defined in  
 20 section 291(b)(4)) for any taxable year beginning  
 21 after 1998, there shall be allowed as a deduction an  
 22 amount equal to the alternative tax energy pref-  
 23 erence deduction.

24 “(2) PHASE-OUT OF DEDUCTION AS OIL PRICES  
 25 INCREASE.—The amount of the deduction under

1 paragraph (1) (determined without regard to this  
 2 paragraph) shall be reduced (but not below zero) by  
 3 the amount which bears the same ratio to such  
 4 amount as—

5 “(A) the amount by which the reference  
 6 price for the calendar year preceding the cal-  
 7 endar year in which the taxable year begins ex-  
 8 ceeds \$14, bears to

9 “(B) \$3.

10 For purposes of this paragraph, the reference price  
 11 for any calendar year shall be determined under sec-  
 12 tion 29(d)(2)(C) and the \$14 amount under sub-  
 13 paragraph (A) shall be adjusted at the same time  
 14 and in the same manner as under section 43(b)(3).

15 “(3) ALTERNATIVE TAX ENERGY PREFERENCE  
 16 DEDUCTION.—For purposes of paragraph (1), the  
 17 term ‘alternative tax energy preference deduction’  
 18 means an amount equal to the sum of—

19 “(A) the intangible drilling cost preference,

20 and

21 “(B) the depletion preference.

22 “(4) INTANGIBLE DRILLING COST PREF-  
 23 ERENCE.—For purposes of this subsection, the term  
 24 ‘intangible drilling cost preference’ means the  
 25 amount by which alternative minimum taxable in-

1       come would be reduced if it were computed without  
2       regard to section 57(a)(2).

3               “(5) DEPLETION PREFERENCE.—For purposes  
4       of this subsection, the term ‘depletion preference’  
5       means the amount by which alternative minimum  
6       taxable income would be reduced if it were computed  
7       without regard to section 57(a)(1).

8               “(6) ALTERNATIVE MINIMUM TAXABLE IN-  
9       COME.—For purposes of paragraphs (1), (4), and  
10      (5), alternative minimum taxable income shall be de-  
11      termined without regard to the deduction allowable  
12      under this subsection and the alternative tax net op-  
13      erating loss deduction under subsection (a)(4).

14              “(7) REGULATIONS.—The Secretary may by  
15      regulation provide for appropriate adjustments in  
16      computing alternative minimum taxable income or  
17      adjusted current earnings for any taxable year fol-  
18      lowing a taxable year for which a deduction was al-  
19      lowed under this subsection to ensure that no double  
20      benefit is allowed by reason of such deduction.”

21      (b) REPEAL OF LIMIT ON REDUCTION FOR INDE-  
22      PENDENT PRODUCERS.—Subparagraph (E) of section  
23      57(a)(2) (relating to exception for independent producers)  
24      is amended to read as follows:



1                   “(E) EXCEPTION FOR INDEPENDENT PRO-  
 2                   DUCERS.—In the case of any oil or gas well,  
 3                   this paragraph shall not apply to any taxpayer  
 4                   which is not an integrated oil company (as de-  
 5                   fined in section 291(b)(4)).”

6           (c) EFFECTIVE DATE.—The amendments made by  
 7 this section shall apply to taxable years beginning after,  
 8 and amounts paid or incurred in taxable years after, De-  
 9 cember 31, 1998.

10 **SEC. 212. DEPRECIATION ADJUSTMENT NOT TO APPLY TO**  
 11 **OIL AND GAS ASSETS.**

12           (a) IN GENERAL.—Subparagraph (B) of section  
 13 56(a)(1) (relating to depreciation adjustments) is amend-  
 14 ed to read as follows:

15                   “(B) EXCEPTIONS.—This paragraph shall  
 16                   not apply to—

17                           “(i) property described in paragraph  
 18                           (1), (2), (3), or (4) of section 168(f), or

19                           “(ii) property used in the active con-  
 20                           duct of the trade or business of exploring  
 21                           for, extracting, developing, or gathering  
 22                           crude oil or natural gas.”

23           (b) CONFORMING AMENDMENT.—Paragraph (4)(A)  
 24 of section 56(g) (relating to adjustments based on ad-

1 justed current earnings) is amended by adding at the end  
 2 the following new clause:

3 “(vi) OIL AND GAS PROPERTY.—In  
 4 the case of property used in the active con-  
 5 duct of the trade or business of exploring  
 6 for, extracting, developing, or gathering  
 7 crude oil or natural gas, the amount allow-  
 8 able as depreciation or amortization with  
 9 respect to such property shall be deter-  
 10 mined in the same manner as for purposes  
 11 of computing the regular tax.”

12 (c) EFFECTIVE DATE.—The amendment made by  
 13 this section shall apply to property placed in service in  
 14 taxable years beginning after December 31, 1998.

15 **SEC. 213. REPEAL CERTAIN ADJUSTMENTS BASED ON AD-**  
 16 **JUSTED CURRENT EARNINGS RELATING TO**  
 17 **OIL AND GAS ASSETS.**

18 (a) DEPRECIATION.—Clause (vi) of section  
 19 56(g)(4)(A), as added by section 212(b), is amended to  
 20 read as follows:

21 “(vi) OIL AND GAS PROPERTY.—This  
 22 subparagraph shall not apply to property  
 23 used in the active conduct of the trade or  
 24 business of exploring for, extracting, devel-

1                   oping, or gathering crude oil or natural  
2                   gas.”

3           (b) INTANGIBLE DRILLING COSTS.—Clause (i) of  
4 section 56(g)(4)(D) is amended by striking the second  
5 sentence and inserting “In the case of any oil or gas well,  
6 this clause shall not apply in the case of amounts paid  
7 or incurred in taxable years beginning after December 31,  
8 1998.”.

9           (c) DEPLETION.—Clause (ii) of section 56(g)(4)(F)  
10 is amended to read as follows:

11                   “(ii) EXCEPTION FOR OIL AND GAS  
12                   WELLS.—In the case of any taxable year  
13                   beginning after December 31, 1998, clause  
14                   (i) (and subparagraph (C)(i)) shall not  
15                   apply to any deduction for depletion com-  
16                   puted in accordance with section 613A.”

17           (d) EFFECTIVE DATE.—The amendments made by  
18 this section shall apply to taxable years beginning after  
19 December 31, 1998.

20 **SEC. 214. ENHANCED OIL RECOVERY CREDIT AND CREDIT**  
21 **FOR PRODUCING FUEL FROM A NONCONVEN-**  
22 **TIONAL SOURCE ALLOWED AGAINST MIN-**  
23 **IMUM TAX.**

24           (a) ENHANCED OIL RECOVERY CREDIT ALLOWED  
25 AGAINST REGULAR AND MINIMUM TAX.—

1           (1) ALLOWING CREDIT AGAINST MINIMUM  
 2 TAX.—Subsection (c) of section 38 (relating to limi-  
 3 tation based on amount of tax), as amended by sec-  
 4 tion 101(d), is amended by redesignating paragraph  
 5 (4) as paragraph (5) and by inserting after para-  
 6 graph (3) the following new paragraph:

7           “(4) SPECIAL RULES FOR ENHANCED OIL RE-  
 8 COVERY CREDIT.—

9           “(A) IN GENERAL.—In the case of the en-  
 10 hanced oil recovery credit—

11           “(i) this section and section 39 shall  
 12 be applied separately with respect to the  
 13 credit, and

14           “(ii) in applying paragraph (1) to the  
 15 credit—

16           “(I) subparagraphs (A) and (B)  
 17 thereof shall not apply, and

18           “(II) the limitation under para-  
 19 graph (1) (as modified by subclause  
 20 (I)) shall be reduced by the credit al-  
 21 lowed under subsection (a) for the  
 22 taxable year (other than the enhanced  
 23 oil recovery credit).

24           “(B) ENHANCED OIL RECOVERY CRED-  
 25 IT.—For purposes of this subsection, the term

1           ‘enhanced oil recovery credit’ means the credit  
2           allowable under subsection (a) by reason of sec-  
3           tion 43(a).”.

4           (2) CONFORMING AMENDMENTS.—

5                   (A)       Subclause       (II)       of       section  
6           38(c)(2)(A)(ii), as amended by section 101(d),  
7           is amended by striking “or the marginal oil and  
8           gas well production credit” and inserting “, the  
9           marginal oil and gas well production credit, or  
10          the enhanced oil recovery credit”.

11                   (B)       Subclause       (II)       of       section  
12          38(c)(3)(A)(ii), as added by section 101(d), is  
13          amended by inserting “or the enhanced oil re-  
14          covery credit” after “recovery credit”.

15          (b) CREDIT FOR PRODUCING FUEL FROM A NON-  
16          CONVENTIONAL SOURCE.—

17                   (1) ALLOWING CREDIT AGAINST MINIMUM  
18          TAX.—Section 29(b)(6) is amended to read as fol-  
19          lows:

20                           “(6) APPLICATION WITH OTHER CRED-  
21          ITS.—The credit allowed by subsection (a) for  
22          any taxable year shall not exceed—

23                                   “(A) the regular tax for the taxable  
24                                   year and the tax imposed by section 55, re-  
25                                   duced by

1 “(B) the sum of the credits allowable  
2 under subpart A and section 27.”

3 (2) CONFORMING AMENDMENTS.—

4 (A) Section 53(d)(1)(B)(iii) is amended by  
5 inserting “as in effect on the date of the enact-  
6 ment of the Domestic Oil and Gas Crisis Tax  
7 Reliance Reversal Act of 1999,” after  
8 “29(b)(6)(B),”.

9 (B) Section 55(c)(2) is amended by strik-  
10 ing “29(b)(6),”.

11 (c) EFFECTIVE DATE.—The amendments made by  
12 this section shall apply to taxable years beginning after  
13 December 31, 1998.

## 14 **Subtitle C—Oil-for-Food Program** 15 **Compensating Tax Benefits**

### 16 **SEC. 220. PURPOSE.**

17 The purpose of this subtitle is to provide compensa-  
18 tion to the domestic oil and gas industry in the form of  
19 tax benefits to offset the depressing impact that the Oil-  
20 for-Food Program is having on the world market.

### 21 **SEC. 221. INCREASE IN PERCENTAGE DEPLETION FOR** 22 **STRIPPER WELLS.**

23 (a) IN GENERAL.—Subparagraph (C) of section  
24 613A(c)(6) (relating to oil and natural gas produced from  
25 marginal properties) is amended—

1           (1) by striking “25 percent” and inserting  
 2           “27.5 percent” in the matter preceding clause (i);  
 3           and

4           (2) by striking “\$20” and inserting “\$28” in  
 5           clause (ii).

6           (b) EFFECTIVE DATE.—The amendments made by  
 7           this section shall apply to taxable years beginning after  
 8           December 31, 1998.

9   **SEC. 222. NET INCOME LIMITATION ON PERCENTAGE DE-**  
 10                           **PLETION REPEALED FOR OIL AND GAS PROP-**  
 11                           **ERTIES.**

12           (a) IN GENERAL.—Section 613(a) (relating to per-  
 13           centage depletion) is amended by striking the second sen-  
 14           tence and inserting: “Except in the case of oil and gas  
 15           properties, such allowance shall not exceed 50 percent of  
 16           the taxpayer’s taxable income from the property (com-  
 17           puted without allowances for depletion).”

18           (b) CONFORMING AMENDMENT.—Section 613A(c)(7)  
 19           (relating to special rules) is amended by striking subpara-  
 20           graph (C) and redesignating subparagraph (D) as sub-  
 21           paragraph (C).

22           (c) EFFECTIVE DATE.—The amendments made by  
 23           this section shall apply to taxable years beginning after  
 24           December 31, 1998.

1 **SEC. 223. ELECTION TO EXPENSE GEOLOGICAL AND GEO-**  
2 **PHYSICAL EXPENDITURES AND DELAY RENT-**  
3 **AL PAYMENTS.**

4 (a) PURPOSE.—The purpose of this section is to rec-  
5 ognize that geological and geophysical expenditures and  
6 delay rentals are ordinary and necessary business expenses  
7 that should be deducted in the year the expense is in-  
8 curred.

9 (b) ELECTION TO EXPENSE GEOLOGICAL AND GEO-  
10 PHYSICAL EXPENDITURES.—

11 (1) IN GENERAL.—Section 263 (relating to cap-  
12 ital expenditures) is amended by adding at the end  
13 the following new subsection:

14 “(j) GEOLOGICAL AND GEOPHYSICAL EXPENDI-  
15 TURES FOR DOMESTIC OIL AND GAS WELLS.—Notwith-  
16 standing subsection (a), a taxpayer may elect to treat geo-  
17 logical and geophysical expenses incurred in connection  
18 with the exploration for, or development of, oil or gas with-  
19 in the United States (as defined in section 638) as ex-  
20 penses which are not chargeable to capital account. Any  
21 expenses so treated shall be allowed as a deduction in the  
22 taxable year in which paid or incurred.”

23 (2) CONFORMING AMENDMENT.—Section  
24 263A(c)(3) is amended by inserting “263(j),” after  
25 “263(i),”.

26 (3) EFFECTIVE DATE.—



1 (A) IN GENERAL.—The amendments made  
2 by this subsection shall apply to expenses paid  
3 or incurred after the date of the enactment of  
4 this Act.

5 (B) TRANSITION RULE.—In the case of  
6 any expenses described in section 263(j) of the  
7 Internal Revenue Code of 1986, as added by  
8 this subsection, which were paid or incurred on  
9 or before the date of the enactment of this Act,  
10 the taxpayer may elect, at such time and in  
11 such manner as the Secretary of the Treasury  
12 may prescribe, to amortize the unamortized  
13 portion of such expenses over the 36-month pe-  
14 riod beginning with the month in which the  
15 date of the enactment of this Act occurs. For  
16 purposes of this subparagraph, the unamortized  
17 portion of any expense is the amount remaining  
18 unamortized as of the first day of the 36-month  
19 period.

20 (c) ELECTION TO EXPENSE DELAY RENTAL PAY-  
21 MENTS.—

22 (1) IN GENERAL.—Section 263 (relating to cap-  
23 ital expenditures), as amended by subsection (b)(1),  
24 is amended by adding at the end the following new  
25 subsection:

1       “(k) DELAY RENTAL PAYMENTS FOR DOMESTIC OIL  
2 AND GAS WELLS.—

3               “(1) IN GENERAL.—Notwithstanding subsection  
4 (a), a taxpayer may elect to treat delay rental pay-  
5 ments incurred in connection with the development  
6 of oil or gas within the United States (as defined in  
7 section 638) as payments which are not chargeable  
8 to capital account. Any payments so treated shall be  
9 allowed as a deduction in the taxable year in which  
10 paid or incurred.

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

15              (2) CONFORMING AMENDMENT.—Section  
16 263A(c)(3), as amended by subsection (b)(2), is  
17 amended by inserting “263(k),” after “263(j),”.

18              (3) EFFECTIVE DATE.—

19                   (A) IN GENERAL.—The amendments made  
20 by this subsection shall apply to payments made  
21 or incurred after the date of the enactment of  
22 this Act.

23                   (B) TRANSITION RULE.—In the case of  
24 any payments described in section 263(k) of the  
25 Internal Revenue Code of 1986, as added by

1           this subsection, which were made or incurred on  
 2           or before the date of the enactment of this Act,  
 3           the taxpayer may elect, at such time and in  
 4           such manner as the Secretary of the Treasury  
 5           may prescribe, to amortize the unamortized  
 6           portion of such payments over the 36-month pe-  
 7           riod beginning with the month in which the  
 8           date of the enactment of this Act occurs. For  
 9           purposes of this subparagraph, the unamortized  
 10          portion of any payment is the amount remain-  
 11          ing unamortized as of the first day of the 36-  
 12          month period.

13 **SEC. 224. EXTENSION OF SPUDDING RULE.**

14          (a) IN GENERAL.—Section 461(i)(2)(A) (relating to  
 15          special rule for spudding of oil or gas wells) is amended  
 16          by striking “90th day” and inserting “180th day”.

17          (b) EFFECTIVE DATE.—The amendment made by  
 18          this section shall apply to taxable years beginning after  
 19          December 31, 1998.

20 **TITLE III—FOREIGN OIL RELI-**  
 21 **ANCE REVERSAL PROVISIONS**

22 **SEC. 300. PURPOSE.**

23          The purpose of this title is to reverse the trend of  
 24          increased foreign dependence of oil and gas by encour-  
 25          aging exploration and development of oil and gas reserves

1 in the United States to achieve the goal of doubling cur-  
 2 rent domestic oil and gas production.

3 **SEC. 301. CRUDE OIL AND NATURAL GAS EXPLORATION**  
 4 **AND DEVELOPMENT CREDIT.**

5 (a) CRUDE OIL AND NATURAL GAS EXPLORATION  
 6 AND DEVELOPMENT CREDIT.—Subpart B of part IV of  
 7 subchapter A of chapter 1 is amended by adding at the  
 8 end the following new section:

9 **“SEC. 30B. CRUDE OIL AND NATURAL GAS EXPLORATION**  
 10 **AND DEVELOPMENT CREDIT.**

11 “(a) GENERAL RULE.—For purposes of section 38,  
 12 the crude oil and natural gas exploration and development  
 13 credit determined under this section for any applicable  
 14 taxable year shall be an amount equal to the sum of—

15 “(1) 20 percent of so much of the taxpayer’s  
 16 qualified investment for the taxable year as does not  
 17 exceed \$1,000,000, plus

18 “(2) 10 percent of so much of such qualified in-  
 19 vestment for the taxable year as exceeds \$1,000,000.

20 “(b) APPLICABLE TAXABLE YEAR.—For purposes of  
 21 subsection (a)—

22 “(1) IN GENERAL.—The term ‘applicable tax-  
 23 able year’ means any taxable year during which the  
 24 imports of foreign crude and oil product are deter-  
 25 mined by the Secretary of Energy to exceed 50 per-

1 cent of the amount of United States crude and oil  
2 product consumption for such year.

3 “(2) DETERMINATION.—A determination under  
4 paragraph (1) shall be made not later than March  
5 1 of each year with respect to the preceding calendar  
6 year.

7 “(c) QUALIFIED INVESTMENT.—For purposes of this  
8 section, the term ‘qualified investment’ means amounts  
9 paid or incurred by a taxpayer—

10 “(1) for the purpose of ascertaining the exist-  
11 ence, location, extent, or quality of any crude oil or  
12 natural gas deposit, including core testing and drill-  
13 ing test wells located in the United States or in a  
14 possession of the United States as defined in section  
15 638, or

16 “(2) for the purpose of developing a property  
17 (located in the United States or in a possession of  
18 the United States as defined in section 638) on  
19 which there is a reservoir capable of commercial pro-  
20 duction and such amounts are paid or incurred in  
21 connection with activities which are intended to re-  
22 sult in the recovery of crude oil or natural gas on  
23 such property.

24 “(d) LIMITATION BASED ON AMOUNT OF TAX.—

1           “(1) LIABILITY FOR TAX.—The credit allowable  
2           under subsection (a) for any taxable year shall not  
3           exceed the excess (if any) of—

4                   “(A) the sum of—

5                           “(i) the taxpayer’s tentative minimum  
6                           tax liability under section 55(b) for such  
7                           taxable year determined without regard to  
8                           this section, plus

9                           “(ii) the taxpayer’s regular tax liabil-  
10                          ity for such taxable year (as defined in sec-  
11                          tion 26(b)), over

12                   “(B) the sum of the credits allowable  
13                   against the taxpayer’s regular tax liability  
14                   under part IV (other than section 43 and this  
15                   section).

16           “(2) APPLICATION OF THE CREDIT.—Each of  
17           the following amounts shall be reduced by the full  
18           amount of the credit determined under paragraph  
19           (1):

20                   “(A) the taxpayer’s tentative minimum tax  
21                   under section 55(b) for the taxable year, and

22                   “(B) the taxpayer’s regular tax liability (as  
23                   defined in section 26(b)) reduced by the sum of  
24                   the credits allowable under part IV (other than  
25                   section 43 and this section).

1 If the amount of the credit determined under para-  
 2 graph (1) exceeds the amount described in subpara-  
 3 graph (B) of paragraph (2), then the excess shall be  
 4 deemed to be the adjusted net minimum tax for such  
 5 taxable year for purposes of section 53.

6 “(3) CARRYBACK AND CARRYFORWARD OF UN-  
 7 USED CREDIT.—

8 “(A) IN GENERAL.—If the amount of the  
 9 credit allowed under subsection (a) for any tax-  
 10 able year exceeds the limitation under para-  
 11 graph (1) for such taxable year (hereafter in  
 12 this paragraph referred to as the ‘unused credit  
 13 year’), such excess shall be—

14 “(i) an oil and gas exploration and de-  
 15 velopment credit carryback to each of the  
 16 3 taxable years preceding the unused cred-  
 17 it year, and

18 “(ii) an oil and gas exploration and  
 19 development credit carryforward to each of  
 20 the 15 taxable years following the unused  
 21 credit year,

22 and shall be added to the amount allowable as  
 23 a credit under subsection (a) for such years, ex-  
 24 cept that no portion of the unused oil and gas  
 25 exploration and development credit for any tax-

1           able year may be carried to a taxable year end-  
 2           ing before the date of the enactment of this sec-  
 3           tion.

4           “(B) LIMITATIONS.—The amount of the  
 5           unused credit which may be taken into account  
 6           under subparagraph (A) for any succeeding tax-  
 7           able year shall not exceed the amount by which  
 8           the limitation provided by paragraph (1) for  
 9           such taxable year exceeds the sum of—

10                   “(i) the credit allowable under sub-  
 11                   section (a) for such taxable year, and

12                   “(ii) the amounts which, by reason of  
 13                   this paragraph, are added to the amount  
 14                   allowable for such taxable year and which  
 15                   are attributable to taxable years preceding  
 16                   the unused credit year.

17           “(e) SPECIAL RULES.—For purposes of this  
 18           section—

19                   “(1) AGGREGATION OF QUALIFIED INVESTMENT  
 20                   EXPENSES.—

21                   “(A) CONTROLLED GROUPS; COMMON CON-  
 22                   TROL.—In determining the amount of the cred-  
 23                   it under this section, all members of the same  
 24                   controlled group of corporations (within the  
 25                   meaning of section 52(a)) and all persons under



1 common control (within the meaning of section  
2 52(b)) shall be treated as a single taxpayer for  
3 purposes of this section.

4 “(B) APPORTIONMENT OF CREDIT.—The  
5 credit (if any) allowable by this section to mem-  
6 bers of any group (or to any person) described  
7 in subparagraph (A) shall be such member’s or  
8 person’s proportionate share of the qualified in-  
9 vestment expenses giving rise to the credit de-  
10 termined under regulations prescribed by the  
11 Secretary.

12 “(2) PARTNERSHIPS, S CORPORATIONS, ES-  
13 TATES AND TRUSTS.—

14 “(A) PARTNERSHIPS AND S CORPORA-  
15 TIONS.—In the case of a partnership, the credit  
16 shall be allocated among partners under regula-  
17 tions prescribed by the Secretary. A similar rule  
18 shall apply in the case of an S corporation and  
19 its shareholders.

20 “(B) PASS-THRU IN THE CASE OF ES-  
21 TATES AND TRUSTS.—Under regulations pre-  
22 scribed by the Secretary, rules similar to the  
23 rules of subsection (d) of section 52 shall apply.

24 “(3) ADJUSTMENTS FOR CERTAIN ACQUISI-  
25 TIONS AND DISPOSITIONS.—Under regulations pre-

scribed by the Secretary, rules similar to the rules contained in section 41(f)(3) shall apply with respect to the acquisition or disposition of a taxpayer.

“(4) SHORT TAXABLE YEARS.—In the case of any short taxable year, qualified investment expenses shall be annualized in such circumstances and under such methods as the Secretary may prescribe by regulation.

“(5) DENIAL OF DOUBLE BENEFIT.—

“(A) DISALLOWANCE OF DEDUCTION.—

Any deduction allowable under this chapter for any costs taken into account in computing the amount of the credit determined under subsection (a) shall be reduced by the amount of such credit attributable to such costs.

“(B) BASIS ADJUSTMENTS.—For purposes

of this subtitle, if a credit is determined under this section for any expenditure with respect to any property, the increase in the basis of such property which would (but for this subsection) result from such expenditures shall be reduced by the amount of the credit so allowed.”

(b) CLERICAL AMENDMENT.—The table of sections for subpart B of part IV of subchapter A of chapter 1

1 is amended by adding at the end thereof the following new  
2 item:

“Sec. 30B. Crude oil and natural gas exploration and develop-  
ment credit.”

3 (c) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to expenses paid or incurred in  
5 taxable years beginning after December 31, 1998.

## 6 **TITLE IV—NATIONAL SECURITY** 7 **EMERGENCY PROVISIONS**

### 8 **SEC. 400. PURPOSE.**

9 The purpose of this title is to recognize that a na-  
10 tional security threat exists when foreign crude and oil  
11 product imports exceed 60 percent of United States oil  
12 consumption and to create an emergency procedure to ad-  
13 dress that threat.

### 14 **SEC. 401. DUTIES OF THE PRESIDENT.**

15 (a) ESTABLISHMENT OF CEILING.—The President  
16 shall establish a National Security Energy Independence  
17 Ceiling (referred to in this title as the “ceiling level”)  
18 which shall represent a ceiling level beyond which foreign  
19 crude and oil product imports as a share of United States  
20 crude and oil product consumption shall not rise.

21 (b) LEVEL OF CEILING.—The ceiling level estab-  
22 lished under subsection (a) shall not exceed 60 percent  
23 of United States crude and oil product consumption for  
24 any annual period.

1 (c) REPORT.—

2 (1) CONTENTS.—

3 (A) IN GENERAL.—The President shall  
4 prepare and submit an annual report to Con-  
5 gress containing a national security projection  
6 for energy independence (in this title referred to  
7 as the “projection”), which shall contain a fore-  
8 cast of domestic oil and NGL demand and pro-  
9 duction, and imports of crude and oil product  
10 for the subsequent 3 years.

11 (B) REQUIRED ADJUSTMENTS.—The pro-  
12 jection shall contain appropriate adjustments  
13 for expected price and production changes.

14 (2) PRESENTATION.—The projection prepared  
15 under paragraph (1) shall be presented to Congress  
16 with the Budget.

17 (3) CERTIFICATION.—The President shall cer-  
18 tify in the report whether foreign crude and oil prod-  
19 uct imports will exceed the ceiling level for any year  
20 during the 3 years succeeding the date of the report.

21 **SEC. 402. CONGRESSIONAL REVIEW.**

22 (a) REVIEW.—Congress shall have 10 continuous ses-  
23 sion days after submission of each projection under section  
24 401 to review the projection and make a determination  
25 whether the ceiling level will be violated within 3 years.

1 (b) CERTIFICATION BINDING.—Unless disapproved  
2 or modified by joint resolution, the Presidential certifi-  
3 cation shall be binding 10 session days after submitted  
4 to Congress.

5 **SEC. 403. NATIONAL SECURITY AND OIL PRODUCTION AC-**  
6 **TIONS.**

7 (a) NATIONAL SECURITY AND OIL PRODUCTION  
8 POLICY.—

9 (1) SUBMISSION.—Upon certification under sec-  
10 tion 401(c)(3) that the ceiling level will be exceeded,  
11 the President is required within 90 days to submit  
12 a National Security and Oil Production Policy (in  
13 this section referred to as the “policy”) to Congress.  
14 The policy shall prevent crude and oil product im-  
15 ports from exceeding the National Security Energy  
16 Independence Ceiling.

17 (2) APPROVAL.—Unless disapproved or modi-  
18 fied by joint resolution, the policy shall be effective  
19 90 session days after submitted to Congress.

20 (b) CONTENTS OF POLICY.—The National Security  
21 and Oil Production Policy may include—

22 (1) energy conservation actions including im-  
23 proved fuel efficiency for automobiles;

- 1           (2) expansion of the Strategic Petroleum Re-  
2 serves to maintain a larger cushion against projected  
3 oil import blockages;
- 4           (3) additional production incentives for domes-  
5 tic oil and gas including tax and other incentives for  
6 stripper well production, offshore, frontier, and other  
7 oil produced with tertiary recovery techniques;
- 8           (4) regulatory burden relief; and
- 9           (5) other policy initiatives designed to lower for-  
10 eign import reliance.

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