

106TH CONGRESS  
1ST SESSION

# H. R. 53

To amend the Internal Revenue Code of 1986 to provide a tax credit for marginal oil and natural gas well production.

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## IN THE HOUSE OF REPRESENTATIVES

JANUARY 6, 1999

Mr. WATKINS (for himself, Mr. THOMAS, Mr. ISTOOK, Mr. MORAN of Kansas, Mr. BRADY of Texas, Mr. SKEEN, Mr. THORNBERRY, Mr. MCCRERY, Mr. LARGENT, Mr. WATTS of Oklahoma, Mr. LUCAS of Oklahoma, Mr. SMITH of Texas, and Mr. STENHOLM) 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 provide a tax credit for marginal oil and natural gas well production.

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. TAX CREDIT FOR MARGINAL DOMESTIC OIL**  
4               **AND NATURAL GAS WELL PRODUCTION.**

5       (a) CREDIT FOR PRODUCING OIL AND GAS FROM  
6       MARGINAL WELLS.—Subpart D of part IV of subchapter  
7       A of chapter 1 of the Internal Revenue Code of 1986 (re-  
8       lating to business credits) is amended by adding at the  
9       end the following new section:

1 **“SEC. 45D. CREDIT FOR PRODUCING OIL AND GAS FROM**  
 2 **MARGINAL WELLS.**

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

6 “(1) the credit amount, and

7 “(2) the qualified crude oil production and the  
 8 qualified natural gas production which is attrib-  
 9 utable to the taxpayer.

10 “(b) CREDIT AMOUNT.—For purposes of this  
 11 section—

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

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

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

17 “(2) REDUCTION AS OIL AND GAS PRICES IN-  
 18 CREASE.—

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

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

1 “(ii) \$3 (\$0.33 for qualified natural  
2 gas production).

3 The applicable reference price for a taxable  
4 year is the reference price for the calendar year  
5 preceding the calendar year in which the tax-  
6 able year begins.

7 “(B) INFLATION ADJUSTMENT.—In the  
8 case of any taxable year beginning in a calendar  
9 year after 1999, each of the dollar amounts  
10 contained in subparagraph (A) shall be in-  
11 creased to an amount equal to such dollar  
12 amount multiplied by the inflation adjustment  
13 factor for such calendar year (determined under  
14 section 43(b)(3)(B) by substituting ‘1998’ for  
15 ‘1990’).

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

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

22 “(ii) in the case of qualified natural  
23 gas production, the Secretary’s estimate of  
24 the annual average wellhead price per

1                   1,000 cubic feet for all domestic natural  
2                   gas.

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

5                   “(1) IN GENERAL.—The terms ‘qualified crude  
6           oil production’ and ‘qualified natural gas production’  
7           mean domestic crude oil or natural gas which is pro-  
8           duced from a marginal well.

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

11                   “(A) IN GENERAL.—Crude oil or natural  
12           gas produced during any taxable year from any  
13           well shall not be treated as qualified crude oil  
14           production or qualified natural gas production  
15           to the extent production from the well during  
16           the taxable year exceeds 1,095 barrels or barrel  
17           equivalents.

18                   “(B) PROPORTIONATE REDUCTIONS.—

19                   “(i) SHORT TAXABLE YEARS.—In the  
20           case of a short taxable year, the limitations  
21           under this paragraph shall be proportion-  
22           ately reduced to reflect the ratio which the  
23           number of days in such taxable year bears  
24           to 365.

1                   “(ii) WELLS NOT IN PRODUCTION EN-  
 2                   TIRE YEAR.—In the case of a well which is  
 3                   not capable of production during each day  
 4                   of a taxable year, the limitations under  
 5                   this paragraph applicable to the well shall  
 6                   be proportionately reduced to reflect the  
 7                   ratio which the number of days of produc-  
 8                   tion bears to the total number of days in  
 9                   the taxable year.

10                  “(3) DEFINITIONS.—

11                   “(A) MARGINAL WELL.—The term ‘mar-  
 12                   ginal well’ means a domestic well which during  
 13                   the taxable year has marginal production (as  
 14                   defined in section 613A(c)(6)).

15                   “(B) CRUDE OIL, ETC.—The terms ‘crude  
 16                   oil’, ‘natural gas’, ‘domestic’, and ‘barrel’ have  
 17                   the meanings given such terms by section  
 18                   613A(e).

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

23                  “(d) OTHER RULES.—

24                   “(1) PRODUCTION ATTRIBUTABLE TO THE TAX-  
 25                   PAYER.—In the case of a marginal well in which

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

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

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

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

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

3 (c) CREDIT ALLOWED AGAINST REGULAR AND MINI-  
4 MUM TAX.—

5 (1) IN GENERAL.—Subsection (c) of section 38  
6 of such Code (relating to limitation based on amount  
7 of tax) is amended by redesignating paragraph (3)  
8 as paragraph (4) and by inserting after paragraph  
9 (2) the 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) of such Code is amended  
10 by inserting “or the marginal oil and gas well pro-  
11 duction credit” after “employment credit”.

12 (d) CARRYBACK.—Subsection (a) of section 39 of  
13 such Code (relating to carryback and carryforward of un-  
14 used credits generally) is amended by adding at the end  
15 the following new 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 and

23 “(B) paragraph (1) shall be applied by  
24 substituting ‘10 taxable years’ for ‘1 taxable  
25 years’ in subparagraph (A) thereof.”.



1       (e) COORDINATION WITH SECTION 29.—Section  
2 29(a) of such Code is amended by striking “There” and  
3 inserting “At the election of the taxpayer, there”.

4       (f) CLERICAL AMENDMENT.—The table of sections  
5 for subpart D of part IV of subchapter A of chapter 1  
6 of such Code is amended by adding at the end the follow-  
7 ing item:

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

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

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