

106TH CONGRESS
1ST SESSION

S. 595

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.

IN THE SENATE OF THE UNITED STATES

MARCH 11, 1999

Mr. DOMENICI (for himself and Mr. INHOFE) introduced the following bill;
which was read twice and referred to the Committee on Finance

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 sta-
3 bility.

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 security is
19 directly related to the level of domestic production of
20 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 OPERATING MINERAL IN-
 23 TERESTS OF OIL AND GAS PRODUCERS AND
 24 OILFIELD SERVICING COMPANIES.—In the case
 25 of a taxpayer which has an eligible oil and gas

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

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

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

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

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

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

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

1 “(B) the amount of the net operating loss
2 for such taxable year.

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

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

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

1 **SEC. 204. WAIVER OF LIMITATIONS.**

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

10 **Subtitle B—Hard Times Tax Relief**

11 **SEC. 211. PHASE-OUT OF CERTAIN MINIMUM TAX PREF-**
 12 **ERENCES RELATING TO ENERGY PRODUC-**
 13 **TION.**

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

18 “(h) ADJUSTMENT BASED ON ENERGY PREF-
 19 ERENCE.—

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

1 “(2) PHASE-OUT OF DEDUCTION AS OIL PRICES
 2 INCREASES.—The amount of the deduction under
 3 paragraph (1) (determined without regard to this
 4 paragraph) shall be reduced (but not below zero) by
 5 the amount which bears the same ratio to such
 6 amount as—

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

11 “(B) \$3.

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

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

21 “(A) the intangible drilling cost preference,
 22 and

23 “(B) the depletion preference.

24 “(4) INTANGIBLE DRILLING COST PREF-
 25 ERENCE.—For purposes of this subsection, the term

1 ‘intangible drilling cost preference’ means the
 2 amount by which alternative minimum taxable in-
 3 come would be reduced if it were computed without
 4 regard to section 57(a)(2).

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

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

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

23 (b) REPEAL OF LIMIT ON REDUCTION FOR INDE-
 24 PENDENT PRODUCERS.—Subparagraphs (E) of section

1 57(a)(2) (relating to exception for independent producers)
 2 is amended to read as follows:

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

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

12 **SEC. 212. DEPRECIATION ADJUSTMENT NOT TO APPLY TO**
 13 **OIL AND GAS ASSETS.**

14 (a) IN GENERAL.—Subparagraph (B) of section
 15 56(a)(1) (relating to depreciation adjustments) is amend-
 16 ed to read as follows:

17 “(B) EXCEPTIONS.—This paragraph shall
 18 not apply to—

19 “(i) property described in paragraph
 20 (1), (2), (3), or (4) of section 168(f), or

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

1 (b) CONFORMING AMENDMENT.—Paragraph (4)(A)
 2 of section 56(g) (relating to adjustments based on ad-
 3 justed current earnings) is amended by adding at the end
 4 the following new clause:

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

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

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

20 (a) DEPRECIATION.—Clause (vi) of section
 21 56(g)(4)(A), as added by section 212(b), is amended to
 22 read as follows:

23 “(vi) OIL AND GAS PROPERTY.—This
 24 subparagraph shall not apply to property
 25 used in the active conduct of the trade or

1 business of exploring for, extracting, devel-
2 oping, or gathering crude oil or natural
3 gas.”

4 (b) INTANGIBLE DRILLING COSTS.—Clause (i) of
5 section 56(g)(4)(D) is amended by striking the second
6 sentence and inserting “In the case of any oil or gas well,
7 this clause shall not apply in the case of amounts paid
8 or incurred in taxable years beginning after December 31,
9 1998.”.

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

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

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

1 **SEC. 214. ENHANCED OIL RECOVERY CREDIT AND CREDIT**
 2 **FOR PRODUCING FUEL FROM A NONCONVEN-**
 3 **TIONAL SOURCE ALLOWED AGAINST MIN-**
 4 **IMUM TAX.**

5 (a) ENHANCED OIL RECOVERY CREDIT ALLOWED
 6 AGAINST REGULAR AND MINIMUM TAX.—

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

13 “(4) SPECIAL RULES FOR ENHANCED OIL RE-
 14 COVERY CREDIT.—

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

17 “(i) this section and section 39 shall
 18 be applied separately with respect to the
 19 credit, and

20 “(ii) in applying paragraph (1) to the
 21 credit—

22 “(I) subparagraphs (A) and (B)
 23 thereof shall not apply, and

24 “(II) the limitation under para-
 25 graph (1) (as modified by subclause
 26 (I)) shall be reduced by the credit al-

1 lowed under subsection (a) for the
2 taxable year (other than the enhanced
3 oil recovery credit).

4 “(B) ENHANCED OIL RECOVERY CRED-
5 IT.—For purposes of this subsection, the term
6 ‘enhanced oil recovery credit’ means the credit
7 allowable under subsection (a) by reason of sec-
8 tion 43(a).”.

9 (2) CONFORMING AMENDMENTS.—

10 (A) Subclause (II) of section
11 38(c)(2)(A)(ii), as amended by section 101(d),
12 is amended by striking “or the marginal oil and
13 gas well production credit” and inserting “, the
14 marginal oil and gas well production credit, or
15 the enhanced oil recovery credit”.

16 (B) Subclause (II) of section
17 38(c)(3)(A)(ii), as added by section 101(d), is
18 amended by inserting “or the enhanced oil re-
19 covery credit” after “recovery credit”.

20 (b) CREDIT FOR PRODUCING FUEL FROM A NON-
21 CONVENTIONAL SOURCE.—

22 (1) ALLOWING CREDIT AGAINST MINIMUM
23 TAX.—Section 29(b)(6) is amended to read as fol-
24 lows:

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

4 “(A) the regular tax for the taxable
 5 year and the tax imposed by section 55, re-
 6 duced by

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

9 (2) CONFORMING AMENDMENTS.—

10 (A) Section 53(d)(1)(B)(iii) is amended by
 11 inserting “as in effect on the date of the enact-
 12 ment of the Domestic Oil and Gas Crisis Tax
 13 Reliance Reversal Act of 1999,” after
 14 “29(b)(6)(B),”.

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

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

20 **Subtitle C—Oil-for-Food Program** 21 **Compensating Tax Benefits**

22 **SEC. 220. PURPOSE.**

23 The purpose of this subtitle is to provide compensa-
 24 tion to the domestic oil and gas industry in the form of

1 tax benefits to offset the depressing impact that the Oil-
 2 for-Food Program is having on the world market.

3 **SEC. 221. INCREASE IN PERCENTAGE DEPLETION FOR**
 4 **STRIPPER WELLS.**

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

8 (1) by striking “25 percent” and inserting
 9 “27.5 percent” in the matter preceding clause (i);
 10 and

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

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

16 **SEC. 222. NET INCOME LIMITATION ON PERCENTAGE DE-**
 17 **PLETION REPEALED FOR OIL AND GAS PROP-**
 18 **ERTIES.**

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

25 (b) CONFORMING AMENDMENTS.—

1 (1) Section 613A(c)(7) (relating to special
2 rules) is amended by striking subparagraph (C) and
3 redesignating subparagraph (D) as subparagraph
4 (C).

5 (2) Section 613A(c)(6) (relating to oil and nat-
6 ural gas produced from marginal properties) is
7 amended by striking subparagraph (H).

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

11 **SEC. 223. ELECTION TO EXPENSE GEOLOGICAL AND GEO-**
12 **PHYSICAL EXPENDITURES AND DELAY RENT-**
13 **AL PAYMENTS.**

14 (a) PURPOSE.—The purpose of this section is to rec-
15 ognize that geological and geophysical expenditures and
16 delay rentals are ordinary and necessary business expenses
17 that should be deducted in the year the expense is in-
18 curred.

19 (b) ELECTION TO EXPENSE GEOLOGICAL AND GEO-
20 PHYSICAL EXPENDITURES.—

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

24 “(j) GEOLOGICAL AND GEOPHYSICAL EXPENDI-
25 TURES FOR DOMESTIC OIL AND GAS WELLS.—Notwith-

1 standing subsection (a), a taxpayer may elect to treat geo-
 2 logical and geophysical expenses incurred in connection
 3 with the exploration for, or development of, oil or gas with-
 4 in the United States (as defined in section 638) as ex-
 5 penses which are not chargeable to capital account. Any
 6 expenses so treated shall be allowed as a deduction in the
 7 taxable year in which paid or incurred.”

8 (2) CONFORMING AMENDMENT.—Section
 9 263A(c)(3) is amended by inserting “263(j),” after
 10 “263(i),”.

11 (3) EFFECTIVE DATE.—

12 (A) IN GENERAL.—The amendments made
 13 by this subsection shall apply to expenses paid
 14 or incurred after the date of the enactment of
 15 this Act.

16 (B) TRANSITION RULE.—In the case of
 17 any expenses described in section 263(j) of the
 18 Internal Revenue Code of 1986, as added by
 19 this subsection, which were paid or incurred on
 20 or before the date of the enactment of this Act,
 21 the taxpayer may elect, at such time and in
 22 such manner as the Secretary of the Treasury
 23 may prescribe, to amortize the unamortized
 24 portion of such expenses over the 36-month pe-
 25 riod beginning with the month in which the

1 date of the enactment of this Act occurs. For
 2 purposes of this subparagraph, the unamortized
 3 portion of any expense is the amount remaining
 4 unamortized as of the first day of the 36-month
 5 period.

6 (c) ELECTION TO EXPENSE DELAY RENTAL PAY-
 7 MENTS.—

8 (1) IN GENERAL.—Section 263 (relating to cap-
 9 ital expenditures), as amended by subsection (b)(1),
 10 is amended by adding at the end the following new
 11 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 (2) CONFORMING AMENDMENT.—Section
2 263A(c)(3), as amended by subsection (b)(2), is
3 amended by inserting “263(k),” after “263(j),”.

4 (3) EFFECTIVE DATE.—

5 (A) IN GENERAL.—The amendments made
6 by this subsection shall apply to payments made
7 or incurred after the date of the enactment of
8 this Act.

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

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

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

5 (b) EFFECTIVE DATE—The amendment made by this
6 section shall apply to taxable years beginning after De-
7 cember 31, 1998.

8 **TITLE III—FOREIGN OIL RELI-**
9 **ANCE REVERSAL PROVISIONS**

10 **SEC. 300. PURPOSE.**

11 The purpose of this title is to reverse the trend of
12 increased foreign dependence of oil and gas by encour-
13 aging exploration and development of oil and gas reserves
14 in the United States to achieve the goal of doubling cur-
15 rent domestic oil and gas production.

16 **“SEC. 301. CRUDE OIL AND NATURAL GAS EXPLORATION**
17 **AND DEVELOPMENT CREDIT.**

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

22 **“SEC. 30B. CRUDE OIL AND NATURAL GAS EXPLORATION**
23 **AND DEVELOPMENT CREDIT.**

24 “(a) GENERAL RULE.—The crude oil and natural gas
25 exploration and development credit determined under this

1 section for any applicable taxable year shall be an amount
 2 equal to the sum of—

3 “(1) 20 percent of so much of the taxpayer’s
 4 qualified investment for the taxable year as does not
 5 exceed \$1,000,000, plus

6 “(2) 10 percent of so much of such qualified in-
 7 vestment for the taxable year as exceeds \$1,000,000.

8 “(b) APPLICABLE TAXABLE YEAR.—For purposes of
 9 subsection (a)—

10 “(1) IN GENERAL.—The term ‘applicable tax-
 11 able year’ means any taxable year beginning in a
 12 calendar year during which the imports of foreign
 13 crude and oil product are determined by the Sec-
 14 retary of Energy to exceed 50 percent of the amount
 15 of United States crude and oil product consumption
 16 for such year.

17 “(2) DETERMINATION.—A determination under
 18 paragraph (1) shall be made not later than March
 19 1 of each year with respect to the preceding calendar
 20 year.

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

24 “(1) for the purpose of ascertaining the exist-
 25 ence, location, extent, or quality of any crude oil or

1 natural gas deposit, including core testing and drill-
 2 ing test wells located in the United States or in a
 3 possession of the United States as defined in section
 4 638, or

5 “(2) for the purpose of developing a property
 6 (located in the United States or in a possession of
 7 the United States as defined in section 638) on
 8 which there is a reservoir capable of commercial pro-
 9 duction and such amounts are paid or incurred in
 10 connection with activities which are intended to re-
 11 sult in the recovery of crude oil or natural gas on
 12 such property.

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

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

17 “(A) the sum of—

18 “(i) the taxpayer’s tentative minimum
 19 tax liability under section 55(b) for such
 20 taxable year determined without regard to
 21 this section, plus

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

1 “(B) the sum of the credits allowable
 2 against the taxpayer’s regular tax liability
 3 under part IV (other than section 43 and this
 4 section).

5 “(2) APPLICATION OF THE CREDIT.—Each of
 6 the following amounts shall be reduced by the full
 7 amount of the credit determined under paragraph
 8 (1):

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

11 “(B) the taxpayer’s regular tax liability (as
 12 defined in section 26(b)) reduced by the sum of
 13 the credits allowable under part IV (other than
 14 section 43 of this section).

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

20 “(3) CARRYBACK AND CARRYFORWARD OF UN-
 21 USED CREDIT.—

22 “(A) IN GENERAL.—If the amount of the
 23 credit allowed under subsection (a) for any tax-
 24 able year exceeds the limitation under para-
 25 graph (1) for such taxable year (hereafter in

1 this paragraph referred to as the ‘unused credit
2 year’), such excess shall be—

3 “(i) an oil and gas exploration and de-
4 velopment credit carryback to each of the
5 3 taxable years preceding the unused cred-
6 it year, and

7 “(ii) an oil and gas exploration and
8 development credit carryforward to each of
9 the 15 taxable years following the unused
10 credit year,

11 and shall be added to the amount allowable as
12 a credit under subsection (a) for such years, ex-
13 cept that no portion of the unused oil and gas
14 exploration and development credit for any tax-
15 able year may be carried to a taxable year end-
16 ing before the date of the enactment of this sec-
17 tion.

18 “(B) LIMITATIONS.—The amount of the
19 unused credit which may be taken into account
20 under subparagraph (A) for any succeeding tax-
21 able year shall not exceed the amount by which
22 the limitation provided by paragraph (1) for
23 such taxable year exceeds the sum of—

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

1 “(ii) the amounts which, by reason of
 2 this paragraph, are added to the amount
 3 allowable for such taxable year and which
 4 are attributable to taxable years preceding
 5 the unused credit year.

6 “(e) SPECIAL RULES.—For purposes of this
 7 section—

8 “(1) AGGREGATION OF QUALIFIED INVESTMENT
 9 EXPENSES.—

10 “(A) CONTROLLED GROUPS; COMMON CON-
 11 TROL.—In determining the amount of the cred-
 12 it under this section, all members of the same
 13 controlled group of corporations (within the
 14 meaning of section 52(a)) and all persons under
 15 common control (within the meaning of section
 16 52(b)) shall be treated as a single taxpayer for
 17 purposes of this section.

18 “(B) APPORTIONMENT OF CREDIT.—The
 19 credit (if any) allowable by this section to mem-
 20 bers of any group (or to any person) described
 21 in subparagraph (A) shall be such member’s or
 22 person’s proportionate share of the qualified in-
 23 vestment expenses giving rise to the credit de-
 24 termined under regulations prescribed by the
 25 Secretary.

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

3 “(A) PARTNERSHIPS AND S CORPORA-
4 TIONS.—In the case of a partnership, the credit
5 shall be allocated among partners under regula-
6 tions prescribed by the Secretary. A similar rule
7 shall apply in the case of an S corporation and
8 its shareholders.

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

13 “(3) ADJUSTMENTS FOR CERTAIN ACQUISI-
14 TIONS AND DISPOSITIONS.—Under regulations pre-
15 scribed by the Secretary, rules similar to the rules
16 contained in section 41(f)(3) shall apply with respect
17 to the acquisition or disposition of a taxpayer.

18 “(4) SHORT TAXABLE YEARS.—In the case of
19 any short taxable year, qualified investment expenses
20 shall be annualized in such circumstances and under
21 such methods as the Secretary may prescribe by reg-
22 ulation.

23 “(5) DENIAL OF DOUBLE BENEFIT.—

24 “(A) DISALLOWANCE OF DEDUCTION.—

25 Any deduction allowable under this chapter for

1 any costs taken into account in computing the
 2 amount of the credit determined under sub-
 3 section (a) shall be reduced by the amount of
 4 such credit attributable to such costs.

5 “(B) BASIS ADJUSTMENTS.—For purposes
 6 of this subtitle, if a credit is determined under
 7 this section for any expenditure with respect to
 8 any property, the increase in the basis of such
 9 property which would (but for this subsection)
 10 result from such expenditures shall be reduced
 11 by the amount of the credit so allowed.”

12 (b) CLERICAL AMENDMENT.—The table of sections
 13 for subpart B of part IV of subchapter A of chapter 1
 14 is amended by adding at the end thereof the following new
 15 item:

“Sec. 30B. Crude oil and natural gas exploration and development credit.”

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

19 **TITLE IV—NATIONAL SECURITY** 20 **EMERGENCY PROVISIONS**

21 **SEC. 400. PURPOSE.**

22 The purpose of this title is to recognize that a na-
 23 tional security threat exists when foreign crude oil, oil
 24 product, and natural gas imports exceed 60 percent of

1 United States oil and gas consumption and to create an
 2 emergency procedure to address that threat.

3 **SEC. 401. DUTIES OF THE PRESIDENT.**

4 (a) ESTABLISHMENT OF CEILING.—The President
 5 shall establish a National Security Energy Independence
 6 Ceiling (Referred to in this title as the “ceiling level”)
 7 which shall represent a ceiling level beyond which foreign
 8 crude oil, oil product, and natural gas imports as a share
 9 of United States crude and oil product consumption shall
 10 not rise.

11 (b) LEVEL OF CEILING.—The ceiling level estab-
 12 lished under subsection (a) shall not exceed 60 percent
 13 of United States crude oil, oil product, and natural gas
 14 consumption for any annual period.

15 (c) REPORT.—

16 (1) CONTENTS.—

17 (A) IN GENERAL.—The President shall
 18 prepare and submit an annual report to Con-
 19 gress containing a national security projection
 20 for energy independence (in this title referred to
 21 as the “projection”), which shall contain a fore-
 22 cast of domestic oil and liquid natural gas
 23 (commonly known as “NGL”) demand and pro-
 24 duction, and imports of crude oil, oil product,
 25 and natural gas, for the subsequent 3 years.

1 (B) REQUIRED ADJUSTMENTS.—The pro-
 2 jection shall contain appropriate adjustments
 3 for expected price and production changes.

4 (2) PRESENTATION.—The projection prepared
 5 under paragraph (1) shall be presented to Congress
 6 with the Budget.

7 (3) CERTIFICATION.—The President shall cer-
 8 tify in the report whether foreign crude oil, oil prod-
 9 uct, and natural gas imports will exceed the ceiling
 10 level for any year during the 3 years succeeding the
 11 date of the report.

12 **SEC. 402. CONGRESSIONAL REVIEW.**

13 (a) REVIEW.—Congress shall have 10 continuous ses-
 14 sion days after submission of each projection under section
 15 401 to review the projection and make a determination
 16 whether the ceiling level will be violated within 3 years.

17 (b) CERTIFICATION BINDING.—Unless disapproved
 18 or modified by joint resolution, the Presidential certifi-
 19 cation shall be binding 10 session days after submitted
 20 to Congress.

21 **SEC. 403. NATIONAL SECURITY AND OIL AND GAS PRODUC-**
 22 **TION ACTIONS.**

23 (a) NATIONAL SECURITY AND OIL AND GAS PRO-
 24 Duction Policy.—

1 (1) SUBMISSION.—Upon certification under sec-
2 tion 401(c)(3) that the ceiling level will be exceeded,
3 the President shall, within 90 days, submit a Na-
4 tional Security and Oil and Gas Production Policy
5 (in this section referred to as the “policy”) to Con-
6 gress. The policy shall prevent crude oil, oil product,
7 and natural gas imports from exceeding the ceiling
8 level.

9 (2) APPROVAL.—Unless disapproved or modi-
10 fied by joint resolution, the policy shall be effective
11 90 session days after submitted to Congress.

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

14 (1) energy conservation actions, including im-
15 proved fuel efficiency for automobiles;

16 (2) expansion of the Strategic Petroleum Re-
17 serves to maintain a larger cushion against projected
18 oil import blockages;

19 (3) additional production incentives for domes-
20 tic oil and gas, including tax and other incentives for
21 stripper well production, offshore, frontier, and other
22 oil produced with tertiary recovery techniques;

23 (4) regulatory burden relief; and

- 1 (5) other policy initiatives designed to lower for-
- 2 eign import reliance.

