

110TH CONGRESS
1ST SESSION

S. 666

To amend the Internal Revenue Code of 1986 to terminate certain incentives
for oil and gas.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 16, 2007

Mr. SCHUMER 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 terminate
certain incentives for oil and gas.

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

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Oil Industry Tax
5 Break Repeal Act of 2007”.

TITLE I—REPEAL OF OIL INDUSTRY TAX BREAKS

SEC. 101. 7-YEAR AMORTIZATION OF GEOLOGICAL AND GEOPHYSICAL EXPENDITURES FOR CERTAIN MAJOR INTEGRATED OIL COMPANIES.

(a) IN GENERAL.—Subparagraph (A) of section 167(h)(5) of the Internal Revenue Code of 1986 (relating to special rule for major integrated oil companies) is amended by striking “5-year” and inserting “7-year”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to amounts paid or incurred after the date of the enactment of this Act.

SEC. 102. LIMITATION ON PERCENTAGE DEPLETION.

(a) IN GENERAL.—Section 613A of the Internal Revenue Code of 1986 is amended by adding at the end the following new subsection:

“(f) LIMITATION ON AGGREGATE AMOUNT OF DEPLETION.—In the case of any oil or gas well, the allowance for depletion allowed under section 613 shall not exceed the basis of the taxpayer in such property.”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

1 **SEC. 103. TERMINATION OF TREATMENT OF NATURAL GAS**
 2 **DISTRIBUTION LINES AS 15-YEAR PROPERTY.**

3 (a) IN GENERAL.—Section 168(e)(3)(E)(viii) of the
 4 Internal Revenue Code of 1986 is amended by striking
 5 “January 1, 2011” and inserting “the date of the enact-
 6 ment of the Oil Industry Tax Break Repeal Act of 2007”.

7 (b) EFFECTIVE DATE.—

8 (1) IN GENERAL.—The amendments made by
 9 this section shall apply to property placed in service
 10 after the date of the enactment of this Act.

11 (2) EXCEPTION.—The amendments made by
 12 this section shall not apply to any property with re-
 13 spect to which the taxpayer or a related party has
 14 entered into a binding contract for the construction
 15 thereof on or before February 16, 2007, or, in the
 16 case of self-constructed property, has started con-
 17 struction on or before such date.

18 **SEC. 104. TERMINATION OF TEMPORARY EXPENSING FOR**
 19 **EQUIPMENT USED IN REFINING OF LIQUID**
 20 **FUELS.**

21 (a) IN GENERAL.—Section 179C(c)(1) of the Inter-
 22 nal Revenue Code of 1986 is amended—

23 (1) by striking “January 1, 2012” and insert-
 24 ing “the date of the enactment of the Oil Industry
 25 Tax Break Repeal Act of 2007”, and

1 (2) by striking “January 1, 2008” and insert-
 2 ing “the date of the enactment of the Oil Industry
 3 Tax Break Repeal Act of 2007”.

4 (b) EFFECTIVE DATE.—The amendments made by
 5 this section shall apply to property placed in service after
 6 the date of the enactment of this Act.

7 **SEC. 105. NATURAL GAS GATHERING LINES TREATED AS 15-**
 8 **YEAR PROPERTY.**

9 (a) IN GENERAL.—Subparagraph (E) of section
 10 168(e)(3) of the Internal Revenue Code of 1986, as
 11 amended by section 2, is amended by inserting “, and”
 12 at the end of clause (vi), by striking the period at the end
 13 of clause (vii) and inserting “, and”, and by adding at
 14 the end the following new clause:

15 “(viii) any natural gas gathering line
 16 the original use of which commences with
 17 the taxpayer after the date of the enact-
 18 ment of this clause.”.

19 (b) ALTERNATIVE SYSTEM.—The table contained in
 20 section 168(g)(3)(B) of such Code (relating to special rule
 21 for property assigned to classes), as amended by section
 22 3, is amended by inserting after the item relating to sub-
 23 paragraph (E)(vii) the following new item:

“(E)(viii) 22”.

24 (c) CONFORMING AMENDMENT.—Clause (iv) of sec-
 25 tion 168(e)(3) of such Code is amended by inserting “and

1 before the date of the enactment of the Oil Industry Tax
 2 Break Repeal Act of 2007” after “April 11, 2005”.

3 (d) EFFECTIVE DATE.—

4 (1) IN GENERAL.—The amendments made by
 5 this section shall apply to property placed in service
 6 after the date of the enactment of this Act.

7 (2) EXCEPTION.—The amendments made by
 8 this section shall not apply to any property with re-
 9 spect to which the taxpayer or a related party has
 10 entered into a binding contract for the construction
 11 thereof on or before February 16, 2007, or, in the
 12 case of self-constructed property, has started con-
 13 struction on or before such date.

14 **SEC. 106. TERMINATION OF DEDUCTION FOR INTANGIBLE**
 15 **DRILLING AND DEVELOPMENT COSTS.**

16 (a) IN GENERAL.—Section 263(c) of the Internal
 17 Revenue Code of 1986 is amended by adding at the end
 18 the following new sentence: “This subsection shall not
 19 apply to any taxable year beginning after the date of the
 20 enactment of this sentence.”.

21 (b) CONFORMING AMENDMENTS.—Paragraphs (2)
 22 and (3) of section 291(b) of such Code are each amended
 23 by striking “section 263(c), 616(a),” and inserting “sec-
 24 tion 616(a)”.

1 (c) EFFECTIVE DATE.—The amendments made by
 2 this section shall apply to taxable years beginning after
 3 the date of the enactment of this Act.

4 **SEC. 107. TERMINATION OF ENHANCED OIL RECOVERY**
 5 **CREDIT.**

6 (a) IN GENERAL.—Section 43 of the Internal Rev-
 7 enue Code of 1986 is amended by adding at the end the
 8 following new subsection:

9 “(f) TERMINATION.—This section shall not apply to
 10 any taxable year beginning after the date of the enactment
 11 of this subsection.”.

12 (b) EFFECTIVE DATE.—The amendment made by
 13 this section shall apply to taxable years beginning after
 14 the date of the enactment of this Act.

15 **SEC. 108. TERMINATION OF CREDIT FOR PRODUCING OIL**
 16 **AND GAS FROM MARGINAL WELLS.**

17 (a) IN GENERAL.—Section 45I of the Internal Rev-
 18 enue Code of 1986 is amended by adding at the end the
 19 following new subsection:

20 “(e) TERMINATION.—This section shall not apply to
 21 any taxable year beginning after the date of the enactment
 22 of this subsection.”.

23 (b) EFFECTIVE DATE.—The amendment made by
 24 this section shall apply to taxable years beginning after
 25 the date of the enactment of this Act.

1 **SEC. 109. TERMINATION OF TREATMENT OF ALASKA NAT-**
 2 **URAL GAS PIPELINES AS 7-YEAR PROPERTY.**

3 (a) IN GENERAL.—Section 168(e)(3)(C)(iii) of the
 4 Internal Revenue Code of 1986 is amended by inserting
 5 “placed in service before the date of the enactment of the
 6 Oil Industry Tax Break Repeal Act of 2007” after “Alas-
 7 ka natural gas pipeline”.

8 (b) EFFECTIVE DATE.—The amendments made by
 9 this section shall apply to property placed in service after
 10 the date of the enactment of this Act.

11 **SEC. 110. DENIAL OF DEDUCTION FOR LARGE INTEGRATED**
 12 **OIL COMPANIES FOR INCOME ATTRIBUTABLE**
 13 **TO DOMESTIC PRODUCTION OF OIL, NAT-**
 14 **URAL GAS, OR PRIMARY PRODUCTS THERE-**
 15 **OF.**

16 (a) IN GENERAL.—Subparagraph (B) of section
 17 199(c)(4) of the Internal Revenue Code of 1986 (relating
 18 to exceptions) is amended by striking “or” at the end of
 19 clause (ii), by striking the period at the end of clause (iii)
 20 and inserting “, or”, and by inserting after clause (iii) the
 21 following new clause:

22 “(iv) in the case of a taxpayer which
 23 is a large integrated oil company, the sale,
 24 exchange, or other disposition of oil, nat-
 25 ural gas, or any primary product thereof.”.

1 (b) PRIMARY PRODUCT.—Section 199(c)(4)(B) of
 2 such Code is amended by adding at the end the following
 3 flush sentence:

4 “For purposes of clause (iv), the term ‘primary
 5 product’ has the same meaning as when used in
 6 section 927(a)(2)(C), as in effect before its re-
 7 peal.”.

8 (c) LARGE INTEGRATED OIL COMPANY.—Subsection
 9 (c) of section 199 of such Code is amended by adding at
 10 the end the following new paragraph:

11 “(8) LARGE INTEGRATED OIL COMPANY.—For
 12 purposes of this subsection, the term ‘large inte-
 13 grated oil company’ means, with respect to any tax-
 14 able year, an integrated oil company (as defined in
 15 section 291(b)(4)) which—

16 “(A) had gross receipts in excess of
 17 \$1,000,000,000 for such taxable year, and

18 “(B) has an average daily worldwide pro-
 19 duction of crude oil of at least 500,000 barrels
 20 for such taxable year.”.

21 (d) EFFECTIVE DATE.—The amendments made by
 22 this section shall apply to taxable years beginning after
 23 December 31, 2007.

1 **SEC. 111. REVALUATION OF LIFO INVENTORIES OF LARGE**
2 **INTEGRATED OIL COMPANIES.**

3 (a) GENERAL RULE.—Notwithstanding any other
4 provision of law, if a taxpayer is an applicable integrated
5 oil company for its last taxable year ending in calendar
6 year 2006, the taxpayer shall—

7 (1) increase, effective as of the close of such
8 taxable year, the value of each historic LIFO layer
9 of inventories of crude oil, natural gas, or any other
10 petroleum product (within the meaning of section
11 4611) by the layer adjustment amount, and

12 (2) decrease its cost of goods sold for such tax-
13 able year by the aggregate amount of the increases
14 under paragraph (1).

15 If the aggregate amount of the increases under paragraph
16 (1) exceed the taxpayer's cost of goods sold for such tax-
17 able year, the taxpayer's gross income for such taxable
18 year shall be increased by the amount of such excess.

19 (b) LAYER ADJUSTMENT AMOUNT.—For purposes of
20 this section—

21 (1) IN GENERAL.—The term “layer adjustment
22 amount” means, with respect to any historic LIFO
23 layer, the product of—

24 (A) \$18.75, and

25 (B) the number of barrels of crude oil (or
26 in the case of natural gas or other petroleum

1 products, the number of barrel-of-oil equiva-
 2 lents) represented by the layer.

3 (2) BARREL-OF-OIL EQUIVALENT.—The term
 4 “barrel-of-oil equivalent” has the meaning given
 5 such term by section 29(d)(5) (as in effect before its
 6 redesignation by the Energy Tax Incentives Act of
 7 2005).

8 (c) APPLICATION OF REQUIREMENT.—

9 (1) NO CHANGE IN METHOD OF ACCOUNTING.—
 10 Any adjustment required by this section shall not be
 11 treated as a change in method of accounting.

12 (2) UNDERPAYMENTS OF ESTIMATED TAX.—No
 13 addition to the tax shall be made under section 6655
 14 of the Internal Revenue Code of 1986 (relating to
 15 failure by corporation to pay estimated tax) with re-
 16 spect to any underpayment of an installment re-
 17 quired to be paid with respect to the taxable year
 18 described in subsection (a) to the extent such under-
 19 payment was created or increased by this section.

20 (d) APPLICABLE INTEGRATED OIL COMPANY.—For
 21 purposes of this section, the term “applicable integrated
 22 oil company” means an integrated oil company (as defined
 23 in section 291(b)(4) of the Internal Revenue Code of
 24 1986) which has an average daily worldwide production
 25 of crude oil of at least 500,000 barrels for the taxable

1 year and which had gross receipts in excess of
 2 \$1,000,000,000 for its last taxable year ending during cal-
 3 endar year 2006. For purposes of this subsection all per-
 4 sons treated as a single employer under subsections (a)
 5 and (b) of section 52 of the Internal Revenue Code of
 6 1986 shall be treated as 1 person and, in the case of a
 7 short taxable year, the rule under section 448(c)(3)(B)
 8 shall apply.

9 **SEC. 112. MODIFICATIONS OF FOREIGN TAX CREDIT RULES**

10 **APPLICABLE TO LARGE INTEGRATED OIL**
 11 **COMPANIES WHICH ARE DUAL CAPACITY**
 12 **TAXPAYERS.**

13 (a) IN GENERAL.—Section 901 of the Internal Rev-
 14 enue Code of 1986 (relating to credit for taxes of foreign
 15 countries and of possessions of the United States) is
 16 amended by redesignating subsection (m) as subsection
 17 (n) and by inserting after subsection (l) the following new
 18 subsection:

19 “(m) SPECIAL RULES RELATING TO LARGE INTE-
 20 GRATED OIL COMPANIES WHICH ARE DUAL CAPACITY
 21 TAXPAYERS.—

22 “(1) GENERAL RULE.—Notwithstanding any
 23 other provision of this chapter, any amount paid or
 24 accrued by a dual capacity taxpayer which is a large
 25 integrated oil company to a foreign country or pos-

1 session of the United States for any period shall not
2 be considered a tax—

3 “(A) if, for such period, the foreign coun-
4 try or possession does not impose a generally
5 applicable income tax, or

6 “(B) to the extent such amount exceeds
7 the amount (determined in accordance with reg-
8 ulations) which—

9 “(i) is paid by such dual capacity tax-
10 payer pursuant to the generally applicable
11 income tax imposed by the country or pos-
12 session, or

13 “(ii) would be paid if the generally ap-
14 plicable income tax imposed by the country
15 or possession were applicable to such dual
16 capacity taxpayer.

17 Nothing in this paragraph shall be construed to
18 imply the proper treatment of any such amount not
19 in excess of the amount determined under subpara-
20 graph (B).

21 “(2) DUAL CAPACITY TAXPAYER.—For pur-
22 poses of this subsection, the term ‘dual capacity tax-
23 payer’ means, with respect to any foreign country or
24 possession of the United States, a person who—

1 “(A) is subject to a levy of such country or
2 possession, and

3 “(B) receives (or will receive) directly or
4 indirectly a specific economic benefit (as deter-
5 mined in accordance with regulations) from
6 such country or possession.

7 “(3) GENERALLY APPLICABLE INCOME TAX.—
8 For purposes of this subsection—

9 “(A) IN GENERAL.—The term ‘generally
10 applicable income tax’ means an income tax (or
11 a series of income taxes) which is generally im-
12 posed under the laws of a foreign country or
13 possession on income derived from the conduct
14 of a trade or business within such country or
15 possession.

16 “(B) EXCEPTIONS.—Such term shall not
17 include a tax unless it has substantial applica-
18 tion, by its terms and in practice, to—

19 “(i) persons who are not dual capacity
20 taxpayers, and

21 “(ii) persons who are citizens or resi-
22 dents of the foreign country or possession.

23 “(4) LARGE INTEGRATED OIL COMPANY.—For
24 purposes of this subsection, the term ‘large inte-
25 grated oil company’ means, with respect to any tax-

1 able year, an integrated oil company (as defined in
2 section 291(b)(4)) which—

3 “(A) had gross receipts in excess of
4 \$1,000,000,000 for such taxable year, and

5 “(B) has an average daily worldwide pro-
6 duction of crude oil of at least 500,000 barrels
7 for such taxable year.”.

8 (b) EFFECTIVE DATE.—

9 (1) IN GENERAL.—The amendments made by
10 this section shall apply to taxes paid or accrued in
11 taxable years beginning after the date of the enact-
12 ment of this Act.

13 (2) CONTRARY TREATY OBLIGATIONS
14 UPHELD.—The amendments made by this section
15 shall not apply to the extent contrary to any treaty
16 obligation of the United States.

17 **TITLE II—ENERGY TRUST FUND**

18 **SEC. 201. DEDICATION OF RESULTING REVENUES TO THE** 19 **ENERGY TRUST FUND.**

20 (a) IN GENERAL.—Subchapter A of chapter 98 of the
21 Internal Revenue Code of 1986 (relating to trust fund
22 code) is amended by adding at the end the following new
23 section:

1 **“SEC. 9511. ENERGY TRUST FUND.**

2 “(a) ESTABLISHMENT.—There is established in the
3 Treasury of the United States a trust fund to be known
4 as the ‘Energy Trust Fund’, consisting of such amounts
5 as may be appropriated or credited to such Fund as pro-
6 vided in this section or section 9602(b).

7 “(b) TRANSFERS TO TRUST.—There are hereby ap-
8 propriated to the Energy Trust Fund amounts equivalent
9 to the revenues resulting from the amendment made by
10 the title I of the Oil Industry Tax Break Repeal Act of
11 2007.

12 “(c) EXPENDITURES.—Amounts in the Energy Trust
13 Fund shall be available, as provided in appropriation Acts,
14 only for the purpose of making expenditures—

15 “(1) to accelerate the use of clean domestic re-
16 newable energy resources and alternative fuels;

17 “(2) to promote the utilization of energy-effi-
18 cient products and practices and conservation; and

19 “(3) to increase research, development, and de-
20 ployment of clean renewable energy and efficiency
21 technologies.”.

22 (b) CLERICAL AMENDMENT.—The table of sections
23 for such subchapter is amended by adding at the end the
24 following new item:

“Sec. 9511. Energy Trust Fund.”.

