

105TH CONGRESS
1ST SESSION

S. 770

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

IN THE SENATE OF THE UNITED STATES

MAY 20, 1997

Mr. NICKLES introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

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

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

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Domestic Oil and Gas
5 Preservation Act”.

6 **SEC. 2. ELECTION TO EXPENSE GEOLOGICAL AND GEO-**
7 **PHYSICAL EXPENDITURES.**

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

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

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

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

15 (c) EFFECTIVE DATE.—

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

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

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

7 **SEC. 3. ELIMINATION OF NET INCOME LIMITATION ON PER-**
 8 **CENTAGE DEPLETION FOR OIL AND GAS.**

9 (a) **ELIMINATION.**—

10 (1) **IN GENERAL.**—Section 613A(d)(1) of the
 11 Internal Revenue Code of 1986 (relating to the limi-
 12 tation based on taxable income for percentage deple-
 13 tion in the case of oil and gas wells) is repealed.

14 (2) **OTHER PRODUCTION.**—The second sentence
 15 of section 613(a) of the Internal Revenue Code of
 16 1986 (relating to percentage depletion) is amended
 17 to read as follows: “Except in the case of oil and gas
 18 wells, such allowance shall not exceed 50 percent of
 19 the taxpayer’s taxable income from the property
 20 (computed without allowance for depletion).”

21 (b) **EFFECTIVE DATE.**—

22 (1) **IN GENERAL.**—The amendments made by
 23 this section shall apply to taxable years beginning
 24 after December 31, 1997.

25 (2) **TRANSITION RULE.**—

1 (A) DEDUCTION.—To the extent a deduc-
 2 tion under section 613A of the Internal Reve-
 3 nue Code of 1986 is disallowed under sub-
 4 section (d)(1) of such section for any taxable
 5 year ending on or before December 31, 1997,
 6 the amount so disallowed shall be treated as an
 7 amount allowable as a deduction under sub-
 8 section (c) of such section for the first taxable
 9 year beginning after December 31, 1997.

10 (B) CERTAIN ADJUSTMENTS.—The last
 11 sentence of subsection (d)(1) of section 613A of
 12 such Code, as in effect immediately before the
 13 repeal made by subsection (a)(1) of this section,
 14 shall apply with respect to amounts allowable as
 15 a deduction under subsection (c) of such section
 16 by reason of subparagraph (A) of this para-
 17 graph.

18 **SEC. 4. ELECTION TO EXPENSE DELAY RENTAL PAYMENTS.**

19 (a) IN GENERAL.—Section 263 of the Internal Reve-
 20 nue Code of 1986 (relating to capital expenditures), as
 21 amended by section 2(a), is amended by adding at the end
 22 the following new subsection:

23 “(k) DELAY RENTAL PAYMENTS FOR DOMESTIC OIL
 24 AND GAS WELLS.—

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

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

13 (b) CONFORMING AMENDMENT.—Section 263A(e)(3)
14 of the Internal Revenue Code of 1986, as amended by sec-
15 tion 2(b), is amended by inserting “263(k),” after
16 “263(j),”.

17 (c) EFFECTIVE DATE.—

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

21 (2) TRANSITION RULE.—In the case of any
22 payments described in section 263(k) of the Internal
23 Revenue Code of 1986, as added by this section,
24 which were made or incurred on or before the date
25 of enactment of this Act, the taxpayer may elect, at

1 such time and in such manner as the Secretary of
2 the Treasury may prescribe, to amortize the
3 unamortized portion of such payments over the 36-
4 month period beginning with the month in which the
5 date of enactment of this Act occurs. For purposes
6 of this paragraph, the unamortized portion of any
7 payment is the amount remaining unamortized as of
8 the first day of the 36-month period.

9 **SEC. 5. EXTENSION OF SPUDDING RULE.**

10 (a) IN GENERAL.—Section 461(i)(2)(A) of the Inter-
11 nal Revenue Code of 1986 (relating to special rule for
12 spudding of oil or gas wells) is amended by striking “90th
13 day” and inserting “180th day”.

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

17 **SEC. 6. HYDRO INJECTION INCLUDED AS TERTIARY RECOV-
18 ERY METHOD.**

19 (a) IN GENERAL.—Section 43(c)(2) of the Internal
20 Revenue Code of 1986 (defining qualified enhanced oil re-
21 covery project) is amended by adding at the end the fol-
22 lowing new subparagraph:

23 “(C) TERTIARY RECOVERY METHOD.—For
24 purposes of subparagraph (A), the term ‘ter-

1 tiary recovery method' shall include hydro injec-
2 tion.”

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

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