

106TH CONGRESS
1ST SESSION

H. R. 1116

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

IN THE HOUSE OF REPRESENTATIVES

MARCH 16, 1999

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

A BILL

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

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

3 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE.**

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

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

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

5 **SEC. 2. PURPOSES.**

6 The purposes of this Act are—

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

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

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

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

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

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

3 **SEC. 3. FINDINGS.**

4 Congress finds the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TITLE I—DOMESTIC OIL AND GAS PRODUCTION PRESERVATION PROVISIONS

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

TITLE II—DOMESTIC OIL AND GAS INDUSTRY CRISIS TAX RELIEF

- Sec. 200. Purpose.

Subtitle A—Credits to Cash Provisions

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

Subtitle B—Hard Times Tax Relief

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

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

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

TITLE III—FOREIGN OIL RELIANCE REVERSAL PROVISIONS

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

TITLE IV—NATIONAL SECURITY EMERGENCY PROVISIONS

Sec. 400. Purpose.

Sec. 401. Duties of the President.

Sec. 402. Congressional review.

Sec. 403. National security and oil production actions.

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

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

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

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

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

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

19 “(1) the credit amount, and

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

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

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

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

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

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

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

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

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

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

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

1 year after 2000, each of the dollar amounts
2 contained in subparagraph (A) shall be in-
3 creased to an amount equal to such dollar
4 amount multiplied by the inflation adjustment
5 factor for such calendar year (determined under
6 section 43(b)(3)(B) by substituting ‘1999’ for
7 ‘1990’).

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

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

14 “(ii) in the case of qualified natural
15 gas production, the Secretary’s estimate of
16 the annual average wellhead price per
17 1,000 cubic feet for all domestic natural
18 gas.

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

21 “(1) IN GENERAL.—The terms ‘qualified crude
22 oil production’ and ‘qualified natural gas production’
23 mean domestic crude oil or natural gas which is pro-
24 duced 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(e)(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

1 percentage depletion allowance to be allo-
2 cated to the principal of the trust.

3 “(B) CARRYBACKS AND
4 CARRYFORWARDS.—

5 “(i) IN GENERAL.—If any amount is
6 disallowed as a deduction for the taxable
7 year (in this subparagraph referred to as
8 the ‘unused depletion year’) by reason of
9 application of subparagraph (A), the dis-
10 allowed amount shall be treated as an
11 amount allowable as a deduction under
12 subsection (c) for—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9 “(B) \$3.

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

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

19 “(A) the intangible drilling cost preference,
 20 and

21 “(B) the depletion preference.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4 (2) CONFORMING AMENDMENTS.—

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

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

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

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

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

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

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

3 (2) CONFORMING AMENDMENTS.—

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

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

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

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

16 **SEC. 220. PURPOSE.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

26 (3) EFFECTIVE DATE.—

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

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

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

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

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

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

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

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

18 (3) EFFECTIVE DATE.—

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

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

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

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

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

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

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

22 **SEC. 300. PURPOSE.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4 “(A) the sum of—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9 “(5) DENIAL OF DOUBLE BENEFIT.—

10 “(A) DISALLOWANCE OF DEDUCTION.—

11 Any deduction allowable under this chapter for
12 any costs taken into account in computing the
13 amount of the credit determined under sub-
14 section (a) shall be reduced by the amount of
15 such credit attributable to such costs.

16 “(B) BASIS ADJUSTMENTS.—For purposes
17 of this subtitle, if a credit is determined under
18 this section for any expenditure with respect to
19 any property, the increase in the basis of such
20 property which would (but for this subsection)
21 result from such expenditures shall be reduced
22 by the amount of the credit so allowed.”

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

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

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

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

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

8 **SEC. 400. PURPOSE.**

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

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

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

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

1 (c) REPORT.—

2 (1) CONTENTS.—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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