

**AMENDMENT TO THE RULES COMMITTEE PRINT
OF H.R. 7
OFFERED BY MR. CONNOLLY OF VIRGINIA**

Page 913, strike line 1 and all that follows through page 925, line 21, and insert the following:

1 **TITLE XVI—CLOSING BIG OIL**
2 **TAX LOOPHOLES**

3 **SEC. 16001. LIMITATION ON DEDUCTION FOR INTANGIBLE**
4 **DRILLING AND DEVELOPMENT COSTS.**

5 (a) IN GENERAL.—Section 263(c) of the Internal
6 Revenue Code of 1986 is amended by adding at the end
7 the following new sentence: “This subsection shall not
8 apply to amounts paid or incurred by a taxpayer in any
9 taxable year in which such taxpayer is an applicable large
10 taxpayer (as defined in section 193(d)(2)).”.

11 (b) EFFECTIVE DATE.—The amendment made by
12 this section shall apply to amounts paid or incurred in tax-
13 able years beginning after December 31, 2011.

14 **SEC. 16002. LIMITATION ON DEDUCTION FOR TERTIARY**
15 **INJECTANTS.**

16 (a) IN GENERAL.—Section 193 of the Internal Rev-
17 enue Code of 1986 is amended by adding at the end the
18 following new subsection:

1 “(d) APPLICATION WITH RESPECT TO CERTAIN
2 LARGE TAXPAYERS.—

3 “(1) IN GENERAL.—This section shall not apply
4 to amounts paid or incurred by a taxpayer in any
5 taxable year in which such taxpayer is an applicable
6 large taxpayer.

7 “(2) APPLICABLE LARGE TAXPAYER.—For pur-
8 poses of this section, the term ‘applicable large tax-
9 payer’ means, with respect to any taxable year, any
10 taxpayer with gross revenues for such taxable year
11 in excess of \$100,000,000.”.

12 (b) EFFECTIVE DATE.—The amendment made by
13 this section shall apply to amounts paid or incurred in tax-
14 able years beginning after December 31, 2011.

15 **SEC. 16003. LIMITATION ON EXCEPTION FROM PASSIVE AC-**
16 **TIVITY RULES FOR WORKING INTERESTS IN**
17 **OIL OR GAS PROPERTY.**

18 (a) IN GENERAL.—Paragraph (3) of section 469(c)
19 of the Internal Revenue Code of 1986 is amended—

20 (1) in subparagraph (A), by striking “the tax-
21 payer” and inserting “a taxpayer (other than a tax-
22 payer who is an applicable large taxpayer (as defined
23 in section 193(d)(2)) for the taxable year)”, and

24 (2) in subparagraph (B), by inserting “other
25 than an a taxpayer who is an applicable large tax-

1 payer (as so defined) for the taxable year” after
2 “any taxpayer”.

3 (b) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to taxable years beginning after
5 December 31, 2011.

6 **SEC. 16004. LIMITATION ON PERCENTAGE DEPLETION AL-**
7 **LOWANCE FOR OIL AND GAS WELLS.**

8 (a) IN GENERAL.—Section 613A of the Internal Rev-
9 enue Code of 1986 is amended by adding at the end the
10 following new subsection:

11 “(f) APPLICATION WITH RESPECT TO CERTAIN
12 LARGE TAXPAYERS.—In the case of any taxable year in
13 which the taxpayer is an applicable large taxpayer (as de-
14 fined in section 193(d)(2)), the allowance for percentage
15 depletion shall be zero.”.

16 (b) EFFECTIVE DATE.—The amendment made by
17 this section shall apply to taxable years beginning after
18 December 31, 2011.

19 **SEC. 16005. LIMITATION ON DEDUCTION FOR INCOME AT-**
20 **TRIBUTABLE TO DOMESTIC PRODUCTION OF**
21 **OIL, NATURAL GAS, OR PRIMARY PRODUCTS**
22 **THEREOF.**

23 (a) DENIAL OF DEDUCTION.—Paragraph (4) of sec-
24 tion 199(c) of the Internal Revenue Code of 1986 is

1 amended by adding at the end the following new subpara-
2 graph:

3 “(E) SPECIAL RULE FOR CERTAIN OIL
4 AND GAS INCOME.—In the case of any taxpayer
5 who is an applicable large taxpayer (as defined
6 in section 193(d)(2)) for the taxable year, the
7 term ‘domestic production gross receipts’ shall
8 not include gross receipts from the production,
9 transportation, or distribution of oil, natural
10 gas, or any primary product (within the mean-
11 ing of subsection (d)(9)) thereof.”.

12 (b) EFFECTIVE DATE.—The amendment made by
13 this section shall apply to taxable years beginning after
14 December 31, 2011.

15 **SEC. 16006. EXPANSION OF 7-YEAR AMORTIZATION OF GEO-**
16 **LOGICAL AND GEOPHYSICAL EXPENDITURES**
17 **TO APPLICABLE LARGE TAXPAYERS.**

18 (a) IN GENERAL.—Subparagraph (A) of section
19 167(h)(5) of the Internal Revenue Code of 1986 is amend-
20 ed by inserting “or an applicable large taxpayer (as de-
21 fined in section 193(d)(2))” after “major integrated oil
22 company”.

23 (b) CONFORMING AMENDMENT.—The heading for
24 paragraph (5) of section 167(h) of the Internal Revenue

1 Code of 1986 is amended by inserting “AND APPLICABLE
2 LARGE TAXPAYERS” after “OIL COMPANIES”.

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to amounts paid or incurred in tax-
5 able years beginning after December 31, 2011.

6 **SEC. 16007. TAX ON CRUDE OIL AND NATURAL GAS PRO-**
7 **DUCED FROM THE OUTER CONTINENTAL**
8 **SHELF IN THE GULF OF MEXICO.**

9 (a) IN GENERAL.—Subtitle E of the Internal Rev-
10 enue Code of 1986 is amended by adding at the end the
11 following new chapter:

12 **“CHAPTER 56—TAX ON SEVERANCE OF**
13 **CRUDE OIL AND NATURAL GAS FROM**
14 **THE OUTER CONTINENTAL SHELF IN**
15 **THE GULF OF MEXICO**

“Sec. 5896. Imposition of tax.

“Sec. 5897. Taxable crude oil or natural gas and removal price.

“Sec. 5898. Special rules and definitions.

16 **“SEC. 5896. IMPOSITION OF TAX.**

17 “(a) IN GENERAL.—In addition to any other tax im-
18 posed under this title, there is hereby imposed a tax equal
19 to 13 percent of the removal price of any taxable crude
20 oil or natural gas removed from the premises during any
21 taxable period.

22 “(b) CREDIT FOR FEDERAL ROYALTIES PAID.—

23 “(1) IN GENERAL.—There shall be allowed as a
24 credit against the tax imposed by subsection (a) with

1 respect to the production of any taxable crude oil or
2 natural gas an amount equal to the aggregate
3 amount of royalties paid under Federal law with re-
4 spect to such production.

5 “(2) LIMITATION.—The aggregate amount of
6 credits allowed under paragraph (1) to any taxpayer
7 for any taxable period shall not exceed the amount
8 of tax imposed by subsection (a) for such taxable pe-
9 riod.

10 “(c) TAX PAID BY PRODUCER.—The tax imposed by
11 this section shall be paid by the producer of the taxable
12 crude oil or natural gas.

13 **“SEC. 5897. TAXABLE CRUDE OIL OR NATURAL GAS AND RE-**
14 **MOVAL PRICE.**

15 “(a) TAXABLE CRUDE OIL OR NATURAL GAS.—For
16 purposes of this chapter, the term ‘taxable crude oil or
17 natural gas’ means crude oil or natural gas which is pro-
18 duced from Federal submerged lands on the outer Conti-
19 nental Shelf in the Gulf of Mexico pursuant to a lease
20 entered into with the United States which authorizes the
21 production.

22 “(b) REMOVAL PRICE.—For purposes of this chap-
23 ter—

1 “(1) IN GENERAL.—Except as otherwise pro-
2 vided in this subsection, the term ‘removal price’
3 means—

4 “(A) in the case of taxable crude oil, the
5 amount for which a barrel of such crude oil is
6 sold, and

7 “(B) in the case of taxable natural gas, the
8 amount per 1,000 cubic feet for which such
9 natural gas is sold.

10 “(2) SALES BETWEEN RELATED PERSONS.—In
11 the case of a sale between related persons, the re-
12 moval price shall not be less than the constructive
13 sales price for purposes of determining gross income
14 from the property under section 613.

15 “(3) OIL OR GAS REMOVED FROM PROPERTY
16 BEFORE SALE.—If crude oil or natural gas is re-
17 moved from the property before it is sold, the re-
18 moval price shall be the constructive sales price for
19 purposes of determining gross income from the prop-
20 erty under section 613.

21 “(4) REFINING BEGUN ON PROPERTY.—If the
22 manufacture or conversion of crude oil into refined
23 products begins before such oil is removed from the
24 property—

1 “(A) such oil shall be treated as removed
2 on the day such manufacture or conversion be-
3 gins, and

4 “(B) the removal price shall be the con-
5 structive sales price for purposes of determining
6 gross income from the property under section
7 613.

8 “(5) PROPERTY.—The term ‘property’ has the
9 meaning given such term by section 614.

10 **“SEC. 5898. SPECIAL RULES AND DEFINITIONS.**

11 “(a) ADMINISTRATIVE REQUIREMENTS.—

12 “(1) WITHHOLDING AND DEPOSIT OF TAX.—
13 The Secretary shall provide for the withholding and
14 deposit of the tax imposed under section 5896 on a
15 quarterly basis.

16 “(2) RECORDS AND INFORMATION.—Each tax-
17 payer liable for tax under section 5896 shall keep
18 such records, make such returns, and furnish such
19 information (to the Secretary and to other persons
20 having an interest in the taxable crude oil or natural
21 gas) with respect to such oil as the Secretary may
22 by regulations prescribe.

23 “(3) TAXABLE PERIODS; RETURN OF TAX.—

1 “(A) TAXABLE PERIOD.—Except as pro-
2 vided by the Secretary, each calendar year shall
3 constitute a taxable period.

4 “(B) RETURNS.—The Secretary shall pro-
5 vide for the filing, and the time for filing, of the
6 return of the tax imposed under section 5896.

7 “(b) DEFINITIONS.—For purposes of this chapter—

8 “(1) PRODUCER.—The term ‘producer’ means
9 the holder of the economic interest with respect to
10 the crude oil or natural gas.

11 “(2) CRUDE OIL.—The term ‘crude oil’ includes
12 crude oil condensates and natural gasoline.

13 “(3) PREMISES AND CRUDE OIL PRODUCT.—
14 The terms ‘premises’ and ‘crude oil product’ have
15 the same meanings as when used for purposes of de-
16 termining gross income from the property under sec-
17 tion 613.

18 “(c) ADJUSTMENT OF REMOVAL PRICE.—In deter-
19 mining the removal price of oil or natural gas from a prop-
20 erty in the case of any transaction, the Secretary may ad-
21 just the removal price to reflect clearly the fair market
22 value of oil or natural gas removed.

23 “(d) REGULATIONS.—The Secretary shall prescribe
24 such regulations as may be necessary or appropriate to
25 carry out the purposes of this chapter.”.

1 (b) DEDUCTIBILITY OF TAX.—The first sentence of
2 section 164(a) of the Internal Revenue Code of 1986 is
3 amended by inserting after paragraph (5) the following
4 new paragraph:

5 “(6) The tax imposed by section 5896(a) (after
6 application of section 5896(b)) on the severance of
7 crude oil or natural gas from the outer Continental
8 Shelf in the Gulf of Mexico.”.

9 (c) CLERICAL AMENDMENT.—The table of chapters
10 for subtitle E of the Internal Revenue Code of 1986 is
11 amended by adding at the end the following new item:

“CHAPTER 56. Tax on severance of crude oil and natural gas
from the outer Continental Shelf in the Gulf of
Mexico.”.

12 (d) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to crude oil or natural gas removed
14 after the date of the enactment of this Act.

15 **SEC. 16008. MODIFICATIONS OF FOREIGN TAX CREDIT**
16 **RULES APPLICABLE TO LARGE INTEGRATED**
17 **OIL COMPANIES WHICH ARE DUAL CAPACITY**
18 **TAXPAYERS.**

19 (a) IN GENERAL.—Section 901 of the Internal Rev-
20 enue Code of 1986 is amended by redesignating subsection
21 (m) as subsection (n) and by inserting after subsection
22 (l) the following new subsection:

1 “(m) SPECIAL RULES RELATING TO LARGE INTE-
2 GRATED OIL COMPANIES WHICH ARE DUAL CAPACITY
3 TAXPAYERS.—

4 “(1) GENERAL RULE.—Notwithstanding any
5 other provision of this chapter, any amount paid or
6 accrued by a dual capacity taxpayer which is a large
7 integrated oil company to a foreign country or pos-
8 session of the United States for any period shall not
9 be considered a tax—

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

13 “(B) to the extent such amount exceeds
14 the amount (determined in accordance with reg-
15 ulations) which—

16 “(i) is paid by such dual capacity tax-
17 payer pursuant to the generally applicable
18 income tax imposed by the country or pos-
19 session, or

20 “(ii) would be paid if the generally ap-
21 plicable income tax imposed by the country
22 or possession were applicable to such dual
23 capacity taxpayer.

24 Nothing in this paragraph shall be construed to
25 imply the proper treatment of any such amount not

1 in excess of the amount determined under subpara-
2 graph (B).

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

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

9 “(B) receives (or will receive) directly or
10 indirectly a specific economic benefit (as deter-
11 mined in accordance with regulations) from
12 such country or possession.

13 “(3) GENERALLY APPLICABLE INCOME TAX.—
14 For purposes of this subsection—

15 “(A) IN GENERAL.—The term ‘generally
16 applicable income tax’ means an income tax (or
17 a series of income taxes) which is generally im-
18 posed under the laws of a foreign country or
19 possession on income derived from the conduct
20 of a trade or business within such country or
21 possession.

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

1 “(i) persons who are not dual capacity
2 taxpayers, and

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

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

10 “(A) had gross receipts in excess of
11 \$1,000,000,000 for such taxable year, and

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

15 (b) EFFECTIVE DATE.—

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

20 (2) CONTRARY TREATY OBLIGATIONS
21 UPHELD.—The amendments made by this section
22 shall not apply to the extent contrary to any treaty
23 obligation of the United States.

1 **SEC. 16009. PROHIBITION ON USING LAST IN, FIRST-OUT**
2 **ACCOUNTING FOR MAJOR INTEGRATED OIL**
3 **COMPANIES.**

4 (a) IN GENERAL.—Section 472 of the Internal Rev-
5 enue Code of 1986 is amended by adding at the end the
6 following new subsection:

7 “(h) MAJOR INTEGRATED OIL COMPANIES.—Not-
8 withstanding any other provision of this section, a major
9 integrated oil company (as defined in section 167(h)) may
10 not use the method provided in subsection (b) in
11 inventorying of any goods.”.

12 (b) EFFECTIVE DATE AND SPECIAL RULE.—

13 (1) IN GENERAL.—The amendment made by
14 subsection (a) shall apply to taxable years beginning
15 after December 31, 2011.

16 (2) CHANGE IN METHOD OF ACCOUNTING.—In
17 the case of any taxpayer required by the amendment
18 made by this section to change its method of ac-
19 counting for its first taxable year beginning after the
20 date of the enactment of this Act—

21 (A) such change shall be treated as initi-
22 ated by the taxpayer,

23 (B) such change shall be treated as made
24 with the consent of the Secretary of the Treas-
25 ury, and

1 (C) the net amount of the adjustments re-
2 quired to be taken into account by the taxpayer
3 under section 481 of the Internal Revenue Code
4 of 1986 shall be taken into account ratably over
5 a period (not greater than 8 taxable years) be-
6 ginning with such first taxable year.

