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:

TITLE XVI—CLOSING BIG OIL TAX LOOPHOLES

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

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

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

SEC. 16002. LIMITATION ON DEDUCTION FOR TERTIARY INJECTANTS.

(a) IN GENERAL.—Section 193 of the Internal Revenue Code of 1986 is amended by adding at the end the following new subsection:
“(d) APPLICATION WITH RESPECT TO CERTAIN LARGE TAXPAYERS.—

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

“(2) APPLICABLE LARGE TAXPAYER.—For purposes of this section, the term ‘applicable large taxpayer’ means, with respect to any taxable year, any taxpayer with gross revenues for such taxable year in excess of $100,000,000.”.

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

SEC. 16003. LIMITATION ON EXCEPTION FROM PASSIVE ACTIVITY RULES FOR WORKING INTERESTS IN OIL OR GAS PROPERTY.

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

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

(2) in subparagraph (B), by inserting “other than an a taxpayer who is an applicable large tax-
payer (as so defined) for the taxable year’’ after ‘‘any taxpayer’’.

(b) **Effective Date.**—The amendments made by this section shall apply to taxable years beginning after December 31, 2011.

**SEC. 16004. LIMITATION ON PERCENTAGE DEPLETION ALLOWANCE FOR OIL AND GAS WELLS.**

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

‘‘(f) **Application With Respect to Certain Large Taxpayers.**—In the case of any taxable year in which the taxpayer is an applicable large taxpayer (as defined in section 193(d)(2)), the allowance for percentage depletion shall be zero.’’.

(b) **Effective Date.**—The amendment made by this section shall apply to taxable years beginning after December 31, 2011.

**SEC. 16005. LIMITATION ON DEDUCTION FOR INCOME ATTRIBUTABLE TO DOMESTIC PRODUCTION OF OIL, NATURAL GAS, OR PRIMARY PRODUCTS THEREOF.**

(a) **Denial of Deduction.**—Paragraph (4) of section 199(c) of the Internal Revenue Code of 1986 is
amended by adding at the end the following new subpara-
graph:

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

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

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

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

(b) CONFORMING AMENDMENT.—The heading for
paragraph (5) of section 167(h) of the Internal Revenue
Code of 1986 is amended by inserting “AND APPLICABLE LARGE TAXPAYERS” after “OIL COMPANIES”.

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

SEC. 16007. TAX ON CRUDE OIL AND NATURAL GAS PRODUCED FROM THE OUTER CONTINENTAL SHELF IN THE GULF OF MEXICO.

(a) IN GENERAL.—Subtitle E of the Internal Revenue Code of 1986 is amended by adding at the end the following new chapter:

“CHAPTER 56—TAX ON SEVERANCE OF CRUDE OIL AND NATURAL GAS FROM THE OUTER CONTINENTAL SHELF IN 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.

“SEC. 5896. IMPOSITION OF TAX.

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

“(b) CREDIT FOR FEDERAL ROYALTIES PAID.—

“(1) IN GENERAL.—There shall be allowed as a credit against the tax imposed by subsection (a) with
respect to the production of any taxable crude oil or natural gas an amount equal to the aggregate amount of royalties paid under Federal law with respect to such production.

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

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

“SEC. 5897. TAXABLE CRUDE OIL OR NATURAL GAS AND REMOVAL PRICE.

“(a) TAXABLE CRUDE OIL OR NATURAL GAS.—For purposes of this chapter, the term ‘taxable crude oil or natural gas’ means crude oil or natural gas which is produced from Federal submerged lands on the outer Continental Shelf in the Gulf of Mexico pursuant to a lease entered into with the United States which authorizes the production.

“(b) REMOVAL PRICE.—For purposes of this chapter—
“(1) IN GENERAL.—Except as otherwise pro-
vided in this subsection, the term ‘removal price’
means—

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

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

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

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

“(4) REFINING BEGUN ON PROPERTY.—If the
manufacture or conversion of crude oil into refined
products begins before such oil is removed from the
property—
“(A) such oil shall be treated as removed on the day such manufacture or conversion begins, and

“(B) the removal price shall be the constructive sales price for purposes of determining gross income from the property under section 613.

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

“SEC. 5898. SPECIAL RULES AND DEFINITIONS.

“(a) Administrative Requirements.—

“(1) Withholding and deposit of tax.— The Secretary shall provide for the withholding and deposit of the tax imposed under section 5896 on a quarterly basis.

“(2) Records and information.—Each taxpayer liable for tax under section 5896 shall keep such records, make such returns, and furnish such information (to the Secretary and to other persons having an interest in the taxable crude oil or natural gas) with respect to such oil as the Secretary may by regulations prescribe.

“(3) Taxable periods; return of tax.—
“(A) TAXABLE PERIOD.—Except as provided by the Secretary, each calendar year shall constitute a taxable period.

“(B) RETURNS.—The Secretary shall provide for the filing, and the time for filing, of the return of the tax imposed under section 5896.

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

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

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

“(3) PREMISES AND CRUDE OIL PRODUCT.—The terms ‘premises’ and ‘crude oil product’ have the same meanings as when used for purposes of determining gross income from the property under section 613.

“(c) ADJUSTMENT OF REMOVAL PRICE.—In determining the removal price of oil or natural gas from a property in the case of any transaction, the Secretary may adjust the removal price to reflect clearly the fair market value of oil or natural gas removed.

“(d) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this chapter.”.
(b) DEDUCTIBILITY OF TAX.—The first sentence of section 164(a) of the Internal Revenue Code of 1986 is amended by inserting after paragraph (5) the following new paragraph:

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

(e) CLERICAL AMENDMENT.—The table of chapters for subtitle E of the Internal Revenue Code of 1986 is 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.”.

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

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

(a) IN GENERAL.—Section 901 of the Internal Revenue Code of 1986 is amended by redesignating subsection (m) as subsection (n) and by inserting after subsection (l) the following new subsection:
“(m) Special Rules Relating to Large Integrated Oil Companies Which Are Dual Capacity Taxpayers.—

“(1) General rule.—Notwithstanding any other provision of this chapter, any amount paid or accrued by a dual capacity taxpayer which is a large integrated oil company to a foreign country or possession of the United States for any period shall not be considered a tax—

“(A) if, for such period, the foreign country or possession does not impose a generally applicable income tax, or

“(B) to the extent such amount exceeds the amount (determined in accordance with regulations) which—

“(i) is paid by such dual capacity taxpayer pursuant to the generally applicable income tax imposed by the country or possession, or

“(ii) would be paid if the generally applicable income tax imposed by the country or possession were applicable to such dual capacity taxpayer.

Nothing in this paragraph shall be construed to imply the proper treatment of any such amount not
in excess of the amount determined under subparagraph (B).

“(2) DUAL CAPACITY TAXPAYER.—For purposes of this subsection, the term ‘dual capacity taxpayer’ means, with respect to any foreign country or possession of the United States, a person who—

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

“(B) receives (or will receive) directly or indirectly a specific economic benefit (as determined in accordance with regulations) from such country or possession.

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

“(A) IN GENERAL.—The term ‘generally applicable income tax’ means an income tax (or a series of income taxes) which is generally imposed under the laws of a foreign country or possession on income derived from the conduct of a trade or business within such country or possession.

“(B) EXCEPTIONS.—Such term shall not include a tax unless it has substantial application, by its terms and in practice, to—
“(i) persons who are not dual capacity taxpayers, and

“(ii) persons who are citizens or residents of the foreign country or possession.

“(4) LARGE INTEGRATED OIL COMPANY.—For purposes of this subsection, the term ‘large integrated oil company’ means, with respect to any taxable year, an integrated oil company (as defined in section 291(b)(4)) which—

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

“(B) has an average daily worldwide production of crude oil of at least 500,000 barrels for such taxable year.”.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxes paid or accrued in taxable years beginning after the date of the enactment of this Act.

(2) CONTRARY TREATY OBLIGATIONS UPHELD.—The amendments made by this section shall not apply to the extent contrary to any treaty obligation of the United States.
SEC. 16009. PROHIBITION ON USING LAST IN, FIRST-OUT ACCOUNTING FOR MAJOR INTEGRATED OIL COMPANIES.

(a) In General.—Section 472 of the Internal Revenue Code of 1986 is amended by adding at the end the following new subsection:

“(h) Major Integrated Oil Companies.—Notwithstanding any other provision of this section, a major integrated oil company (as defined in section 167(h)) may not use the method provided in subsection (b) in inventorying of any goods.”.

(b) Effective Date and Special Rule.—

(1) In General.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 2011.

(2) Change in Method of Accounting.—In the case of any taxpayer required by the amendment made by this section to change its method of accounting for its first taxable year beginning after the date of the enactment of this Act—

(A) such change shall be treated as initiated by the taxpayer,

(B) such change shall be treated as made with the consent of the Secretary of the Treasury, and
(C) the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 shall be taken into account ratably over a period (not greater than 8 taxable years) beginning with such first taxable year.