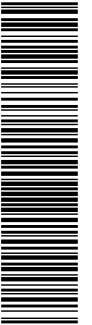


An act to amend Sections 17260, 17681, and 24831 of, to repeal Sections 17681.3, 17681.6, 24423, 24831.3, and 24831.6 of, and to amend and repeal Sections 17052.8 and 23604 of, the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

SECURED
COPY



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THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 17052.8 of the Revenue and Taxation Code is amended to read:

17052.8. For each taxable year beginning on or after January 1, 1996, and before January 1, 2024, there shall be allowed as a credit against the “net tax” (as defined by Section 17039) an amount determined as follows:

(a) (1) (A) The amount of the credit shall be equal to one-third of the federal credit computed in accordance with Section 43 of the Internal Revenue Code.

(B) If a taxpayer elects, under Section 43(e) of the Internal Revenue Code, not to apply Section 43 for federal tax purposes, this election is binding and irrevocable for state purposes, and for purposes of subparagraph (A), the federal credit shall be zero.

(2) “Qualified enhanced oil recovery project” shall include only projects located within California.

(3) The credit allowed under this subdivision shall not be allowed to any taxpayer for whom a depletion allowance is not permitted to be computed under Section 613 of the Internal Revenue Code by reason of paragraphs (2), (3), or (4) of subsection (d) of Section 613A of the Internal Revenue Code.

(b) Section 43(d) of the Internal Revenue Code shall apply.

(c) In the case where the credit allowed by this section exceeds the “net tax,” the excess may be carried over to reduce the “net tax” for the succeeding 15 years.

(d) In the case where property which qualifies as part of the taxpayer’s “qualified enhanced oil recovery costs” also qualifies for a credit under any other section in this part, the taxpayer shall make an election on its original return as to which section applies to all costs allocable to that item of qualified property. Any election made under this section, and any specification contained in that election, may not be revoked except with the consent of the Franchise Tax Board.

(e) No deduction shall be allowed as otherwise provided in this part for that portion of any costs paid or incurred for the taxable year which is equal to the amount of the credit allowed under this section attributable to those costs.

(f) The basis of any property for which a credit is allowed under this section shall be reduced by the amount of the credit attributable to the property. The basis adjustment shall be made for the taxable year for which the credit is allowed.

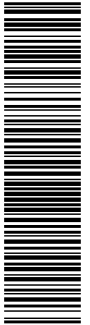
(g) No credit may be claimed under this section with respect to any amount for which any other credit has been claimed under this part.

(h) This section shall remain in effect only until December 1, 2024, and as of that date is repealed.

SEC. 2. Section 17260 of the Revenue and Taxation Code is amended to read:
17260. (a) No deduction, other than depreciation, shall be allowed for expenditures for tertiary injectants as provided by Section 193 of the Internal Revenue Code.

(b) Section 263(a) of the Internal Revenue Code shall not apply to expenditures for which a deduction is allowed under Section 17266 or 17267.2.

(c) Section 263(c) of the Internal Revenue Code, relating to intangible drilling and development costs in the case of oil and gas wells and geothermal wells, shall not



apply to intangible drilling and development costs, in the case of oil and gas wells, paid or incurred on or after January 1, 2024.

SEC. 3. Section 17681 of the Revenue and Taxation Code is amended to read:

17681. (a) Subchapter I of Chapter 1 of Subtitle A of the Internal Revenue Code, relating to natural resources, shall apply, except as otherwise provided.

(b) For taxable years beginning on or after January 1, 2024, Section 613(b)(2)(B) of the Internal Revenue Code, in the case of oil shale, shall not apply.

(c) For taxable years beginning on or after January 1, 2024, Section 613(b)(4) of the Internal Revenue Code, relating to 10 percent, in the case of coal, shall not apply.

(d) For taxable years beginning on or after January 1, 2024, Section 613A of the Internal Revenue Code, relating to limitations on percentage depletion in the case of oil and gas wells, shall not apply.

SEC. 4. Section 17681.3 of the Revenue and Taxation Code is repealed.

~~17681.3. The amendments made to Section 613A(d)(4) of the Internal Revenue Code, relating to certain refiners excluded, by Section 1328 of the Energy Tax Incentives Act of 2005 (Title XIII of the Energy Policy Act of 2005, Public Law 109-58), shall not apply.~~

SEC. 5. Section 17681.6 of the Revenue and Taxation Code is repealed.

~~17681.6. Section 613A(e)(6)(H) of the Internal Revenue Code, relating to temporary suspension of taxable income limit with respect to marginal production, shall not apply.~~

SEC. 6. Section 23604 of the Revenue and Taxation Code is amended to read:

23604. For each taxable year beginning on or after January 1, 1996, and before January 1, 2024, there shall be allowed as a credit against the “tax” (as defined by Section 23036) an amount determined as follows:

(a) (1) (A) The amount of the credit shall be equal to one-third of the federal credit computed in accordance with Section 43 of the Internal Revenue Code.

(B) If a taxpayer elects, under Section 43(e) of the Internal Revenue Code, not to apply Section 43 for federal tax purposes, this election is binding and irrevocable for state purposes, and for purposes of subparagraph (A), the federal credit shall be zero.

(2) “Qualified enhanced oil recovery project” shall include only projects located within California.

(3) The credit allowed under this subdivision shall not be allowed to any taxpayer for whom a depletion allowance is not permitted to be computed under Section 613 of the Internal Revenue Code by reason of paragraphs (2), (3), or (4) of subsection (d) of Section 613A of the Internal Revenue Code.

(b) Section 43(d) of the Internal Revenue Code shall apply.

(c) In the case where the credit allowed by this section exceeds the “tax,” the excess may be carried over to reduce the “tax” for the succeeding 15 years.

(d) In the case where property which qualifies as part of the taxpayer’s “qualified enhanced oil recovery costs” also qualifies for a credit under any other section in this part, the taxpayer shall make an election on its original return as to which section applies to all costs allocable to that item of qualified property. Any election made under this section, and any specification contained in that election, may not be revoked except with the consent of the Franchise Tax Board.



(e) No deduction shall be allowed as otherwise provided in this part for that portion of any costs paid or incurred for the taxable year which is equal to the amount of the credit allowed under this section attributable to those costs.

(f) The basis of any property for which a credit is allowed under this section shall be reduced by the amount of the credit attributable to the property. The basis adjustment shall be made for the taxable year for which the credit is allowed.

(g) No credit may be claimed under this section with respect to any amount for which any other credit has been claimed under this part.

(h) This section shall remain in effect only until December 1, 2024, and as of that date is repealed.

SEC. 7. Section 24423 of the Revenue and Taxation Code is repealed.

~~24423. (a) Notwithstanding Section 24422, regulations shall be prescribed by the Franchise Tax Board under this part corresponding to the regulations which granted the option to deduct as expenses intangible drilling and development costs in the case of oil and gas wells and which were recognized and approved by the Congress in House Concurrent Resolution 50, Seventy-ninth Congress.~~

~~(b) The provisions of Section 263(i) of the Internal Revenue Code, relating to special rules for intangible drilling and development costs incurred outside the United States, shall apply to costs paid or incurred after December 31, 1986.~~

SEC. 8. Section 24831 of the Revenue and Taxation Code is amended to read:

24831. (a) Subchapter I of Chapter 1 of Subtitle A of the Internal Revenue Code, relating to natural resources, shall apply, except as otherwise provided.

(b) For taxable years beginning on or after January 1, 2024, Section 613(b)(2)(B) of the Internal Revenue Code, in the case of oil shale, shall not apply.

(c) For taxable years beginning on or after January 1, 2024, Section 613(b)(4) of the Internal Revenue Code, relating to 10 percent, in the case of coal, shall not apply.

(d) For taxable years beginning on or after January 1, 2024, Section 613A of the Internal Revenue Code, relating to limitations on percentage depletion in the case of oil and gas wells, shall not apply.

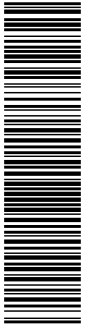
SEC. 9. Section 24831.3 of the Revenue and Taxation Code is repealed.

~~24831.3. The amendments made to Section 613A(d)(4) of the Internal Revenue Code, relating to certain refiners excluded, by Section 1328 of the Energy Tax Incentives Act of 2005 (Title XIII of the Energy Policy Act of 2005) (Public Law 109-58) shall not apply.~~

SEC. 10. Section 24831.6 of the Revenue and Taxation Code is repealed.

~~24831.6. Section 613A(e)(6)(H) of the Internal Revenue Code, relating to temporary suspension of taxable income limit with respect to marginal production, shall not apply.~~

SEC. 11. This act provides for a tax levy within the meaning of Article IV of the California Constitution and shall go into immediate effect.



LEGISLATIVE COUNSEL'S DIGEST

Bill No.
as introduced, _____.
General Subject: Income taxes: oil and gas industry.

(1) The Personal Income Tax Law and the Corporation Tax Law allow various credits against the taxes imposed by those laws, including, in modified conformity with federal income tax laws, a credit calculated based on a taxpayers qualified enhanced oil recovery costs, as defined.

This bill would provide the above-referenced credit applies for taxable years beginning before January 1, 2024, and would repeal the credit effective December 1, 2024.

(2) The Personal Income Tax Law and the Corporation Tax Law, in modified conformity with federal income tax laws, authorize various deductions in computing income that is subject to the taxes imposed by those laws, including a deduction for intangible drilling and development costs in the case of oil and gas wells and geothermal wells, and a deduction for depletion of natural resource deposits. That law calculates the deduction for depletion of natural resource deposits as a percentage of gross income from the property in the case of specified natural resources, including oil, gas, and shale.

This bill would disallow the deduction for intangible drilling and development costs in the case of oil and gas wells paid or incurred on or after January 1, 2024. The bill would also disallow, for taxable years beginning on or after January 1, 2024, the calculation of depletion as a percentage of gross income from the property for specified natural resources, including coal, oil, oil shale, and gas.

(3) Existing federal law provides that refiners of crude oil with average daily refinery runs for a taxable year that are greater than 75,000 barrels cannot calculate a depletion deduction as a percentage of gross income, as described above. Existing state law does not conform to this exception for large producers.

This bill would repeal the provision that provides state law does not conform to the above-described exception.

(4) This bill would include a change in state statute that would result in a taxpayer paying a higher tax within the meaning of Section 3 of Article XIII A of the California Constitution, and thus would require for passage the approval of $\frac{2}{3}$ of the membership of each house of the Legislature.

(5) This bill would take effect immediately as a tax levy.

Vote: $\frac{2}{3}$. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

