KING OPERATING CORPORATION

King Operating Corporation is a full service independent oil and gas operator with over twenty three years of experience developing and producing oil fields in Texas. With over 100 years of combined oil and gas exploration development experience, King employs a staff of industry professionals which include geologists, petroleum engineers, field operations, land professionals, finance and accounting. King's business model specializes in strategically acquiring oil and gas projects to further develop, divest and maximize investor returns.

Three Types of Tax Saving Advantages Associated With Oil and Gas Investing

1. Intangible Drilling Costs (IDCs) are expenditures to develop oil and gas wells which do not have salvage value. IDCs usually pertain to the performance of services, application of procedures, or rental use of equipment. Examples include labor, drilling fluids, engineering, equipment rental, hauling, fresh water, sand, and other consumable or non-tangible items. IDCs typically range from 70% to 80% of the well development cost and are 100% deductible. For example, a $200,000 investment in an oil & gas partnership where 80% of costs can be classified as IDCs would generate a deduction of approximately $160,000 for the year the investment is made.

2. Tangible Drilling Costs (TDCs) are expenditures, which have salvage value, incurred when developing oil and gas wells. These costs include casing, pumps, wellheads, flow lines, and other tangible equipment. The provisions of bonus depreciation (IRS Section 168(k)) were changed by the 2017 Tax Cuts and Jobs Act. Tangible costs become 100% deductible when the tangible equipment is placed into service and if it has a useful life of less than twenty years, as specified by MACRS guidelines. Continuing with the example above, assuming that five percent of the costs of the $200,000 subscription were deemed to be TDCs, an additional deduction for bonus depreciation of $10,000 would be allowed when the equipment is placed in service. In this example, the combination of IDCs and TDCs yields a possible deduction of $170,000.

3. Depletion Allowance is another deduction generated by a productive oil and gas well. There are two methods to calculate this deduction – cost depletion or percentage depletion. For each tax year, the greater of percentage depletion or cost deduction may be claimed. Percentage depletion yields a deduction equal to 15%of the gross income generated by sale of oil and natural gas. Cost depletion calculates the percentage of current year production divided by the total estimated recoverable production as of the end of the year multiplied by the leasehold cost.

Concluding, these tax advantages may allow your client to deduct approximately 80% of invested capital against their ordinary income. If your client owes more in taxes than they wish, consider an alternative investment allocation into the energy sector to further diversify their portfolio and potentially add a meaningful tax deduction this year.

**Based on a $200,000 investment generating $170,000 in tax deductions for a client in the 37% federal and 10% state income tax brackets.*

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