



TAX ADVANTAGES OF INVESTING IN OIL & GAS

2026 EDITION

Domestic production of oil and natural gas can help reduce the United States' reliance on imported petroleum and may contribute to U.S. energy security. As a result, the U.S. federal government has offered **tax advantages** and other incentives to encourage investment in domestic oil and gas production. **These incentives reflect policy recognition of the strategic importance of domestic oil and gas resources.**

Why Invest in Oil & Gas?

Investing in Oil and Gas offers investors an alternate opportunity to capitalize on a highly sought-after resource that is extensively used across numerous industries.

- Examples: Transportation, heating, cooling, manufacturing, and other energy-intensive operations.

How Oil & Gas Investments Can Potentially Reduce Taxes for Investors

By claiming deductions for certain eligible expenses associated with well exploration and development. For example, with intangible drilling costs (*IDCs*) and tangible equipment costs, some oil and gas investors may reduce their taxable income, which could result in a lower federal tax liability. Tax outcomes vary significantly by investor, ownership structure, and type of interest (*working interest vs. royalty interest*) and are subject to detailed rules and limitations under the Internal Revenue Code and IRS regulations. Investors should consult a qualified tax advisor for guidance tailored to their specific situation.

Under the tax code and associated guidance, there are tax credits available for certain investments in oil and gas projects, such as qualified enhanced-recovery or marginal-well credits that allow a dollar-for-dollar reduction of tax liability in applicable cases. In addition, under the "percentage depletion" provisions, qualified small-producer or royalty-owner investors in oil and gas properties may deduct a portion of their gross income from the property, often up to 15 % as a depletion allowance, subject to limits and eligibility criteria. Consult your tax advisor for full details, including eligibility, limits, and required documentation.

Examples of Potential Advantages of Investing in Oil & Gas

Following the implementation of the [Tax Reform Act of 1986](#) (*the "Act"*), Oil and Gas ventures continue to be among the few investments that qualify for tax advantages for American taxpayers. In fact, working interests in Oil and Gas are exempt from the Act's definition of "passive income." The Oil and Gas industry is eligible for the potential tax advantages listed below:

<i>Intangible Drilling Costs</i>	<i>Tangible Drilling Costs</i>	<i>Depletion Allowance</i>	<i>Active Income Deductions</i>
Up to 100% deductible in the year incurred for qualifying Intangible Drilling Costs (IDCs), provided the taxpayer elects to expense them under IRC §263(c).	Up to 100% tax deductible.	15% of gross production revenue is tax-free.	Can be deducted against business income, salaries, gross capital, interest income, etc.

Intangible Drilling & Development Cost – Tax Deductions

Intangible Drilling & Development Costs (IDCs) are expenditures incurred in drilling/preparing oil or gas wells that do not result in tangible assets with salvage value (e.g., *rig mobilization, crew wages, drilling fluids, hauling*). Under Internal Revenue Code § 263(c) (*and related regulation 26 CFR § 1.263(c)-1*) a taxpayer holding a working or operating interest in a U.S. or U.S.-offshore well may elect to deduct qualifying IDCs in the year incurred instead of capitalizing them. These costs must be paid or incurred in the first taxable year and cannot be for foreign wells.



Tangible Drilling & Development – Tax Deductions

The term **Tangible Drilling Development and Completion Cost (TDC)** refers to the tangible elements used in drilling and well completion, such as **drill bits, pipes, casings, and cement**. These products are meant to last for a number of years before they need to be upgraded or replaced because of shifting market conditions.

Due to the nature of the asset, the entire amount of an investment assigned to **TDC (equipment and well components)** are depreciable over 7 years under MACRS. **Bonus depreciation currently allows 60% expensing in 2025, phasing down to 40% in 2026, per the Tax Cuts and Jobs Act schedule.** TDC provides investors in Oil and Gas with precise data that helps them assess potential returns on their investments, evaluate the cost-effectiveness of various drilling projects, and safeguard themselves against unforeseen costs associated with a particular endeavor.

Depletion Allowance

Tax benefits for independent oil and gas producers were reaffirmed by the Tax Reform Act of 1986 and remain available under Internal Revenue Code §613A(c). Originally enacted in 1926, the percentage depletion allowance permits qualified producers to deduct a portion of their gross income from oil and gas wells to compensate for the depletion of reserves. **Under the “Small Producers Exemption,” up to 15% of gross income from each qualified oil and gas property may be deducted, subject to production and ownership limits.** This allowance applies only to independent producers and royalty owners, not to integrated oil companies or refiners processing more than 50,000 barrels of crude oil per day. To qualify, production from all properties cannot exceed an average of 1,000 barrels of oil or 6 million cubic feet of natural gas per day during the tax year. Income above those thresholds does not qualify for percentage depletion. Working interests held through partnerships or joint ventures generally remain eligible for this Percentage Depletion benefit. If applicable, investors should claim the Small Producers Exemption annually when filing their federal tax return. (*see IRC §613A and related IRS guidance*)

Active Income Deduction

The terms **"active"** and **"passive"** income were first used in the Tax Reform Act of 1986. Oil & Gas Investments are NOT Passive Income. Losses from passive activities cannot be offset against profits from active businesses according to the Act. A working interest in an Oil and Gas drilling program is not considered "passive" activity, according to the Act. Losses from working interests in oil and gas drilling programs are treated as active, not passive, under IRC §469(c)(3). Therefore, deductions can offset wages, business, or portfolio income.

Potential Tax Benefits of Oil & Gas

- **Intangible Drilling Costs:** May be **100% deductible** in the year incurred in the case of U.S. oil or gas wells if the taxpayer elects under Internal Revenue Code § 263(c).
- **Tangible Drilling Costs:** must generally be capitalized and depreciated under Internal Revenue Code § 168 (**often over 7 years for equipment**). While prior law phased bonus depreciation down to 20% in 2026, recent legislation (the One Big Beautiful Bill Act) restored 100% bonus depreciation for qualified property placed in service after January 19, 2025.
- **Depletion Allowance:** The Percentage Depletion Allowance under Internal Revenue Code § 613A(c) allows eligible small producers and royalty owners to deduct up to **15%** of gross income from an oil or gas property, subject to production and ownership limits.
- **Active Income Deductions:** A working interest in an oil or gas property may be treated as non-passive under Internal Revenue Code § 469(c)(3), allowing losses to offset active income from wages, business income, or other sources (subject to rules).

Hypothetical Example

Initial Investment - Drill & Test	\$100,000
Intangible Drilling Costs (<i>assume ~80%</i>)	x 80%
Tax Bracket	x 37%
Estimated Tax Savings from IDC Deduction	~\$29,600

You will not find these tax benefits in stocks, mutual funds or ETF investment.



If you have any questions about investing in Oil & Gas, feel free to reach out to our team.

Set up a 15-Minute Discovery Call at:

www.assetstrategy.com/contact

www.assetstrategy.com

781-235-4426

info@assetstrategy.com

Disclosure:

Because investor situations and objectives vary this information is not intended to indicate suitability for any individual investor.

Oil and gas mineral royalty interests are illiquid investments, are speculative and involve a high degree of risk; investors should be able to bear the complete loss of their investment. In addition, the oil and gas market is affected by many factors, such as general economic conditions, oil and natural gas pricing, financing markets, supply and demand, and other factors that are beyond an Offeror's control. All these factors could restrict an investor's ability to sell their mineral/royalty interests.

Tax provisions summarized herein reflect U.S. federal law as of 2025 and are projected to remain in effect through the 2026 tax year unless extended or amended by Congress.

This is for informational purposes only, does not constitute individual investment advice, and should not be relied upon as tax or legal advice. Please consult the appropriate professional regarding your individual circumstances.

Securities offered through Concorde Investment Services, LLC (CIS), member FINRA/SIPC. Advisory services offered through Asset Strategy Advisors, LLC (ASA), an SEC registered investment adviser. Insurance services offered through Asset Strategy Financial Group, Inc. (ASFG). CIS, ASA and ASFG are separate companies.