

Tax Relief for Marginal Well Producers



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Do you need to amend your income tax return?

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Natural gas producers and investors in the Appalachian Basin have been disappointed for a number of years as wellhead prices for natural gas have remained relatively low. A number of factors have contributed to this problem, including over-supply and, in some areas, pipeline constraints. However, for the first time since its enactment in 2005, **the marginal well credit is available for natural gas!**

The IRS Section 45I credit (marginal well credit, or MWC) was a component of The American Jobs Creation Act of 2004 (P.L. 108-357). The credit, as it is enacted, applies to both crude oil production and natural gas. The amount of the credit as written into law and attributable to the taxpayer was \$3.00 per barrel of oil, and \$.50 for 1,000 cubic feet of natural gas (MCF) before being adjusted for inflation. The amount of credit is reduced as the established reference price increases, and relevant commodity prices for natural gas have been fairly high. As such, there hasn't been much news regarding the credit in recent years as it has been completely phased out since its inception. However, for taxable years beginning in calendar year 2016 the credit is available, at least for natural gas. The reference price for oil still remains too high to generate a credit.

The amount that a taxpayer can claim for the credit begins with the understanding of who can claim the credit, and what type of production is available for the credit. First, a taxpayer must hold an operating interest in a natural gas well. This would exclude royalty owners or other non-operating interests from benefiting from the credit, so only an operating or working interest in a natural gas well would benefit. Next, the production must be domestic production produced from a qualified marginal well.

For now, if you do have an operating interest in natural gas production, you should at least check your 2016 tax filing. Since the credit was new for 2016, and official guidance was released so late in the year, many taxpayers may be unaware of the credit or the possible necessity of amending their income tax returns to take advantage of the credit. There is much uncertainty as to the future path of tax reform, and the changes that may take place, but this may be a great opportunity that should not to be delayed.