



OVERTIME
CAPITAL GROUP



(832) 453-5248



info@overtime-capital.com

Tax Advantages of Investing in Oil & Gas w/ Overtime Capital Group

Basic Tax Structure of Oil & Gas w/ Overtime Capital Group:

- ♦ The fund itself does not pay corporate taxes
- ♦ All income, deductions, and tax benefits flow directly to investors
- ♦ Investors receive a single Schedule K-1 at year-end
- ♦ Tax benefits vary significantly based on GP vs LP status

Intangible Drilling Costs (IDC):

- ♦ **What Are They:** Expenses related to drilling that have no salvage value (labor, chemicals, mud, etc.)
- ♦ **Tax Benefit:** Up to 100% tax deductible in the first year. This provision enables most of your investment into the drilling project to be deducted from your taxable income in the first year, significantly reducing your overall tax burden.
 - ♦ Beneficial for individuals with high taxable income, as it can substantially reduce their tax due for the year.
 - ♦ **IRS Section 263(c)** allows for the immediate expense of certain drilling costs related to oil and gas development.
- ♦ **Who Can Claim:**
 - ♦ **General Partners:** Can deduct against ordinary income (active income)
 - ♦ **Limited Partners:** Can only deduct against passive income
- ♦ **Real-World Example (Not Tax Advice):**
 - ♦ **Investor Profile:** John, a high-income earner, has an annual salary of \$250,000. He invests \$100,000 into an oil & gas opportunity as a Class A General Partner, giving him active status.
 - ♦ **Year 1 Tax Scenario:** The fund's offerings incur \$1,000,000 in IDCs, and John's share is 10%, giving him \$100,000 in IDC deductions. As an active participant, John can deduct the full \$100,000 against his salary, reducing his taxable income from \$250,000 to \$150,000. This reduction moves John into a lower tax bracket, saving him approximately \$30,000 in taxes (assuming a 30% marginal tax rate).

Tangible Drilling Costs (TDC):

- ♦ **What Are They:** Physical equipment used in drilling (wellhead, casing, tanks)
- ♦ **Tax Benefit:** 100% bonus depreciation in 2025. The equipment and machinery used in the drilling and production process can be fully deducted with a 100% bonus depreciation, providing an immediate tax benefit.
 - ♦ Beneficial for business owners or self-employed individuals, as the immediate deduction can significantly lower their taxable income.
 - ♦ **Section 179** deduction limit for tax year 2025 is \$1,250,000, with a phase-out threshold of \$3,130,000. This means businesses can expense up to \$1,250,000 of qualifying equipment purchases in 2025, provided their total equipment purchases do not exceed \$3,130,000. For every dollar spent above this threshold, the deduction limit is reduced dollar-for-dollar. Once total purchases reach \$4,380,000, the **Section 179** deduction is completely phased out.
- ♦ **Who Can Claim:**
 - ♦ **General Partners:** Can take bonus depreciation against ordinary income.
 - ♦ **Limited Partners:** Can only use depreciation against passive income.
- ♦ **Real-World Example (Not Tax Advice):**
 - ♦ **Investor Profile:** Sarah invests \$100,000 as a GP, of which \$20,000 is allocated to tangible equipment (TDCs).
 - ♦ **First Year Deductions:** Bonus Depreciation (100% of \$20,000): \$20,000.
Total First Year Deduction: \$120,000.
Sarah can potentially deduct the full \$20,000 allocated to tangible equipment immediately due to the **Section 179** deduction and 100% bonus depreciation under the new law. Additionally, if part of her investment qualifies as **Intangible Drilling Costs (IDCs)**, those costs would also be 100% deductible in the year they are incurred. If Sarah were an LP, these same deductions available to offset passive income. It's important for Sarah to consult with her tax advisor to ensure the proper allocation between capital expenditures and IDCs, as well as to maximize her deductions based on the structure of her investment.

Depletion Allowance:

- ♦ **What Is It:** Tax-free deduction on gross income from production
- ♦ **Tax Benefit:** 15% of gross production revenue is tax-free. This allows investors to exclude 15% of the revenue from their taxable income from oil and gas production, further reducing their tax obligations.
 - ♦ Advantageous for smaller-scale oil and gas investors, allowing them to exclude part of their revenue from taxable income.
 - ♦ **IRS Code Section 613A** is specifically designed for the oil and gas industry.
- ♦ **Who Can Claim:**
 - ♦ Both GPs and LPs can claim this benefit. Benefits apply to production income regardless of partner status
- ♦ **Real-World Example (Not Tax Advice):**
 - ♦ **Investor Profile:** Mike's share of a producing well generates \$50,000 in gross revenue for the year. Whether he's a GP or LP, the 15% depletion allowance means \$7,500 of this revenue is tax-free.
 - ♦ **Annual Impact is as follows:**
Gross Revenue: \$50,000
Depletion Allowance: \$7,500
Taxable Production Income: \$42,500

The Difference

General Partner Shares or Limited Partner Shares:

Aspect	General Partner Shares	Limit Partner Shares
Tax Benefits	✓ Can deduct IDCs against ordinary income (wages, etc.) ✓ Active tax treatment ✓ Full access to bonus depreciation against any income ✓ 15% depletion allowance on production	✓ Deductions only against passive income ✓ Must have passive income to use deductions ✓ Unused deductions carry forward ✓ 15% depletion allowance on production
Best For	♦ High-income earners seeking tax benefits ♦ Investors with significant ordinary income to offset ♦ Those seeking maximum immediate tax write-offs ♦ Investors with professional tax guidance	♦ Investors prioritizing liability protection ♦ Those with significant passive income ♦ Investors seeking simpler tax treatment ♦ Those who don't need immediate tax write-offs
Income Requirements	♦ Can use deductions against any income type ♦ Ideal for W-2 income, business income, etc.	♦ Needs passive income for full benefits ♦ Cannot offset ordinary income

Key Considerations When Choosing GP or LP Shares:

Consider Choosing General Partner Shares if you:	Consider Choosing Limited Partner Shares if you:
♦ Want to maximize tax benefits against ordinary income ♦ Have high ordinary income (W-2, business income) ♦ Can handle more complex tax reporting ♦ Have professional tax advisors ♦ Understand and accept additional liability exposure	♦ Prioritize liability protection ♦ Have significant passive income ♦ Prefer simpler tax treatment ♦ Don't need immediate tax write-offs ♦ Want a more hands-off investment approach

* See Important Information & Disclosure on page 4 for important information regarding the tax benefits in this document.

Important Information & Disclosures

This document is provided for informational purposes only and is not to be construed as tax advice. This document is not intended to and does not constitute an invitation or offer to solicit or subscribe for, buy, or sell securities, products, or services, including interests in the funds. The information provided does not consider various deductions, credits, your personal tax situation, or other factors that could affect the tax liability. It's always recommended to consult with a tax professional to understand how these deductions apply to your specific situation and investment. Investors should consult with their own legal, tax, and financial advisors before making any investment decisions.

The following disclosures address the limitations and considerations associated with the tax advantages described in this document:

1. Intangible Drilling Costs (IDCs):

- o The ability to deduct IDCs may be limited by the passive activity loss rules under **IRC Section 469**. Passive investors may not be able to fully utilize these deductions.
- o Deductions for IDCs may impact the **Alternative Minimum Tax (AMT)**. Investors should consult with their **tax advisors to understand the potential AMT implications**.

2. Tangible Drilling Costs (TDCs) & Bonus Depreciation:

- o Not all tangible costs qualify for bonus depreciation, especially used property. Investors should verify the eligibility of their assets for bonus depreciation.
- o **Section 179** deductions are subject to taxable income limitations and phase-out thresholds. Investors should be **aware of these limitations and consult with their tax advisors to determine the allowable deductions**.

3. Depletion Allowance:

- o Investors have the option to choose between percentage depletion and cost depletion. The choice should be based on which method provides the greater benefit.
- o There are limitations on percentage depletion for larger producers and integrated oil companies. Investors should **verify their eligibility for this deduction**.

4. Active Income Deductions:

- o Deductions under **IRS Code Section 469** must meet specific criteria to be considered non-passive. Not all investors **will qualify for these deductions**.
- o Investors should consult with their tax advisors to determine how these deductions can be applied to their specific **situations and whether their income qualifies as active**.

5. Example of Potential Benefits:

- o The specific exemptions from the **Tax Reform Act of 1986** apply to working interests in oil and gas, but investors **should carefully consider other applicable tax laws**.
- o Tax benefits vary based on individual tax situations. The examples provided **do not** consider various **deductions, credits, or other factors that could affect final tax liability**.

6. Intangible Drilling & Development Cost Tax Deduction:

- o IDC deductions for high-income individuals may be limited by passive activity loss rules. Investors should consult **with their tax advisors to understand these limitations**.
- o The potential impact of these deductions should be evaluated based on the investor's overall tax situation.

7. Tangible Drilling & Development Cost Benefits:

- o The deductions under **Section 179** are subject to taxable income limitations and phase-out thresholds. Investors **should verify their eligibility for these deductions**.
- o Only new equipment qualifies for bonus depreciation. Investors should ensure that their assets meet the necessary **criteria**.

8. Small Producers Tax Exemption:

- o The **15% tax-free exemption** under **IRS Code Section 613A** has specific limitations and qualifications. Investors should **verify their eligibility for this exemption**.
- o Smaller-scale investors should understand the requirements and limitations to benefit from this exemption.

9. Active vs. Passive Income:

- o Active income deductions must meet specific criteria to be applicable. **Not all investors will qualify for these deductions**.
- o **Investors with multiple income streams should consult with their tax advisors to understand how these deductions can enhance their tax efficiency**.

**General Reminder: Investors should verify all information with their personal tax advisors to ensure compliance with the latest tax regulations and to confirm the applicability of the IRS codes mentioned. Tax laws are subject to change based on future legislation or IRS interpretations, and professional advice is essential to navigate the legal and financial implications accurately.*