

Section 29 Tax Credits

Recompletions Qualify for Tax Credit in 1979, Congress enacted Section 29 of the tax code in an effort to stimulate the production of domestic oil and gas production from unconventional fuel sources. The Section 29 credit was a major stimulus for drilling natural gas wells from the late 1980s through December 31, 1992, when the tax credit expired. IRS revenue ruling 93-54 provides that well recompletions qualify for the credit as long as the original well qualified for the credit and the recompletion does not involve drilling the well

deeper. Historically, operators have abandoned wells when production has become uneconomical. Many of the abandoned wells are now available for recompletions. Typically, Coalbed Methane wells have several potential producing zones that were never completed or produced by prior operators. By completing the zones of existing wells that were not previously completed (but not deepening the wells), the natural gas production will generate valuable Section 29 credits. Tax Credit Calculation Section 29 credits are based on gas

production. Approximately one dollar of tax credit is created for every thousand cubic feet of gas produced. A tax credit is not a deduction, it is a direct reduction of tax liability. Because the tax credit is computed based on production, price fluctuations for natural gas will have no effect on the amount of tax credits generated.



2010 Tax Rates

Income (Single)	Income (Married Filing Jointly)	Marginal Federal Income Tax Rate		State Taxes (where applicable)		Marginal Tax Rate
\$373,651	\$373,651	35%	+	0-12%	=	35% to 47%
\$171,851	\$209,251	33%	+	0-12%	=	33% to 45%
\$82,400	\$137,300	28%	+	0-12%	=	28% to 40%

Tax Examples

(1) The Intangible Drilling Cost (IDC) deductions and the depreciation of tangible equipment on a typical oil well allow a large income tax deduction of the investment in the first year (usually 75% to 85%). The tax consequences for a \$60,000 participation can be *approximated* as follows:

Intangible Costs (1 Unit)	
Capital Contributions	\$60,000
Intangible Drilling Costs/Other Expense	x 80%
IDC Deduction	\$48,000
Tangible Costs	
Capital Contribution	\$60,000
Tangible Drilling Costs	x 20%
TDC Deduction	\$12,000
Depreciate over 5 years	
1 st Year Tangible Depreciation	\$2400
1 st Year Reduction in Taxable Income	\$50,400

(2) Example of joint venturer's potential tax benefits. Each joint venturer's tax liabilities are different, consult with your personal tax advisor regarding the potential benefits of oil and gas joint venture investments. The below example *assumes* a self-employed person in a 35% Federal Income Tax Bracket and a 10% State Income Tax Bracket (If applicable) = 45% marginal tax rate.

Investment (1 Unit)	\$60,000
Intangible Drilling Costs/Other Expense (Approx. 80% of Investment)	\$48,000
Tangible Drilling Costs (TDC – Capitalized and Depreciated over 5 Years or Approx. 20% of Investment)	\$12,000
1 st Year Tax Deductions	\$50,400
1 st Year Tax Savings	\$22,680
Net Investment after One Year	\$37,320

In addition, joint venturers may receive depletion allowances on revenue from oil and gas wells.