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Defining UBIA for Oil and Gas Producers

[ENERGY & RESOURCES](#), [TAX](#), [TAX REFORM](#)
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One of the most impactful changes resulting from 2017's Tax Cuts and Jobs Act was the introduction of the deduction for qualified business income established under Internal Revenue Code section 199A. This deduction allows non-corporate taxpayers to potentially exclude from taxable income up to 20% of amounts deemed to be "qualified business income." The deduction can be limited to the greater of 50% of W-2 wages paid by the business or the sum of 25% of W-2 wages paid by the business plus 2.5% of the business's unadjusted basis immediately after acquisition of all qualified property (UBIA).

There's been extensive discussion surrounding the calculation of what is included as "qualified business income," and its limitations. One important distinction that must be made is what is considered "qualified property" under IRC section 199A when calculating UBIA. Qualified property is generally any tangible property that is used in the trade or business and for which a depreciation deduction can be claimed. Further, the IRS specifies that the property must be held and available for use at the end of the taxable year, used at any point during the year in the production of qualified income, and must meet the new UBIA depreciable period.

With respect to oil and natural gas producers, these qualifications may limit what assets are considered qualified property. Tangible assets, such as well equipment, drilling rigs and vehicles, are considered qualified property. However, leasehold costs, capitalized geological and geophysical expenditures and generally intangible drilling costs will not be considered qualified property, and could limit the 199A deduction a taxpayer is permitted to claim.

The deduction for qualified business income has presented a significant tax savings opportunity for non-corporate taxpayers. However, the application has many complex limitations, such as UBIA. To learn more about 199A deductions and the limitations that may apply to your business, [contact a Schneider Downs tax advisor](#).

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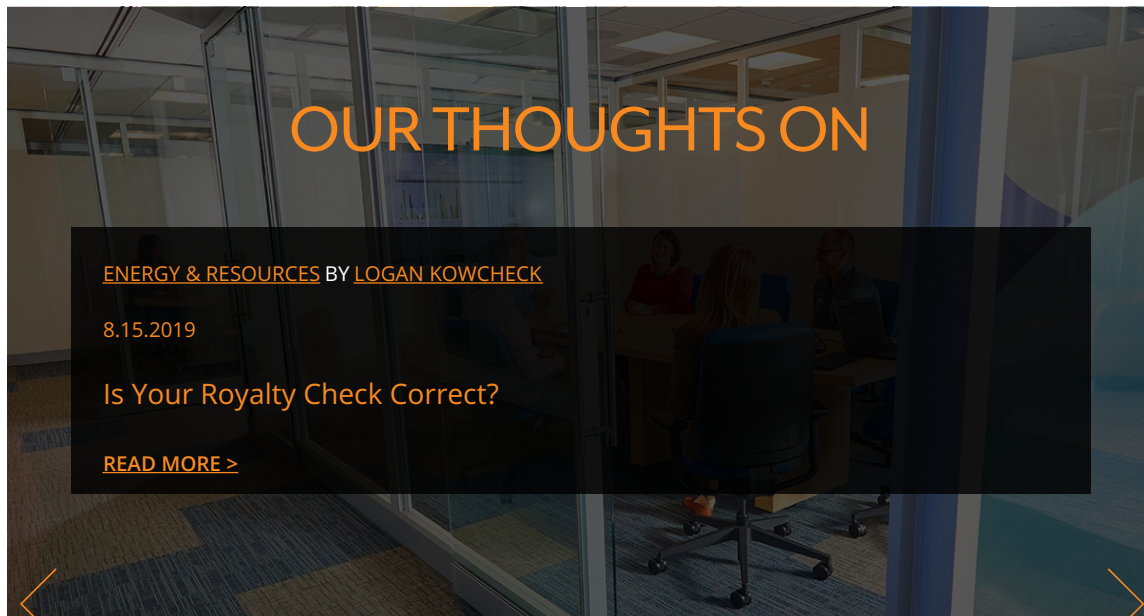
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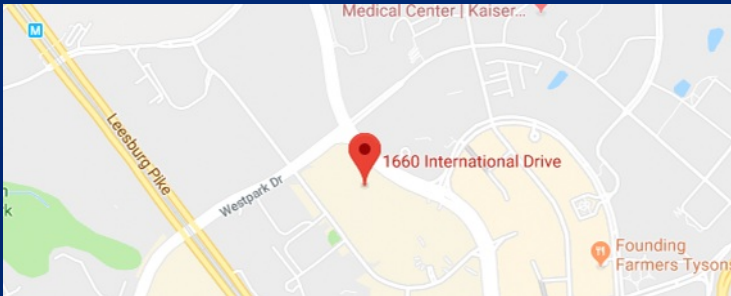
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