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IRS Announces 2017 Marginal Well Credit for Marginally Producing Natural Gas Properties

ENERGY & RESOURCES, TAX

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Natural gas well owners holding an operating interest in a qualified marginal well during 2017 are eligible to claim a \$0.51 credit per qualified MCF, since the IRS finalized and released the reference price used to compute the credit for the 2017 tax year in the issuance of Bulletin No. 2018-22, dated May 29, 2018.

This is a significant opportunity for gas producers that own interests in qualified stripper wells, because the credit could provide as much as \$3,350.70 in tax savings per qualified well (there is no limit on the amount of qualified wells a taxpayer can use to determine their credit).

As previously indicated in prior posts, the marginal well credit is a production based tax credit for marginal domestic wells that have marginal production under percentage depletion rules, which is 15 barrels of oil equivalent per day (i.e., 90 mcf or less per day).

The marginal well credit is part of the general business credit and cannot offset tax liabilities generated from the alternative minimum tax, and any unused credit can be carried back five years and carried forward 20 years.

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