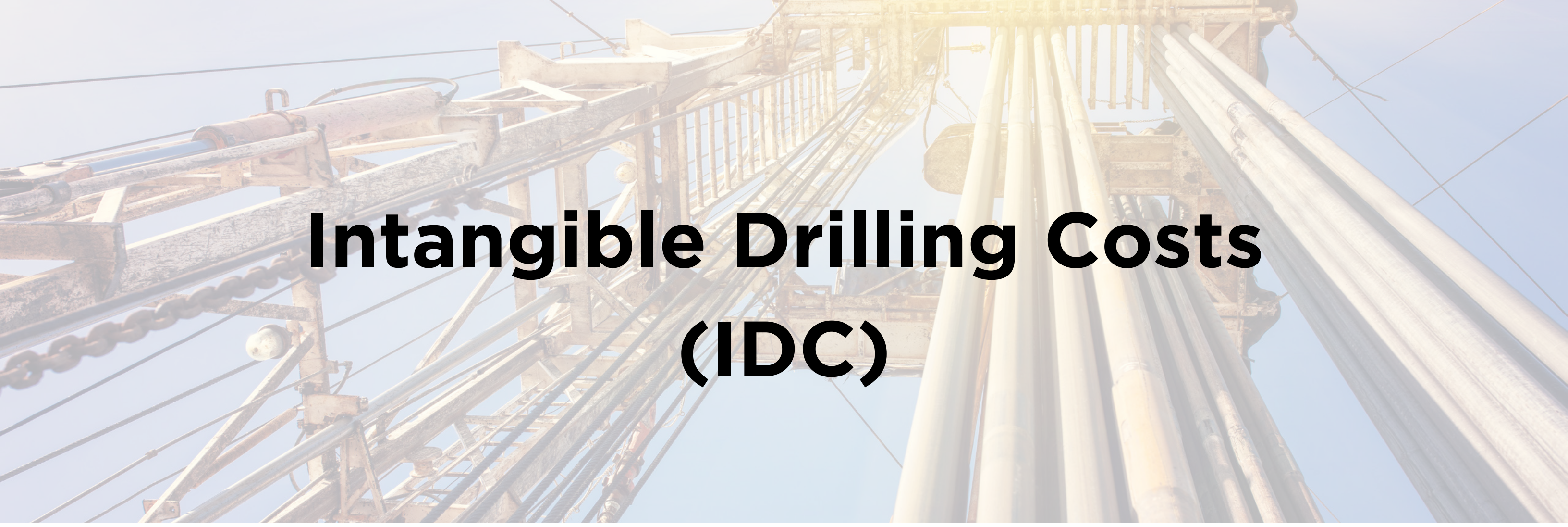

Intangible Drilling Costs (IDC)

Definition:
Intangible drilling costs (IDC) are expenses related to developing an oil or gas well that are not a part of the final operating well. They include costs that are necessary in the drilling and preparation of wells for the production of oil and gas, such as survey work, ground clearing, drainage, wages, fuel, repairs, and supplies. These costs compose 60 – 80% of total drilling costs. Intangible Drilling Costs (IDCs) represent all expenses an operator may incur at the wellsite that don't – by themselves – produce a physical asset for the producer. Essentially, costs that have no salvage value after they are spent.

- **IRC Section 263(c)**
- **Tax-deductible in the U.S. since 1913.**
- **Allows producers to recover investment costs quickly and reinvest them in exploring for new American oil and natural gas supplies.**

Background:
The U.S. has offered a tax deduction for intangible drilling costs since 1913. The deduction is allowed only for wells within or offshore the U.S. The deduction for intangible drilling costs has been permitted since the beginning of the income tax code. Since 1913, IDCs have allowed producers to invest hundreds of billions of dollars in finding and delivering new energy that might not have been available without them. The break for intangible drilling costs (IDCs) is an exception to the general rule. Independent producers can choose to immediately deduct all of their intangible drilling costs. Since 1986, corporations have only been able to deduct 70% of IDCs immediately, and must spread the rest over 5 years.

Oil & Gas Partnerships (Independent Producers):
Investing in oil and gas partnerships as a general partner (GP) or limited partner (LP) will allow for different types of deductions.

- **General Partner:**
  - **GP investors benefit from the full IDC deduction in year one. This deduction is against active income (i.e. wages)**
- **Limited Partner:**
  - **LP investors receive a tax deduction over a five year period. This deduction is against passive income (i.e. real-estate income)**

U.S. Private Wealth