

USED C 2025 DRILLING FUND PROGRAM

**TAX
HANDBOOK**



www.usedc.com

This tax handbook is for preliminary review purposes only and does not contain much of the information, which will be included in the Private Placement Memorandum (PPM) pursuant to which the offering will be conducted. This tax handbook does not constitute an offer to any person. Offers will be made only by the PPM, which should be carefully reviewed by a prospective purchaser prior to making an investment decision. The equipment pictured in this brochure will not be owned by the USED C 2025 Drilling Fund Program.

The USED C 2025 Drilling Fund LP is sponsored by U.S. Energy Development Corporation (U.S. Energy). Westmoreland Capital Corporation, an affiliate of U.S. Energy, (FINRA CRD 11469), is the dealer manager for U.S. Energy offerings. Securities offered through Westmoreland Capital Corporation, member FINRA/SIPC, 601 E. Exchange Ave., Suite 100, Fort Worth, TX 76164.

RISKS FACTORS APPLICABLE TO THE 2025 DRILLING FUND PROGRAM:

Oil and natural gas Drilling partnerships are an inherently speculative activity. An investment in the partnerships involves a high degree of risk and is suitable only if you have substantial financial means and no need of liquidity in your investment. You should carefully consider the following risk factors and other information in the applicable PPM before deciding to invest in the partnership.

- Attainment of the partnership’s investment objectives will depend on many factors, including the ability of the managing general partner to select suitable assets which will be productive and produce enough revenue to return the investment made. The success of the partnership depends largely on future economic conditions, especially the future price of oil and natural gas which is volatile and may decrease. There can be no guarantee that the foregoing objectives will be attained.
- There is a risk that you will not recover all of your investment or, if you do recover your investment, that you will not receive a rate of return on your investment which is competitive with other types of investment. You will be able to recover your investment only through the partnership’s distributions of the sales proceeds from the production of its oil and natural gas reserves from productive wells. Oil and natural gas reserves generally deplete over time until the wells are no longer economical to operate. All of these distributions to you may be considered a return of capital until you have received 100% of your investment.
- There is a risk that even if a well is drilled by the partnership and produces oil and natural gas in paying quantities (that is, revenues from the sale of the oil and/or gas produced from a well exceed the cost of operating such well) it will not produce enough oil and natural gas to pay for the costs of acquiring the well, even if tax benefits are considered. Thus, even if all of the partnership’s wells are capable of commercial production, there is a risk that your investment will not be returned on a cash-on-cash basis.
- If you invest in the partnership, then you must assume the risks of an illiquid investment. The transferability of the units is limited by state and federal securities laws, tax laws and the partnership agreement. The units cannot be readily liquidated, and there is no market for the sale of the units. Also, a sale of your units could create adverse tax and economic consequences for you.
- An investor may experience a complete loss of their investment.
- Distributions may be reduced or delayed.
- Under certain circumstances as explained in the PPM, an investor may owe taxes in excess of the cash distributions received from the partnership.
- Borrowing by the managing general partner could reduce funds available for its presentment obligation.
- Substantial conflicts of interest exist between the managing general partner and investors.

The foregoing is not a complete list of all of the risks related to U.S. Energy’s oil & gas Drilling Funds. See “Risk Factors,” in each applicable Private Placement Memorandum.

UNDERSTANDING DIFFERENT OIL & GAS DIRECT INVESTMENTS

Traditionally, U.S. Energy’s oil & gas direct investments have been utilized by high-net-worth investors to solve specific, case planning needs. While it is not uncommon to see some overlap in investment features between funds, determining which investment structure best aligns with your goals is critical to achieving the investment objective you set out to accomplish. The following chart is provided to aid in your understanding of the differences between U.S. Energy’s 2025 direct investment structures which include Mineral Exchanges, Opportunity Zone Funds, Drilling Funds and Private Capital Funds:

U.S. ENERGY’S 2025 OFFERING MIX

	U.S. Energy Private Capital	USED C Opportunity Zone	USED C Drilling	1031 Exchange
Energy Sector Exposure:				
Energy Sector Exposure Outside of Traditional Equities	✓	✓	✓	✓
Diversified Asset Exposure (producing wells, infrastructure, royalties, etc.)	✓	✓	✗	✓
Multi - Asset Ownership / Tier 1 + Projects	✓	✓	✓	✓

Investment Strategies:

Tax Sheltered Income	✓	✓	✓	✓
Ordinary Income Deductions & Potential Investment Strategies	✗	✗	✓	✗
Available for Retirement Accounts (Not Subject to UBTI)	✓	✗	✓	✗

Investor Goals:

Income Potential	✓	✓	✓	✓
Growth Potential (through Re-Investment)	✓	✓	✗	✗
Total Return (ROI) Focused	✓	✓	✗	✓
Internal Rate of Return (IRR) Focused	✗	✗	✓	✓

The list provided is not intended to review all investment features. Investment features will differ from program, to program and you should review all aspects of the private placement memorandum prior to investment. This Tax Handbook focuses on the tax advantages for Drilling Funds. For information on other funds contact U.S. Energy



SUMMARY

U.S. Energy's 2025 Drilling Funds are focused on the drilling of new wells which can provide significant tax benefits to investors in their year of investment. In addition to any upfront tax benefits, a portion of each partnership's potential distributions will be tax advantaged due to the Depletion, Depreciation and/or Qualified Business Income Deductions. For investors who are high income earners, self-employed, or have a substantial one-time or annual taxable event, an oil & gas drilling fund may help to reduce your tax liability while also generating potential long-term income.

DRILLING FUNDS AT A GLANCE:

The chart below summarizes the Investment Units, Potential Investment Strategies and Income Potential in a U.S. Energy Drilling Fund. See the following pages for additional information:

Investment Units:	General Partners (GP Units)	Limited Partners (LP Units)	Limited Liability Company (LLC Units)
Reduces Ordinary Income in the Year of Investment	✓	✗	✗
Passive Income & Loss Planning Opportunities	✗	✓	✗
Available for Retirement Accounts (Not Subject to UBTI)	✗	✗	✓

Potential Investment Strategies For:

High W2 Income or Bonus Offset	✓	✗	✗
Sale of a Business	✓	✗	✗
Capital Gains	✓	✗	✗
Roth Conversions	✓	✗	✗
Net Operating Loss (NOL) Carrybacks	✓	✗	✗
Maximize Qualified Business Income (QBI) Deduction	✓	✗	✗
Required Minimum Distributions (RMDs)	✓	✗	✗
Reduced Valuations for Gifting	✓	✗	✗
Offset Lost Tax Deductions for the Tax Cuts & Jobs Act	✓	✗	✗
Net Investment Income or Medicare Surplus Tax	✓	✗	✗
Discounting Strategies	✗	✗	✓
Passive Income to Offset Passive Gains	✗	✓	✗

Income Potential:

Tax Sheltered Income	✓	✓	✓
Depletion Allowance	✓	✓	✓
Depreciation Deductions	✗	✓	✓
Qualified Business Income (QBI) Deductions	✓	✓	✓

The list provided is not intended to review all investment features. Investment features will differ from program to program and you should review all aspects of the PPM prior to investment.

WHY CAN GENERAL PARTNER INVESTORS RECEIVE A SUBSTANTIAL ORDINARY INCOME TAX DEDUCTION IN THE YEAR OF INVESTMENT?

IRS Code §263(c), Treas. Reg. Section 1.612-4(a)

Section 263(c) of the IRS tax code provides for the option by the taxpayer to fully deduct, as expenses, intangible drilling costs (or “IDCs”) incurred for new oil and gas wells. As IDCs are normally paid in the first year and are allocated first to General Partner Investors, this deduction generally results in a significant ordinary income tax write-off in the year of investment. Typical IDCs include costs from drilling, hydraulic fracturing (“fracing”), wages, fuel, repairs, hauling, supplies and other expenses necessary for drilling and preparing a well for the production of oil and/or natural gas. For investors, IDC deductions flow from the Schedule K-1, to Schedule E, to Schedule 1, to Line 8 of the Form 1040 as described starting on page 15.

IDCs, however, do not include lease or equipment costs paid for an oil and gas well, which are classified as tangible expenses. The typical allocation of intangible costs and tangible costs when drilling a new well is shown in the graphic below.



Intangible Costs Typically Include:

Expenses made by an operator that cannot be recovered and 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.

Tangible Costs Typically Include:

Costs pertaining to the actual direct cost of the drilling equipment, such as well rigs and machinery.

INVESTOR UNITS IN A U.S. ENERGY DRILLING FUND

General Partner Investors (GP Units) are typically utilized by investors who are looking to receive an income tax deduction in their year of investment (up to 92% of their invested amount for a U.S. Energy Drilling Fund). The deduction amount will be dependent upon the percentage of capital raised from General Partner Units which are applied to the payment of IDC's which are described above. Most states allow a similar deduction in calculating state income taxes.

Limited Partners (LP Units) will apply their net subscription proceeds to either the payment of lease acquisition and tangible equipment expenses, or to IDCs in the same manner as General Partner Investors described above. This allocation is selected by each limited partner investor on their subscription booklet. Deductions will only be able to be used against passive income (generally, this includes income from investments or businesses which the investor owns but does not materially participate in the management of, such as the USEDC 2025 Drilling Fund). Under current tax code provisions, passive losses not used in the current year may be carried forward for use in future years as suspended passive losses.

Limited Liability Company (LLC Units) are intended for investors who would like to participate with qualified funds (i.e. retirement accounts). Investors who acquire LLC Units will become members of a limited liability company which will become a limited partner in the Drilling Fund. Distributions to LLC members will not be treated, for income tax purposes, as unrelated business taxable income (UBTI).

As more fully described in the PPM, there are significant differences between the types of units that are available; including that owners of General Partner Units have unlimited liability for events occurring during the drilling phase of the partnership's wells while Limited Partner Unit owners have limited liability and that intangible drilling cost deductions attributable to Limited Partner Unit owners may only be applied to passive income. You are encouraged to seek independent tax advice prior to investment. Unrelated business taxable income (UBTI) is income regularly generated by a tax-exempt entity by means of taxable activities.

HOW IS A DRILLING FUND TAX WRITE-OFF CALCULATED?

For General Partners in a U.S. Energy Drilling Fund, the amount of your ordinary federal income tax deduction will vary by partnership depending on....

- The percentage of each well's costs that are allocated to IDCs, which is typically about 70%, and;
- The total capital raise for General Partner units which are first applied towards IDCs;
- The total capital raise from Limited Partners and their allocation towards IDCs or Tangible Costs, and
- The total capital raise for Limited Liability Company Members which are first applied towards Tangible Costs.

Most states also allow the IDC deductions against state income tax.

Potential investors should always review the PPM prior to investment as the deductions available will differ from investment to investment depending on the investment structure, timing of drilling and allocation of expenses, among other factors.

2025 TAX WRITE-OFF FOR GENERAL PARTNERS



Federal Tax Savings
(Up to 37%)

State Tax Savings
(Up to 13.3%)

Net Investment Income Tax
(Up to 3.8%)

CAN INVESTORS LIMIT THEIR LIABILITY IN A DRILLING FUND BY INVESTING THROUGH AN S CORPORATION, LLC OR LIMITED PARTNER UNIT AND STILL RECEIVE A TAX DEDUCTION AGAINST ORDINARY INCOME?

While this is a frequently asked question from Advisors and CPAs, unfortunately the answer is no. If the taxpayer invests through an entity which shields their liability, such as an S Corporation, Limited Liability Company (LLC) or Limited Partner Unit, they have limited their liability, and the investor is subject to passive loss rules. For those investors, partnership losses can only be taken against passive income.

While U.S. Energy maintains significant safeguards, procedures and policies to protect investors against potential general partner and operational risks, in the unlikely event that there ever was a claim against the partnership, U.S. Energy provides the following layers of investor protection for 2025:

- **Insurance:** If you invest as a General Partner, your liability is unlimited—but only temporarily. The fund offers built in safeguards: U.S. Energy maintains insurance coverage with effective excess limits of \$50 million for operations. U.S. Energy also requires that subcontractors maintain insurance coverage.
- **Automatic Conversion:** A General Partner converts to a Limited Partner after most wells are drilled and completed.
- **Indemnification:** The partnership covers any liability beyond investors' share of partnership assets and insurance.

INVESTORS CAN ELECT TO AMORTIZE IDCs OVER 5-YEARS

Although IDC deductions are typically taken in the year of investment, investors may elect to amortize all or a portion of their investment equally over a 60-month period, beginning in the month when the intangible costs are paid or incurred. To amortize the deduction, a tax preparer can make an election on Form 4562, Page 2 by beginning the amortization in the year the election is made.

WHY ARE INVESTOR GENERAL PARTNER OIL & GAS WORKING INTERESTS NOT A PASSIVE ACTIVITY?

IRS Code §469(c)(3)(A)

Even though investors do not materially participate in the management of a Drilling Fund, current tax code provisions allow investors to take an ordinary income write-off provided that the Managing General Partner (the sponsor, such as U.S. Energy) meets certain criteria and the investors are General Partners. This results in an ordinary income loss which investors typically take in the year of investment to offset other ordinary income.

IRS Code §469 (c)(3)(A) Passive Activity Losses and Credits Limited

(2) Passive activity includes any rental activity. Except as provided in paragraph (7), the term “passive activity” includes any rental activity.

(3) Working interests in oil and gas property. In general, the term “passive activity” shall not include any working interest in any oil or gas property which the taxpayer holds directly or through an entity which does not limit the liability of the taxpayer with respect to such interest.

(4) Material participation not required for paragraphs (2) and (3). Paragraphs (2) and (3) shall be applied without regard to whether or not the taxpayer materially participates in the activity.

WHAT IS ALTERNATIVE MINIMUM TAX (AMT)?

AM I AFFECTED?

IRS Code §57(a)(2)(e)

Alternative Minimum Tax, or AMT, was created to stop individuals from availing themselves of too many tax breaks and is intended to insure that no taxpayer with substantial income can avoid tax liability by using exclusions, deductions and credits. If the AMT exceeds an investor's regular tax, then investors must pay the excess in addition to their regular tax. The IRS tax code does this by not treating favorably certain items that are treated favorably for regular tax purposes.

Common reasons clients are affected by AMT include (for tax years 2018 to 2025):

1. High household income

2. Large capital gains

3. Exercising stock options

It is important to note, however, that oil and gas Drilling Funds are NOT classified as preference items for AMT purposes. This is due to the 1992 National Energy Bill which allows for an exception for independent producers of oil & gas. As a result, investors in AMT can utilize IDC deductions to reduce both taxable income and Alternative Minimum Taxable Income (AMTI).

For Drilling Fund General Partners, investment amounts deducted in excess of 40% of AMTI will be treated as an Excess Intangible Drilling Cost. This is because the reduction in AMTI by reason of the independent producer exemption for any taxable year shall not exceed 40% of the AMTI for such year determined without regard to the independent producer exemption and the net operating loss deduction under section 56(a)(4). Investors with Excess Intangible Drilling Cost deductions should consider amortizing all or a portion of their investment,

POTENTIAL DRILLING FUND INVESTMENT STRATEGIES:



Ordinary Income Tax Deductions:

- High W2 or Bonus Offset
- Sale of Business
- Roth Conversion Tax Offset
- Maximize Qualified Business Income (QBI) Deduction
- Required Minimum Distributions (RMDs) Offset
- Reduced Valuations for Gifting
- 1031 Exchange Alternative
- Offset Self Employment Taxes
- Stock Options
- Net Unrealized Appreciation (NUA)
- Offset Medicare Surplus / Net Investment Income Tax



Tax Efficient Income:

- Passive Losses/Passive Income Potential



Qualified Investments:

- Potential Dividends for Qualified Accounts
- Discounting / Roth Conversion Opportunities
- Tax Diversification

WHAT IS THE EFFECT ON SELF-EMPLOYMENT TAX FOR GENERAL PARTNERS?

IRS Code §1402(1) and 1402(A)(13)

An investment in an oil & gas drilling fund can help reduce self-employment income. A General Partner in a partnership includes all income and deductions from the partnership in the calculation of net income from self-employment. When the deductions from a General Partner exceed the income, a self-employment loss can be used to reduce other self-employment income.

In future years, when the General Partner Unit converts to a Limited Partner Unit, by definition, potential distributions for Limited Partners will not be subject to self-employment tax.

Source: www.IRS.gov

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CAN I GIFT MY DRILLING FUND INVESTMENT?

Using IRS guidelines for Minority & Marketability discounts on illiquid securities (described below), investors may be able to discount the value of their oil & gas investment for gifting purposes. If done correctly, this may allow the investor to gift the investment without recapture of the tax write-off received in the year of investment.

The example and comments below relate to the valuation of a gift for the purpose of calculating the amount of gift tax to be paid. In this example, a Fair Market Value ("FMV") has not been established and the Original Investment is used as the starting point for discounting purposes.

EXAMPLE:

Original Investment:	\$100,000
Discount for Minority Interest (20 - 40%):	(.75*100,000) =
Example at 25%:	\$75,000
Discount for Marketability (10 - 35%):	(.75*75,000) =
Example at 25%:	\$56,250
Discounted Value:	\$56,250

MINORITY DISCOUNT

A minority discount is a reduction in the value of the partnership interest that is intended to reflect the fact that a minority owner cannot control the daily activities or policy decisions of an enterprise, thus reducing the value of the minority interest. The size of the discount will depend on the size of the interest being valued, the amount of control, the owner's ability to liquidate the company and other factors. Typical discounts range from 20% to 40%, although greater discounts might be possible depending on the facts of the situation.

MARKETABILITY DISCOUNT

A discount for lack of marketability is used to compensate for the difficulty of liquidating an asset, for example selling shares of stock that are not traded on a stock exchange, compared with those that can be traded publicly. If an investor owns shares in a public company, he or she can pick up the telephone, call a broker, and generally convert the investment into cash within three days. That is not the case with an investment in a closely held business. Therefore, publicly traded stocks have an element of liquidity that closely held shares do not have. This is the reason that a discount for lack of marketability will be applied. It is intended to reflect the market's perceived reduction in value of not providing liquidity and can range from 10% to 35%.

REV RULE 59-60, Sec. 4.02, 1959-1 CB 237

Valuation of minority interests in closely-held stock: Discounts for minority interest, lack of marketability, and lack of liquidity. In valuing a minority interest in a closely-held corporation, a discount is generally deducted to give proper weight to both the limited market for the stock and the difficulties for a minority shareholder to either influence management, acquire control, or bring about a liquidation to convert the asset value into cash.

Source: www.IRS.gov

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TAX PLANNING OPPORTUNITIES FROM THE TAX CUTS & JOBS ACT (TCJA)

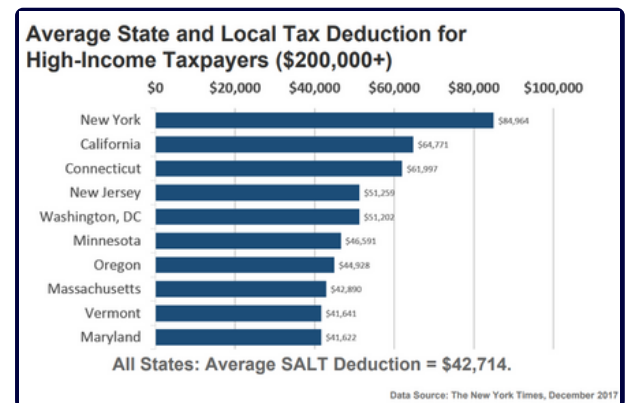
As of July 4, 2025, the One Big Beautiful Bill Act (OBBB) was passed into law and includes provisions that may impact certain tax strategies and structures discussed in this Tax Handbook. While 2025 tax filings will remain subject to current law, high-net-worth investors should begin preparing for how these changes may affect future deductions, investment structures, and tax strategies.

Introduced in 2017, the Tax Cuts and Jobs Act (TCJA) continues to shape U.S. tax policy. As we head into 2025, many of its provisions remain in place, though some are approaching their sunset period in 2026. High-net-worth investors still face limits on key deductions, but several planning opportunities remain.

1. STATE AND LOCAL TAXES (SALT TAX)

With the passing of OBBB, total deductible amount for income, sales and property taxes increased to \$40,000 for 2025.

- Opportunity to use an IDC Drilling Fund to replace tax deductions you may have lost or which are now limited. Most states also allow the IDC deductions against state income tax.



2. QUALIFIED BUSINESS INCOME (QBI)

Section 199A allows S corps, partnerships, limited liability companies (LLCs), trusts, estates and other entities to deduct up to 23% of their qualified business income (QBI) on their federal taxes. However, if your taxable income is above \$394,600 in 2025 you'll start to lose the QBI deduction and with an income above \$494,600 the QBI deduction is completely phased-out (for taxpayers who are married filing jointly).

- Opportunity to use an IDC Drilling Fund to lower income and receive some, if not all, of the 23% QBI deduction. Additionally, potential distributions from a Drilling Fund will receive the 23% QBI deduction in future years. See page 10 in this Tax Handbook for more information on Qualified Business Income (QBI).

3. OPPORTUNITY ZONE FUNDS

Opportunity Zone Funds allow individuals or corporations to invest in Opportunity Zones and receive exclusive tax benefits; including a tax deferral of realized short or long term capital gains, and tax free gains after 10 years. The OBBB made Opportunity Zones permanent by eliminating the 2026 end date and introducing rolling 10-year redesignation cycles.

- Separate from the Drilling Fund, U.S. Energy has established an Opportunity Zone Fund in energy which allows investors to diversify from traditional real estate opportunity zones. Contact U.S. Energy for more information.

4. CHARITABLE DONATIONS

In 2025, both itemizers and non-itemizers can benefit from charitable giving. Non-itemizers may deduct up to \$1,000 (single) or \$2,000 (married filing jointly) in cash donations above the line. Itemizers can deduct up to 60% of their AGI for cash gifts to public charities. However, starting in 2026, new limitations will apply for high-income earners, including a cap of 35% of AGI on charitable deductions and a minimum income threshold before additional deductions apply. Contributions to donor-advised funds, private foundations, or non-cash assets may have separate rules, so consult a tax advisor before making large or complex gifts.

- Drilling Funds can supplement this and other tax deductions which you may have lost or are now limited as a result of the Tax Cuts and Jobs Act.

MAXIMIZING QBI DEDUCTIONS FOR BUSINESS OWNERS

WHAT IS QUALIFIED BUSINESS INCOME (QBI) - SECTION 199A?

With the passing of OBBB, Section 199A now allows for a tax deduction of up to 23% of income from S corps, partnerships, limited liability companies (LLCs), trusts, estates, REIT dividends, sole proprietorships or qualified publicly traded partnerships.

DO ALL CLIENTS GET THE 23% DEDUCTION?

Unfortunately, no. If your clients' business qualifies as a "specified service trade or business"—defined as a trade or business that is dependent on the reputation or skill of one or more of its employees or owners—the deduction begins to phase-out at incomes above \$394,600 in 2025 and is completely phased-out above \$494,600 (for taxpayers who are married filing jointly). See the QBI Flow Chart below. Common specified service fields that will start to lose the QBI Deduction once their income exceeds \$494,600 include:

- Health
- Accounting
- Law
- Actuarial Science
- Athletics
- Performing Arts
- Financial Services

HOW CAN I MAXIMIZE MY QBI DEDUCTION?

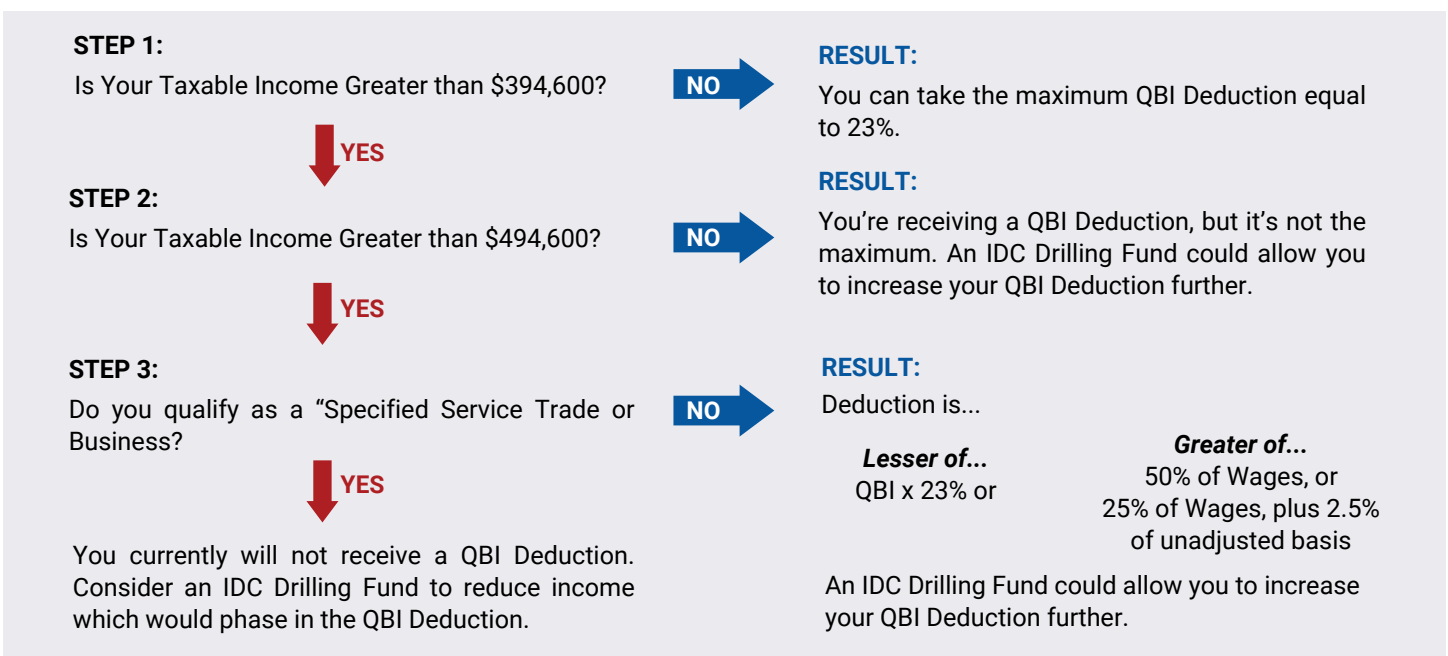
If you're losing some - or all - of your QBI deduction, there are potential solutions. Since investors in Drilling Funds with a high Intangible Drilling Cost Deduction (IDC) typically receive a substantial ordinary income tax deduction in their year of investment, for those clients who are losing the QBI deduction this creates an opportunity to use a Drilling Fund investment to lower your taxable income and receive some, if not all, of the 23% QBI deduction.

ARE THERE ANY ADDITIONAL TAX BENEFITS?

During the distribution phase, potential income from a Drilling Fund partnership will be eligible for the 23% QBI deduction; increasing the already tax efficient nature of oil & gas partnerships.

QBI FLOW CHART

Determine if you're eligible for a QBI Deduction in Three Simple Steps (Assumes Married Filing Jointly)



While many pass through businesses may be eligible for the new QBI deduction, a number of questions remain unanswered in the new law including which businesses qualify for the deduction, how states will handle the deduction, how QBI impacts Alternative Minimum Tax (AMT), and how different business structures should compute the deduction. You are encouraged to seek independent tax advice with respect to the tax ramifications to you of an investment in an oil and gas program sponsored by U.S. Energy. The information contained in this Tax Handbook is not intended to be used, and it cannot be used, by any recipient for the purpose of (i) avoiding penalties that may be imposed on the recipient under United States federal tax laws, or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.



TAX BENEFITS FOR LIMITED PARTNERS (LP UNITS)

In a Drilling Fund, Limited Partner investors apply their net subscription proceeds to either the payment of lease acquisition and tangible equipment expenses, or to IDCs in the same manner as General Partner Investors. Deductions will only be able to be used against passive income (generally, this includes income from investments or businesses which the investor owns but does not materially participate in the management of, such as the U.S. Energy 2025 Drilling Fund Program). Under current tax code provisions, passive losses not used in the current year may be carried forward for use in future years as suspended passive losses.

WHAT IS PASSIVE INCOME & SUSPENDED PASSIVE LOSSES?

Passive income and losses result from an activity such as a trade or business in which an investor does not materially participate but has the potential to profit; such as a Drilling Fund partnership. Passive activity loss rules create a separate tax “basket” for passive activities. Within this basket, losses and gains from different passive activities are netted against each other as follows:

- If the net total of the losses and gains (including any carry forward suspended losses) is positive, the income is included with wage and portfolio income in their annual tax filing.
- If the net total of the losses and gains is negative, the loss is suspended and carried forward until passive income is recognized in future years or the activities are sold or go out of existence.

This netting process may result in the taxpayer not having to recognize any income for tax purposes if the amount of their suspended passive loss is greater or less than the gain. Therefore, for investors with suspended passive losses, a partnership investment which creates passive income (such a Drilling Fund Limited Partner Unit) has the potential to generate income which is completely tax free.

An investor who has previously invested in any of the common passive activities listed below may have passive income or suspended passive losses.

Common Passive Activities:

- Equipment Leasing
- Rental Real Estate (with some exceptions)
- Oil & Gas Partnership Investments as Limited Partners
- Business Enterprise in which the Taxpayer does not Materially Participate

TAX BENEFITS FOR LIMITED LIABILITY COMPANY (LLC UNITS)

In some U.S. Energy Drilling Fund structures, you can invest as a member of a limited liability company (“LLC”) which are intended for investors who would like to participate with qualified funds (i.e. retirement accounts). Investors who acquire LLC Units will become members of a limited liability company which will become a Limited Partner in the Drilling Fund. For the 2025 Drilling Fund Programs, distributions to LLC members will not be treated, for income tax purposes, as unrelated business taxable income (“UBTI”).

LLC Unit Members Can Contribute Funds From:

- Traditional IRAs
- Roth IRAs
- KEOGH Plans
- Simplified Employee Pension/Trust (SEPs)
- Pensions
- Profit Sharing Plans



2025 TAX INFORMATION

Tax Rate	Taxpayer Filing Status			
	(Single)	(Married Filing Jointly)	(Married Filing Separately)	(Head of Household)
Amount of Taxable Income/Tax Due				
10%	Up to \$11,925	Up to \$23,850	Up to \$11,925	Up to \$17,000
12%	\$11,925 to \$48,475	\$23,850 to \$96,950	\$11,925 to \$48,475	\$17,000 to \$64,850
22%	\$48,475 to \$103,350	\$96,950 to \$206,700	\$48,475 to \$103,350	\$64,850 to \$103,350
24%	\$103,350 to \$197,300	\$206,700 to \$394,600	\$103,350 to \$197,300	\$103,350 to \$197,300
32%	\$197,300 to \$250,525	\$394,600 to \$501,050	\$197,300 to \$250,525	\$197,300 to \$250,500
35%	\$250,525 to \$626,350	\$501,050 to \$751,600	\$250,525 to \$375,800	\$250,500 to \$626,350
37%	Over \$626,350	Over \$751,600	Over \$375,800	Over \$626,350

WHY ARE OIL & GAS INVESTMENTS COMMONLY STRUCTURED AS LIMITED PARTNERSHIPS?

The advantage of a Limited Partnership is that for federal income tax purposes it is not a taxable entity. Thus, investor partners receive and report on their own tax return their share of partnership income, gain, loss, deductions, credits and tax preferences from the partnership’s operations based on the information provided annually in your Schedule K-1.

This Means:

- Deductions for intangible drilling costs, depreciation and depletion flow through to you and other partners.
- There is no “double tax” similar to that of corporate investments where income tax must be paid by the corporation on its net income and by the investor shareholders on their dividends.

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TAX BENEFITS ON POTENTIAL INVESTOR DISTRIBUTIONS

In addition to any upfront tax benefits as described previously, a portion of each partnership's potential distributions will be tax advantaged due to the available tax benefits for both oil & gas direct investors and partnerships. Potential tax benefits on distributions include:

OIL & GAS TAX BENEFITS

DEPLETION ALLOWANCE:

For all Drilling Fund investors, approximately 15% of the gross income is tax free as a result of the Depletion Deduction under current tax code provisions.

DEPRECIATION DEDUCTION:

Limited Partner investors will receive Depreciation Deductions equal to the partnership's allocation to tangible expenses. This deduction may be received in its entirety in the year of investment or over series of years; depending on the partnership structure.

PARTNERSHIP TAX BENEFITS

QUALIFIED BUSINESS INCOME (QBI) DEDUCTION:

Partnerships can deduct 23% of their business income against federal taxes (availability subject to investor income limitations).

DEPLETION ALLOWANCE

IRS Code 611, 613, 613 A(c)(6)

The current tax law allows for taxpayers to account for the reduction of oil and/or natural gas reserves from productive oil and natural gas wells through the depletion allowance. As a result of the depletion allowance, approximately 15%* of the gross income is tax free under the current tax code provisions. Potential depletion allowance deductions are allocated among all investors in a partnership based upon their interest in partnership revenues.

One unique aspect of the depletion allowance is that every year investors receive the GREATER of cost or percentage depletion, which are described below:

Cost Depletion:

- Calculation: unrecovered basis x units of production sold/estimated total units in the ground.

Percentage Depletion:

- Calculation: set percentage of gross income from a well*.

*percentage will range from a minimum of 15% of gross income to a maximum of 25%; based on the reference price of oil. A unique aspect of the percentage depletion is that the deduction is allowed even after the basis in the Drilling Fund investment has been reduced to zero.

DEPRECIATION DEDUCTION

IRS Code 168(b) and (c)

Depreciation is an annual allowance for the wear-and-tear, deterioration or obsolescence of a property. Depreciation begins when a taxpayer places property in service for use in a trade or business or for the production of income. The property ceases to be depreciable when the taxpayer has fully recovered the property's cost or other basis or when the taxpayer retires it from service, whichever happens first. In a typical U.S. Energy Drilling Fund, only Limited Partner investors will receive the Depreciation Deduction.

100% BONUS DEPRECIATION

As of July 4, 2025, the OBBB restores and makes permanent 100% bonus depreciation for assets placed in service on or after January 20, 2025, and continuing through at least 2030.

Strategic Planning Implications for 2025:

1. Review binding contracts to ensure purchases qualify under the new rules.
2. Elect-out option remains critical for smoothing taxable income across years;
3. Business expansions, including real estate build-outs, now benefit from immediate full expensing.
4. State conformity varies—many states may still impose phased depreciation, so adjust state filings accordingly.

The bill transforms 2025 from a limited 40% bonus year to 100%, a return to full expensing, empowering firms to dramatically reduce taxable income. This is not a temporary fix—it is designed for long-term applicability, supporting investment and business growth.



SYNDICATION COSTS

Syndication costs are costs incurred for the packaging of the investment unit (the partnership unit), and the promotion of it. These include marketing costs as well as the production of any offering memorandums or promotional materials. Included is the training of any brokers/dealers who will sell the partnership units, plus the actual sales commissions paid to the sellers of the partnership. Other costs normally incurred as a part of syndication would include legal costs associated with the offering, tax opinions, due diligence, costs of transferring assets to the partnership, printing and preparation of the Prospectus, regulatory filing fees, etc.

Syndication costs are capitalized as an intangible asset. Syndication expenses are not included in IRS Code 709(b). Although, they cannot be deducted or amortized (for tax purposes), it may be possible to deduct syndication costs from any potential gain when the partnership is sold.

DRILLING FUND: SAMPLE INVESTOR GENERAL PARTNER

TAX ANALYSIS - 90% IDC WRITE-OFF

This sample tax analysis demonstrates how an investment in a Drilling Fund as a General Partner can lower an investors total net tax due. Shown in this example below, using a 90% tax write-off, with no investment this investor would owe \$63,831 in taxes and would be in the 24% marginal nominal federal bracket. The impact of a Drilling Fund investment of \$100,000 and \$164,000 (this investors maximum level before AMT) are shown. By using their maximum deduction, this investor has reduced their total net tax due to \$14,875 (an upfront tax savings of \$48,956) while lowering their federal tax bracket to 22%.

	No Investment:	\$100,000 Investment (\$90,000 IDC):	\$164,000 Investment (\$147,600 IDC):	
Income:				
Wages	346,074	346,074	346,074	
Interest & Dividends	13,629	13,629	13,629	
Self-Employment Income	-120	-90,120	-147,720	Intangible Drilling Costs (IDC) Tax Deductions are an above-line deduction.
Capital Gains & Losses	89,045	89,045	89,045	
Other Income	-78,519	-78,519	-78,519	
Total Income:	370,109	280,109	222,509	
Total Adjustments:	0	0	0	
Adjusted Gross Income:	370,109	280,109	222,509	IDC's Reduce Adjusted Gross Income
Personal Exemptions	0	0	0	
Itemized Deductions:				
Taxes	10,000	10,000	10,000	
Interest Expense	13,629	13,629	13,629	
Gambling & Other Itemized	-414	-414	-414	
Total Itemized:	23,215	23,215	23,215	
Standard Deduction	30,000	30,000	30,000	
Total Deductions from AGI	30,000	30,000	30,000	
Taxable Income	340,109	250,109	192,509	IDC's Reduce Taxable Income
Regular Tax:				
Schedule or Table Tax	67,320	45,720	32,180	
Alternative Capital Gains Tax	59,306	38,619	25,947	
Appropriate Regular Tax	59,306	38,619	25,947	
High Income HI, Medicare & Other Tax	4,767	2,009	865	
Total Federal Taxes	64,073	40,628	26,812	
Net Federal Tax Due:	64,073	40,628	26,812	IDC's Reduce Net Federal Tax Due
Resident State Tax	24,083	15,844	12,388	
Resident State Estimated & W/H	-24,325	-24,325	-24,325	Most States also allow the IDC Deduction
Net Resident State Tax Due:	-242	-8,481	-11,937	By maximizing their deduction, this investor has reduced their total tax due to \$14,875 while lowering their tax bracket to 22%
Total Net Tax Due:	63,831	32,147	14,875	
Marginal Nominal Federal Rate	24	22	22	

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YEAR 1 - SAMPLE TAX FORM

Reporting your Initial Tax Write-Off from Schedule K-1

Investors in a Drilling Fund will receive a Schedule K-1 on an annual basis. This document outlines the partner's share of income, deductions and credits from the most recent tax year, which flow through to investors. Notice in Part II, Section G below this Schedule K-1 is for a General Partner who received an 80% tax write-off. Their initial tax write-off is shown on Part III, Line 13-J. The initial write-off is also shown in Part III, Section 14 for those investors who receive additional benefits due to self-employment.

651123
 OMB No. 1545-0123

Schedule K-1
(Form 1065)
Department of the Treasury
Internal Revenue Service

2024

Final K-1 Amended K-1

For calendar year 2024, or tax year beginning ending

Partner's Share of Income, Deductions, Credits, etc.
See separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number

B Partnership's name, address, city, state, and ZIP code

C IRS center where partnership filed return:

D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)

F Name, address, city, state, and ZIP code for partner entered in E. See instructions.

G General partner or LLC member-manager Limited partner or other LLC member

H1 Domestic partner Foreign partner

H2 If the partner is a disregarded entity (DE), enter the partner's:
TIN _____ Name _____

I1 What type of entity is this partner?

I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here.

J Partner's share of profit, loss, and capital (see instructions):

	Beginning	Ending
Profit	%	%
Loss	%	%
Capital	%	%

Check if decrease is due to:
 Saleor Exchange of partnership interest. See instructions.

K1 Partner's share of liabilities:

	Beginning	Ending
Nonrecourse . . . \$	\$	\$
Qualified nonrecourse financing . . . \$	\$	\$
Recourse . . . \$	\$	\$

K2 Check this box if item K1 includes liability amounts from lower-tier partnerships

K3 Check if any of the above liability is subject to guarantees or other payment obligations by the partner. See instructions.

L Partner's Capital Account Analysis

Beginning capital account . . . \$	_____
Capital contributed during the year . . . \$	_____
Current year net income (loss) . . . \$	_____
Other increase (decrease) (attach explanation) \$	_____
Withdrawals and distributions . . . (_____)	_____
Ending capital account . . . \$	_____

M Did the partner contribute property with a built-in gain (loss)?
 Yes **No** If "Yes," attach statement. See instructions.

N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)

Beginning \$	_____
Ending \$	_____

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1 Ordinary business income (loss) -37	14 Self-employment earnings (loss) -80,000
2 Net rental real estate income (loss)	
3 Other net rental income (loss)	15 Credits
4a Guaranteed payments for services	
4b Guaranteed payments for capital	16 Schedule K-3 is attached if checked <input type="checkbox"/>
4c Total guaranteed payments	17 Alternative minimum tax (AMT) items 80,037
5 Interest income	
6a Ordinary dividends	
6b Qualified dividends	18 Tax-exempt income and nondeductible expenses
6c Dividend equivalents	
7 Royalties	
8 Net short-term capital gain (loss)	19 Distributions
9a Net long-term capital gain (loss)	
9b Collectibles (28%) gain (loss)	20 Other information
9c Unrecaptured section 1250 gain	
10 Net section 1231 gain (loss)	
11 J* Other income (loss) -80,000	
12 Section 179 deduction	21 Foreign taxes paid or accrued
13 Other deductions	
22 <input type="checkbox"/> More than one activity for at-risk purposes*	
23 <input type="checkbox"/> More than one activity for passive activity purposes*	

*See attached statement for additional information.

For IRS Use Only

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YEAR 1 - SAMPLE TAX FORM

Reporting your Initial Tax Write-Off on Schedule E

Information from your Schedule K-1 and any additional statements is transferred to Schedule E. Since this is a first-year write-off, only a Nonpassive Loss is listed under Part II which is transferred to "Total partnership and S corporation income or (loss)" in Part II, Line 32. The Schedule E in future years will include Ordinary Income (from production) and Losses (from Depletion and/or Depreciation Deductions) which will be netted against each other. In our oil and gas example, the same number is carried down to Part V, line 41 showing "Total income or (loss)" and transferred to Schedule 1.

Name(s) shown on return. Do not enter name and social security number if shown on other side.	Your social security number
---	-----------------------------

Caution: The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.

Part II Income or Loss From Partnerships and S Corporations

Note: If you report a loss, receive a distribution, dispose of stock, or receive a loan repayment from an S corporation, you **must** check the box in column (e) on line 28 and attach the required basis computation. If you report a loss from an at-risk activity for which **any** amount is **not** at risk, you **must** check the box in column (f) on line 28 and attach **Form 6198**. See instructions.

27 Are you reporting any loss not allowed in a prior year due to the at-risk or basis limitations, a prior year unallowed loss from a passive activity (if that loss was not reported on Form 8582), or unreimbursed partnership expenses? If you answered "Yes," see instructions before completing this section **Yes** **No**

	(a) Name	(b) Enter P for partnership; S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if basis computation is required	(f) Check if any amount is not at risk
A	Drilling Fund	P	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
B			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
C			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
D			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>

Passive Income and Loss			Nonpassive Income and Loss		
	(g) Passive loss allowed (attach Form 8582 if required)	(h) Passive income from Schedule K-1	(i) Nonpassive loss allowed (see Schedule K-1)	(j) Section 179 expense deduction from Form 4562	(k) Nonpassive income from Schedule K-1
A			80,037		
B					
C					
D					
29a Totals					
b Totals			80,037		
30	Add columns (h) and (k) of line 29a				30
31	Add columns (g), (i), and (j) of line 29b				31 (80,037)
32	Total partnership and S corporation income or (loss). Combine lines 30 and 31				32 (80,037)

Part III Income or Loss From Estates and Trusts

33	(a) Name	(b) Employer identification number
A		
B		

Passive Income and Loss		Nonpassive Income and Loss	
	(c) Passive deduction or loss allowed (attach Form 8582 if required)	(d) Passive income from Schedule K-1	(e) Deduction or loss from Schedule K-1
A			
B			
34a Totals			
b Totals			
35	Add columns (d) and (f) of line 34a		35
36	Add columns (c) and (e) of line 34b		36 ()
37	Total estate and trust income or (loss). Combine lines 35 and 36		37

Part IV Income or Loss From Real Estate Mortgage Investment Conduits (REMICs)—Residual Holder

38	(a) Name	(b) Employer identification number	(c) Excess inclusion from Schedules Q, line 2c (see instructions)	(d) Taxable income (net loss) from Schedules Q, line 1b	(e) Income from Schedules Q, line 3b
39	Combine columns (d) and (e) only. Enter the result here and include in the total on line 41 below.				39

Part V Summary

40	Net farm rental income or (loss) from Form 4835. Also, complete line 42 below.		40
41	Total income or (loss). Combine lines 26, 32, 37, 39, and 40. Enter the result here and on Schedule 1 (Form 1040), line 5		41 (80,037)
42	Reconciliation of farming and fishing income. Enter your gross farming and fishing income reported on Form 4835, line 7; Schedule K-1 (Form 1065), box 14, code B; Schedule K-1 (Form 1120-S), box 17, code AN; and Schedule K-1 (Form 1041), box 14, code F. See instructions	42	
43	Reconciliation for real estate professionals. If you were a real estate professional (see instructions), enter the net income or (loss) you reported anywhere on Form 1040, Form 1040-SR, or Form 1040-NR from all rental real estate activities in which you materially participated under the passive activity loss rules	43	

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YEAR 1 - SAMPLE TAX FORM

Reporting your Initial Tax Write-Off on Schedule 1

Information from Schedule E, Part V, line 41 showing "Total income or (loss)" is transferred to Line 5 of Schedule 1.

SCHEDULE 1 (Form 1040)		Additional Income and Adjustments to Income		OMB No. 1545-0074 2024 Attachment Sequence No. 01
Department of the Treasury Internal Revenue Service		Attach to Form 1040, 1040-SR, or 1040-NR. Go to www.irs.gov/Form1040 for instructions and the latest information.		
Name(s) shown on Form 1040, 1040-SR, or 1040-NR			Your social security number	
For 2024, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss				
Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See www.irs.gov/1099k .				
Part I Additional Income				
1	Taxable refunds, credits, or offsets of state and local income taxes		1	
2a	Alimony received		2a	
b	Date of original divorce or separation agreement (see instructions):			
3	Business income or (loss). Attach Schedule C		3	
4	Other gains or (losses). Attach Form 4797		4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		5	(80,037)
6	Farm income or (loss). Attach Schedule F		6	
7	Unemployment compensation		7	
8	Other income:			
a	Net operating loss	8a ()		
b	Gambling	8b		
c	Cancellation of debt	8c		
d	Foreign earned income exclusion from Form 2555	8d ()		
e	Income from Form 8853	8e		
f	Income from Form 8889	8f		
g	Alaska Permanent Fund dividends	8g		
h	Jury duty pay	8h		
i	Prizes and awards	8i		
j	Activity not engaged in for profit income	8j		
k	Stock options	8k		
l	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property	8l		
m	Olympic and Paralympic medals and USOC prize money (see instructions)	8m		
n	Section 951(a) inclusion (see instructions)	8n		
o	Section 951A(a) inclusion (see instructions)	8o		
p	Section 461(l) excess business loss adjustment	8p		
q	Taxable distributions from an ABL account (see instructions)	8q		
r	Scholarship and fellowship grants not reported on Form W-2	8r		
s	Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d	8s ()		
t	Pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan	8t		
u	Wages earned while incarcerated	8u		
v	Digital assets received as ordinary income not reported elsewhere. See instructions	8v		
z	Other income. List type and amount:	8z		
9	Total other income. Add lines 8a through 8z		9	
10	Combine lines 1 through 7 and 9. This is your additional income . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8		10	(80,037)

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71479F

Schedule 1 (Form 1040) 2024

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YEAR 1 - SAMPLE TAX FORM

Reporting your Initial Tax Write-Off on Form 1040

Information from Schedule 1 is transferred to Line 8 of Form 1040.

Form 1040 Department of the Treasury—Internal Revenue Service		2024	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.																																																																																																																								
For the year Jan. 1–Dec. 31, 2024, or other tax year beginning _____, 2024, ending _____, 20_____			See separate instructions.																																																																																																																									
Your first name and middle initial		Last name		Your social security number																																																																																																																								
If joint return, spouse's first name and middle initial		Last name		Spouse's social security number																																																																																																																								
Home address (number and street). If you have a P.O. box, see instructions.				Apt. no.																																																																																																																								
City, town, or post office. If you have a foreign address, also complete spaces below.			State	ZIP code																																																																																																																								
Foreign country name		Foreign province/state/county		Foreign postal code																																																																																																																								
Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse																																																																																																																												
Filing Status <input type="checkbox"/> Single <input type="checkbox"/> Head of household (HOH) <input type="checkbox"/> Married filing jointly (even if only one had income) <input type="checkbox"/> Married filing separately (MFS) <input type="checkbox"/> Qualifying surviving spouse (QSS) If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent: _____ <input type="checkbox"/> If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box and enter their name (see instructions and attach statement if required): _____																																																																																																																												
Digital Assets At any time during 2024, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) <input type="checkbox"/> Yes <input type="checkbox"/> No																																																																																																																												
Standard Deduction Someone can claim: <input type="checkbox"/> You as a dependent <input type="checkbox"/> Your spouse as a dependent <input type="checkbox"/> Spouse itemizes on a separate return or you were a dual-status alien																																																																																																																												
Age/Blindness/Spouse: <input type="checkbox"/> Were born before January 2, 1960 <input type="checkbox"/> Are blind <input type="checkbox"/> Spouse: <input type="checkbox"/> Was born before January 2, 1960 <input type="checkbox"/> Is blind																																																																																																																												
Dependents (see instructions):																																																																																																																												
<table border="1"><thead><tr><th>(1) First name</th><th>Last name</th><th>(2) Social security number</th><th>(3) Relationship to you</th><th>(4) Check the box if qualifies for (see instructions):</th></tr><tr><th colspan="4"></th><th>Child tax credit</th><th>Credit for other dependents</th></tr></thead><tbody><tr><td></td><td></td><td></td><td></td><td><input type="checkbox"/></td><td><input type="checkbox"/></td></tr><tr><td></td><td></td><td></td><td></td><td><input type="checkbox"/></td><td><input type="checkbox"/></td></tr><tr><td></td><td></td><td></td><td></td><td><input type="checkbox"/></td><td><input type="checkbox"/></td></tr><tr><td></td><td></td><td></td><td></td><td><input type="checkbox"/></td><td><input type="checkbox"/></td></tr></tbody></table>					(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) Check the box if qualifies for (see instructions):					Child tax credit	Credit for other dependents					<input type="checkbox"/>	<input type="checkbox"/>					<input type="checkbox"/>	<input type="checkbox"/>					<input type="checkbox"/>	<input type="checkbox"/>					<input type="checkbox"/>	<input type="checkbox"/>																																																																																					
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Standard Deduction for— • Single or Married filing separately, \$14,600 • Married filing jointly or Qualifying surviving spouse, \$29,200 • Head of household, \$21,900 • If you checked any box under Standard Deduction, see instructions.																																																																																																																												
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form 1040 (2024)																																																																																																																												

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YEAR 2 - SAMPLE TAX FORM

Reporting Income and Deductions from Schedule K-1

In year 2, your annual Schedule K-1 and supporting schedules will report potential income and deductions from the previous calendar year. An example is shown below.

**Schedule K-1
(Form 1065)**
Department of the Treasury
Internal Revenue Service

2024

Final K-1 Amended K-1

651123
OMB No. 1545-0123

For calendar year 2024, or tax year
beginning / / 2024 ending / /

Partner's Share of Income, Deductions, Credits, etc.
See separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number

B Partnership's name, address, city, state, and ZIP code

C IRS center where partnership filed return:

D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)

F Name, address, city, state, and ZIP code for partner entered in E. See instructions.

G General partner or LLC member-manager Limited partner or other LLC member

H1 Domestic partner Foreign partner

H2 If the partner is a disregarded entity (DE), enter the partner's:
TIN _____ Name _____

I What type of entity is this partner?
1 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here.

I Partner's share of profit, loss, and capital (see instructions):

	Beginning	Ending
J Profit	%	%
Loss	%	%
Capital	%	%

Check if decrease is due to:
 Sale or Exchange of partnership interest. See instructions.

K1 Partner's share of liabilities:

	Beginning	Ending
Nonrecourse	\$	\$
Qualified nonrecourse financing	\$	\$
Recourse	\$	\$

K2 Check this box if item K1 includes liability amounts from lower-tier partnerships

K3 Check if any of the above liability is subject to guarantees or other payment obligations by the partner. See instructions.

L Partner's Capital Account Analysis

Beginning capital account	\$
Capital contributed during the year	\$
Current year net income (loss)	\$
Other increase (decrease) (attach explanation)	\$
Withdrawals and distributions	\$ ()
Ending capital account	\$

M Did the partner contribute property with a built-in gain (loss)?
 Yes No If "Yes," attach statement. See instructions.

N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)

Beginning	\$
Ending	\$

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1 Ordinary business income (loss) 5,202	14 Self-employment earnings (loss)
2 Net rental real estate income (loss)	
3 Other net rental income (loss)	15 Credits
4a Guaranteed payments for services	
4b Guaranteed payments for capital	16 Schedule K-3 is attached if checked <input type="checkbox"/>
4c Total guaranteed payments	17 Alternative minimum tax (AMT) items 8,876
5 Interest income 3,674	
6a Ordinary dividends	
6b Qualified dividends	18 Tax-exempt income and nondeductible expenses
6c Dividend equivalents	
7 Royalties	
8 Net short-term capital gain (loss)	19 Distributions 5,346
9a Net long-term capital gain (loss)	
9b Collectibles (28%) gain (loss)	
9c Unrecaptured section 1250 gain	20 Other information Information from the attached statement reflected depletion deduction of 1,331
10 Net section 1231 gain (loss)	
11 Other income (loss)	
12 Section 179 deduction	21 Foreign taxes paid or accrued
13 Other deductions	

22 More than one activity for at-risk purposes*
23 More than one activity for passive activity purposes*

*See attached statement for additional information.

For IRS Use Only

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YEAR 2 - SAMPLE TAX FORM

Reporting Income and Deductions to Schedule E

Information from your Schedule K-1 and any supporting schedules is transferred to Schedule E. On this schedule, Ordinary Income (from production) and Losses (from Depletion and/or Depreciation Deductions) are netted against each other. In our oil and gas example, the same number is carried down to Part V, line 41 showing "Total income or (loss)". This same number is transferred to Schedule 1 and Form 1040; as shown in the prior 'Year 1' Example.

Schedule E (Form 1040) 2024 Attachment Sequence No. **13** Page **2**
 Name(s) shown on return. Do not enter name and social security number if shown on other side. Your social security number

Caution: The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.

Part II Income or Loss From Partnerships and S Corporations

Note: If you report a loss, receive a distribution, dispose of stock, or receive a loan repayment from an S corporation, you **must** check the box in column (e) on line 28 and attach the required basis computation. If you report a loss from an at-risk activity for which **any** amount is **not** at risk, you **must** check the box in column (f) on line 28 and attach **Form 6198**. See instructions.

27 Are you reporting any loss not allowed in a prior year due to the at-risk or basis limitations, a prior year unallowed loss from a passive activity (if that loss was not reported on Form 8582), or unreimbursed partnership expenses? If you answered "Yes," see instructions before completing this section **Yes** **No**

	(a) Name	(b) Enter P for partnership; S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if basis computation is required	(f) Check if any amount is not at risk
A	Drilling Fund	P	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
B	Drilling Fund Depletion	P	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
C			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
D			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>

Passive Income and Loss		Nonpassive Income and Loss		
(g) Passive loss allowed (attach Form 8582 if required)	(h) Passive income from Schedule K-1	(i) Nonpassive loss allowed (see Schedule K-1)	(j) Section 179 expense deduction from Form 4562	(k) Nonpassive income from Schedule K-1
A				5,202
B		1,331		
C				
D				
29a Totals				
b Totals				
30 Add columns (h) and (k) of line 29a				30 5,202
31 Add columns (g), (i), and (j) of line 29b				31 (1,331)
32 Total partnership and S corporation income or (loss). Combine lines 30 and 31				32 3,871

Part III Income or Loss From Estates and Trusts

	(a) Name	(b) Employer identification number
A		
B		

Passive Income and Loss		Nonpassive Income and Loss	
(c) Passive deduction or loss allowed (attach Form 8582 if required)	(d) Passive income from Schedule K-1	(e) Deduction or loss from Schedule K-1	(f) Other income from Schedule K-1
A			
B			
34a Totals			
b Totals			
35 Add columns (d) and (f) of line 34a			35
36 Add columns (c) and (e) of line 34b			36 ()
37 Total estate and trust income or (loss). Combine lines 35 and 36			37

Part IV Income or Loss From Real Estate Mortgage Investment Conduits (REMICs)—Residual Holder

	(a) Name	(b) Employer identification number	(c) Excess inclusion from Schedules Q , line 2c (see instructions)	(d) Taxable income (net loss) from Schedules Q , line 1b	(e) Income from Schedules Q , line 3b
38					
39	Combine columns (d) and (e) only. Enter the result here and include in the total on line 41 below .				39

Part V Summary

40	Net farm rental income or (loss) from Form 4835 . Also, complete line 42 below	40	
41	Total income or (loss) . Combine lines 26, 32, 37, 39, and 40. Enter the result here and on Schedule 1 (Form 1040), line 5	41	3,871
42	Reconciliation of farming and fishing income. Enter your gross farming and fishing income reported on Form 4835, line 7; Schedule K-1 (Form 1065), box 14, code B; Schedule K-1 (Form 1120-S), box 17, code AN; and Schedule K-1 (Form 1041), box 14, code F. See instructions	42	
43	Reconciliation for real estate professionals. If you were a real estate professional (see instructions), enter the net income or (loss) you reported anywhere on Form 1040, Form 1040-SR, or Form 1040-NR from all rental real estate activities in which you materially participated under the passive activity loss rules	43	

Schedule E (Form 1040) 2024

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This Tax Handbook is for informational purposes only. It does not constitute an offer to sell or a solicitation of an offer to buy any security. Such offers can only be made by a PPM to accredited investors. Oil & gas investments involve a high degree of risk and are not suitable for all investors.

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Please refer to the Risk Factors section of any specific PPM.

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