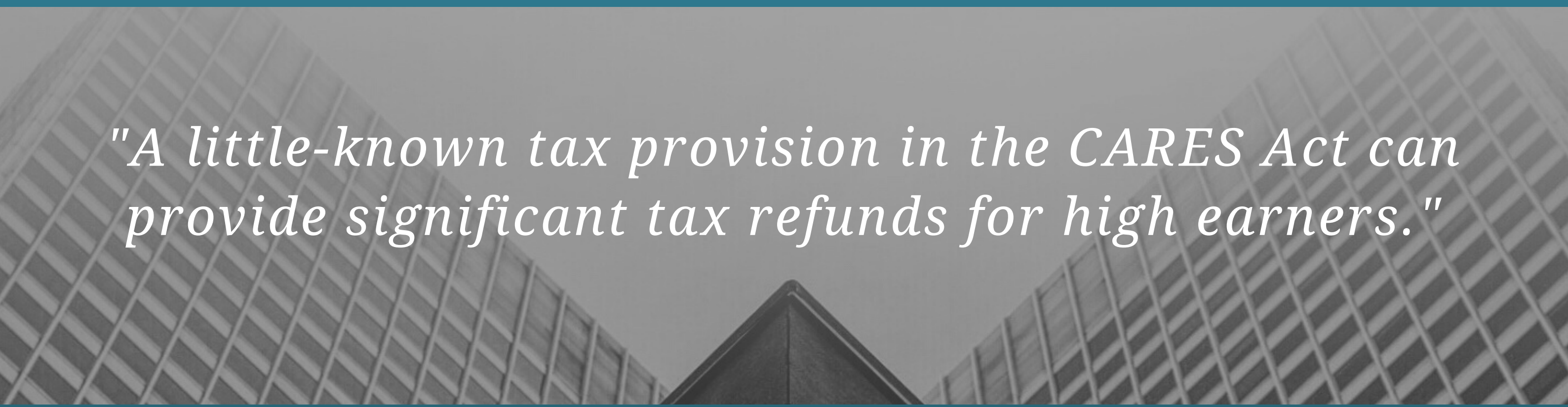
ADVANCED CARES ACT TAX BREAKS

EXPIRES 12/31/2020



"A little-known tax provision in the CARES Act can provide significant tax refunds for high earners."

The U.S. Government is offering a one-time opportunity to recoup your tax payments made in previous years through the CARES Act. The program offers tremendous benefits for anyone who's paid taxes over the last five years, yet few are aware of the opportunity. Let me explain more...

The CARES Act temporarily re-establishes and enhances net operating loss (NOL) carryback provisions, allowing individuals and companies to recover 100% of any losses incurred in the 2018-2020 tax year. You can use these NOLs to recoup income taxes paid out over the preceding five years, without limit.

In most cases, these rules help businesses offset the losses incurred from the economic shock of the Coronavirus pandemic, by recouping taxes paid in previous years. So how can you – as a wage earner and non-business owner – benefit from this opportunity? In a few specific cases, you can claw back your previous taxes by simply investing into partnership structures that incur NOLs. Here’s a few options for you to consider.

- Real Estate investment
- Business investment
- Oil and gas partnership investment

In many cases, real estate investments are passively structured (i.e. REITs). These passively structured investments aren’t eligible for the tax relief benefits in the CARES Act. However, if you’re an active real estate investor (i.e. you own and manage rental properties) with NOLs in the past three years, you can apply these losses to recoup previous tax payments.

Business investments that have incurred losses over the past three years can also harvest NOLs for tax relief. Here again, your involvement in the investment must be considered active. This typically includes things like S-corps, while excluding C-corps and other passive ownership interests in businesses.

HOW THIS CAN BENEFIT YOU

Example: Abby is a shareholder in an S corporation manufacturing company. She generated $1 million of taxable income and paid $350,000 of federal income tax each year from 2014 through 2019. In 2020, the business experienced some financial difficulties and Abby's personal tax return reflected a $2 million net operating loss (NOL). The loss carryback provisions of the new CARES Act will allow Abby to carry the loss back to offset her taxable income from 2014 and 2015, generating a $700,000 federal tax refund.

Oil and gas investments offer a unique proposition among potential CARES Act beneficiaries. Direct oil and gas investment vehicles expense 100% of intangible drilling costs (IDCs) and they are treated as losses in the current tax year. IDCs can represent up to 90% of the entire investment into an oil and gas project. And here's the key- the proper investment structure allows investors to be active participants, even though they are passive, qualifying the losses as active tax deductions. (Reg §1.469-1T(e)(4)(i).). Consider an example...

Let's say you paid out $1 million in taxes from 2014 - 2019, and you have no other businesses with operating losses in 2020 that will claw-back your prior five years of paid-up income taxes. You could allocate $1 million into a low risk drilling fund allowing you to claim $900,000 in operating losses in 2020. With the new CARES Act provisions, you can then go back five years in time and reduce your taxable income by $900,000. Assuming a 37% tax bracket over the last five years, Uncle Sam will then send you a check for $333,000 next year. The following is an example of a Yield Fund investment offering a 18% IRR, with principle investment recovered in 12 -15 months.

$1,000,000 →

-$900,000 — **2020 K1 Loss**

X 37% — **Tax Bracket**

$333,000 → **CARES Act Tax Refund from IRS**

= $667,000 — **New Cost Basis on Investment**

$1,286,000[1] — **Pre-tax Cashflow Returns**

1 The Pre-tax Cashflow Returns are an example of our Yield Fund, which offers a 15%-20% pre-tax IRR over eight years with the principal paid back in 12 months

HOW THIS CAN BENEFIT YOU

Why the Government Created Oil and Gas Tax Breaks

If you lived through the 1970s, you probably remember the OPEC-lead “oil shock” that delivered mile-long gas lines, spiking consumer prices and a devastating stagflationary recession (high inflation and high unemployment). After that experience, the U.S. government made energy investing a national strategic priority by creating a series of tax incentives aimed at boosting the domestic supply of oil and gas. These include both upfront tax breaks just for funding the well, plus ongoing incentives from wells that successfully produce oil and gas, as detailed below:

Intangible drilling costs - roughly 85% of the well cost, which includes things you can’t reuse (labor and drilling rig rental costs). You can deduct 100% of these expenses in the year in which they are incurred.

Tangible drilling costs – roughly 15% of the well cost, which covers things you can recover or resell after drilling (storage tanks, wellheads, and leasehold agreements). Thanks to a new 2017 law in effect until 2023, you can now deduct 100% of tangible costs in the first year.

Depletion allowance - this incentive allows you to deduct 15% of the annual income from your oil or gas well once production comes online. This reflects the fact that oil and gas wells produce less volume with each passing year..

If you find yourself dealing with large tax liabilities and you are open to learning more information please schedule an appointment with our investors relations department.

DO YOU WANT TO FIND OUT MORE?

SET AN APPOINTMENT WITH OUR TEAM

INFO@ENERGYFUNDERS.COM

Please consult with your CPA or tax advisor for what makes sense in your personal tax situation. But we’re here to provide any information that can help you take advantage of this special situation.

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