KINGSWOOD

INVESTMENT SOLUTIONS

DIRECT PARTICIPATION PROGRAMS

Oil & Gas Tax Strategies for Year-End 2026

DRILLING · WORKING INTERESTS · MINERALS

Intangible Drilling Costs · Bonus Depreciation · Depletion

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FOR KINGSWOOD FINANCIAL PROFESSIONALS · NOT FOR CLIENT DISTRIBUTION · OCTOBER 2026

A GUIDE FOR KINGSWOOD ADVISORS

About This Guide

Oil and gas direct participation programs (DPPs) are one of the few investments the tax code rewards with large, current-year deductions that can offset ordinary income, including wages and business income. That makes the fourth quarter their busiest season. This guide explains how the programs are structured, where the deductions come from, the rules that make a December investment deductible this year, the limits and risks that come with them, and how to present them. It closes with the oil and gas programs currently approved on the Kingswood platform and the sponsor contact for each.

At a Glance

IDC	Intangible drilling costs, typically the largest share of a drilling program's budget, are generally deductible in the year paid.
Working interest	Investor general partner units let the IDC deduction offset active income, not only passive income.
90-day rule	Prepaid IDC can be deducted in 2026 if drilling begins by the 90th day after year-end, March 31, 2027.
Bonus depreciation	Tangible equipment is depreciable, and 100% bonus depreciation was made permanent in 2025.
15% depletion	Independent producers and royalty owners may shelter 15% of gross production income through percentage depletion.
Limits	At-risk rules, the excess business loss limit, AMT, recapture and state conformity all affect the real benefit.

Reading the Program Profiles

Each sponsor profile opens with the firm's category and headquarters, followed by a description of its programs. The shaded panel lists the topics most worth raising with the sponsor and its designated contact. Below each profile, a banded block lists every oil and gas program from that sponsor carrying an Active advisor approval on the Kingswood product access platform as of October 14, 2026, with its approval date. Year-end closing dates are set by each sponsor and fill quickly; confirm the final subscription deadline and the current platform record before soliciting.

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PROGRAM FUNDAMENTALS

How Oil & Gas DPPs Work

A DPP is a partnership that passes income, deductions and credits straight through to its investors, who report them on a Schedule K-1. In an oil and gas program, investor capital pays to drill, complete or acquire interests in wells, and investors share in production revenue for the life of the wells.

The Parties

- **The sponsor or managing general partner** organizes the partnership, selects prospects, contracts the drilling and manages the program. Many sponsors are also the operator and drill their own wells.
- **Investor general partners** hold a working interest with unlimited liability. That status is what lets their drilling deductions offset active income. Sponsors typically carry insurance and convert investor general partner units to limited partner units once drilling is complete.
- **Limited partners** have liability limited to their investment, but their deductions are passive and can only offset passive income.

Program Types

Type	What it owns	Tax profile
Drilling program	New wells drilled by an operator-sponsor, usually development wells in proven fields.	Largest first-year IDC deduction; depreciation on equipment; depletion on production.
Non-operated working interest fund	Minority working interests in wells run by established operators.	IDC and depletion pass through; deductions depend on how much new drilling the fund funds.
Income or acquisition fund	Interests in wells already producing.	Little IDC; income sheltered mainly by depletion and depreciation.
Mineral and royalty fund	Mineral rights and royalty interests, with no share of drilling costs.	No IDC; royalty income eligible for percentage depletion; some vehicles accept 1031 proceeds.
Opportunity Zone energy fund	Drilling or energy assets inside Qualified Opportunity Zones.	Built for reinvested capital gains under Section 1400Z-2 rather than for ordinary-income deductions.

How Investors Are Paid

Distributions come from the sale of oil, gas and natural gas liquids after operating costs, and typically begin after wells are completed and connected to pipelines. Production declines over time, steeply in the first years for shale wells, so distributions are a combination of income and return of capital. They vary with commodity prices and are not guaranteed. Most programs run for many years with no redemption feature, although some sponsors offer limited repurchase or plan an eventual sale of the assets.

THE TAX BENEFITS

Where the Deductions Come From

Four provisions of the Internal Revenue Code do most of the work. Together they let a drilling program deliver a large first-year deduction and shelter part of the income that follows.

Benefit	Code	How it works
Intangible drilling costs	§263(c)	Labor, fuel, site preparation, drilling services and other costs with no salvage value can be deducted in the year paid rather than capitalized. They are usually the largest share of a drilling budget; the projected percentage is stated in each PPM.
Tangible drilling costs	§168(k)	Casing, wellheads, pumps and other equipment are depreciated, normally over seven years. Legislation in 2025 permanently restored 100% bonus depreciation for qualifying property acquired after January 19, 2025, so equipment may be deducted in full in the year it is placed in service, usually when the well is completed.
Percentage depletion	§613A	Independent producers and royalty owners may deduct 15% of gross income from production, subject to a daily volume limit and a cap of 65% of taxable income. Unlike cost depletion, it can continue after basis is recovered.
Working interest exception	§469(c)(3)	A working interest held directly or through an entity that does not limit liability is not a passive activity. Losses can offset wages, business and portfolio income. Income from an interest whose losses were treated as non-passive generally stays non-passive afterward.

Why the Unit Type Matters

The same program can produce very different results depending on the units a client buys. Investor general partner units carry the working interest exception, so the first-year IDC deduction reduces the client's taxable ordinary income directly. Limited partner units produce the same deductions, but they are passive: useful only to a client with passive income to absorb them, and otherwise suspended until the client has passive income or disposes of the interest. The trade-off is liability during the drilling phase, which is why sponsors insure the program and convert investor general partners to limited partners once drilling is complete.

What Comes Later

Deductions are front-loaded and income comes later. Production income in later years is taxable, partly sheltered by depletion and remaining depreciation. When the program sells its wells or a client disposes of the interest, prior IDC and depreciation deductions are recaptured as ordinary income under Section 1254 to the extent of the gain. A drilling program defers and converts tax as much as it reduces it, and the illustration a client sees should show both sides.

TIMING

The Year-End Window

A December investment can produce a 2026 deduction because of a special prepayment rule for drilling costs. The rule is precise, and sponsors build their year-end closings around it.

The 90-Day Prepayment Rule

Normally, a cash-basis taxpayer cannot deduct an expense until economic performance occurs, which for drilling would mean when the well is actually drilled. Section 461(i) makes an exception: IDC paid in 2026 under a drilling contract is deductible in 2026 if drilling of the well begins before the close of the 90th day after year-end, March 31, 2027. The prepayment must also have a business purpose and be made under a binding contract. This is why a program that closes on December 28 can still deliver a 2026 deduction for wells it spuds in the first quarter.

When	What happens
October–November	Identify clients with high 2026 ordinary income. Get the CPA's projection of the client's tax picture, including the excess business loss limit.
Early December	Confirm each sponsor's final 2026 closing date and remaining capacity. Complete suitability review and subscription documents.
Sponsor closing	Funds must be received and accepted by the sponsor's deadline, typically in the second half of December. Late money rolls to the next program or year.
By March 31, 2027	Drilling must begin on the prepaid wells for the 2026 IDC deduction to hold.
March–April 2027	Sponsor issues the 2026 K-1 showing the deductions. Plan on extending the client's return if the K-1 may arrive late.

A Worked Example

A client in the 37% federal bracket buys $100,000 of investor general partner units in December 2026 in a hypothetical drilling program that projects 80% IDC and 15% tangible equipment.

Item	2026	2027
Deduction	$80,000 of prepaid IDC	$15,000 of equipment, if 100% bonus depreciation applies when wells are placed in service
Federal tax reduction at 37%	$29,600	$5,550
Net after-tax cost	$70,400 after year one	$64,850 after year two, before any distributions

Hypothetical, for illustration only. Assumes the client is not limited by the at-risk rules, the excess business loss limit or AMT, ignores state tax, and does not reflect recapture, future income or the possibility of loss. Actual deduction percentages vary by program.

THE FINE PRINT

Limits, Recapture & State Tax

The headline deduction is a starting point. Several rules can reduce or delay it, and each should be modeled by the client's CPA before the client subscribes.

Rule	What it does	Planning point
At-risk rules (§465)	Deductions are limited to the amount the investor has at risk, generally cash invested plus recourse obligations.	Cash investments are at risk; nonrecourse financing of the investment is not.
Excess business loss limit (§461(l))	Net business losses above an inflation-indexed annual threshold are disallowed in the current year and carried forward as a net operating loss.	The most common surprise for high earners making large investments. The limit was made permanent in 2025; confirm the 2026 threshold with the CPA.
Alternative minimum tax	Excess IDC can be an AMT preference item, although an exception applies to many independent-producer investments.	Model the client's AMT position before sizing the investment.
Recapture (§1254)	On sale, prior IDC and depreciation deductions are recaptured as ordinary income to the extent of the gain.	Part of the benefit is deferral, not elimination.
Passive income later	Once converted to limited partner units, income from an interest whose losses were non-passive generally stays non-passive.	Future program income cannot be used to absorb other suspended passive losses.
Net investment income tax	Investment and passive income may be subject to the 3.8% NIIT.	Treatment of program income depends on the client's facts.

State Tax

States do not all follow the federal rules. California, for example, does not conform to federal bonus depreciation, so the equipment deduction is spread over the regular schedule for state purposes, and states differ in how they treat IDC and depletion. Programs that drill in several states may also create state filing obligations for investors in those states. The client's CPA should confirm the state result before the client counts on it.

Opportunity Zone Energy Funds

Qualified Opportunity Fund investments work differently. The client reinvests a capital gain, not ordinary income, generally within 180 days of the sale. Under the original program, deferred gains are recognized no later than December 31, 2026, and legislation in 2025 created a successor program beginning in 2027. Because a 2026 investment sits at the seam between the two, confirm the deferral period and the basis and exclusion benefits with tax counsel before recommending one.

BEFORE RECOMMENDING

Risks & Due Diligence

The tax benefits exist because drilling is risky. An advisor's job is to make sure a client would still be comfortable with the investment if the deduction were the only thing it delivered.

Principal Risks

- **Drilling and reservoir risk.** Wells can be dry, underperform or decline faster than projected. Development wells in proven fields reduce, but do not remove, this risk.
- **Commodity prices.** Oil and gas prices drive distributions and can fall sharply and stay low for years.
- **Illiquidity.** There is generally no market for units and little or no redemption; clients should expect to hold for the life of the wells.
- **Fees and conflicts.** Commissions, management fees, operator charges and carried interests are significant, and an operator-sponsor earns fees on the same wells it selects.
- **Liability.** Investor general partners carry unlimited liability until conversion, including environmental and operating liabilities beyond insurance.
- **Tax risk.** Deductions depend on the program qualifying and on current law. Recapture, the excess business loss limit and state rules can reduce the benefit.
- **Sponsor risk.** Results depend on the sponsor's capital, operating record and continued ability to fund its obligations.

Questions to Ask the Sponsor

Topic	What to ask
Track record	Results of prior programs against their original projections, including distributions and return of capital.
Prospects	Development or exploratory wells, the basin, offset well data and who prepared the reserve estimates.
Tax projections	The projected IDC percentage, when wells will spud relative to the 90-day rule, and the historical accuracy of those projections.
Costs	Total load, management and operating fees, turnkey drilling markups and the sponsor's carried interest.
Liability and conversion	Insurance carried for investor general partners and when units convert to limited partner units.
Year-end logistics	Final 2026 closing date, remaining capacity, minimum investment and expected K-1 delivery date.

DPP interests are securities offered under Regulation D to accredited investors. Suitability and best-interest obligations apply in both channels, including concentration in illiquid alternatives. Review the PPM and the Kingswood due diligence file for every recommendation.

CLIENT FIT

Who Is an Oil & Gas Program Right For?

The right client has a large ordinary-income tax bill this year, capital they will not need for many years, and the temperament for a risky, illiquid investment.

Strong Candidates

- **High earners with a spike in ordinary income**, such as a large bonus, a business sale taxed as ordinary income, a Roth conversion or a stock option exercise.
- **Business owners and professionals** in the top federal bracket, especially in high-tax states, with income that does not fall in later years.
- **Accredited investors seeking real-asset diversification** who accept commodity risk and want potential income over many years.
- **Clients with passive income** that limited partner units could offset, when investor general partner liability is unattractive.

When a Program May Not Fit

- The client may need the money back, or expects lower income in coming years when the deduction would be worth less.
- The excess business loss limit or AMT would absorb much of the deduction, or the client is not in a high bracket.
- The client would be uncomfortable with dry holes, falling distributions or unlimited liability during drilling.
- Illiquid alternatives already make up as much of the client's portfolio as the overall plan can support.

Other Year-End Strategies

Strategy	How it compares
Maximize retirement contributions	Lower risk and fully liquid in time, but capped at modest annual amounts.
Charitable giving or a donor-advised fund	Deduction without investment risk, but the money leaves the client's estate.
Tax-loss harvesting	Offsets capital gains and up to $3,000 of ordinary income, so limited for wage-income planning.
Qualified Opportunity Fund	Addresses capital gains rather than ordinary income; rules are changing for 2027.

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CLIENT CONVERSATIONS

How Do I Present an Oil & Gas Program to a Client or Prospect?

Lead with the client's tax picture, not the program. A deduction is only worth what it saves this client, net of the limits that apply to them.

Step	What to cover
1. Discover	Expected 2026 income and its sources, bracket, state, prior oil and gas investments, liquidity needs and time horizon.
2. Model with the CPA	Project the deduction's value after the at-risk rules, the excess business loss limit, AMT and state tax.
3. Compare	Set the program beside retirement contributions, charitable strategies and doing nothing.
4. Explain the structure	Investor general partner versus limited partner units, liability, conversion and the year-end deadline.
5. Disclose	Drilling and price risk, illiquidity, fees, recapture and non-guaranteed distributions. Deliver the PPM.
6. Execute early	Complete paperwork well before the sponsor's December deadline and confirm acceptance.

Language to Use, and to Avoid

Say	Avoid
“The program projects that about 80% of your investment will be deductible this year, subject to limits we’ll model with your CPA.”	“You’ll write off your whole investment.”
“The deduction reduces your cost, but you can still lose money.”	“The tax savings protect you from losses.”
“Distributions depend on production and prices and are not guaranteed.”	“This pays X% a year.”
“Part of the benefit comes back as ordinary income when the wells are sold.”	“This is tax-free income.”

Advisor Checklist

Before subscribing	Accredited status verified as required, suitability documented, CPA projection in file, unit type chosen, sponsor deadline and capacity confirmed.
After subscribing	Acceptance confirmed before year-end, K-1 timing noted, return extension planned if needed, conversion date recorded.

PROGRAMS ON THE PLATFORM

Approved Programs Directory

Oil and gas programs with an Active advisor approval on the Kingswood platform as of October 14, 2026, by sponsor, with the designated sponsor contact. Full profiles follow.

Sponsor	Program	Type	Approved	Contact
U.S. Energy Development Corp.	USEDC 2026 Drilling Fund 1 LP	Drilling	04/21/26	Katie Coffey kcoffey@usedc.com
	USEDC Opportunity Zone IV LP	Opportunity Zone	04/21/26	
	U.S. Energy Private Capital III LP	Private capital	07/08/25	
	USEDC Mineral Exchange Program I LLC	Minerals · 1031	03/23/23	
MDS Energy Development	MDS 2026 – Shale Development, LP	Drilling	05/22/26	Zach Avi zach.avi@mdsed.com
STL Resources	S.T.L. Resources Drilling Fund H, LP	Drilling	09/11/26	Nick Wall nwall@stlresources.com

Programs reported fully subscribed have been omitted.

Other Natural Resources Offerings

This offering is approved on the platform and carries natural resources exposure, but it is not a drilling program and does not produce IDC deductions. Requests for materials go through Investment Solutions.

Sponsor	Offering	Approved	Note
Montego Minerals	Montego Capital Fund 5 Ltd	08/04/26	Mineral and royalty fund; no IDC.

APPROVED PROGRAMS · BY NUMBER OF APPROVALS

U.S. Energy Development Corporation

DPP SPONSOR

ENERGY / TAX-ADVANTAGED ◆ Fort Worth, TX

U.S. Energy Development Corporation (USEDC) has structured direct energy programs for individual investors since 1980 and has deployed billions of dollars across more than a dozen states and Canada. Its platform spans annual drilling funds, a private capital fund, a mineral and royalty exchange vehicle designed to accept 1031 proceeds, and an Opportunity Zone series. Four USEDC energy programs are approved on the Kingswood platform, giving advisors a choice between ordinary-income deductions, capital-gain reinvestment and exchange proceeds within one sponsor.

WHAT TO ASK ABOUT

- Which program fits: drilling, private capital, OZ or minerals
- Fund 1 versus Fund 2 status for year-end
- Projected IDC percentage and spud timing

SPONSOR CONTACT

Katie Coffey
kcoffey@usedc.com
617-710-4127

APPROVED ON THE KINGSWOOD PLATFORM	4 offerings · status as of October 14, 2026
◆ USEDC 2026 Drilling Fund 1 LP Real Assets · Natural Resources · drilling	Approved 04/21/26
◆ USEDC Opportunity Zone IV LP Real Assets · Natural Resources · Opportunity Zone	Approved 04/21/26
◆ U.S. Energy Private Capital III LP Real Assets · Natural Resources · private capital	Approved 07/08/25
◆ USEDC Mineral Exchange Program I LLC Real Assets · Natural Resources · minerals	Approved 03/23/23

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MDS Energy Development

DPP SPONSOR

ENERGY / TAX-ADVANTAGED ◆ Pittsburgh, PA

MDS Energy Development is a vertically integrated natural gas exploration and production company founded in 2005 and focused on the Marcellus Shale in Western Pennsylvania and Ohio. The firm owns and operates its own drilling rigs and installs its own gathering and water infrastructure, and sponsors direct-participation drilling partnerships for accredited investors. Its prior program, MDS 2025-Shale Development, LP, reported roughly $246 million raised toward a $300 million offering in a March 2026 Form D. Offerings are distributed through the firm's affiliated dealer-manager, MDS Securities.

WHAT TO ASK ABOUT

- Projected first-year IDC deduction
- Operator-sponsored: MDS drills, completes and operates its own wells
- Final 2026 closing date and capacity

SPONSOR CONTACT

Zach Avi
zach.avi@mdsed.com

APPROVED ON THE KINGSWOOD PLATFORM — 1 offering · status as of October 14, 2026

◆ MDS 2026 – Shale Development, LP Real Assets · Natural Resources · drilling	Approved 05/22/26

STL Resources

DPP SPONSOR

ENERGY / TAX-ADVANTAGED ◆ Wexford, PA

S.T.L. Resources is a vertically integrated exploration and production company focused on natural gas in the Appalachian Basin, where it is among the larger privately owned operators in Pennsylvania. Founded in 2015 and headquartered north of Pittsburgh, STL drills and operates its own wells and sponsors direct-participation drilling funds for accredited investors, structured to pass through intangible drilling cost deductions and depletion.

WHAT TO ASK ABOUT

- Operator-sponsored natural gas drilling funds
- Projected IDC and spud timing for 2026 investors
- Operating track record in the basin

SPONSOR CONTACT

Nick Wall
Director of Client Relations
nwall@stlresources.com
314-570-9400
stlresources.com

APPROVED ON THE KINGSWOOD PLATFORM — 1 offering · status as of October 14, 2026

◆ S.T.L. Resources Drilling Fund H, LP Real Assets · Natural Resources · drilling	Approved 09/11/26

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Contacts

Questions about a program, introductions to a sponsor, year-end capacity checks or requests for a sponsor's due diligence materials from the Kingswood platform can be directed to the Investment Solutions team.

Douglas Blake
Managing Director, Investment Solutions
dblake@kingswoodus.com · 347-254-1318

Other Energy Sponsors

These sponsors run oil and gas programs and have relationships with Kingswood, but are not featured among the approved programs in this guide. Contact Investment Solutions before presenting any of their offerings.

Sponsor	Program focus	Contact
Waveland Energy Partners	Non-operated oil and gas working interest programs	George Ashby gashby@wavelandcp.com

IMPORTANT INFORMATION

This guide is provided for the use of Kingswood financial professionals and is not intended for distribution to clients or the public. It is a general summary of federal tax provisions affecting oil and gas investments as of October 2026 and does not constitute tax, legal or accounting advice; clients should consult their own tax advisors, and the value of any deduction depends on each investor's circumstances. Tax law is subject to change, and state treatment varies. Sponsor profiles and program lists are summaries prepared by Kingswood US Investment Solutions from publicly available sponsor materials, regulatory filings and platform records as of October 14, 2026; they have not been reviewed or approved by the sponsors and may not reflect current terms, availability or performance. Nothing in this guide is an offer to sell or a solicitation of an offer to buy any security, and inclusion does not constitute an endorsement or recommendation of any sponsor or program. Oil and gas programs are speculative, illiquid and involve substantial risk, including the loss of the entire investment, and investor general partners may bear unlimited liability; distributions are not guaranteed; and they are suitable only for accredited investors who meet the applicable eligibility standards. Illustrations are hypothetical. Advisors should rely on the offering documents, the Kingswood due diligence file and their own analysis before recommending any program. Securities offered through Kingswood Capital Partners, LLC, member FINRA/SIPC. Advisory services offered through Kingswood Wealth Advisors, an SEC registered investment adviser.

PUTTING IT TO WORK

Your Next Steps

Year-end programs reward advisors who start early. Sponsor deadlines arrive in December, and CPAs are busy by then, so use these steps to move clients from interest to an accepted subscription before the window closes.

When	What to do
This week	Screen your book for clients with high 2026 ordinary income: business owners, professionals, and clients with a bonus, option exercise or Roth conversion this year.
By mid-November	Hold the discovery conversation and ask each client's CPA to model the deduction after the at-risk rules, the excess business loss limit, AMT and state tax.
Before recommending	Confirm accredited status and suitability, choose investor general partner or limited partner units, and review the PPM and the Kingswood due diligence file.
Before soliciting	Confirm with the sponsor and on the platform that the program is open, has capacity, and has a selling agreement on file, and note its final 2026 closing date.
Early December	Submit complete subscription documents and funds well ahead of the sponsor's deadline, and confirm acceptance in writing.
After year-end	Track drilling start under the 90-day rule, the K-1 delivery date and any return extension, and record when units convert to limited partner units.

Need More Information?

Please contact Douglas Blake, Managing Director of Investment Solutions, at dblake@kingswoodus.com or 347-254-1318 if you need more information.

YEAR-END WORKSHEET

Notes

Client, 2026 income and bracket, CPA projection, program and unit type, sponsor deadline, and K-1 timing.

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