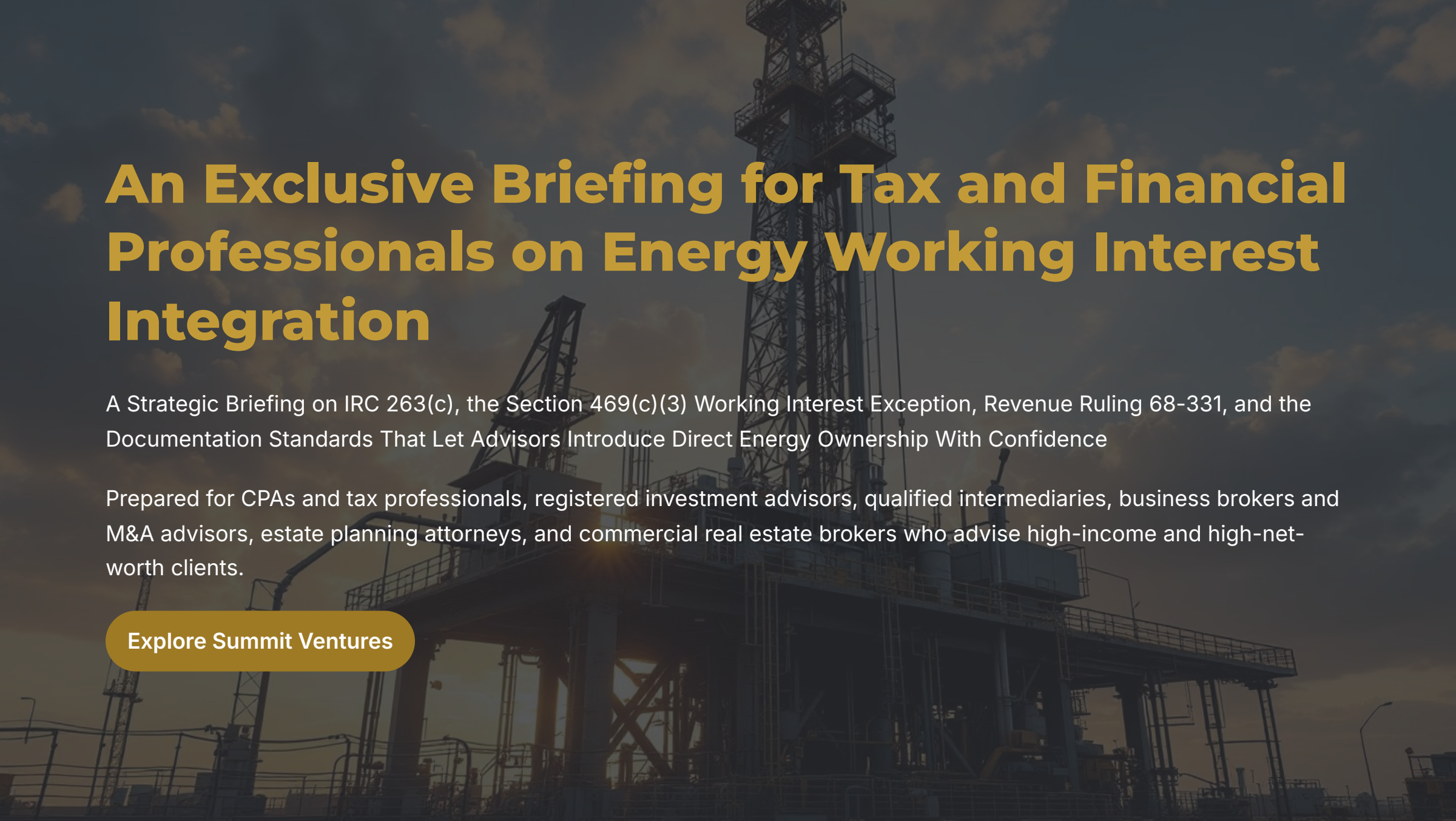


The background of the slide is a photograph of an oil drilling rig at sunset or sunrise. The rig's complex metal structure, including the derrick and various platforms, is silhouetted against a sky with soft, orange and yellow clouds. The overall tone is professional and industrial.

An Exclusive Briefing for Tax and Financial Professionals on Energy Working Interest Integration

A Strategic Briefing on IRC 263(c), the Section 469(c)(3) Working Interest Exception, Revenue Ruling 68-331, and the Documentation Standards That Let Advisors Introduce Direct Energy Ownership With Confidence

Prepared for CPAs and tax professionals, registered investment advisors, qualified intermediaries, business brokers and M&A advisors, estate planning attorneys, and commercial real estate brokers who advise high-income and high-net-worth clients.

Explore Summit Ventures

Executive Summary

This briefing exists to answer one question that comes up in almost every advisory practice at some point in the year: when a client has a sudden spike in taxable income, a 1031 exchange that is running out of road, or a business sale that just closed, what is the next legitimate, well-documented option worth putting on the table.

Direct working interest ownership in oil and gas wells is one of the oldest provisions in the Internal Revenue Code, dating to Treasury guidance from 1916 and codified as IRC Section 263(c) in 1954. It remains underused in most advisory practices, not because it lacks merit, but because the documentation, the K-1 mechanics, and the entity-structure requirements are unfamiliar territory for advisors whose core practice is tax, wealth management, intermediary services, brokerage, or estate law rather than energy.

The purpose of this deck is narrow and specific: to give you, as the client-facing professional, enough technical grounding in the statutory mechanics, the structural requirements, and the reporting standards to evaluate whether a working interest conversation belongs in your next client meeting, and to show how Summit Ventures' entrepreneurial joint venture structure is built around the exact documentation standards your practice already requires.

Context and Market Environment

Every advisor in this room solves a version of the same recurring problem.

CPA / Tax Professional

Sees a client's K-1 and 1099 income converge into a fourth-quarter tax bill with no remaining levers.

Registered Investment Advisor

Fields a call from a client asking why the portfolio has no exposure to real assets beyond a REIT allocation.

Qualified Intermediary

Watches a 45-day identification window narrow with no suitable replacement property in sight.

Business Broker / M&A Advisor

Closes a sale and watches the seller's advisor scramble for a capital deployment plan before the check clears.

Estate Planning Attorney

Asked whether there is an asset class offering both income tax efficiency during life and clean transfer characteristics at death.

Commercial Real Estate Broker

Client wants diversification beyond another like-kind property purchase.

These are six professional vantage points converging on the same underlying need: a legitimate, statute-backed, well-documented strategy evaluated on its own technical merits, not a product pitch.

Direct working interest ownership sits inside a stable statutory framework. The Treasury regulations behind IRC 263(c) (Treas. Reg. 1.612-4) have governed intangible drilling cost treatment for decades, and the core mechanics — the working interest exception under IRC 469(c)(3), the depletion allowance under IRC 611 and 613A, and the Revenue Ruling 68-331 like-kind classification — have not been reinterpreted or weakened. That durability is what makes this category defensible when a client's return is reviewed years later.

The Three Structural Gaps Advisors Face

The challenge advisors describe most often is not a lack of client demand. It is a lack of confidence in the structural details that determine whether a strategy holds up under scrutiny. Three specific gaps recur across every sub-practice represented in this room:

1 **Confusion Between IRC 263(c) and IRC 469(c)(3)**

Section 263(c) governs the timing and classification of intangible drilling cost deductions — the election to expense rather than capitalize. It does not, by itself, determine whether those deductions can offset a client's active W-2, 1099, or K-1 income. That separate question is governed by Section 469(c)(3), the working interest exception to the passive activity loss rules. Conflating the two provisions is the single most common technical error in this space, and it is the detail that separates a defensible filing position from an exposed one.

2 **Uncertainty About Entity Structure**

The 469(c)(3)(A) exception applies only when the taxpayer holds the working interest directly, or through an entity that does not limit the taxpayer's liability, such as a general partnership. An LLC or limited partnership membership interest, or a fund or trust share, does not qualify. The same direct-holding requirement independently governs whether an interest qualifies as real property for Revenue Ruling 68-331 and Section 1031 like-kind purposes. One structural fact answers two separate statutory questions, which is why it deserves this level of attention in any advisor-facing material.

3 **Concern About Reporting Quality**

Advisors who have seen a client receive a late, incomplete, or poorly scheduled K-1 understand why many practices simply avoid the category altogether rather than risk a client relationship over an operator's back-office failure.

Key Statutory Findings

The following provisions form the complete statutory framework for direct working interest ownership. Each finding reflects current law as of 2026.

1	IRC 263(c) — Intangible Drilling Costs Permits a working interest holder to elect to expense intangible drilling costs — labor, fuel, drilling mud, chemicals, site preparation, and hauling — in the year incurred rather than capitalizing them. Tangible costs such as casing, wellhead equipment, and tanks are capitalized and depreciated under IRC 168. Industry data places IDCs between 60% and 85% of total well cost, depending on well design and formation.
2	IRC 469(c)(3)(A) — Active Income Offset Excludes a working interest held directly, or through a liability-unlimited entity, from the passive activity loss rules. There is no material participation or hours test, unlike the real estate professional standard, and there is no income-based phase-out comparable to the \$150,000 AGI phase-out that limits real estate passive loss relief.
3	IRC 465 — At-Risk Rules At-risk rules still cap any deduction at the client's real economic exposure — cash and qualifying recourse debt. Nonrecourse financing does not count toward basis.
4	IRC 57(a)(2) — AMT Preference Item Treats excess intangible drilling costs as an alternative minimum tax preference item for independent producers, with relief generally available where the excess IDC deduction does not exceed 65% of the taxpayer's net income from oil and gas properties for the year.
5	IRC 611 and 613A — Percentage Depletion Provides a percentage depletion allowance, generally 15% of gross income from the property for independent producers, continuing as an ongoing benefit once the well is in production and without a cost-basis ceiling.
6	Revenue Ruling 68-331 — Section 1031 Like-Kind Classifies a working interest in a producing oil and gas lease as real property, like-kind to a fee interest in improved real estate under Section 1031. Revenue Ruling 78-135 clarifies that a general partnership interest itself does not independently qualify for 1031 treatment, reinforcing that the client must hold the direct working interest itself.

The Single Structural Fact That Drives Everything

The throughline connecting every sub-practice in this room is a single structural fact: **how the interest is held**. A direct working interest, or an interest held through an entity that does not limit liability, simultaneously satisfies two separate statutory tests that would otherwise require two different client conversations.

For the CPA and Tax Professional

The direct-holding fact is what allows an otherwise passive-classified deduction to offset active income under 469(c)(3)(A), with dollar-for-dollar treatment and no phase-out tied to client income level — a materially different mechanic than the real estate passive loss rules most practices are more familiar with.

For the QI and CRE Broker

The same fact is what allows the interest to be evaluated under Revenue Ruling 68-331 as like-kind replacement property in a Section 1031 analysis, provided the direct holding requirement and the identification and closing timelines under Treasury Regulation 1.1031(k)-1 are independently satisfied and confirmed by qualified counsel.

For the RIA, the business broker, and the estate planning attorney, the same fact supports a K-1 reporting profile that stays consistent year over year, which matters when a client's position needs to be explained to a successor advisor, a trustee, or an examining agent years after the filing.

- ❏ This is not a claim that any particular client's facts will produce a particular tax outcome. It is a statement about which statutory tests are in play once the direct-holding structure is confirmed, and why that confirmation belongs at the center of any technical discussion with a client's own CPA or tax counsel.

Practice-Specific Analysis

Each advisory sub-practice has a distinct entry point into this conversation. The statutory foundation is the same; the framing differs.



CPAs and Tax Professionals

Confirm three things before any conversation about magnitude: that the interest will be held directly or through a liability-unlimited entity, that the client's at-risk basis under IRC 465 will support the intended deduction, and that the operator's K-1 reporting clearly distinguishes IDC treatment, depletion, and the active-versus-passive classification required for the client's own return preparation.



Registered Investment Advisors

Treat this as a real-asset allocation conversation, not a securities conversation. The governance rights, capital contribution structure, and reporting cadence of an entrepreneurial joint venture differ from a fund or managed product, and that difference is what makes the 469(c)(3) analysis available in the first place.



Qualified Intermediaries

Treat Revenue Ruling 68-331 as a technical classification question routed to the client's own tax counsel for a documented opinion, not a determination QIs themselves can make. The ruling's holding is well established, but its application to a specific client's facts — including encumbrance, title structure, and any partnership layer — requires independent confirmation.



Business Brokers and M&A Advisors

View the post-sale planning window as the moment this conversation has the most relevance — before capital is redeployed into a default allocation. The same 469(c)(3) mechanics that offset W-2 income also apply to the ordinary-income component of many business sale structures, a detail many sellers' advisors do not immediately connect.

Estate Planning Attorneys

A direct working interest carries its own title and reporting characteristics distinct from a fund interest, with implications for basis planning and how the interest is described in trust and estate documents. This briefing does not offer estate tax conclusions; that determination belongs with the attorney and the client's broader planning team.

Commercial Real Estate Brokers

A working interest is not a substitute for real estate expertise. It is a parallel asset class governed by its own statutory framework, worth presenting alongside — not instead of — traditional replacement property options.

Three Paths Forward — and the Recommended One

Advisors generally see three paths when a client's situation calls for this kind of conversation.

Option 1: Say Nothing Let the client's situation resolve through existing tools. This avoids any unfamiliar territory but leaves a documented gap in the advisor's own proactive tax strategy record — which is precisely the exposure most advisors in this room are trying to close.	Option 2: Generic Referral Refer the client to a generic energy program without reviewing the underlying structure. This introduces the reputational risk this persona group consistently identifies as its top concern: a non-compliant or poorly structured offering reflecting back on the advisor who raised it.	Option 3: Structured Review ✓ Evaluate a structured, direct working interest model built specifically around institutional-grade documentation, confirm the entity structure independently, and bring the client's own CPA or attorney into the review before any capital contribution occurs. This is the path consistent with the professional standard already described in the Key Findings and Analysis sections above.
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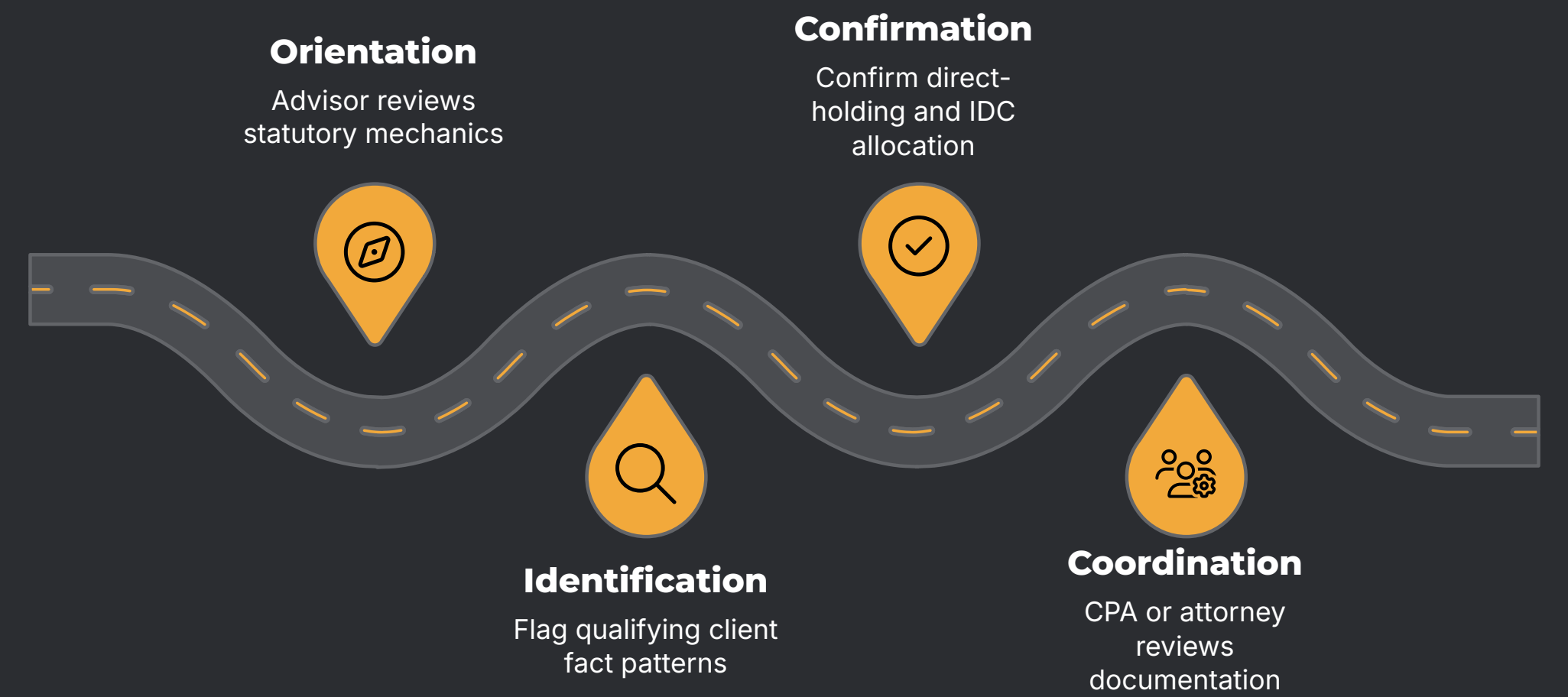
The recommendation is not that every client is a fit for a working interest conversation. It is that every advisor in a client-facing tax or liquidity role should have enough technical grounding to recognize when the conversation is worth having, and a vetted resource to route it to when it is.

Summit Ventures operates as an entrepreneurial joint venture platform built around direct working interest participation, structured specifically so that the direct-holding requirement underlying both the 469(c)(3) active-income analysis and the Revenue Ruling 68-331 like-kind analysis is confirmed in writing, not assumed. Active JV members receive governance rights and operational transparency consistent with direct ownership, not a passive fund interest.

For advisors, Summit's role is to function as a technical resource and back-office partner, providing standardized K-1 scheduling, documentation supporting the direct-holding structure, and tax opinion letter coordination so that your own review — and your client's own CPA review — has what it needs from day one.

Implementation Roadmap

The practical sequence for bringing this into an advisory conversation follows a consistent pattern across all six sub-practices.



01	02	03
Technical Orientation The advisor reviews the statutory mechanics in this briefing — specifically the distinction between 263(c) timing treatment and 469(c)(3) active-income eligibility — before any client is identified.	Client Identification The advisor flags situations where the underlying fact pattern fits: a year-end income spike, a narrowing 1031 window, a recent business sale, or a diversification request from a client already working with a QI, estate attorney, or CRE broker on a related matter.	Structural Confirmation Before any client conversation goes further, the advisor or the client's own counsel confirms the direct-holding structure, the entity's liability characteristics, and the specific well or project's IDC and TDC allocation through its own AFE.
04	05	
Professional Coordination The client's CPA, attorney, or QI reviews the documentation package — including the tax opinion letter where applicable — independently of any recommendation from the referring advisor.	Reporting Cadence Once a capital contribution is made, the advisor and client receive a standardized K-1 on a predictable schedule, built for CPA review rather than general retail distribution.	

Summit Ventures: The Documentation Standard Your Practice Requires

The statutory framework behind direct working interest ownership — IRC 263(c) for intangible drilling cost treatment, IRC 469(c)(3) for the active-income offset, IRC 465 for at-risk limitations, IRC 611 and 613A for percentage depletion, and Revenue Ruling 68-331 for the Section 1031 like-kind analysis — has remained stable for decades and continues to apply in 2026. The single structural fact that determines eligibility across nearly every one of these provisions is how the interest is held: directly, or through an entity that does not limit liability.



Tax Opinion Letter Coordination

Summit works with qualified counsel engaged by the client — not by Summit — to produce a reasoned opinion addressing the specific facts of the exchange, consistent with how Revenue Ruling 68-331 analyses are typically supported in practice.



Direct-Holding Confirmation in Writing

The entity structure underlying each participation is documented in writing so that the 469(c)(3) and Revenue Ruling 68-331 analyses can be independently verified by the client's own advisors rather than taken on faith.



Standardized K-1 Scheduling

K-1s are prepared on a consistent, predictable timeline with line items organized for straightforward CPA review, reducing the back-office friction that keeps many practices away from this category altogether.



Direct CPA Support Line

Summit maintains a direct line of technical support for the client's own CPA or tax preparer, so questions about IDC and TDC allocation, depletion treatment, or K-1 line items are answered by the people who prepared the documentation.

For the advisor, the practical impact of having this resource in place is a stronger proactive tax strategy conversation — the kind of conversation that retains clients who might otherwise look elsewhere for year-end planning ideas, without requiring the advisor to become an energy specialist.

For the client, the impact is access to a statutory framework that has existed since 1916 and remains fully current, evaluated through documentation standards designed for professional review rather than retail marketing.

For the advisory relationship itself, the impact is a documented record that the strategy was introduced with appropriate structural diligence, reviewed by the client's own professionals, and supported by standardized reporting — exactly the kind of file that holds up well if a position is ever examined.



No specific tax outcome, deduction amount, or return figure is implied by this briefing. Actual tax treatment depends on the specific IDC and TDC allocation for a given well, the client's individual basis and at-risk position, and confirmation by the client's own qualified tax professional.

Ready to bring institutional-grade energy working interest documentation to your advisory practice?

Connect With Summit Ventures

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