

Natural Gas Income: Year-end strategies that can reduce the tax bite.

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Many people pride themselves in being a do-it-yourselfer, even when it comes to preparing their annual income tax returns. While most DIY'ers have switched from paper, pencil and calculator to using computer software, these programs will only calculate the taxes that you owe based on your annual income. Likewise, a paid income tax preparer can only tell you how much you owe or your refund amount and will be based on information you provide regarding your past year's financial transactions. In other words, they can't advise you of strategies to reduce or avoid taxes for the past year. Informing you of current tax laws, how those laws apply to your unique situation and strategies you can employ to reduce the tax bite on your natural gas income falls within the expertise of financial professionals such as Certified Public Accountants (CPA's) and Certified Financial Planners (CFP's). Regardless of whether you are a tax DIY'er or use a paid preparer, consulting a financial professional about the potential tax implications and following up on their recommendations can save you hundreds and even thousands of dollars.

There is no one-size-fits-all answer to the question of how to reduce the tax bite due to the incredibly complex tax code and how it applies to your individual situation. Because of five and six-digit natural gas payments some families are receiving, they may find themselves in the 25% tax bracket this year when they were in the 10% bracket just last year!

December 31, 2008 and April 15, 2009 are two key deadline dates you should plan to meet. Missing one or both of the deadlines can result in your paying unnecessary federal, state and local taxes on your natural gas income. Scheduling an appointment with a financial professional in the next six weeks or so will give you time to consider their suggestions and develop and implement a plan to minimize the tax bite and maximize the amount of money you have available to meet your financial goals.

If you started to receive natural gas bonus payments, lease payments or royalty payments in 2008, this year's tax return will be significantly different from your 2007 return. In order to prepare to meet with your financial professional to start year-end tax planning, your 2007 tax returns will be useful. In addition, here are some other factors that shape your 2008 income tax liability:

- How much in natural gas bonus payments, lease payments and or royalty payments do you expect to receive by December 31, 2008?
- Did you and/or your spouse contribute to an employer sponsored retirement plan in 2008? If so, how much did you or are you planning to contribute?
- Did you and/or your spouse contribute to a traditional or Roth IRA for 2008? If so, how much did you or are you planning to contribute?
- Did you and/or your spouse turn 65 in the 2008 tax year?
- Did you and/or your spouse become disabled in the 2008 tax year?
- Are you and/or your spouse considered legally blind?
- Did your household gain or lose a member in 2008?
- How much in federal and state payroll income taxes did you have withheld and how much in quarterly estimated payments did you make?

Signing bonuses and lease payments receive different tax treatment from the royalty payments which are subject to expense deductions such as depletion. Once you choose how your depletion is calculated, either percentage or cost, that decision is irrevocable. This is another area where a financial professional can assist you.

In addition to helping you reduce your current income tax bite, your chosen financial professional can also help you understand your options on the best way to use your natural gas income to meet other current and future financial goals such as debt reduction, financing college, or funding a comfortable retirement.

While there is nothing wrong with being a do-it yourselfer, seeking and following the advice of a financial professional can not only save you time and money, but also assure that your natural gas income will meet your family's needs for years to come.

