

The Gas & Oil CPA

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**YOURKOVICH
& ASSOCIATES
CPA**

Understanding Gas & Oil Tax Reporting Including IRS 1099 Forms



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What is IRS Form 1099?

IRS requires Form 1099-Misc to be filed when in the course of your trade or business, you have paid the following during the year:

- \$10 in Royalties (Box 2)
- At least \$600 in
 - Rents (Box 1)
 - Services performed by someone who is not your employee (Box 7)
 - Other income payments (Box 3)
 - Payments to an Attorney (Box 14)

Due to the IRS and the Recipient by January 31st

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents		OMB No. 1545-0115 2019 Form 1099-MISC	Miscellaneous Income Copy B For Recipient
		\$			
		2 Royalties			
\$		4 Federal income tax withheld			
3 Other income		\$			
\$		6 Medical and health care payments			
PAYER'S TIN	RECIPIENT'S TIN	5 Fishing boat proceeds			
		\$		\$	
RECIPIENT'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code		7 Nonemployee compensation		8 Substitute payments in lieu of dividends or interest	
		\$		\$	
		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>		10 Crop insurance proceeds	
\$		\$			
11		12			
Account number (see instructions)	FATCA filing requirement <input type="checkbox"/>	13 Excess golden parachute payments		14 Gross proceeds paid to an attorney	
		\$		\$	
15a Section 409A deferrals	15b Section 409A income	16 State tax withheld		17 State/Payer's state no.	18 State income
\$	\$	\$			\$
		\$			\$

Form **1099-MISC**

(keep for your records)

www.irs.gov/Form1099MISC

Department of the Treasury - Internal Revenue Service

Box 1 -RENTS

- ▶ Paid-up Lease Bonus Payments
- ▶ Temporary Workspace Payments
- ▶ Temporary Access Payments
- ▶ Short Term ROWs and Easements
- ▶ Delay Rentals
- ▶ Shut-in Payments

- ▶ Income taxed as Ordinary Income

Box 2 - ROYALTIES

- ▶ Royalties are reported as GROSS
- ▶ Will not equal your royalty checks received if you have a Lease that allows deductions
 - ▶ *Or the Producer is taking deductions anyway*
- ▶ Compare your 1099 with your royalty check statements
- ▶ Some producer royalty 1099s will have the deduction information on or with the 1099
- ▶ Knowing if you have deductions from your gross royalty is important
- ▶ ***Producer deductions are tax deductible expenses***

Statement of Oil & Gas Payments
for
Royalty Owners

A
SEECO, INC.
ATTN: REVENUE ACCOUNTING
2350 NORTH SAM HOUSTON PKWY E
HOUSTON TX 77032-0000
(866) 322-0801

G
Page 5 of 5

Royalty Account

Owner No.	Check No.	Check Date	PR ID	Net Amount
B 500138-2	C 11279	D 02/25/2013	E 14352	F \$29.90

Property Number / Property Name				State / County				Taxes				Deductions				Net Value				
Prod mm-yy	Product	Payee/ Interest type	BTU Factor	Share	Lease Interest	Settlement Interest	Volume MCF/BBL	Price \$	Value \$	Severance	Production	Code	Compression CMP	Gathering GTH	Treating TRT	Marketing MKT	Other	Code	Net Value	
H 2501040246 / HURST 8-13 7-5H32 A				I ARKANSAS / VAN BUREN				(continued)												
01-13	G	SEE	0.9810		GROSS		50,821.00	2.90	147,178.80	-1,687.98	-457.38		-3,998.71	-20,155.39		-2,482.95				110,386.38
01-13	G	RI			OWNER		10.63		30.80	-0.35	-0.09	CNV	-0.84	-5.89						23.63
01-13	G	EXOR			OWNER		0.00020926		0.44	1.27	-0.02	CNV	-0.03	-0.25						0.97
Owner Subtotal for Period: 01-13									11.07		-0.37	-0.09	-0.87	-6.14						-24.60
12-12	G	BHP			GROSS		1,313.22	3.41	4,484.48	-59.68										3,166.06
12-12	G	RI			OWNER		2.20		7.51	-0.10										-2.11
Owner Subtotal for Period: 12-12									2.20		7.51	-0.10								5.30
Owner Total Net for Property:									13.27		39.58	-0.47	-0.09	-0.87	-6.14					29.90

The check detail includes information for both the entire interest for which SEECO or SEPCO (SWN) remits payment, as well as your ownership detail.

ITEMS ON YOUR CHECK DETAIL

- A NAME AND ADDRESS:**
The name and address of the company sending the check.
- B OWNER NUMBER:**
Your owner number for identifying you and your address.
- C CHECK NUMBER:**
Identifier number for the bank.
- D CHECK DATE:**
Date check was issued.
- E PR ID:**
Payment register identifier. Identifies all transactions on either check, direct deposit or netting transactions. Please use this number when calling or writing SWN.
- F NET AMOUNT:**
The amount paid on the check.
- G PAGE NUMBERING:**
Specific page number and total number of pages of check detail.
- H PROPERTY IDENTIFIER AND NAME:**
SWN's internal property number and name.
- I STATE/COUNTY:**
State and county in which the property is located.
- J PRODUCTION MONTH:**
Production Month and Year in which sales occurred.
- K PRODUCT TYPE:**
Type of product for which payment is being remitted
G=Gas O=Oil
N=Natural Gas Liquids C=Condensate
- L PAYEE OR INTEREST TYPE:**
Under heading "SHARE", the line identified as Gross shows joint owners names (PAYEE) in the property paying your royalty share of their sales. SEE = SEECO, Inc. (Examples of other owners defined in the legend)
Under heading "SHARE", the line identified as Owner, represents the INTEREST TYPE.
RI=Royalty Interest
EXOR=Excess royalty
- M BTU FACTOR:**
A BTU (British Thermal Unit) factor is a measure of the energy content (high or low heating value) of a volume of natural gas.
- N PAYOR LEASE DECIMAL:**
On the Owner line, the lease interest is the owner's interest in the entire revenue stream.
- O PAYOR SETTLEMENT DECIMAL:**
On the Owner line, this decimal represents the decimal used to calculate the payment.
- P VOLUME:**
Crude Oil, Condensate or plant products measured in barrels (BBL) or natural gas measured in thousand cubic feet (mcf)
- Q PRICE:**
The weighted average sales price received for the product sold.
- R GROSS VALUE:**
Dollar value of product (Volume times the price)
- S SEVERANCE TAX:**
Related severance tax associated with the property.
- T OTHER TAXES:**
Other taxes such as conservation tax in Arkansas
- U COMPRESSION:**
Fee charged for compressor fuel and line loss.
- V GATHERING:**
Fee charged for gathering cost.
- W TREATING:**
Cost incurred for treating the product to remove impurities such as CO2.
- X MARKETING:**
Cost incurred for a marketing company to sell our product. This cost is never shared with royalty owners, only WI owners.
- Y OTHER:**
Other post production cost incurred. These cost will be defined in the Code column if used.
- Z NET VALUE:**
Total value from the property after all taxes and deductions are taken.

Box 3 - OTHER INCOME

- ▶ Well Pad or Spud fee
- ▶ Crops
- ▶ Timber
- ▶ Seismic Income
- ▶ Roads
- ▶ Easement and Right of Way (ROW) Payments
- ▶ Damages
 - ▶ Payment for damage to property = recovery of capital
 - ▶ Payment for use of property = ordinary income
 - ▶ Payment for lost profits = ordinary income
- ▶ Prepaid Damages are Ordinary Income
- ▶ *Does this mean I should report the income on Line 21 - Other Income on my federal tax return?*

What is wrong with Reporting the Income on Line 21?

IRS Form 1099-Misc Box 3 says Other Income

Line 21 of IRS Form 21 says Other Income

NOTE: line 21 Other Income now appears on Schedule 1 as an Additional Schedule attachment to the 2018 Form 1040

Other Income = Other Income

Or does it?

Client Example

- ▶ Client received a 1099-Misc with an amount in Box 3 Other Income for \$100,000.
- ▶ We obtained all the documentation and had a discussion with the client about property basis.
- ▶ \$97,000 of the \$100,000 was determined to be
 - ▶ Timber Sales
 - ▶ Permanent Pipeline ROW
 - ▶ Permanent Road ROW
 - ▶ All of the above Qualify for Long-Term Capital Gains.
- ▶ The client also had basis in this property to help offset some of these amounts.
- ▶ The other \$3,000 was determined to be taxed as Ordinary Income (temp workspace).

Conclusion: The difference in reporting as Other Income and Reporting based on the facts and documentation was almost \$25,000.

Ordinary Income vs Capital Gain

What is the difference?

- ▶ Ordinary Income
 - ▶ Taxed at your marginal tax rate
 - ▶ 2018 federal tax rates are
 - ▶ 10, 12, 22, 24, 32, 35 and 37 percent
- ▶ Capital Gain Income
 - ▶ Taxed at capital gain tax rates
 - ▶ 2018 capital gain rates are
 - ▶ 10% and 12% 0%
 - ▶ 22% and above 15%
 - ▶ \$425/479K+ 20%
- ▶ Income subject to Net Investment Income Tax of 3.8% if AGI if
 - ▶ Single > \$200,000
 - ▶ MFJ > \$250,000

What is Property Basis?

- ▶ Purchase Price
- ▶ Improvements increase Basis
- ▶ Depreciation, depletion and casualty losses decrease Basis
- ▶ Inherited Property: Fair Market Value (FMV)
- ▶ Appraised as of the Decedent's Death
- ▶ Basis allocated to a Permanent ROW that was granted
 - ▶ You inherit 10ac appraised at \$10,000 = \$1,000 per acre basis
 - ▶ 50' ROW for 1000' = 50,000 sq ft / 43,560 = 1.15 acre ROW
 - ▶ Basis is \$1,000 per acre
 - ▶ I can use \$1,150 basis against the amount I received for the ROW
 - ▶ Paid \$20,000 then \$18,850 is taxable (\$20,000 less \$1,150 = \$18,850)
 - ▶ Remaining Basis is \$8,850 (\$10,000 - \$1,150)
- ▶ Actual Damages can be offset against Basis
 - ▶ Timber Damage \$2,850
 - ▶ Taxable Timber Damage is -0- (you can offset the income by basis)
 - ▶ Remaining Basis is now \$6,000 (\$8,850 less \$2,850)
- ▶ Basis can't be reduced below -0-
- ▶ Must keep accurate records of all items that affect basis

CORRECTED (if checked)

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		1 Date of closing	OMB No. 1545-0997 2019 Form 1099-S	<p>Proceeds From Real Estate Transactions</p> <p>Copy B For Transferor This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this item is required to be reported and the IRS determines that it has not been reported.</p>
		2 Gross proceeds \$		
FILER'S TIN	TRANSFEROR'S TIN	3 Address (including city, state, and ZIP code) or legal description		
TRANSFEROR'S name		4 Transferor received or will receive property or services as part of the consideration (if checked) . . . ▶ <input type="checkbox"/>		
Street address (including apt. no.)		5 If checked, transferor is a foreign person (nonresident alien, foreign partnership, foreign estate, or foreign trust) ▶ <input type="checkbox"/>		
City or town, state or province, country, and ZIP or foreign postal code		6 Buyer's part of real estate tax \$		
Account number (see instructions)				

Form **1099-S**

(keep for your records)

www.irs.gov/Form1099S

Department of the Treasury - Internal Revenue Service

Why does the Reported Tax Form matter?

- ▶ IRS matching program can create issues when filed tax returns do not match the IRS computers
- ▶ Mismatched filed returns and filed forms on the IRS computers create a IRS CP2000 Notice
- ▶ What happens if you receive this Notice?
 - ▶ Don't panic
- ▶ If your return was prepared correctly and you can support the filing you will need to send correspondence to the IRS with supporting documentation to clear up the matter
 - ▶ Here is where we filed the amounts
 - ▶ Here is why we filed it that way
 - ▶ And here is the supporting documentation for the where and why
- ▶ **Did your preparer ask for all your documents related to the payments you received?**

Pipeline ROW Example

Line: Magnum to PLHC



PAYMENT RECEIPT

LANDOWNER NAME: [REDACTED]

MAILING ADDRESS: [REDACTED]

PARCEL ID: [REDACTED]

AFE: [REDACTED]

I/We acknowledge a payment of \$21,559.00 has been received from Rice Poseidon Midstream, LLC in consideration for the signed Pipeline Right-of-Way Agreement.

Reason for Payment	Amount Paid
ROW payment based on actual pipeline footage (827 x \$100/ft)	\$82,700
Crop Damage (1.72 x 2 years x \$650/acre)	\$2,236
Timber Damage (100/feet x \$3/ft)	\$300
Temporary Work Space	\$1,000
Total Paid	\$86,236 @ 25% = \$21,559.00

Landowner Signature

Date

Landowner Signature

Date

Agent: [REDACTED]

Date: 8/28/2017

Taxpayer received (2) Tax Reporting Forms

1099-S	\$6,202.50
1099-Misc Box 3	\$15,356.50
Total	\$21,559.00

\$30/ft ROW for 827' x 25% Interest = \$6,202.50

Other \$70/ft was negotiated as Damages

Damages, Crop, Timber and Temp Workspace all reported as Other Income

CORRECTED (if checked)

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number RICE MIDSTREAM PARTNERS LP 2200 RICE DRIVE CANONSBURG, PA 15317 (855) 258-8326		1 Date of closing	2017 Form 1099-S	Proceeds From Real Estate Transactions
		2 Gross proceeds		
FILER'S federal identification number 47-1557755		TRANSFEROR'S identification number ██████████		Copy B For Transferor <small>This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this item is required to be reported and the IRS determines that it has not been reported.</small>
TRANSFEROR'S name ██████████ ██████████ ██████████		3 Address or legal description ██████████		
Account or escrow number (see instructions) ██████		4 Transfer received or will receive property or services as part of the consideration (if checked) <input type="checkbox"/>		
		5 If checked, transferor is a foreign person (nonresident alien, foreign partnership, foreign estate, or foreign trust) <input type="checkbox"/>		
		6 Buyer's part of real estate tax \$		

Form 1099-S (keep for your records) www.irs.gov/form1099s Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. Rice Midstream Partners LP 2200 Rice Drive Canonsburg, PA 15317 (855) 258-8326		1 Rents	2017 Form 1099-MISC	Miscellaneous Income
		2 Royalties		
PAYER'S federal identification number 47-1557755		RECIPIENT'S identification number ██████████		Copy B For Recipient <small>This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.</small>
RECIPIENT'S name, street address, city, state, country and ZIP code ██████████		3 Other income \$ 15356.50		
Account number (see instructions) FATCA filing requirement <input type="checkbox"/>		4 Federal income tax withheld \$		
		5 Fishing boat proceeds \$		6 Medical and health care payments \$
		7 Nonemployee compensation \$		8 Substitute payments in lieu of dividends or interest \$
		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>		10 Crop insurance proceeds \$
		11		12
		13 Excess golden parachute payments \$		14 Gross proceeds paid to an attorney \$
15a Section 409A deferrals \$		15b Section 409A income \$		16 State tax withheld \$
		17 State/Payer's state no. 		18 State income \$

Form 1099-MISC (keep for your records) www.irs.gov/form1099misc Department of the Treasury - Internal Revenue Service

Where do we report payments on our tax return?

- ▶ Entire ROW and Damages are reported on Form 8949 or Form 4797
 - ▶ Form 8949 for capital asset property
 - ▶ Form 4797 is for trade or business property
 - ▶ Can be offset by Basis if applicable
- ▶ Crop Damage
 - ▶ Report on Schedule F if operating a Farm
 - ▶ Schedule F income Subject to self-employment (SE) taxes
 - ▶ Report as Other Income if not in a Farming Operation
- ▶ Timber Payments - same reporting as ROW
- ▶ Temporary Workspace - treated as Rental Income on Schedule E

Basis Myths and Incorrect Reporting

- ▶ Landman told me that Damages are Not Taxable
 - ▶ IRS and the Tax Code say otherwise - Landman just wants a signature
- ▶ Basis is Not Taxable so I am not reporting it on my return
 - ▶ If it shows somewhere on a 1099 you will have an IRS Notice in your future
- ▶ I will deduct the amount of Damages as an Expense
 - ▶ Damages are not valid expenses and not a proper deduction - you didn't have an expenditure or payout
 - ▶ If you did and you are getting a reimbursement - then they can be offset
- ▶ I will deduct the Damages as Basis against the Total amount received
 - ▶ You need to have Actual Determinable Basis and keep that Basis calculation in your records

What is Depletion?

- Depletion, like depreciation, is a form of cost recovery.
- Just as the owner of a business asset is allowed to recover the cost of an asset over its useful life, a mineral owner is allowed to recover the cost of mineral property.
- Depletion is taken over the period of time that the mineral is being extracted.
- Two forms of depletion are allowed:
 - Cost Depletion
 - Percentage Depletion.
- The taxpayer is required to use the method which will result in the greatest deduction.

Percentage Depletion

- Rate is 15%
- The amount of the deduction allowable under percentage depletion is not limited by the basis of the property.
- Calculated on the Gross Royalties
- Limits
 - 100% of your taxable income from the property figured without the deduction for depletion
 - 65% of your taxable income from all sources, figured without the depletion allowance

Eligible Gas & Oil Expenses on Schedule E

- ▶ Lease negotiation fees
- ▶ Legal and CPA fees
- ▶ Travel
- ▶ Real estate taxes
 - ▶ Save for future RE Tax Bills - WV is two-years behind on assessment
 - ▶ 2019 tax assessment is based on 2017 calendar year production
- ▶ NARO Membership - NARO conference fees
- ▶ Expenses deducted from royalty payments by Lessee
- ▶ Depletion

Schedule E - Royalties

How do I report Royalties and Eligible Expenses on my federal tax return?

SCHEDULE E (Form 1040) Supplemental Income and Loss
 (From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

OMB No. 1545-0074
2018
 Attachment Sequence No. **13**

Department of the Treasury Internal Revenue Service (99)
 ▶ Attach to Form 1040, 1040NR, or Form 1041.
 ▶ Go to www.irs.gov/ScheduleE for instructions and the latest information.

Name(s) shown on return _____ Your social security number _____

Part I Income or Loss From Rental Real Estate and Royalties Note: If you are in the business of renting personal property, use Schedule C or C-EZ (see instructions). If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

A Did you make any payments in 2018 that would require you to file Form(s) 1099? (see instructions) Yes No
B If "Yes," did you or will you file required Forms 1099? Yes No

1a Physical address of each property (street, city, state, ZIP code)
A Farm Royalties
B
C

1b	Type of Property (from list below)	2	Fair Rental Days	Personal Use Days	QJV
A	6	For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.	A		<input type="checkbox"/>
B			B		<input type="checkbox"/>
C			C		<input type="checkbox"/>

Type of Property:
 1 Single Family Residence 3 Vacation/Short-Term Rental 5 Land 7 Self-Rental
 2 Multi-Family Residence 4 Commercial 6 Royalties 8 Other (describe)

Income:	Properties:	A	B	C
3 Rents received	3			
4 Royalties received	4	100,000		
Expenses:				
5 Advertising	5			
6 Auto and travel (see instructions)	6			
7 Cleaning and maintenance	7			
8 Commissions	8			
9 Insurance	9			
10 Legal and other professional fees	10	500		
11 Management fees	11			
12 Mortgage interest paid to banks, etc. (see instructions)	12			
13 Other interest	13			
14 Repairs	14			
15 Supplies	15			
16 Taxes	16	1500		
17 Utilities	17			
18 Depreciation expense or depletion	18	15,000		
19 Other (list) ▶ Producer Deductions	19	23,000		
20 Total expenses. Add lines 5 through 19	20	40,000		
21 Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file Form 6198	21			
22 Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions)	22	(40,000)		
23a Total of all amounts reported on line 3 for all rental properties	23a			
b Total of all amounts reported on line 4 for all royalty properties	23b			
c Total of all amounts reported on line 12 for all properties	23c			
d Total of all amounts reported on line 18 for all properties	23d			
e Total of all amounts reported on line 20 for all properties	23e			
24 Income. Add positive amounts shown on line 21. Do not include any losses	24			
25 Losses. Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here	25			
26 Total rental real estate and royalty income or (loss). Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Schedule 1 (Form 1040), line 17, or Form 1040NR, line 18. Otherwise, include this amount in the total on line 41 on page 2	26			60,000

Producer Form 1099-Misc Royalties

	<u>Deductions</u>	<u>State</u>	
Alliance Petroleum	yes	yes	
Antero Resources	NO	yes	YTD info on royalty checks
Ascent Resources	yes	yes	
Chevron	yes	yes	
CHK	yes	yes	
CNX	yes	NO	
Eclipse Resources	yes	NO	
Energy Corporation	NO	yes	NET Royalties on the 1099
EQT Production	yes	yes	
EQT (old Rice)	NO	yes	YTD info on royalty checks only
Equinor	NO	yes	formerly StatOil
Gastar Exploration	yes	NO	
Greylock Production	NO	NO	NET Royalties on the 1099
Gulfport	NO	yes	
HG Energy	NO	NO	Deductions listed on royalty statements
<i>HG Energy 2017 1099 includes December 31, 2017 check that was not mailed until 1/26/18</i>			
Noble	yes	yes	YTD info on royalty checks
Range Resources	yes	yes	
Rice Energy	NO	yes	YTD info on royalty checks only
StatOil	NO	yes	now called Equinor
Stone Energy	yes	yes	
SWN	yes	yes	
Tug Hill	yes	yes	
Vantage Energy	yes	NO	
XTO Energy	yes	yes	

Source Income

- ▶ What is Source Income?
 - ▶ Income derived from Property located in a State
 - ▶ Gas Leases
 - ▶ Royalty Income
 - ▶ Pipeline related Income
 - ▶ Sales of Property including Mineral Interests
- ▶ Where is it taxable?
 - ▶ Taxable to the State where the Property is Located
 - ▶ Regardless of your residency
- ▶ **Example:** Ohio resident receives a gas lease bonus on property located in WV = Taxable to WV and reportable on a WV non-resident tax return

HG Energy 2017 1099 Issue

Noble / CNX Joint Venture then
Noble bought out CNX and then
Noble sold to HG Energy

Well, HG Energy does something strange with check issuance and dating of the check.

They will issue a check at the end of one month but date the check for the end of the prior month.

Ex. Check mailed and postmarked on October 30th is actually a check dated for September 30th.

So what happened to mineral owners in 2017 is they got an HG check in Jan 2018 beginning of Feb 2018 that was Dated 12/31/17 and included on the 2017 Form 1099.

Ironically the 1099 was mailed and received the same day as the check.

What is the Problem?

1. Not available to the cash basis taxpayer during 2017.
2. Well in production all year, taxpayer would have received 13 months of checks taxable in 2017 according to the 1099s.
3. If taxpayer doesn't report the gross amount then IRS sends them a CP2000 notice for the discrepancy.
4. 2017 federal tax rates are considerably higher than 2018 rates – who wants to pay on royalties at a higher rate?

Solution

We entered the Gross amount of the 1099s, backed out the January 2018 received check and then calculated the 15% depletion on the corrected amount. And then we will need to make the same type of reconciliation going forward for 2018.

Ohio Tax Issues

▶ Ohio Small Business Deduction

- ▶ Allowed a deduction up to first \$250,000 for business income reported on IRS 1040 Schedules C, E and F
- ▶ Income over \$250,000 taxed at a flat tax rate of 3%

▶ Ohio Commercial Activity Tax (CAT)

- ▶ Taxable Gross Receipts over \$150,000 subject to Ohio CAT Tax including
 - ▶ Gross Rents, Lease Bonuses and Royalties from real property located in Ohio
 - ▶ CAT tax is \$150 per year for receipts \$1 million and less

What if I don't receive a 1099 Form?

- ▶ Damages
- ▶ Sold Minerals
- ▶ Never received in the Mail
- ▶ Did the IRS receive the 1099?

- ▶ Penalties for Not Reporting
 - ▶ Accuracy Related Penalty - If IRS adjusts return resulting in a tax increase
 - ▶ Penalty is 20% or 40% of the increase in tax
 - ▶ Interest due from the return due date
 - ▶ Accuracy Related Penalty also applies to taking the new 20% Qualified Business Deduction and not being eligible

Do I need to issue a Form 1099?

- ▶ Trade or Business
- ▶ Farmer
- ▶ Business Owner
- ▶ Joint property/mineral owner and I am the primary SS#
- ▶ Penalty for not filing a 1099 to the IRS and not sending to the Recipient is
 - ▶ \$1,080 per 1099 not filed
 - ▶ No Maximum penalty
 - ▶ Five (5) 1099s should have been filed equals a \$5,400 penalty

Weekly Tax Show

Jeff Yourkovich offers weekly tax advice on the Watchdog Network WKKX and WVLY during the Steve Novotney Live show on Tuesdays at 4:30pm. Listen live, online at <http://www.watchdognetwork.com/> or on the TuneIn app [WKKX-1600](#)

You can also follow us on Facebook at <https://www.facebook.com/yorkcpa/>

And listen at your convenience to the podcast of the show that will be posted after the live show.



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1500 - Miscellaneous

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