

OIL & GAS COMPANIES POSTED RECORD PROFITS IN 2022. HOW DOES THAT AFFECT INVESTING IN 2023 AND BEYOND?

Healthy profit outlooks for oil and gas companies mean attractive opportunities for individual investors. Where should you devote your dollars going forward?

Big Oil is racking up record profits. In fact, the supermajor oil companies – including BP, Chevron, ExxonMobil, and Shell – **overall more than doubled earnings in 2022 to \$219 billion**, shattering previous records. This welcomed surge is affording energy giants the opportunity to double down on oil and gas.

But are independent producers sharing in the good fortune? And what about investors? Is now the right time to place bets on oil and gas?

FROM MARKET SHOCK TO POSITIVE OUTLOOK

Russia's invasion of Ukraine in early 2022 sent shock waves through the industry. Europe's subsequent embargo of Russian hydrocarbons drove an imbalance in supply and demand. Saudi Arabia declined to respond with significant production increases. Then China eased Covid-19 restrictions, adding to demand pressures.

But those market factors positioned oil and gas for record profits in 2022 and they're the leading indicators of a positive outlook in 2023 and beyond. **Russian sanctions will continue to limit supply**. China's resumed growth will boost economies worldwide. And the return to pre-pandemic economic levels around the world will drive oil consumption higher.

In fact, global oil demand is set to **rise by 1.8 million barrels a day in 2023** to a record 101.7 million barrels per day (mb/d). Supply gains, meanwhile, will slow to 1 mb/d which will drive up prices resulting in direct benefits for oil and gas players – large and small.

Global oil prices averaged \$100 a barrel in 2022. They're likely to remain at that level for the next five years, says a **recent survey of energy market pros**.

BOON OF A HARD COMMODITY

High oil prices are welcome news for oil and gas investors. The higher the price per barrel, the more profitable the production at the wellhead – good fortune that's shared by investors.

That's especially attractive at a time when other investment classes have lost their luster. **The pandemic housing bubble is bursting**, making real estate unattractive in the near term. Cryptocurrency, hammered over the past year, **continues its volatility**. The stock market overall has remained flat for at least two years and uncertainty around a potential economic downturn does not build confidence. It's no wonder investors are looking to hard commodities like oil and gas.

UNIQUE TAX ADVANTAGES

INVESTING IN OIL AND GAS ALSO OFFERS TAX ADVANTAGES – ESPECIALLY ATTRACTIVE WHEN WASHINGTON IS TALKING ABOUT TAX HIKES. HERE ARE THREE TAX BREAKS CURRENTLY AVAILABLE:

1 100% TAX WRITE-OFF FOR INTANGIBLE DRILLING COSTS (IDCS) WITH A DIRECT

IDCs are drilling expenses related to labor, fuel, and similar items, representing 70% to 85% of the well cost. IDCs can be deducted 100% against taxable income in the first year. If you invested \$100,000 in a project that had 85% of its costs in IDCs, you could deduct \$85,000 from your taxable income. In the 37% federal tax bracket, the deduction could save about \$31,450 in taxes.

2 SEVEN-YEAR CAPITALIZATION AND DEPRECIATION FOR TANGIBLE DRILLING COSTS (TDCs)

TDCs are drilling equipment such as pump jacks and wellheads. For the \$100,000 invested in the example above, the remaining \$15,000 – 15% of the cost of the well – would be TDCs. These costs can be capitalized and depreciated over a seven-year period.

3 15% OF A WELL'S ANNUAL PRODUCTION SHELTERED FROM INCOME TAX

Once a well is in production, the working interest owners are permitted to shelter some of the gross income derived from the sale of the oil and/or gas through a depletion deduction. That generally shelters 15% of the well's annual production from income tax.

GAINING AN EDGE WITH INDEPENDENTS

Big Oil operates by investing large sums in oil exploration and then performing initial oil extraction. This primary recovery relies on the natural difference in pressure between the surface and the underground reservoir. As the pressure equalizes, production slows, and it becomes economically less attractive for large producers to continue recovery.

That's where independent producers come into play. Independents engage in secondary recovery, using techniques such as water injection to increase underground pressure and extract additional oil. In fact, while primary producers extract as little as 10% of the oil from a reserve, secondary producers can extract up to 50%.

Independent producers offer attractive investment opportunities. Their business model involves lower risk, because the oil reserves have already been proven. They're potentially more profitable, because they can recover more of the oil in place. And they can rapidly get equipment in place and begin producing to meet demand spikes – without having to wait for private equity and institutional investors to get off the sidelines.

ACTING ON AN OPPORTUNITY

Now is an opportune time to consider direct investment in oil and gas. Of course, investors should evaluate any investment carefully and approach any opportunity with due caution. But the current combination of market factors – growing demand, constrained supply, historically high prices forecast to continue in the near term – make oil and gas an unmatched opportunity for individual investors.

Ready to explore whether investing in oil and gas is right for you?

Contact us now at 1-682-703-0880 or info@wsrc.com for a free consultation. Or, complete our simple [Contact form](#).



About Wheeler Resource Recovery:

Wheeler Resource Recovery is a leader in secondary oil recovery based in Benbrook, Texas. Since 1932, Wheeler has used its five-spot water recovery process to extract oil at a lower cost and lower risk than primary oil recovery. The principals of Wheeler Resource Recovery, Kevin K. Thibeau and J.P. Bolton, have over 50 years of oil and gas and financial experience between them and continue to operate successful oil recovery projects by partnering with accredited investors throughout the United States.

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