



Considerations After Signing A Natural Gas Lease

Once an individual has signed a lease for their gas rights, there are many financial planning ideas and potential liabilities that should be considered. Each individual will have different goals and objectives for their newly acquired wealth, whether it is providing for family, gifting to charity, or ensuring they are adequately protected if problems arise. Implementing a proper plan to address these concerns can be complex, so it is important to understand your available options. It is recommended that you speak with a qualified attorney and accountant before implementing any of the points discussed below, as these may or may not apply to your unique situation.

Questions To Ask

- How can I use my new wealth to provide for my family?
- What is the most effective way to gift to charity?
- Do I have adequate liability protection?
- What is the best way to manage these properties?
- What kind of taxes can I expect to pay?
- How should my estate plan change?

Financial Planning Considerations

- With your new lease compensation will come many financial decisions. To name a few, you will need to determine how much you will need to save to meet your retirement goals, what age you would like to retire, when you should begin Social Security benefits, and what type of investments you should be utilizing. All of these factors, along with their consequences, are important to discuss.
- You may want to consider providing gifts to your family or friends. This could be done by utilizing your annual gift exclusion, lifetime gifting exemption, or by making payments directly to an educational institution or medical provider, as these are not considered taxable gifts nor do they count against a taxpayer's annual exclusion gifts for the year.
- If you have children or grandchildren that are still anticipating higher education expenses, consider setting up a 529 College Savings Plan for each of them. 529 Plans have a special 5-year front-loading option. This allows you to contribute up to five years worth of annual exclusion gifts in one year (\$70,000 per person, per beneficiary in 2016). As an added incentive, gifts made to any state's 529 Plan may be tax deductible at the state level for Pennsylvania taxpayers who have income. (up to \$14,000 per person, per beneficiary)
- There are a number of options for charitably inclined individuals, depending on the specific situation. A donor advised fund or charitable trust can allow for current tax deductions and lifetime or term certain gifts. These can also be set up to be anonymous, if desired.
- You should complete a full insurance review to ensure you are adequately covered. You may have a need for umbrella insurance coverage or additional life insurance. As part of this process, it is always important to review your beneficiary designations.
- Limited Partnerships and Limited Liability Corporations (LLCs) can be set up to provide management, liability protection, and succession planning for your gas lease. These are complex and not for everyone, but they may allow the lease holder to maintain control, manage the income, receive creditor protection, and restrict transfers to only their intended beneficiaries.
- Some individuals may decide that an S-Corporation may be an appropriate way to manage their properties. Some of the potential benefits of creating an S-Corporation include: the ability to pay yourself a reasonable salary for managing the properties, the option to set up an insurance benefit program, including health insurance, and a way to increase retirement savings and defer taxes by setting up a retirement plan, such as a pension plan or 401(k) plan.



- Most of the time, income from royalties, including up-front payments, are taxed as ordinary income. This income may significantly increase your taxes and bump you up to a higher income tax bracket. It is important to realize that some tax deductions and credits are only available to taxpayers below certain income thresholds. Additionally, the ability to contribute to IRAs and Roth IRAs may be limited by your Modified Adjusted Gross Income (MAGI).
- Your new income level may also subject you to the Alternative Minimum Tax (AMT). It may be wise to work with an accountant to estimate this potential liability before completing any financial planning strategies.
- You should also consider discussing your current estate plan and legal documents with an attorney. The value of the land and royalties may be included in your estate for purposes of calculating estate and inheritance taxes and there may be estate planning strategies available to help reduce this. Due to potential future estate tax law changes, estate plans should remain flexible and be closely monitored on an ongoing basis.

Final Thoughts

A gas lease may significantly change your current and future financial situation. The new income and benefits you will be receiving may require you to implement additional planning strategies to achieve your new goals and objectives. Whether you want to provide for your heirs, donate more to charity, protect yourself from liability, or plan for increased taxes, it is recommended that you implement a comprehensive financial plan and speak with a qualified attorney and accountant to address your changing situation. Each individual gas lease will have its own unique planning issues, but the preceding paragraphs can help you determine some of what to look for as you plan for your financial future.

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