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Final 7704 Qualifying Income Regulations

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FINAL 7704 QUALIFYING INCOME REGULATIONS

FINAL QI REGULATIONS

- The most significant changes are as follows:
 - Simplified analysis of oil and gas products:
 - “Good list” approach to processing and refining of oil and gas
 - Olefins generate qualifying income
 - Methanol does not generate qualifying income
 - Narrow interpretation of hard mineral processing depending on the type of ore:
 - Excludes coking of coal, steelmaking, and aluminum smelting
 - Oilfield services still qualify
 - Basin-by-basin approach for oil field service providers; and clarification that subcontractors are treated as “partnership personnel”

FINAL QI REGULATIONS

- On January 19, 2017, the final regulations under Section 7704 were released by the IRS and the Treasury Department. They were published in the federal register on January 24, 2017.
- The final regulations are largely viewed as an improvement over the proposed regulations. They address favorably many of the comments to the proposed regulations, but do so largely within the framework of the proposed regulations.
- The most significant changes are as follows:
 - No more “exclusive list” of mineral or natural resource qualifying activities
 - Greater clarity on the qualifying nature of some activities:
 - o LNG liquefaction and regasification
 - o Transportation and sale of propane to retail customers
 - o Pipeline compression services
 - o Blending and additization activities
 - o Reimbursement of costs
 - o Hedging activities subject to further guidance

FINAL QI REGULATIONS

Exploration and Development

- **Exploration:** An activity constitutes exploration if it is performed to ascertain the existence, location, extent, or quality of any deposit of a mineral or natural resource before the beginning of the development state of the natural deposit.
- **Development:** An activity constitutes development if it is performed to make accessible minerals or natural resources.

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