

## Marcellus Shale Group

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Cottrill Arbutina serves clients in Marcellus Shale leasing and production, which provides an opportunity for property owners to receive significant income from energy companies in connection with long term leases and royalty payments for drilling and extracting shale gas.

Because oil and gas has not been a major industry in Western Pennsylvania for more than a generation, property owners should not proceed in this process alone, as they are dealing with very sophisticated parties from out of state locations who have significant drilling experience. But with right type of advice, landowners can become educated to successfully negotiate a sizeable Marcellus Shale lease.

Generally, landowners will be offered a one-time bonus to sign a lease, based upon a per-acre calculation. There also is the potential for ongoing royalty payments, based on a percentage of a well drilled on or adjacent the site location, a payment stream that can continue for many years.

To their amazement, the lump sum payment may be more than their lifetime savings, and the royalties may become the retirement plan that always seemed out of reach. What new lease holders may not know is what to do with their newfound wealth. More importantly, they may not be receiving the proper advice and guidance to make sure they don't burn through this unexpected windfall.

Euphoria is natural, akin to winning the lottery. It can affect a lease holder's ability to make prudent financial judgments, and often can be squandered. Cottrill Arbutina is advising clients to keep their high emotions in check, and not to make any large purchases or investments for a few months after the first big payment is received.

For newfound income, it is advisable to deposit the funds in a safe, secure place, such as a federally insured account in a bank or credit union.

Taxes will need to be paid, as Shale income is considered by the IRS as ordinary income, and will be taxed at a higher rate than capital gains, in the 30 percent to 40 percent rate. Anyone with Shale income should make sure that all taxes are paid or that funds are set aside for taxes. To do so, it's critical to consult with a qualified tax professional who can compute tax liability. It's best not make any major purchases or investments until tax obligations have been satisfied.

Leaseholders should organize their finances as a financial snapshot as a guide on how to use some of their cash early on, such as paying off high interest debts. The best way to start is to:

- Compile a list of all other existing assets (not including the Marcellus Shale funds)
- Estimate their value, such as homes, investments, retirement accounts
- Compile a list of all debts, such as mortgages, credit cards and auto loans
- Calculate net worth, which is assets minus liabilities

It's also advisable for leaseholders to write down their goals, and determine what they want to accomplish financially in five, 10, and 20 years. Many clients will consider a diversified investment portfolio that is consistent with these goals and tolerance for financial risk. Remember, the higher the reward, the higher the risk.

In some cases, older property owners may face decades of royalty payments that may continue beyond their personal lifetime. That's where proper estate planning comes in so that the beneficiary clearly spells out a plan to bequest the income to the next generation. It's important to create a last will and trust, or revise an existing one. Failure to do so can turn something very good into immense heartache.

Property owners should engage a team of qualified tax, legal and financial planning professionals to assist in what will become one of the most important decisions they will ever make. Cottrill Arbutina advises clients to invest a little now to enjoy the peace of mind that comes with knowing wealth will be well managed for years to come.

**Tod Arbutina**, head of Cottrill Arbutina's Marcellus Shale Group, serves as a member of the Marcellus Shale communications task force of the Pennsylvania Institute of Certified Public Accountants. Contact him at [tarbutina@cottrillarbutina.com](mailto:tarbutina@cottrillarbutina.com) or at 724.683.3400. To learn more visit [www.picpa.org](http://www.picpa.org) and [www.cottrillarbutina.com](http://www.cottrillarbutina.com).

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