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TITLE 26--INTERNAL REVENUE

CHAPTER I--INTERNAL REVENUE SERVICE, DEPARTMENT OF THE TREASURY
 (CONTINUED)

PART 1_INCOME TAXES--Table of Contents

Sec. 1.193-1 Deduction for tertiary injectant expenses.

(a) In general. Subject to the limitations and restrictions of paragraphs (c) and (d) of this section, there shall be allowed as a deduction from gross income an amount equal to the qualified tertiary injectant expenses of the taxpayer. This deduction is allowed for the later of:

- (1) The taxable year in which the injectant is injected, or
- (2) The taxable year in which the expenses are paid or incurred.

(b) Definitions -

(1) Qualified tertiary injectant expenses. Except as otherwise provided in this section, the term qualified tertiary injectant expense means any cost paid or incurred for any tertiary injectant which is used as part of a tertiary recovery method.

(2) Tertiary recovery method. Tertiary recovery method means:

- (i) Any method which is described in subparagraphs (1) through (9) of section 212.78(c) of the June 1979 energy regulations (as defined
- (ii) Any method for which the taxpayer has obtained the approval of the Associate Chief Counsel (Technical), under section 4993(d) (1) (B) of
- (iii) Any method which is approved in the regulations under section 4993(d) (1) (B), or

(iv) Any other method to provide tertiary enhanced recovery for which the taxpayer obtains the approval of the Associate Chief Counsel (Techni

(c) Special rules for hydrocarbons--(1) In general. If an injectant contains more than an insignificant amount of recoverable hydrocarbons, the amount deductible under section 193 and paragraph (a) of this section shall be limited to the cost of the injectant reduced by the lesser of:

(i) The fair market value of the hydrocarbon component in the form in which it is recovered, or

(ii) The cost to the taxpayer of the hydrocarbon component of the injectant. Price levels at the time of injection are to be used in determining the fair market value of the recoverable hydrocarbons.

(2) Presumption of recoverability. Except to the extent that the

taxpayer can demonstrate otherwise, all hydrocarbons shall be presumed recoverable and shall be presumed to have the same value on recovery that they would have if separated from the other components of the injectant before injection. Estimates based on generally accepted engineering practices may provide evidence of limitations on the amount or value of recoverable hydrocarbons.

(3) Significant amount. For purposes of section 193 and this section, an injectant contains more than an insignificant amount of recoverable hydrocarbons if the fair market value of the recoverable hydrocarbon component of the injectant, in the form in which it is

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recovered, equals or exceeds 25 percent of the cost of the injectant.

(4) Hydrocarbon defined. For purposes of section 193 and this section, the term hydrocarbon means all forms of natural gas and crude oil (which includes oil recovered from sources such as oil shale and condensate).

(5) Injectant defined. For purposes of applying this paragraph (c), an injectant is the substance or mixture of substances injected at a particular time. Substances injected at different times are not treated as components of a single injectant even if the injections are part of a single tertiary recovery process.

(d) Application with other deductions. No deduction shall be allowed under section 193 and this section for any expenditure:

(1) With respect to which the taxpayer has made an election under section 263(c) or

(2) With respect to which a deduction is allowed or allowable under any other provision of chapter 1 of the Code.

(e) Examples. The application of this section may be illustrated by the following examples:

Example 1. B, a calendar year taxpayer who uses the cash receipts and disbursements method of accounting, uses an approved tertiary recovery method for the enhanced recovery of crude oil from one of B's oil properties. During 1980, B pays \$100x for a tertiary injectant which contains 1,000y units of hydrocarbon; if separated from the other components of the injectant before injection, the hydrocarbons would have a fair market value of \$80x. B uses this injectant during the recovery effort during 1981. B has not made any election under section 263(c) with respect to the expenditures for the injectant, and no section of chapter 1 of the Code other than section 193 allows a deduction for the expenditure. B is unable to demonstrate that the value of the inje

Example 2. Assume the same facts as in Example 1 except that through engineering

Example 3. Assume the same facts as in Example 1 except that through laboratory

Example 4. B prepares an injectant from crude oil and certain non-hydrocarbon materials purchased by B. The total cost of the injectant to B is \$100x, market value of the crude oil used in the injectant is \$27x. B is unable to demonstr

(Secs. 193 and 7805, Internal Revenue Code of 1954, 94 Stat. 286, 26 U.S.C. 193; 68A Stat. 917, 26 U.S.C. 7805)

[T.D. 7980, 49 FR 39052, Oct. 3, 1984]

CANADA

March 18, 2005

[Additional Information](#)

Industry and Resources - 225

INCENTIVES FOR ENHANCED OIL RECOVERY (EOR)

The Government of Saskatchewan today announced tax and royalty changes along with other changes. The changes include a revised and simplified tax and royalty structure for EOR; a re-authorized program for enhanced oil recovery (EOR). Speaking at the Petroleum Technology Research Centre in Regina, Premier Lorne Calver said, "With current technology, this means we will be leaving almost 30 billion barrels of oil in the ground. The incentives were developed by Industry and Resources following consultations with the Canadian Association of Petroleum Producers and other stakeholders. A new and simpler tax and royalty regime for EOR brings it into line with lower rates for other types of production. Renewal of the SPRI program for a further five fiscal years will provide as much as \$1.5 billion in savings. The Sales Tax and Fuel Tax exemption on propane, butane and other chemicals injected into the ground will also be renewed. All changes come into effect April 1st, 2005.

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