

Instructions for Form 8904



(Rev. November 2025)

Credit for Oil and Gas Production From Marginal Wells

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Future Developments

For the latest information about developments related to Form 8904 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form8904](https://www.irs.gov/Form8904).

Purpose of Form

The section 45I credit for oil and gas production from marginal wells is applicable for tax years beginning in 2025 for qualified natural gas production (the credit remains phased out for crude oil production). The credit is part of the section 38 general business credit.

Partnerships and S corporations must file this form to claim the credit. All other taxpayers aren't required to complete or file this form if the only source of the credit is a partnership or S corporation. Instead, they can report the credit directly on Form 3800, General Business Credit. For tax years beginning in 2025, use the 2025 Form 3800, Part III, line 1bb.

Amount of Credit

The credit is generally \$3 per barrel of qualified crude oil production and \$0.50 per 1,000 cubic feet of qualified natural gas production. The \$3 and \$0.50 amounts are subject to a statutory reduction and must be adjusted by the inflation adjustment factor (IAF) for the calendar year. The reduction and IAF for each calendar year will be provided in the Internal Revenue Bulletin (IRB). For tax years beginning in 2025, the credit amount is \$0.79 per thousand cubic feet of qualified natural gas production. See Notice 2025-34, 2025-27 I.R.B., available at [IRS.gov/irb/2025-27_IRB#NOT-2024-34](https://www.irs.gov/irb/2025-27_IRB#NOT-2024-34).

An owner of a marginal well may claim the credit any time within 3 years from the due date (excluding extensions) of its return on either its original or an amended return.

Carryback and Carryforward of Unused Credit

If you have an unused credit after carrying it back to each of the preceding 5 tax years (not just 1), then carry it forward to each of the 20 tax years after the year of the credit.

Definitions

Qualified marginal well means a domestic well with the production from which during the tax year:

- Is treated as marginal production under section 613A(c)(6); or

1. Has average daily production of not more than 25 barrel-of-oil equivalents (as defined in section 45K(d)(5)), and

2. Produces water at a rate not less than 95% of total well effluent.

Crude oil, natural gas, domestic, and barrel have the meanings defined in section 613A(e).

Other Rules

Production attributable to the taxpayer. If a qualified marginal well has more than one owner of operating interests in the well and the crude oil or natural gas production exceeds the limitation under section 45I(c)(2), qualifying crude oil production or qualifying natural gas production attributable to the taxpayer is determined on the basis of the ratio of the taxpayer's revenue interest in the production to the aggregate of the revenue interests of all operating interest owners in the production.

Maximum production. Crude oil or natural gas produced during any tax year from any well won't be treated as qualified crude oil production or qualified natural gas production to the extent production from the well during the tax year exceeds 1,095 barrels or barrel-of-oil equivalents (as defined in section 45K(d)(5)).

For short tax years, the maximum qualified production is proportionately reduced by the ratio of the number of days in the short tax year to 365 days.

If a well isn't capable of production during each day of a tax year, the maximum qualified production applicable to the well is proportionately reduced by the ratio of the number of days of production to the total number of days in the tax year.

Operating interest required. The credit may be claimed only on production which is attributable to the holder of an operating interest.

Production from nonconventional sources excluded. For production from a qualified marginal well which is eligible for the section 45K nonconventional source fuel credit for the tax year, no section 45I credit is allowable unless an election is made not to claim the section 45K credit for that well.

Specific Instructions

Line 2

For tax years beginning in 2025, enter the credit amount of \$0.79 on line 2.

Lines 4, 5, and 6

Reserved for future use.

Line 7

Enter total credit for oil and gas production from marginal wells from:

- Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc., box 15 (code P); and
- Schedule K-1 (Form 1120-S), Shareholder's Share of Income, Deductions, Credits, etc., box 13 (code P).

Partnerships and S corporations must report the credit on line 7. All other filers figuring a separate credit on earlier lines must also report the credit on line 7. All others not using earlier lines to figure a separate credit can report the credit directly on Form 3800, as explained under *Purpose of Form*, earlier.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You're required to give us the information. We need it to ensure that you're complying with these laws and to allow us to figure and collect the right amount of tax.

You aren't required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual and business taxpayers filing this form is approved under OMB control number 1545-0074 and 1545-0123 and is included in the estimates shown in the instructions for their individual and business income tax return. The estimated burden for all other taxpayers who file this form is shown below.

Recordkeeping	1 hr., 54 min.
Learning about the law or the form.	30 min.
Preparing and sending the form to the IRS	33 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.