AMERICAN PETROLEUM INSTITUTE

What Are MLPs and Why Are They Vital for the Energy Sector

A Master Limited Partnership (MLP) is a publically traded partnership that is listed on a national securities exchanged. The first MLP was formed in 1981 and its use grew rapidly because of its pass-thru treatment for qualifying income. Under current rules, MLP income is subject to tax only at the unit holder level as long as 90% of its gross income is qualifying income as defined in IRC 7704.

What Is Qualifying Income For MLPs?

- Dividends, rents and interests
- Gains from the sale of real property
- Gains from natural resources, which includes transportation, processing, storage, exploration and development, production, and marketing of oil and natural gas, among other things
- Certain other sources

MLPs and Natural Resources

For more than 30 years, MLPs have offered an effective and efficient means of generating private investment to meet our domestic energy needs. Terminals and pipelines form the backbone of our U.S. energy infrastructure and make up the largest sector of the MLPs. Energy infrastructure assets (and MLPs that hold such assets) consistently move energy products that support our economy to generate power for homes and businesses (for heating, cooling, lighting and production), for petrochemical production, and to fuel our vast transportation system.

Midstream MLPs accounts for 70 percent of MLP market capital, and 85 percent of the market capital of natural resource MLPs. They own approximately 300,000 miles of natural gas, NGL, refined product, and crude oil pipelines ranging from local gathering lines that bring products from the field to processing plants to major interstate pipelines traversing thousands of miles.

Energy infrastructure is extremely capital intensive and typically earn low returns for investors. The MLP organizational structure lowers the cost of capital for investment in MLP-eligible assets while at the same time offering reliable returns to individual investors. Additional investment in midstream infrastructure may help keep energy costs down and prices stable for consumers. As a result, MLPs have been vital contributors to needed investment in U.S. energy.

- Since 2007, MLPs have invested more than $150 billion in new infrastructure assets.
- According to a 2014 study[1], an additional $640 billion in infrastructure investment is needed by 2035 – more than $30 billion per year.

For more information, visit **api.org/tax**

[1] North American Midstream Infrastructure through 2035: Capitalizing on Our Energy Abundance, An INGAA Foundation Report, Prepared by ICF International. http://www.ingaa.org/File.aspx?id=21498