

# **PermRock Royalty Trust**

## **TAX INFORMATION 2021**

This booklet contains tax information relevant to ownership of Units of PermRock Royalty Trust and should be retained.

# PermRock Royalty Trust

P. O. Box 470727  
Fort Worth, Texas 76147  
Telephone Toll-Free: 1-855-588-7839  
Website: [www.permrock.com](http://www.permrock.com)

February 1, 2022

## IMPORTANT TAX INFORMATION

To Unit Holders:

The following material provides Unit holders with information necessary to compute the 2021 federal income tax consequences of owning Units:

- (a) Grantor Trust Schedule A for 2021;
- (b) Information and Instructions for Schedule A, and Supplemental Tax Tables including Table VII for Percentage Depletion; and
- (c) Instructions, Supplemental Tax Table VIII and Worksheet for Cost Depletion.

Unit holders are encouraged to read all of the material very carefully and to retain it as part of their tax records. The information and instructions contained herein are designed to assist Unit holders who are U.S. citizens in complying with their federal and state income tax reporting requirements and should not be construed as tax advice to any specific Unit holder. Unit holders should also consult any Internal Revenue Service (“IRS”) Forms 1099 and written tax statements issued by certain middlemen (discussed in more detail on pages 5 and 6) that hold Trust Units on their behalf.

Unit holders will need to determine the following information from their records:

- Number of Units held in 2021 as of each monthly Record Date (the last business day of each month);
- Original basis (the total purchase price of the Units including any commissions paid);
- Dates Units were acquired or sold; and
- Amount of depletion allowed or allowable in prior years.

**All Unit holders must compute their depletion deduction for federal tax reporting purposes. See “Computation of Depletion” on page 6 of the attached instructions. For your convenience, simple income/expense and cost depletion calculators are available on the home page and in the tax information section of the PermRock Royalty Trust website [www.permrock.com](http://www.permrock.com).**

Each Unit holder should consult his or her own tax adviser regarding tax compliance matters relating to his or her Units.

Simmons Bank, Trustee

By: 

**Lee Ann Anderson**  
Senior Vice President

PERMROCK ROYALTY TRUST

EIN 82-6725102

Cusip 714254109

**SCHEDULE A TO FORM 1041, GRANTOR TRUST**  
**For Year Ended December 31, 2021**

Federal and State Income Tax Information  
 See Instructions Before Filing

**PART I**  
**ROYALTY INFORMATION PER UNIT**

<u>ROYALTY PROPERTIES</u>	<u>Gross Income</u>	<u>Severance Tax</u>	<u>Net Royalty Payment</u>	<u>Cost Depletion Factor</u>	<u>Percentage Depletion Factor</u>	<u>Production</u>
<b>TEXAS</b>						
Oil	\$0.668444	\$0.059759	\$0.608685			0.009897 Bbls
Gas	<u>0.062388</u>	<u>0.008188</u>	<u>0.054200</u>			0.012822 Mcf
Total Oil & Gas	<u>0.730832</u>	<u>0.067947</u>	<u>0.662885</u>	0.021530	0.109625	
<b>TOTAL FOR YEAR</b>	<u>\$0.730832</u>	<u>\$0.067947</u>	<u>\$0.662885</u> <b>A</b>			

**PART II**  
**OTHER INCOME AND EXPENSE PER UNIT**

	<u>Total</u>
Interest Income	\$0.000015 <b>B</b>
Administration Expense	\$0.063588 <b>C</b>
Salt Water Disposal Income	\$0.006575 <b>D</b>

**PART III**  
**RECONCILIATION OF TAXABLE INCOME  
 AND CASH DISTRIBUTION PER UNIT**

	<u>Total</u>
Taxable Income Per Unit, Excluding Depletion ( <b>A+B-C+D</b> )	\$0.605887
Reconciling Items (Non-Tax Account)	<u>0.000000</u>
Cash Distribution Per Unit	<u>\$0.605887</u>

# PermRock Royalty Trust

EIN: 82-6725102

P. O. Box 470727  
Fort Worth, Texas 76147  
Telephone Toll-Free 1-855-588-7839  
Email: trustee@permrock.com  
Website: www.permrock.com

## I.

### FEDERAL INCOME TAX INFORMATION

#### 1. Reporting of Income and Deductions.

- (a) *Direct Ownership Reporting.* The PermRock Royalty Trust (the “Trust”) is a grantor trust for federal income tax purposes. Each Unit holder of the Trust is taxable on his pro rata share of the income and expenses of the Trust as if he were the direct owner of a pro rata share of the Trust income and assets. Thus, the taxable year for reporting a Unit holder’s share of the Trust’s income and expense is determined by his or her taxable year and his method of accounting, not by the taxable year and method of accounting of the Trust. Therefore, a cash method Unit holder should report his pro rata share of income or expense received or paid by the Trust during his tax year. An accrual method Unit holder should report his pro rata share of income or expense accrued by the Trust during his tax year. Because the Trust is a grantor trust for federal income tax purposes, proper classification of Trust income and expense will be dependent upon the relevant facts and circumstances of each Unit holder. Accordingly, Unit holders should consult their own tax advisors regarding all tax compliance matters related to the Units.
- (b) *Taxable Year.*
- Unit holders owning Units through a broker or nominee who report on a calendar year basis and who have owned the same number of Units throughout such calendar year should refer to Schedule A on page 2.
  - Unit holders who purchased or sold Units in the calendar year should refer to the information on pages 11 through 17.
  - Unit holders who report on the basis of a fiscal year other than the calendar year may contact the Trustee for further information.
- (c) *Types and Reporting of Trust Income and Deductions.* The Trust holds a net overriding royalty in oil and gas properties (the “Royalty”). In general, the net overriding royalty income is computed monthly based on proceeds realized in the preceding month by the owner of the interests burdened by the Royalty from oil and gas produced in an earlier month, less applicable costs and expenses. Such net overriding royalty income is received by the Trustee on the last day of the monthly period.
- (i) *Gross Income.* The gross amount of net overriding royalty income received by the Trust from the Royalty during the period is reported on a per-Unit basis in Part I, Schedule A.
  - (ii) *Severance Tax.* Severance tax paid by the Trust during the period covered is reported on a per-Unit basis in Part I, Schedule A.
  - (iii) *Interest Income.* Interest income received by the Trustee during the period covered is reported on a per-Unit basis in Part II, Schedule A.
  - (iv) *Administration Expenses.* Administration expenses are paid on the last day of the month in which they were incurred. The amount incurred and paid during such period is reported on a per-Unit basis in Part II, Schedule A.
  - (v) Salt water disposal income is reported on a per-Unit basis in Part II, Schedule A.
  - (vi) Proceeds from divestitures, if any, are reported on a per-Unit basis in Part II, Schedule A. There were no divestitures in 2021.
- (d) *Unit Multiplication.* For the convenience of Unit holders who acquired or sold Units during 2021, Tables I through VIII are enclosed to assist in the computation of gross royalty income, severance tax, interest income, administration expenses, salt water disposal income, and proceeds from divestiture. These tables are only for those Unit holders who have a calendar year as their taxable year. Because Schedule A and Tables I – VIII show results only on a per-Unit basis, each Unit holder must determine the aggregate amounts for all Units held by him to obtain the amounts to report on his tax return. Each Unit holder should multiply the gross royalty income and severance tax shown in Part I and the items in Part II by the number of Units owned by him during the applicable period. Income and deductions (other than depletion) may be computed directly from Schedule A or the appropriate tables. Depletion per Unit must be computed as provided in paragraph 2 below.

- (e) *Individual Taxpayers.* For Unit holders who hold the Units as an investment and who are required to file Form 1040 for 2021, it is suggested that the items of income and deduction computed from Schedule A or the appropriate tables be reported in the following manner:

<u>Item</u>	<u>Form 1040</u>
Gross Royalty Income	Line 4, Part I, Schedule E
Depletion	Line 18, Part I, Schedule E
Severance Tax	Line 16, Part I, Schedule E
Interest Income	Line 1, Part I, Schedule B
Administration Expenses	Line 19, Part I, Schedule E
Salt Water Disposal Income	Line 4, Part I, Schedule E

On pages 7 and 8, we have reproduced Schedules B and E of Form 1040 and identified the specific location of each item of income and expense listed above.

- (f) *Nominee Reporting.* Nominees and brokers should report the distributions from the Trust as royalty income on Form 1099-MISC. The taxable amount before depletion should be reported in accordance with Schedule A or Tables I through VIII. In years when there are no reconciling items, the net taxable income before depletion (see instruction 2) will equal the cash distributions from the Trust. See also Subsection (g) below for additional information relating to Units held by nominees, brokers and other middlemen.
- (g) *WHFIT Information.* The Trustee assumes that Trust Units are held by middlemen, as such term is broadly defined in U.S. Treasury Regulations (and includes custodians, nominees, certain joint owners, and brokers holding an interest for a customer in street name, referred to herein collectively as “middlemen”). Therefore, the Trust is considered to be a widely held fixed investment trust (“WHFIT”) classified as a non-mortgage widely held fixed investment trust for U.S. federal income tax purposes. Simmons Bank, EIN: 71-0162300, P. O. Box 470727, Fort Worth, Texas 76147, telephone number (855) 588-7839, email [trustee@permrock.com](mailto:trustee@permrock.com), is the representative of the Trust that will provide tax information in accordance with the applicable U.S. Treasury Regulations governing the information reporting requirements of the Trust as a WHFIT. Tax information is also posted by the Trustee at [www.permrock.com](http://www.permrock.com).
- (h) *Divestiture Properties.* There were no properties divested during 2021.

**Notwithstanding the foregoing, the middlemen holding Trust Units on behalf of Unit holders, and not the Trustee of the Trust, are solely responsible for complying with information reporting requirements under the U.S. Treasury Regulations with respect to such Trust Units, including the issuance of IRS Form 1099 and certain written tax statements. Unit holders whose Trust Units are held by middlemen should consult with such middlemen regarding the information that will be reported to them by the middlemen with respect to the Trust Units.**

**2. Computation of Depletion.** Each Unit holder's allowable depletion is the greater of cost depletion or percentage depletion with respect to the Royalty.

- (a) *Percentage Depletion.* Each Unit holder should separately compute both percentage depletion and cost depletion and claim the greater of the two amounts as a deduction on his or her income tax return. Unlike cost depletion, the allowance for percentage depletion continues to be deductible after the Unit holder's tax basis is reduced to zero. **The Trustee and its independent accountants have estimated the percentage depletion for 2021, and it appears that, depending on the Unit holder's individual circumstances, percentage depletion may exceed cost depletion.**

If available, percentage depletion is equal to 15% of the gross income attributable to a royalty, limited to 100% of the net income from such royalty. The amount of percentage depletion should then be compared to the amount of cost depletion calculated using instructions in Subsection (b) of this Paragraph 2. The greater of cost depletion or percentage depletion is the deduction to be taken on the Unit holder's income tax return. The worksheet and instructions provided on pages 13-14 assume a Unit holder will take the cost depletion deduction. Some Unit holders may be entitled to a percentage depletion deduction in lieu of a cost depletion deduction, in which case Table VII (on page 12) should be used to compute such Unit holder's depletion deduction.

- (b) *Cost Depletion.* To compute cost depletion, each Unit holder should multiply his tax basis in the Royalty (reduced by the aggregate prior years' depletion, if any) by the factor indicated in Part I, which factor was obtained by dividing the quantity produced and sold during the period by the estimated quantity of reserves at the beginning of the year.

A Cost Depletion Worksheet is enclosed to assist Unit holders in computing their cost depletion deduction. The Worksheet is divided into two parts. Part A pertains to Units that were held the entire calendar year, and Part B pertains to Units that were acquired or sold during 2021. Unit holders who use Part B should obtain their cost depletion factors for their applicable period of ownership in 2021 from Table VIII. Notes are contained in the Specific Instructions for Cost Depletion Worksheet to explain certain aspects of the depletion calculation.

**For your convenience, a simple cost depletion calculator is available on the PermRock Royalty Trust website at: [www.permrock.com](http://www.permrock.com).**

# Individual Unit Holder's Specific Location of Interest Income on Schedule B

Interest Income

SCHEDULE B (Form 1040)		Interest and Ordinary Dividends		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service (IRS)		▶ Go to <a href="http://www.irs.gov/ScheduleB">www.irs.gov/ScheduleB</a> for instructions and the latest information. ▶ Attach to Form 1040 or 1040-SR.		<div style="border: 1px solid black; padding: 2px; display: inline-block;"> <b>2021</b> Attachment Sequence No. 08         </div>
Name(s) shown on return			Your social security number	
<b>Part I</b>				
<b>1</b> List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see the instructions and list this interest first. Also, show that buyer's social security number and address ▶			<b>Amount</b>	
(See instructions and the instructions for Form 1040, line 2b.)				
<b>Note:</b> If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.				
			1	
<b>2</b> Add the amounts on line 1			2	
<b>3</b> Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815.			3	
<b>4</b> Subtract line 3 from line 2. Enter the result here and on Form 1040 or 1040-SR, line 2b			4	
<b>Note:</b> If line 4 is over \$1,500, you must complete Part III.				
<b>Part II</b>				
<b>5</b> List name of payer ▶			<b>Amount</b>	
(See instructions and the instructions for Form 1040, line 3b.)				
<b>Note:</b> If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.				
			5	
<b>6</b> Add the amounts on line 5. Enter the total here and on Form 1040 or 1040-SR, line 3b			6	
<b>Note:</b> If line 6 is over \$1,500, you must complete Part III.				
<b>Part III</b>				
You must complete this part if you (a) had over \$1,500 of taxable interest or ordinary dividends; (b) had a foreign account; or (c) received a distribution from, or were a grantor of, or a transferor to, a foreign trust.			<b>Yes</b> <b>No</b>	
<b>Foreign Accounts and Trusts</b>				
<b>7a</b> At any time during 2021, did you have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country? See instructions			<input type="checkbox"/> <input type="checkbox"/>	
<b>Caution:</b> If required, failure to file FinCEN Form 114 may result in substantial penalties. See instructions.				
<b>b</b> If you are required to file FinCEN Form 114, enter the name of the foreign country where the financial account is located ▶			<input type="checkbox"/> <input type="checkbox"/>	
<b>8</b> During 2021, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions			<input type="checkbox"/> <input type="checkbox"/>	
For Paperwork Reduction Act Notice, see your tax return instructions.				
Cat. No. 17146N			Schedule B (Form 1040) 2021	

**Individual Unit Holder's  
Specific Location of Income Expense  
on Schedule E**

**SCHEDULE E (Form 1040) Supplemental Income and Loss**  
 (From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)  
 Department of the Treasury Internal Revenue Service (IRS) OMB No. 1545-0074  
 Attach to Form 1040, 1040-SR, 1040-NR, or 1041. **2021**  
 Attachment Sequence No. 13  
 Go to [www.irs.gov/ScheduleE](http://www.irs.gov/ScheduleE) for instructions and the latest information.

Name(s) shown on return \_\_\_\_\_ Your social security number \_\_\_\_\_

**Part I Income or Loss From Rental Real Estate and Royalties** Note: If you are in the business of renting personal property, use Schedule C. See instructions. If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

A Did you make any payments in 2021 that would require you to file Form(s) 1099? See instructions  Yes  No  
 B If "Yes," did you or will you file required Form(s) 1099?  Yes  No

1a Physical address of each property (street, city, state, ZIP code)  
 A \_\_\_\_\_  
 B \_\_\_\_\_  
 C \_\_\_\_\_

1b	Type of Property (from list below)	2	Fair Rental Days	Personal Use Days	QJV
A		For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.	A		<input type="checkbox"/>
B			B		<input type="checkbox"/>
C			C		<input type="checkbox"/>

Type of Property:  
 1 Single-Family Residence 3 Vacations/Short-Term Rental 5 Land 7 Self-Rental  
 2 Multi-Family Residence 4 Commercial 6 Royalties 8 Other (describe) \_\_\_\_\_

Income:	Properties:	A	B	C
3 Rents received				
4 Royalties received				
<b>Expenses:</b>				
5 Advertising	5			
6 Auto and travel (see instructions)	6			
7 Cleaning and maintenance	7			
8 Commissions	8			
9 Insurance	9			
10 Legal and other professional fees	10			
11 Management fees	11			
12 Mortgage interest paid to banks, etc. (see instructions)	12			
13 Other interest	13			
14 Repairs	14			
15 Supplies	15			
16 Taxes	16			
17 Utilities	17			
18 Depreciation expense or depletion	18			
19 Other (list) ▶	19			
20 Total expenses. Add lines 5 through 19	20			
21 Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a loss, see instructions to find out if you must file Form 6198	21			
22 Deductible rental real estate loss after limitation, if any, on Form 8562 (see instructions)	22			
23a Total of all amounts reported on line 3 for all rental properties	23a			
b Total of all amounts reported on line 4 for all royalty properties	23b			
c Total of all amounts reported on line 12 for all properties	23c			
d Total of all amounts reported on line 18 for all properties	23d			
e Total of all amounts reported on line 20 for all properties	23e			
24 <b>Income.</b> Add positive amounts shown on line 21. Do not include any losses	24			
25 <b>Losses.</b> Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here	25			
26 <b>Total rental real estate and royalty income or (loss).</b> Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Schedule 1 (Form 1040), line 5. Otherwise, include this amount in the total on line 41 on page 2	26			

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11344L Schedule E (Form 1040) 2021

Gross Royalty Income

Salt Water Disposal Income

Severance Tax

Depletion

Administration Expense



- 3. Reconciliation of Net Income and Cash Distributions.** The difference, if any, between the per-Unit taxable income for a period and the per-Unit cash distributions, if any, reported for such period is attributable to adjustments in Part III, Line 2, labeled Reconciling Items. The Reconciling Items consist of:
- (i) items that reduce cash distributions but are not currently deductible, such as increases in cash reserves established by the Trustee for the payment of future expenditures and capital items, and
  - (ii) items that increase cash distributions but do not constitute taxable income, such as reductions in previously established cash reserves.

In 2021, there were not any changes in the cash reserve maintained by the Trust. Thus, there are no Reconciling Items for 2021. It is expected that normally the Reconciling Items will be negligible.

- 4. Adjustments to Basis.** Each Unit holder should reduce his tax basis in the Royalty and in his units by the amount of depletion allowable with respect to the Royalty.
- 5. Federal Income Tax Reporting of Units Sold.** The sale, exchange, or other disposition of a Unit generally is a taxable transaction for federal income tax purposes. Gain or loss is computed under general tax principles as the difference between the selling price and the adjusted basis of the Unit. The adjusted basis in a Unit is the original cost or other basis of the Unit reduced (but not below zero) by any depletion that reduced the adjusted basis of the interest in the Royalty represented by such Unit. The depletion recapture amount is an amount equal to the lesser of (i) the gain on such sale attributable to the disposition of the Royalty or (ii) the sum of the prior depletion deductions taken with respect to the Royalty (but not in excess of the initial basis of such Units allocated to the Royalty). The remaining gain or any loss from the disposition of a Unit will be a capital gain or loss if such Unit was held by the Unit holder as a capital asset. The capital gain or loss will be long-term, if held more than 12 months, or short-term, if held for 12 months or less. Unit holders should consult their tax advisors for further information.
- 6. Portfolio Income.** Royalty Income is generally considered portfolio income under the passive activity loss rules enacted by the Tax Reform Act of 1986. Therefore, it appears that Unit holders should not treat the taxable income from the Trust as passive activity income in determining net passive activity income or loss. Unit holders should consult their tax advisors for further information.
- 7. Unrelated Business Taxable Income.** In general, royalty income is not taxable as unrelated business taxable income. However, certain organizations that are generally exempt from federal income tax under IRC Section 501 are subject to tax on certain types of business income defined in IRC Section 512 as unrelated business taxable income. The income of the Trust should not be unrelated business taxable income to such organizations, so long as the Trust Units are not “debt-financed property” within the meaning of IRC Section 514(b). In general, a Trust Unit would be debt-financed property if the Trust Unit holder incurs debt to acquire a Trust Unit or otherwise incurs or maintains a debt that would not have been incurred or maintained if the Trust Unit had not been acquired.
- 8. Backup Withholding.** A payor is required under specified circumstances to withhold tax at the rate of 24 percent on “reportable interest or dividend payments” and “other reportable payments” (including certain oil and gas royalty payments). Generally, this “backup withholding” is required on payments if the payee has failed to furnish the payor a taxpayer identification number or if the payor is notified by the Secretary of the Treasury to withhold taxes on such payments with respect to the payee. Amounts withheld by payors pursuant to the backup withholding provisions are remitted to the IRS and are considered a credit against the payee’s federal income tax liability. If the payee does not incur a federal income tax liability for the year in which the taxes are withheld, the payee will be required to file the appropriate income tax return to claim a refund of the taxes withheld.

**Unit holders, other than foreign taxpayers, who have had amounts withheld in 2021 pursuant to the federal backup withholding provisions should have received a Form 1099-MISC from their broker or middleman. The Form 1099-MISC reflects the total federal income tax withheld from distributions. Unlike other Forms 1099 that you may receive, the amount reported on the Form 1099-MISC received relative to the Trust should not be included as additional income in computing taxable income, as such amount is already included in the per-Unit income items on the income and expense schedules included herein. The federal income tax withheld, as reported on the Form 1099-MISC, should be considered as a credit by the Unit holder in computing any federal income tax liability. Individual Unit holders should include the amount of backup withholding in the “Payments” section of the Unit holder’s 2021 Form 1040.**

- 9. Investment Income Tax.** IRC Section 1411 imposes a 3.8% Medicare tax on certain investment income earned by individuals, estates, and trusts. For these purposes, investment income generally will include a Unit holder’s allocable share of the Trust’s interest and royalty income plus the gain recognized from a sale of Trust Units. In the case of an individual, the tax is imposed on the lesser of (i) the individual’s net investment income from all investments, or (ii) the amount by which the individual’s modified adjusted gross income exceeds specified threshold levels depending on such individual’s federal income tax filing status (\$250,000 for married persons filing a joint return and \$200,000 in most other cases). In the case of an estate or trust, the tax is imposed on the lesser of (i) undistributed net investment income, or (ii) the excess adjusted gross income over the dollar amount at which the highest income tax bracket applicable to an estate or trust begins (\$13,050 for 2021).

## II. STATE TAX RETURNS

All revenues from the Trust are from sources within Texas, which has no individual income tax. Texas imposes a franchise tax at a rate of 0.75% on gross revenues less certain deductions, as specifically set forth in the Texas franchise tax statutes. Entities subject to tax generally include trusts and most other types of entities having limited liability protection, unless otherwise exempt. Trusts that receive at least 90% of their federal gross income from designated passive sources, including royalties from mineral properties and other non-operated mineral interest income, and do not receive more than 10% of their income from operating an active trade or business, generally are exempt from the Texas franchise tax as “passive entities.” The Trust has been and expects to continue to be exempt from Texas franchise tax as a passive entity. Because the Trust should be exempt from Texas franchise tax at the Trust level as a passive entity, each Unit holder that is a taxable entity under the Texas franchise tax generally will be required to include its portion of Trust revenues in its own Texas franchise tax computation. This revenue is sourced to Texas under provisions of the Texas Administrative Code providing that such income is sourced according to the principal place of business of the Trust, which is Texas.

Unit holders should consult their own tax advisors concerning all Texas tax compliance matters relating to the Units.

## III. CERTAIN FEDERAL INCOME TAX MATTERS

Under current law (i) the Trust should be treated as a grantor trust for federal income tax purposes, and the income of the Trust should be taxable to the Unit holders as if amounts owed or paid to the Trust were owed or paid directly to the Unit holders pro rata; and (ii) each Unit holder should be entitled to depletion deductions equal to the greater of cost depletion based on his basis in the Units or (under certain circumstances) percentage depletion. The IRS has issued private letter rulings and technical advice memoranda indicating that royalty trusts similar to the Trust are taxable as grantor trusts. However, no rulings have been issued to the Trust and private letter rulings issued to other taxpayers do not bind the IRS in connection with the Trust. Hence, there can be no assurance that the IRS will not challenge this treatment.

**THE INFORMATION AND INSTRUCTIONS CONTAINED IN THIS BOOKLET ARE DESIGNED TO ASSIST UNIT HOLDERS WHO ARE U.S. CITIZENS IN COMPLYING WITH THEIR FEDERAL INCOME TAX AND TEXAS STATE TAX REPORTING REQUIREMENTS BASED ON THE TREATMENT OF THE TRUST AS A GRANTOR TRUST AND SHOULD NOT BE CONSTRUED AS TAX ADVICE TO ANY SPECIFIC UNIT HOLDER. A UNIT HOLDER SHOULD CONSULT THE UNIT HOLDER’S OWN TAX ADVISER REGARDING ALL TAX COMPLIANCE MATTERS RELATING TO SUCH UNIT HOLDER’S UNITS.**

## IV. SUPPLEMENTAL TAX TABLES AND WORKSHEET

For calendar-year Unit holders who acquired, sold or exchanged Units during 2021, Supplemental Tax Tables I-VIII should be used to compute income, expenses, and if applicable, percentage depletion. Unit holders who have a taxable year other than December 31 should contact the Trustee by email at [trustee@permrock.com](mailto:trustee@permrock.com). Unit holders who have held the same number of Units the entire year and report on the calendar year should use Schedule A on page 2 of this booklet.

To assist all Unit holders in calculating their cost depletion deduction, Table VIII and the Cost Depletion Worksheet are provided on pages 16 and 17. Notes are contained in the Specific Instructions for Cost Depletion Worksheet to explain and assist in calculating a Unit holder’s cost depletion deduction. This worksheet assumes a Unit holder will take the cost depletion deduction. Some Unit holders may be entitled to a percentage depletion deduction in lieu of a cost depletion deduction, in which case Table VII should be used to compute such Unit holder’s depletion deduction.

***Note: Simple income/expense and cost depletion calculators are posted on the PermRock Royalty Trust website: [www.Permrock.com](http://www.Permrock.com)***

**EXAMPLE:**

A brief example to illustrate the computation of the income, expenses, and depletion deduction may be helpful. Assume a Unit holder purchased 1,000 Units for \$8,650 (the holder's basis) on May 10, 2021 and sold these Units on November 14, 2021. For these Units the Unit holder received cash distributions for May through October; therefore, the income, expenses, and depletion deduction attributable to these Units will be for this same period.

To use each table (I-VIII) for this example, a Unit holder should go down the left-hand column to the specific month when the Units were purchased and then across the page to the column which corresponds to the month or record date for which the last cash distribution was received. In the above example, the Unit holder should go down the left-hand column to the fifth line (May) and across the page to the column titled October. **This procedure would be repeated on each of the tables. The income, expense and depletion deduction calculations for the above example are summarized below:**

**EXAMPLE – FOR ILLUSTRATION ONLY**

<u>DESCRIPTION</u>	<u>TABLE</u>	<u>AMOUNT PER UNIT</u>	<u>X</u>	<u>UNITS OR BASIS</u>	<u>=</u>	<u>AMOUNT \$</u>
Gross Royalty Income	I	0.401382	X	1,000 Units	=	\$401.38
Interest Income	II	0.000005	X	1,000 Units	=	.00
Salt Water Disposal Income	III	0.003294	X	1,000 Units	=	3.29
Proceeds from Divestiture	IV	0.000000	X	1,000 Units	=	0
Severance Tax	V	0.035257	X	1,000 Units	=	35.26
Administration Expense	VI	0.026755	X	1,000 Units	=	26.76
Percentage Depletion *	VII	0.060207	X	1,000 Units	=	60.21
Cost Depletion **	VIII	0.011348	X	\$8,650 Basis	=	98.16

\* Percentage Depletion may be claimed if greater than Cost Depletion. The Unit holder should compute both percentage depletion and cost depletion and claim the larger amount. Taxpayers should consult their tax advisors regarding deductibility of percentage depletion.

\*\* See Specific Instructions for Cost Depletion Worksheet on page 13 and the Cost Depletion Worksheet on page 14.

1	2	3	4	5	6	7	8	9	10	11	12
Table I	Gross Royalty Income										

For a unit acquired of record during the month of:

And the last cash distribution on such unit was attributable to the monthly record date for the month (or exact date) of:

	January	February	March	April	May	June	July	August	September	October	November	December
January	0.022795	0.054029	0.118246	0.174997	0.239952	0.310884	0.380489	0.453545	0.514314	0.576378	0.648369	0.730832
February		0.031234	0.095451	0.152202	0.217157	0.288090	0.357694	0.430750	0.491519	0.553584	0.625575	0.708037
March			0.064217	0.120967	0.185923	0.256855	0.326460	0.399516	0.460284	0.522349	0.594340	0.676803
April				0.056751	0.121706	0.192638	0.262243	0.335299	0.396068	0.458132	0.530123	0.612586
May					0.064955	0.135888	0.205493	0.278548	0.339317	0.401382	0.473373	0.555835
June						0.070932	0.140537	0.213593	0.274362	0.336427	0.408417	0.490880
July							0.069605	0.142660	0.203429	0.265494	0.337485	0.419948
August								0.073056	0.133824	0.195889	0.267880	0.350343
September									0.060769	0.122834	0.194825	0.277287
October										0.062065	0.134056	0.216518
November											0.071991	0.154454
December												0.082463

Table II Interest Income

For a unit acquired of record during the month of:

And the last cash distribution on such unit was attributable to the monthly record date for the month of:

	January	February	March	April	May	June	July	August	September	October	November	December
January	0.000002	0.000004	0.000005	0.000006	0.000007	0.000008	0.000009	0.000010	0.000010	0.000011	0.000012	0.000015
February		0.000002	0.000003	0.000004	0.000005	0.000006	0.000007	0.000008	0.000008	0.000009	0.000010	0.000013
March			0.000001	0.000002	0.000003	0.000004	0.000005	0.000006	0.000006	0.000007	0.000008	0.000011
April				0.000001	0.000002	0.000003	0.000003	0.000004	0.000005	0.000006	0.000007	0.000009
May					0.000001	0.000002	0.000003	0.000004	0.000005	0.000005	0.000006	0.000009
June						0.000001	0.000002	0.000003	0.000004	0.000005	0.000006	0.000008
July							0.000001	0.000002	0.000003	0.000004	0.000005	0.000007
August								0.000001	0.000002	0.000003	0.000004	0.000006
September									0.000001	0.000002	0.000003	0.000005
October										0.000001	0.000002	0.000004
November											0.000001	0.000003
December												0.000002

Table III Salt Water Disposal Income

For a unit acquired of record during the month of:

And the last cash distribution on such unit was attributable to the monthly record date for the month of:

	January	February	March	April	May	June	July	August	September	October	November	December
January	0.000552	0.001074	0.001458	0.002010	0.002475	0.002915	0.003332	0.004098	0.004813	0.005305	0.005868	0.006575
February		0.000522	0.000906	0.001458	0.001923	0.002363	0.002780	0.003546	0.004261	0.004753	0.005316	0.006023
March			0.000384	0.000936	0.001401	0.001841	0.002258	0.003024	0.003739	0.004231	0.004794	0.005501
April				0.000552	0.001017	0.001457	0.001874	0.002640	0.003355	0.003847	0.004410	0.005117
May					0.000464	0.000904	0.001322	0.002087	0.002802	0.003294	0.003858	0.004565
June						0.000440	0.000857	0.001623	0.002338	0.002830	0.003393	0.004100
July							0.000418	0.001183	0.001898	0.002390	0.002953	0.003661
August								0.000766	0.001480	0.001973	0.002536	0.003243
September									0.000715	0.001207	0.001770	0.002477
October										0.000492	0.001055	0.001762
November											0.000563	0.001270
December												0.000707

Table IV Proceeds from Divestiture

For a unit acquired of record during the month of:

And the last cash distribution on such unit was attributable to the monthly record date for the month of:

	January	February	March	April	May	June	July	August	September	October	November	December
January	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
February		0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
March			0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
April				0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
May					0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
June						0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
July							0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
August								0.000000	0.000000	0.000000	0.000000	0.000000
September									0.000000	0.000000	0.000000	0.000000
October										0.000000	0.000000	0.000000
November											0.000000	0.000000
December												0.000000

Table V Severance Tax

For a unit acquired of record during the month of:	And the last cash distribution on such unit was attributable to the monthly record date for the month of:											
	January	February	March	April	May	June	July	August	September	October	November	December
January	0.003918	0.008426	0.013698	0.018433	0.023291	0.028988	0.035053	0.041166	0.047432	0.053690	0.059975	0.067947
February		0.004508	0.009780	0.014515	0.019374	0.025071	0.031136	0.037248	0.043514	0.049772	0.056057	0.064029
March			0.005272	0.010007	0.014866	0.020562	0.026628	0.032740	0.039006	0.045264	0.051549	0.059521
April				0.004735	0.009593	0.015290	0.021355	0.027468	0.033734	0.039992	0.046277	0.054249
May					0.004858	0.010555	0.016621	0.022733	0.028999	0.035257	0.041542	0.049514
June						0.005697	0.011762	0.017875	0.024140	0.030399	0.036683	0.044656
July							0.006065	0.012178	0.018443	0.024702	0.030986	0.038959
August								0.006113	0.012378	0.018637	0.024921	0.032894
September									0.006265	0.012524	0.018809	0.026781
October										0.006259	0.012543	0.020516
November											0.006285	0.014257
December												0.007972

Table VI Administration Expense

For a unit acquired of record during the month of:	And the last cash distribution on such unit was attributable to the monthly record date for the month of:											
	January	February	March	April	May	June	July	August	September	October	November	December
January	0.003501	0.007046	0.019832	0.027763	0.032524	0.037510	0.041043	0.046559	0.051669	0.054517	0.058248	0.063588
February		0.003546	0.016331	0.024262	0.029023	0.034009	0.037542	0.043059	0.048169	0.051017	0.054747	0.060087
March			0.012786	0.020716	0.025477	0.030463	0.033996	0.039513	0.044623	0.047471	0.051201	0.056541
April				0.007930	0.012691	0.017677	0.021210	0.026727	0.031837	0.034685	0.038416	0.043755
May					0.004761	0.009747	0.013280	0.018797	0.023907	0.026755	0.030485	0.035825
June						0.004986	0.008519	0.014036	0.019146	0.021994	0.025724	0.031064
July							0.003533	0.009050	0.014160	0.017008	0.020738	0.026078
August								0.005517	0.010627	0.013475	0.017205	0.022545
September									0.005110	0.007958	0.011688	0.017028
October										0.002848	0.006578	0.011918
November											0.003730	0.009070
December												0.005340

Table VII Percentage Depletion - TX Royalty

For a unit acquired of record during the month of:	And the last cash distribution on such unit was attributable to the monthly record date for the month of:											
	January	February	March	April	May	June	July	August	September	October	November	December
January	0.003419	0.008104	0.017737	0.026249	0.035993	0.046633	0.057073	0.068032	0.077147	0.086457	0.097255	0.109625
February		0.004685	0.014318	0.022830	0.032574	0.043213	0.053654	0.064612	0.073728	0.083038	0.093836	0.106206
March			0.009633	0.018145	0.027888	0.038528	0.048969	0.059927	0.069043	0.078352	0.089151	0.101520
April				0.008513	0.018256	0.028896	0.039336	0.050295	0.059410	0.068720	0.079519	0.091888
May					0.009743	0.020383	0.030824	0.041782	0.050898	0.060207	0.071006	0.083375
June						0.010640	0.021081	0.032039	0.041154	0.050464	0.061263	0.073632
July							0.010441	0.021399	0.030514	0.039824	0.050623	0.062992
August								0.010958	0.020074	0.029383	0.040182	0.052551
September									0.009115	0.018425	0.029224	0.041593
October										0.009310	0.020108	0.032478
November											0.010799	0.023168
December												0.012369

## Specific Instructions for Cost Depletion Worksheet

**Note 1:** The original basis of your Units must be determined from your records and generally will be the amount paid for the Units, including broker's commissions. However, there could be other taxable events that cause the original basis to be revised. For example, the original basis of Units passing through an estate will generally be changed to reflect the fair market value of the Units on the date of death. The original basis should be entered in each blank of the first column of the Cost Depletion Worksheet. Please consult your tax adviser concerning your original basis.

**Note 2:** For your convenience, a simple cost depletion calculator is now available on the PermRock Trust website at: [www.permrock.com](http://www.permrock.com).

**Note 3:** When Units are acquired, sold or exchanged during the year, the cost depletion factor for each Royalty is calculated using one of the following procedures:

(a) *UNITS ACQUIRED AND SOLD DURING 2021.*

Example: A Unit holder acquired Units in July 2021 and sold them in September 2021. To calculate cost depletion for 2021, the Unit holder would use the cost depletion factor for July through August 2021 for each such Royalty obtained from Table VIII. For example, using Table VIII the factor would be 0.003978.

(b) *UNITS ACQUIRED DURING 2021 AND STILL OWNED AT THE END OF 2021.*

Example: A Unit holder acquired Units on May 20, 2021 and still owned them at the end of the year. To calculate his cost depletion for 2021, the Unit holder would use the cost depletion factor for May through December obtained from Table VIII. For example, using Table VIII the factor would be 0.015043.

**Table VIII Cost Depletion Factor – TX Royalty**

For a unit acquired of record during the month of:	And the last cash distribution on such unit was attributable to the monthly record date for the month of:											
	January	February	March	April	May	June	July	August	September	October	November	December
<b>January</b>	0.001033	0.002301	0.004637	0.006488	0.008446	0.010658	0.012689	0.014637	0.016182	0.017835	0.019690	0.021530
<b>February</b>		0.001268	0.003604	0.005455	0.007413	0.009626	0.011656	0.013604	0.015149	0.016803	0.018658	0.020498
<b>March</b>			0.002336	0.004186	0.006145	0.008357	0.010388	0.012336	0.013880	0.015534	0.017389	0.019229
<b>April</b>				0.001851	0.003809	0.006021	0.008052	0.010000	0.011544	0.013198	0.015053	0.016893
<b>May</b>					0.001959	0.004171	0.006202	0.008149	0.009694	0.011348	0.013203	0.015043
<b>June</b>						0.002212	0.004243	0.006191	0.007735	0.009389	0.011244	0.013084
<b>July</b>							0.002031	0.003978	0.005523	0.007177	0.009032	0.010872
<b>August</b>								0.001948	0.003492	0.005146	0.007001	0.008841
<b>September</b>									0.001545	0.003199	0.005054	0.006894
<b>October</b>										0.001654	0.003509	0.005349
<b>November</b>											0.001855	0.003695
<b>December</b>												0.001840

**PermRock Royalty Trust**  
**2021 Cost Depletion Worksheet**

The following may help you calculate your cost depletion to be reported on your federal income tax return.

*For your convenience, a cost depletion calculator is available on the PermRock Royalty Trust website: [www.permrock.com](http://www.permrock.com)*

**A.** If you *owned* the Units *since January 1, 2021*, your cost depletion would be calculated as follows:

	<u>Original Basis (Note 1)</u>	—	<u>Cost Depletion Allowed or Allowable in Prior Years</u>	=	<u>Original Basis Less Cost Depletion Allowed or Allowable in Prior Years</u>	X	<u>Cost Depletion Factor</u>	=	<u>Cost Depletion</u>
PermRock Royalty Trust		—		=		X	0.021530	=	

**B.** If you *sold* or *acquired* Units *during the year*, your cost depletion for the portion of the year the Units were held would be calculated as follows:

	<u>Original Basis (Note 1)</u>	—	<u>Cost Depletion Allowed or Allowable in Prior Years</u>	=	<u>Original Basis Less Cost Depletion Allowed or Allowable in Prior Years</u>	X	<u>Partial Year Cost Depletion Factor (Note 3)</u>	=	<u>Cost Depletion</u>
PermRock Royalty Trust		—		=		X		=	

**Notes 1 and 3 are contained in the Specific Instructions for Cost Depletion Worksheet on page 13**

**2021**

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