2 T.C. 412 (1943)

For percentage depletion calculations in quicksilver mining, the basis is the market value of cinnabar ore at the mine's mouth, not the market value of processed mercury.

Summary

New Idria Quicksilver Mining Co. involved consolidated cases concerning deficiencies in income and excess profits taxes for quicksilver mines. The central issue was determining the basis for percentage depletion: whether it should be the gross sales of mercury or the market value of cinnabar ore at the mine. The Tax Court sided with the Commissioner, holding that depletion should be calculated based on the market value of the ore at the mine's mouth. The court also disallowed depletion deductions for "dump" ores and denied a deduction for a power line extension, finding it was a capital expenditure. The court reasoned that depletion is intended to represent the capital recovered in the product, not the cost of processing.

Facts

Several quicksilver mining companies sought to deduct depletion expenses based on a percentage of their gross sales of mercury. The quicksilver was extracted from cinnabar ore, which was mined, crushed, and roasted to release mercury vapor, condensed, cleaned, and placed in flasks for sale. One company, New Idria, also processed "dump" ores, which were discarded ores from prior mining operations. Oat Hill Mine, Inc. paid an electric company for a power line extension to its mine.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the mining companies' income tax and declared value excess profits tax returns. The Commissioner argued that depletion should be based on the value of the cinnabar ore at the mine, not the processed mercury. The cases were consolidated in the Tax Court. The Commissioner amended the answer to disallow depletion on the

