10 T.C. 634 (1948)

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For tax purposes, when determining the loss from abandoning an oil well, the cost basis must be adjusted for depletion allowable, and a single leasehold with multiple wells is treated as one property, not separate properties for each well.

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Summary

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Frank Lyons, engaged in prospecting and drilling for natural gas, sought to deduct losses from abandoning several oil wells in 1940 and 1941. The Commissioner of Internal Revenue determined a deficiency in Lyons' income tax, arguing that the loss should be reduced by the amount of depletion allowable and that each leasehold, not each individual well, should be treated as a single property. The Tax Court upheld the Commissioner's determination, stating that depletion must be considered when calculating losses and that a leasehold with multiple wells constitutes a single property for tax purposes, preventing individual well loss deductions while other wells on the same lease are still producing.

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Facts

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Lyons prospected, drilled, and operated producing gas wells in Ohio, New York, and Pennsylvania during 1940 and 1941. He elected to capitalize the intangible costs of drilling wells. He claimed deductions for depletion based on a percentage of income. In 1940 and 1941, Lyons

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