Amherst Coal Co. v. Commissioner, 11 T.C. 209 (1948)

For the purpose of computing percentage depletion for coal mines, a taxpayer may treat multiple mineral properties included in a single tract or parcel of land as a single "property," provided this treatment is consistently followed.

Summary

Amherst Coal Co. contested the Commissioner's determination of its percentage depletion allowance for 1942, arguing that its coal mining operations should be treated as a single property rather than multiple properties. The Tax Court held that while the Commissioner's initial determination treated the operations as two properties, his later argument for 17 separate properties was rejected. The court further held that Amherst could treat its properties as a single property under Treasury Regulations, as the properties were within a single tract of land and consistently treated as one for depletion purposes.

Facts

Amherst Coal Co. operated three coal mines (Nos. 1, 2, and 3) and two tipples (Nos. 1 and 3). Mines 1 and 2 used tipple 1, while Mine 3 used tipple 3. The company acquired various interests in different coal seams through fee simple ownership and leases. All acquisitions were within a single, continuous boundary. Amherst consistently treated its coal mining operations as a single property for percentage depletion calculations.

Procedural History

The Commissioner initially determined that Amherst should compute depletion as if it derived income from two properties. Subsequently, the Commissioner argued that Amherst had 17 different properties based on separate acquisitions of interests in coal seams. Amherst challenged this determination in the Tax Court.

Issue(s)

1. Whether the Commissioner erred in determining that Amherst had 17 separate properties for depletion purposes.
2. Assuming Amherst had multiple properties, whether it could treat those properties as a single property under Section 29.23(m)-1(i) of Regulations 111.

Holding

1. No, the Commissioner's determination that Amherst had 17 separate properties was rejected because separate acquisitions can be combined to form one property under proper circumstances.
2. Yes, because Amherst's properties were included within a single tract of land, the company owned an interest in all the properties, and the company

© 2025 SCOTUSreports.com. All rights reserved.

consistently treated the properties as a single unit for depletion purposes.

Court's Reasoning

The court rejected the Commissioner's argument that each separate acquisition of coal lands must be treated as a separate property, citing its prior decision in *Black Mountain Corporation, 5 T.C. 1117*. The court emphasized that separate acquisitions can be combined to form one property. Addressing the regulation allowing treatment as a single property, the court outlined three conditions based on *Helvering v. Jewel Mining Co., 126 F.2d 1011 (8th Cir. 1942)*: (1) consistent treatment as a single property, (2) an "interest" owned by the taxpayer in both properties, and (3) inclusion in a single tract or parcel of land. The court found that Amherst met all three conditions, noting that Amherst's interest in each property included the mineral deposit, the plant for extraction, and the necessary surface land, and that all acquisitions were within a continuous boundary.

Practical Implications

Amherst Coal clarifies the definition of "property" for percentage depletion purposes in the context of coal mining. It establishes that the taxpayer's actual operations and consistent treatment of the properties are critical factors. It prevents the IRS from arbitrarily dividing contiguous properties into multiple units based solely on acquisition history. Taxpayers can rely on this case to support treating multiple mineral interests within a single continuous boundary as one property for depletion calculations, provided they consistently do so and maintain an operational interest in all properties. This decision provides more flexibility and simplifies depletion calculations for coal mining companies, leading to potentially higher depletion deductions.

© 2025 SCOTUSreports.com. All rights reserved.