11 T.C. 826 (1948)

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A taxpayer is not entitled to discovery value depletion for mineral deposits if the land was a proven tract at the time of purchase, or if they fail to adequately prove the fair market value of the discovered minerals is disproportionate to the cost of the land.

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Summary

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Clarence P. Sidwell sought a deduction for discovery value depletion on molding sand extracted from land he purchased in 1940. The Tax Court denied the deduction, finding that Sidwell knew of the existence of molding sand on the property before the purchase, making it a "proven tract." The court also held that Sidwell failed to adequately demonstrate that the fair market value of the mineral deposit was disproportionate to the cost of the land, or to provide an adequate basis for calculating the tonnage of molding sand in place. Therefore, Sidwell did not meet the requirements for claiming discovery value depletion under Sections 23(m) and 114(b)(2) of the Internal Revenue Code.

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Facts

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Sidwell was in the business of digging plastic loam and excavating/processing molding sand. In 1940, he purchased three tracts of land to continue his operations: the Snyder tract (10.137 acres), the Hodel tract (2.5 acres), and the Nixon tract (3.904 acres). He erected a plant on the Nixon tract for processing the materials. Before purchasing the Snyder tract, Sidwell drilled test holes and discussed the possible presence of "loam sand" with the seller. A neighboring property, owned by McCrady, had been operating a gravel extraction business since 1919, extracting similar materials. Sidwell claimed discovery value depletion on the Snyder and Hodel tracts.

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Procedural History

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The Commissioner of Internal Revenue determined a deficiency in Sidwell's income and victory tax liability for 1943. Sidwell petitioned the Tax Court, challenging the Commissioner's decision to disallow the discovery value depletion deduction. The Tax Court ruled in favor of the Commissioner, denying the depletion deduction.

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Issue(s)

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Whether the petitioner is entitled to discovery value depletion on molding sand extracted from the Snyder and Hodel tracts, under Sections 23(m) and 114(b)(2) of the Internal Revenue Code.

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Holding

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No, because Sidwell knew of the existence of the molding sand on the Snyder and Hodel tracts prior to purchasing them, which meant the tracts were already

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