13 T.C. 448 (1949)

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For purposes of excess profits tax relief under Section 721(a)(2)(C) of the Internal Revenue Code, contiguous mineral properties operated as a single economic unit constitute one 'property,' and income derived from the development of that unit can be considered a 'separate class of income.'

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Summary

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Morrisdale Coal Mining Company sought excess profits tax relief for 1943, arguing that income from its Maxton Slope Mine was a 'separate class of income' attributable to prior development years. The Tax Court held that the contiguous properties leased from two companies constituted a single property because they were operated as one unit, and the income derived from its development was a 'separate class of income.' However, the court also ruled that a portion of the increased income attributable to generally higher coal prices in 1943 could not be allocated to prior years.

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Facts

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Morrisdale Coal Mining Company leased two contiguous properties, the Maxton property in June 1940 and the Philipsburg property in March 1942, to develop a coal mine. The leases allowed Morrisdale to transport coal from other lands through the Maxton property. Morrisdale began developing the Maxton property in May 1940, extending the development into the Philipsburg property by September 1942. All coal from both properties was removed through the Maxton slope. Morrisdale kept separate records for the Maxton Slope Mine.

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Procedural History

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The Commissioner determined overassessments in Morrisdale's income and excess profits taxes for 1943 but rejected its claim for relief under Section 721 of the Internal Revenue Code. Morrisdale petitioned the Tax Court, arguing that income from the Maxton Slope Mine was a 'separate class of income' attributable to prior years.

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Issue(s)

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1. Whether the property under the two leases constituted a single 'property' for the purpose of determining excess profits tax relief under Section 721(a)(2)(C) of the Internal Revenue Code.

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2. Whether the income from the Maxton Slope Mine constituted a 'separate class of income' under Section 721(a)(2)(C).

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3. To what extent the net abnormal income of the taxable year should be attributed to prior years.

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Holding

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1. Yes, because the properties were contiguous and operated as a single economic unit, extracting coal from both leases through the same outlet.

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2. Yes, because the income resulted from the development of tangible property (the Maxton Slope Mine) extending over a period of more than 12 months.

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3. The net abnormal income should be attributed to prior years, excluding any portion attributable to generally higher coal prices in the taxable year.

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Court’s Reasoning

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The court relied on the definition of ‘property’ in Treasury Regulations, which considers a taxpayer’s interest in each separate mineral property as a separate ‘property,’ but allows treating multiple mineral properties within a single tract as one ‘property’ if consistently followed. Referencing *Black Mountain Corporation, 5 T.C. 1117*, the court stated that separate acquisitions can be combined to form one property under the right circumstances. Because the leased properties were contiguous, contained the same coal seam, and were mined as a single unit using the same infrastructure, the court concluded they constituted one ‘property.’

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The court rejected the Commissioner’s argument that each lease should be treated separately based on Mim. 6082, stating that the agency’s interpretation was not binding. The court also rejected the Commissioner’s argument that income from the Maxton Slope Mine was merely one item of a larger class of income, stating that Section 721(a)(2) describes separate classes of income. The income from the Maxton Slope Mine fell squarely within the definition of income resulting from the development of tangible property over more than 12 months. The court found that

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