18 T.C. 1229 (1952)

The cost of acquiring fractional interests in oil and gas leases from the owner and driller does not constitute expenses of drilling deductible as intangible drilling and development costs when the drilling is undertaken by the seller, not the purchaser.

Summary

Sidney Platt sought to deduct expenses for fractional interests in oil and gas leases as intangible drilling costs. The Tax Court ruled against Platt, holding that the $14,000 he spent acquired fractional interests in leases and a nonproductive well, constituting a capital investment rather than deductible drilling costs. The court reasoned that Platt did not undertake the drilling himself; instead, George Vasen, the seller, was contractually obligated to drill the well. The drilling expenses were Vasen's, not Platt's, and thus Platt could not claim the deduction.

Facts

George Vasen owned mineral leases in Stone County, Mississippi. In July 1947, Vasen was drilling a well that reached 11,200 feet without production. Between July and October 1947, Platt bought fractional interests in Vasen's leases for $14,000. The assignments stipulated that Vasen would continue drilling the well. Vasen retained exclusive management and control of the drilling. The well reached 13,500 feet by November 24, 1947, but was dry and subsequently abandoned.

Procedural History

Platt deducted $16,800 as intangible drilling costs on his 1947 income tax return. The Commissioner of Internal Revenue disallowed the deduction. The Tax Court reviewed the Commissioner's determination, resulting in the present decision.

Issue(s)

1. Whether the $14,000 Platt spent on fractional interests in oil and gas leases constitutes optionally expensable intangible drilling costs under Section 23(m) of the Internal Revenue Code and Treasury Regulations 111, section 29.23(m)-16.

Holding

1. No, because Platt's expenditure constituted the cost of acquiring a fractional interest in oil and gas leases and a nonproductive well, which is a capital investment, not deductible intangible drilling costs.

Court's Reasoning

The court focused on whether Platt

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