20 T.C. 565 (1953)

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A joint venture or partnership engaged in oil drilling operations is entitled to elect either to deduct as necessary expenses or to capitalize intangible drilling costs, regardless of prior elections made by individual partners.

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Summary

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Bentex Oil Corporation sought to capitalize intangible drilling costs incurred by Benedum-Trees Oil Company (Puig Operations), a joint venture in which Bentex was a member, for 1938 and 1939. These costs had been deducted by the venture in those years. The Tax Court addressed whether the joint venture, treated as a partnership, could elect to expense these costs, despite Bentex's earlier election to capitalize such costs in 1936. The court held that the joint venture could make its own election, distinct from the partners' individual elections, and that the venture's election to expense the costs was valid. This case highlights the partnership's ability to make its own tax elections regarding intangible drilling costs.

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Facts

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Bentex Oil Corporation, formed in 1936, acquired a lease and capitalized intangible drilling costs on its 1936 tax return.r
In 1937, Bentex, along with Benedum-Trees Oil Company and M.E. Davis, jointly acquired the Puig Lease.r
The co-owners operated the Puig Lease, sharing income and losses based on their ownership interests.r
The co-owners had an oral agreement and would periodically agree on drilling operations. Each could abstain from participation.r
Benedum-Trees Oil Company billed the other co-owners for their share of expenses.r
Partnership returns were filed for the Puig Lease Operations for 1937, 1938, and 1939, showing deductions for intangible drilling costs.r

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Procedural History

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The Commissioner initially disallowed the intangible drilling and development expenses claimed as deductions in the 1938 and 1939 partnership returns. After protest, the Commissioner reversed this decision and allowed the deductions.r
Bentex then sought to capitalize these costs for excess profits tax calculation, leading to the current dispute in the Tax Court.r
Respondent argued that petitioner was taking an inconsistent position, which petitioner admitted and conceded that if such present position be upheld, the claims by respondent were proper and correct.r

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Issue(s)

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Whether the Puig Lease Operations constituted a partnership or joint venture for tax purposes.r
Whether a partnership or joint venture is entitled to elect to deduct intangible drilling costs as expenses, independent of the partners' individual elections.r

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Holding

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Yes, because the organization known as the Puig Lease Operations was a joint venture or partnership.r
Yes, because the partnership is an income-producing and computing agency that exercises options open to taxpayers in computing net income under the Code.r

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Court's Reasoning

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The Tax Court found that the Puig Lease Operations constituted a joint venture or partnership under section 3797, Internal Revenue Code, based on the facts presented.r
The court addressed the regulation granting the election to the taxpayer to either deduct or capitalize intangible drilling costs.r
Despite the argument that a partnership isn’t a taxpayer, the court reasoned that the regulations, if construed to exclude a partnership from making this election, would lead to results not contemplated by Congress. The court noted the potential for conflict if individual partners had made opposing elections.r
The court stated: “When the practical application of the statute is considered and the possible impact of petitioner’s argument on the income-computing responsibility of the partnership is appreciated, it appears clear that the regulations, construed as petitioner asks, would lead to results not contemplated by the Congress.”r
The court interpreted the term

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