R.T. French Co. v. Commissioner, 12 T.C. 981 (1949)

The "gross income from mining" for calculating percentage depletion includes ordinary treatment processes applied to obtain the first commercially marketable mineral product, but not subsequent processes that enhance salability.

Summary

The R.T. French Co. case addressed whether oil treatment applied to coal to reduce dust and increase salability could be included in the "gross income from mining" for percentage depletion calculations. The Tax Court held that only the income from the first commercially marketable mineral product qualifies. Since the coal was the first marketable product, the oil treatment, although it enhanced marketability, was not considered part of the mining process for calculating depletion allowances. The court emphasized that the ordinary treatment processes include only those necessary to produce the first commercially marketable mineral product and not subsequent enhancements.

Facts

The petitioner, R.T. French Co., mined coal. To make the coal more salable, it subjected the coal to an oil treatment process to reduce dust, particularly for domestic home heating purposes. The company sought to include the revenue generated from the sale of this oil-treated coal in its gross income from mining for the purpose of calculating its percentage depletion allowance. The Commissioner of Internal Revenue argued that the value attributable to the oil treatment should be deducted from the gross income from mining for depletion purposes.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the petitioner's income tax. The petitioner challenged this determination in the Tax Court.

Issue(s)

1. Whether the oil treatment process applied to the coal constitutes an "ordinary treatment process" under the definition of "mining" in the Internal Revenue Code.

2. Whether the income derived from the sale of the oil-treated coal could be included in the "gross income from the property" for the purpose of calculating the percentage depletion allowance.

Holding

1. No, because oil treatment was not an ordinary treatment process under the statute, as applied to the facts of the case.

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2. No, because only the income from the first commercially marketable mineral product is included in gross income for depletion allowance.

Court’s Reasoning

The court analyzed the statute, specifically the definitions of “gross income from the property,” “gross income from mining,” and “ordinary treatment processes.” The court stated, “The term ‘mining’, as used herein, shall be considered to include not merely the extraction of the ores or minerals from the ground but also the ordinary treatment processes normally applied by mine owners or operators in order to obtain the commercially marketable mineral product or products.”

The court focused on whether oil treatment of coal was an

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