Partnership v. Commissioner, 30 T.C. 478 (1958)

For purposes of calculating percentage depletion, "gross income from the property" excludes rents and royalties, but not all costs incurred in the production and sale of coal.

Summary

The case concerns the calculation of a percentage depletion allowance for a partnership involved in coal mining. The IRS disallowed certain deductions from the partnership's gross income. The Tax Court addressed two key issues: whether payments to a corporation, which had an exclusive right to mine coal, should be excluded from the partnership's gross income; and whether siding rentals paid by the partnership should also be excluded. The court ruled that the payments to the corporation, representing its economic interest in the coal, were correctly excluded as a form of royalty, while the siding rentals, paid for a separate piece of property unrelated to the mining rights, were improperly excluded. This case clarifies what constitutes "gross income from the property" and what costs must be excluded in calculating the percentage depletion allowance under the Internal Revenue Code.

Facts

A partnership was engaged in coal mining. The partnership contracted with a corporation, granting the corporation the exclusive right to mine coal and receive a percentage of the gross sales after deducting royalties, siding rentals, and commissions. The IRS disallowed certain amounts from the partnership's "gross income from the property" when calculating its percentage depletion allowance. The excluded amounts included payments made to the corporation and siding rentals paid by the partnership.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the partnership's federal income tax. The partnership challenged the Commissioner's determination in the U.S. Tax Court.

Issue(s)

1. Whether the Commissioner correctly excluded from the partnership's

