28 T.C. 881 (1957)

The term “chemical grade limestone” in the context of the Internal Revenue Code refers to limestone with specific chemical purity and characteristics, not solely to the end-use of the product.

Summary

Iowa Limestone Co. (Petitioner) quarried and processed limestone, claiming a 15% depletion deduction based on its product being “chemical grade limestone” under the 1939 Internal Revenue Code. The Commissioner of Internal Revenue (Respondent) challenged this, arguing that the limestone was not chemical grade and that the processes beyond initial crushing were not ordinary treatment. The Tax Court sided with the petitioner, holding that the finely ground, low-moisture limestone, meeting specific purity requirements, qualified as chemical grade. It also found that the pulverizing and heating processes were ordinary treatment. The court rejected the Respondent’s “end use” test, emphasizing the importance of the product’s inherent characteristics.

Facts

Iowa Limestone Co. quarried and processed limestone in Iowa. The quarrying process involved blasting, crushing, and grinding the limestone. The company’s final product was finely ground limestone with a minimum of 95% purity and low moisture content. The limestone was used by feed and mineral manufacturers with specific requirements. The company’s chemist regularly tested the product. The Commissioner determined that the applicable depletion deduction should be lower because the limestone was not considered chemical grade limestone, as defined by the Internal Revenue Code. The company contended its product met the definition of chemical grade, entitling it to a higher depletion rate.

Procedural History

The case involves deficiencies in income tax for 1950 and 1951. The Commissioner challenged the company’s calculation of its depletion deduction. The case was brought before the United States Tax Court to determine the proper depletion rate and whether certain processes qualified as ordinary treatment. The Tax Court, after considering the facts and legal arguments, sided with the taxpayer, leading to a decision under Rule 50 to calculate the exact amounts owed.

Issue(s)

1. Whether the processes applied by petitioner in the production of its finely ground limestone are ordinary treatment processes for the purposes of computing percentage depletion.

2. Whether petitioner’s limestone is a “chemical grade limestone” within the

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meaning of section 114 (b)(4)(A)(iii) of the Internal Revenue Code of 1939.

Holding

1. Yes, because the court found that the fine grinding or pulverization and the application of heat to reduce the moisture content of the limestone were ordinary treatment processes to produce its commercially marketable product.

2. Yes, because the court determined that the limestone met the purity and other specifications generally understood in the industry to define chemical grade limestone, entitling the petitioner to the 15% deduction rate.

Court’s Reasoning

The court addressed two primary issues: the treatment processes and the definition of chemical grade limestone. Regarding the processes, the court referenced other case law to determine what constituted

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