Estate of James E. Bryan, Deceased, First Citizens Bank and Trust Company, Executor, Petitioner, v. Commissioner of Internal Revenue, Respondent. Estate of Mary Z. Bryan, Deceased, Byron E. Bryan, Executor, Petitioner v. Commissioner of Internal Revenue, Respondent, 34 T.C. 501 (1960)

For purposes of calculating the percentage depletion deduction, each geographically separate quarry is considered a separate property, even if operated as part of a single business.

Summary

The Estate of Bryan, a partnership operating multiple sand, rock, and gravel quarries in North Carolina and Virginia, sought to treat the quarries as a single property for calculating its percentage depletion deduction under the 1939 Internal Revenue Code. The Commissioner of Internal Revenue, however, determined that each quarry should be treated as a separate property. The U.S. Tax Court sided with the Commissioner, ruling that the geographically separate quarries, acquired at different times, should be treated individually, in line with the Treasury Department's regulations and established judicial precedent. The court emphasized that the term "property" in the context of the depletion allowance referred to the taxpayer's interest in each separate mineral property.

Facts

James and Mary Bryan, husband and wife, were members of a partnership, Bryan Rock & Sand Company, which operated 12 geographically separate sand, gravel, and rock quarries. These quarries were located in several different counties in North Carolina and one in Virginia, with distances up to 225 miles between them. The partnership kept a central office and operated the quarries as a single unit as much as possible. The partnership computed its percentage depletion deduction based on combined sales from all twelve quarries. The Commissioner determined that the partnership was entitled to a lower depletion allowance by treating each quarry as a separate property.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the petitioners' income taxes, resulting in the cases being consolidated for trial in the United States Tax Court. The Tax Court considered the sole issue of whether the petitioners could treat their 12 geographically separate quarries as a single property for percentage depletion purposes. The court sided with the Commissioner, and decisions were entered under Rule 50.

Issue(s)

Whether the petitioners could treat their 12 geographically separate rock, sand, and gravel quarries as a single property for the purpose of computing the allowable

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percentage depletion deduction.

Holding

No, because the court found that for the purpose of the percentage depletion deduction, each geographically separate quarry constitutes a separate property.

Court’s Reasoning

The court relied on the interpretation of the Internal Revenue Code of 1939, specifically section 114(b)(4)(A), which provided for a percentage depletion allowance for certain minerals based on the gross income “from the property.” The key question was the definition of “the property.” The court referenced Treasury Regulations 118, Section 39.23(m)-1(i), which stated that “the property” meant the interest owned by the taxpayer in any mineral property and that “The taxpayer’s interest in each separate mineral property is a separate ‘property’.” The court found that the 12 quarries were geographically separate, acquired independently at different times, and therefore must be considered separately. The court also cited prior court decisions, like Buffalo Chilton Coal Co., that upheld the validity of the regulations defining

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