Ayers Materials Co. v. Commissioner, 62 T. C. 557, 1974 U. S. Tax Ct. LEXIS 66, 62 T. C. No. 63 (U. S. Tax Court July 31, 1974)

The gross income from mining for depletion purposes includes only income from processes considered as mining, and excludes income from non-mining processes such as storage and transportation beyond the point of extraction.

Summary

Ayers Materials Co. dredged clamshells from Lake Pontchartrain, selling them either directly from the dredge or after storage at yards on shore. The key issue was whether activities at the storage yards constituted mining processes for depletion deduction purposes. The Tax Court held that clamshells are sold in crude form, and only the processes at the dredge site (washing, screening, and initial loading) qualified as mining. The court determined that the representative market price for all clamshells was the price of those sold at the dredge, minus transportation costs, and excluded the yard activities from mining processes.

Facts

Ayers Materials Co. operated under a permit from Louisiana to dredge clamshells from Lake Pontchartrain, paying a royalty to the state. The dredging process involved extracting shells, washing them, and screening out silt and mud on the dredges. The shells were then loaded onto barges for transport either to customers or to storage yards. Approximately 36. 5% of the shells were stored at yards and later sold f. o. b. yard, while 63. 5% were sold directly from the dredge on a delivered basis. The shells sold from the yards averaged $2. 21 per cubic yard during the fiscal year ended May 31, 1968.

Procedural History

The Commissioner of Internal Revenue audited Ayers Materials Co. ‘s 1968 tax return, proposing adjustments that reduced the depletion deduction and claimed a deficiency. Ayers filed a petition with the U. S. Tax Court to challenge these adjustments. The case was submitted under Rule 122, with both parties filing a stipulation of facts.

Issue(s)

1. Whether the activities at Ayers Materials Co. ‘s storage yards, including transportation, stockpiling, and loading for shipment, are considered mining processes under section 613(c)(4)(C) of the Internal Revenue Code for the purpose of computing the percentage depletion deduction.
2. Whether the representative market price for all of Ayers Materials Co. ‘s clamshell production should be the delivered price of shells sold at the dredges reduced by purchased transportation costs.

© 2025 SCOTUSreports.com. All rights reserved.

Holding

1. No, because the activities at the storage yards, such as stockpiling and loading for shipment, are not considered mining processes under section 613(c)(4)(C) as they occur after the shells have reached shipping grade and form at the dredge.
2. Yes, because the representative market price for all clamshells should be the delivered price of shells sold at the dredges reduced by purchased transportation costs, as this reflects the value of the shells before non-mining processes are applied.

Court’s Reasoning

The court determined that clamshells are customarily sold in the form of a crude mineral product, as defined in the regulations. The processes applied at the dredge (washing, screening, and initial loading) were deemed mining processes necessary to bring the shells to shipping grade and form. The court rejected the inclusion of yard activities as mining processes, emphasizing that the loading at the dredges was the intended

© 2025 SCOTUSreports.com. All rights reserved.