



Parish E	=
Parish F	=
Parish G	=
Date 1	=
Date 2	=
Date 3	=
State A	=
State B	=
State C	=
Region	=

Dear \_\_\_\_\_ :

This letter responds to your request, dated Date 1, seeking permission to aggregate separate nonoperating mineral interests under § 614(e) of the Internal Revenue Code and § 1.614-5(d) of the Income Tax Regulations.<sup>1</sup> The request is submitted with respect to nonoperating mineral interests held in mineral properties located in Region within State B and State C.

#### FACTUAL BACKGROUND

Taxpayer A represents the following facts:

Taxpayer A is a State A corporation and is a wholly-owned subsidiary of Parent, which is also a State A corporation. Taxpayer A wholly owns the membership interests of Subsidiary A, Subsidiary B, and Subsidiary C, which are all treated as disregarded entities for U.S. federal income tax purposes. Taxpayer B is a State A corporation and is a wholly-owned by Taxpayer A. Taxpayer A, Taxpayer B, and Parent are an affiliated group of corporations that file a consolidated U.S. federal income tax return with Parent serving as the common parent. Parent is wholly-owned by Company. Company is a Country A corporation, and is publicly traded in Country A and Country B.

Taxpayer A acquires mineral, oil, and natural gas royalties, and other nonoperating mineral interests worldwide. Taxpayer A does not explore, develop, or operate on any of the properties in which it owns an interest, relying instead on non-operating income streams, predominantly royalties on mineral interests, as the basis for its income. Company prepares its financial statements based on International Financial Reporting Standards as issued by International Accounting Standards Board.

The mineral interests that Taxpayer A requests to aggregate are located in the following places, all located within Region:

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<sup>1</sup> Unless otherwise specified, all “section” references will be to the Internal Revenue Code, the Income Tax Regulations, or the Procedure and Administration Regulations.

1. County A of State B
2. County B of State B
3. County C of State B
4. County D of State B
5. County E of State B
6. County F of State B
7. Parish A of State C
8. Parish B of State C
9. Parish C of State C
10. Parish D of State C
11. Parish E of State C
12. Parish F of State C
13. Parish G of State C.

(Collectively: “Royalty Interests”).

For U.S. federal income tax purposes the Royalty Interests are treated as owned directly by Taxpayer A.

The Royalty Interests were acquired on Date 2 and consist of overriding royalty interests in oil and gas producing wells (ORRI), non-participating Royalty Interests (NPRI), and mineral fee interests (MFI). Most of the acquired MFIs in the royalty interests have already been leased to operators and generate royalties in the form of ORRIs. Taxpayer A represents that it is in the process of finding operators for the non-leased MFIs in order to convert them to nonoperating mineral interests that earn royalties in the form of ORRIs. Taxpayer A represents that it only seeks aggregation with respect to the current nonoperating mineral interests in this ruling request and the non-leased MFIs would only be aggregated once they have been converted to nonoperating mineral interests.

Taxpayer A represents that it does not bear the costs of exploration, development, or production with respect to any of the ORRI or NPRI properties. Each of the properties subject to an ORRI or NPRI are operated by other unrelated persons. Furthermore, the leases are for tracts of land that are either contiguous, touching at one point (checker-board pattern of ownership), or reasonably close in proximity to each other. Taxpayer A submitted tract descriptions and a map or maps of the properties that show the total area circumscribed by each aggregation of nonoperating interests requested by Taxpayer A. Taxpayer A considers these interests to be nonoperating mineral interests because Taxpayer A does not incur any of the costs of production.

The request seeks the aggregation of the separate nonoperating mineral interests within Region such that the separate interests within Region are treated as one property for U.S. federal income tax purposes. That aggregation would enable Taxpayer A to compute their cost depletion deduction in accordance with §§ 611 and 612 and § 1.611-2. Taxpayer A represents the aggregation of the nonoperating

interests within Region is necessary to compute cost depletion because reserve information is not available to Taxpayer A on a separate property-by-property basis. In order to determine the appropriate reserves for each property, Taxpayer A will generally be required to rely on publicly available information and life of reserve reports provided by the properties' operators. Taxpayer A and Corporation will rely on the same reserve information to compute book cost depletion in the aggregations in the preparation of Corporation's financial statements and regulatory filings. Granting permission to aggregate the nonoperating mineral interests at each of the areas into separately aggregated properties will reduce the administrative burden in calculating depletion and allow Taxpayer A to implement consistent treatment for financial accounting and U.S. federal income tax purposes.

Taxpayer A represents that a principal purpose of submitting the request for the aggregation of Royalty Interests held at each property is not the avoidance of tax. Taxpayer A supports this representation with two justifications. First, the interests subject to this ruling request do not bear the costs of exploration, development, or production of the properties. Therefore, it is highly unlikely that the percentage depletion deduction for each interest would be subject to the taxable income limitation contained in § 1.613-5, as only general and administrative costs plus any severance and ad valorem taxes will be allocated to each interest for the purpose of computing the taxable income limitation. Aggregating the nonoperating mineral interests within Region is not expected to alter this result, as no additional percentage depletion deductions are expected to be allowed if permission to aggregate is granted. Second, aggregating the interests will not alter the total amount of cost depletion deductions allowed at each property over its life, as the total cost of depletion deductions allowed for a property cannot exceed the depletable tax basis allocated to the interests at that property. Accordingly, no cost depletion deductions in excess of those to which Taxpayer A would otherwise be entitled in the absence of such aggregations are expected to result from the requested Royalty Interests aggregations.

#### RULING REQUESTED

Pursuant to § 1.614-5(d), Taxpayer A requests to aggregate the separate nonoperating mineral interests with respect to the Royalty Interests, such that each of the properties described above is treated as one property. Taxpayer A also requests that the non-leased MFIs described above may be included in such aggregation when they are converted to nonoperating mineral interests, if and when Taxpayer A as a lessor executes an oil and gas lease granting the lessee all operating rights and with Taxpayer A only retaining a royalty interest with respect to any oil and gas produced.

#### LAW AND ANALYSIS

In the case of mines, wells, and other natural deposits, § 614(a) and § 1.614-1(a)(1) define the term "property" to mean each separate interest owned by the taxpayer in each mineral deposit in each separate tract or parcel of land.

Section 1.614-1(a)(2) defines the term “interest” as an economic interest in a mineral deposit. It includes working interests or operating interests, royalties, overriding royalties, net profits interests, and, to the extent not treated as loans under § 636, production payments.

Section 614(e)(1) provides that if a taxpayer owns two or more separate nonoperating mineral interests in a single tract or parcel of land or in two or more adjacent tracts or parcels of land, the Secretary shall, on a showing by the taxpayer that a principal purpose of forming the aggregation is not the avoidance of tax, permit the taxpayer to treat all such interests as one property for all subsequent taxable years unless the Secretary consents to a different treatment.

Section 614(e)(2) and § 1.614-5(g) define the term “nonoperating mineral interests” to include only interests described in § 614(a) that are not operating mineral interests within the meaning of § 1.614-2.

Section 1.614-2(b) defines the term “operating mineral interest” to mean a separate mineral interest as described in § 614, in respect of which the costs of production are required to be taken into account by the taxpayer for purposes of computing the limitation of 50 percent of taxable income from the property in determining the deduction for percentage depletion under § 613, or such costs would be so required to be taken into account if the mine, well, or other natural deposit were in the production stage. The term does not include royalty interests or similar interests, such as production payments or net profits interests.

Section 1.614-5(d) provides that upon proper showing to the Commissioner, a taxpayer who owns two or more separate nonoperating mineral interests in a single tract or parcel of land, or in two or more adjacent tracts or parcels of land, shall be permitted, under § 614(e), to form an aggregation of all such interests in each separate kind of mineral deposit and treat such aggregation as one property. Permission shall be granted by the Commissioner only if the taxpayer establishes that a principal purpose in forming the aggregation is not the avoidance of tax. The fact that the aggregation of nonoperating mineral interests will result in a substantial reduction in tax is evidence that the avoidance of tax is a principal purpose of the taxpayer. An aggregation formed under § 1.614-5(d) shall be considered as one property for all purposes of the Internal Revenue Code. In no event may nonoperating interests in tracts or parcels of land that are not adjacent be aggregated and treated as one property. The term “two or more adjacent tracts or parcels of land” means tracts or parcels of land that are in reasonably close proximity to each other depending on the facts and circumstances of each case. Adjacent tracts or parcels of land do not necessarily have any common boundaries, and may be separated by intervening mineral rights.

Section 1.614-5(e)(1) provides that an application for permission to aggregate separate nonoperating interests under § 614(e) and § 1.614-5(d) must be made in

writing to the Commissioner and must be filed within 90 days after the beginning of the first taxable year beginning after December 31, 1957, for which aggregation is desired or within 90 days after the acquisition of one of the nonoperating mineral interests that is to be included in the aggregation, whichever is later.

Section 1.614-5(e)(4) provides that the application for permission to aggregate nonoperating mineral interests under § 614(e) and § 1.614-5(d) shall include a complete statement of the facts upon which the taxpayer relies to show that the avoidance of tax is not a principal purpose of forming the aggregation. Such application shall also include a description of the nonoperating mineral interests within the tract or tracts of land involved. A general description, accompanied by maps appropriately marked, which accurately circumscribes the scope of the aggregation and shows that the taxpayer is aggregating all the nonoperating mineral interests in a particular kind of mineral deposit within the tract or tracts of land involved will be sufficient. If the Commissioner grants permission, a copy of the letter granting such permission shall be attached to the taxpayer's return for the first taxable year for which such permission applies. If the taxpayer has already filed such return, a copy of the letter of permission shall be filed with the district director for the district in which such return was filed and shall be accompanied by an amended return or returns if necessary or, if appropriate, a claim for credit or refund.

Section 1.614-5(e)(5) provides that the election to aggregate separate nonoperating mineral interests under § 614(e) and § 1.614-5(d) is binding upon the taxpayer for the first taxable year for which made and for all subsequent taxable years unless consent to make a change is obtained from the Commissioner.

Therefore, to obtain permission, the taxpayer must:

- 1) Apply for permission within 90 days after the beginning of the first taxable year for which aggregation is desired, or within 90 days after the acquisition of one of the properties to be included in the aggregation (§ 1.614-5(e)(1)).
- 2) Provide maps, descriptions of the nonoperating interests, and a complete statement of the facts (§ 1.614-5(e)(4)).
- 3) Establish that the principal purpose for forming the aggregation is not tax avoidance.

A substantial reduction in taxes is evidence that avoidance of taxes is the principal purpose (§§ 1.614-5(d) and 1.614-5(e)).

Taxpayer A represents that the Royalty Interests were acquired on Date 2. Pursuant to § 1.614-5(e)(1), Taxpayer A has until Date 3 to submit a timely request to aggregate the Royalty Interests. This request was submitted on Date 1.

Taxpayer A represents that each of the Royalty Interests are "nonoperating mineral interests" as that term is defined in § 1.614-5(g), and that the interests are

interests that do not bear the costs of exploration, development, or production. Taxpayer A also represents that the interests at each property are owned in two or more tracts or parcels of land that are “adjacent” or “in reasonably close proximity to each other” as provided in § 1.614-5(d). Finally, Taxpayer A represents that the maps for each property included with the ruling request demonstrate that the nonoperating interests at each distinct area are in reasonably close proximity to each other, as these interests are either contiguous, touch at a corner, or are separated by intervening mineral rights but included in a single operating mineral interest.

Taxpayer A represents that an abandonment loss on any aggregated nonoperating mineral interest will not be taken until all the mineral rights in the entire aggregated or combined distinct properties are proven to be worthless or until the entire aggregated or combined distinct properties are disposed of or abandoned pursuant to § 1.614-6(d).

Lastly, Taxpayer A represents that the principal purpose of forming the requested aggregation is not tax avoidance. The purpose of forming the requested aggregation is to reduce administrative burden in calculating depletion and allow Taxpayer A to implement consistent treatment for financial accounting and federal income tax purposes.

Based on the representations made and consideration of the descriptions and maps submitted, we conclude that the requirements of § 1.614-5 have been met. Based solely on the facts and representations submitted, we grant consent for Taxpayer A to aggregate the separate nonoperating mineral interests in Royalty Interests, such that the nonoperating mineral interests are treated as a single property for U.S. federal income tax purposes.

Taxpayer A also requested that we rule that the non-leased MFIs described above may be included in such aggregation when they are converted to nonoperating mineral interests, if and when Taxpayer A as a lessor executes an oil and gas lease granting the lessee all operating rights and with Taxpayer A only retaining a royalty interest with respect to any oil and gas produced. Unfortunately, we are unable to rule on the tax consequences of future events that have not yet occurred. See Rev. Proc. 2024-3, 2024-1 IRB 143.

Except as specifically set forth above, we express or imply no opinion concerning the federal income tax consequences of any aspect of any transaction or item discussed or referenced in this letter. Specifically, we express or imply no opinion concerning Taxpayer A’s calculation of depletion or whether Taxpayer A’s interests in the properties are economic interests. This ruling is conditioned on each royalty interest qualifying as an economic interest under § 611 before the aggregation. General descriptions of the nonoperating interests accompanied by maps are to be on file with the books and other records that are necessary for examination by the Service.

The rulings contained in this letter are directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

The rulings contained in this letter are based upon information and representations submitted by Taxpayer A and accompanied by a penalties of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

In accordance with the power of attorney, we are sending copies of this letter to Taxpayer A's authorized representatives. We are also sending a copy of this letter to the appropriate Industry Director, LB&I. A copy of this ruling must be attached to any federal income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

Sincerely,

Rika Valdman  
Senior Technician Reviewer, Branch 6  
Office of Associate Chief Counsel  
(Passthroughs & Special Industries)

Enclosure:

Copy for § 6110 purposes

cc: