

810-3-16-.01. Basis for Depreciation and Depletion.

(1) The basis upon which depreciation and depletion shall be computed is the adjusted basis for determining gain on the sale or disposition of the property, (including any taxes required to be capitalized in connection with the acquisition of a capital asset), as determined under Sec. 40-18-6, except that at the option of the taxpayer:

(a) In the case of mines, or oil and gas wells, depletion may be computed based on discovery value, if the conditions of Code Section 40-18-16(b)(2) are met. (See Reg. 810-3-15-.06(6)).

(b) In the case of oil and gas wells only, for taxable years beginning on or after January 1, 1953, a taxpayer may deduct for depletion an amount equal to 27 1/2% of the gross income from the property during the taxable year, computed on the same basis and subject to the same limitations as provided in the Federal Income Tax Act in effect on September 17, 1953, the effective date of Act No. 719 - 1953 General Acts of Alabama. These limitations on the amount of percentage depletion which may be deducted are:

1. the amount may not be more than fifty percent of the net income from the property before the deduction for depletion, and

2. the amount may not be less than the depletion computed under the cost method.

(2) An election once exercised to claim depletion on the discovery basis or on the percentage basis is irrevocable, and the depletion allowance in respect to each property will for all succeeding tax years be computed in accordance with the election so made. The election to use percentage depletion may be made only with respect to oil and gas wells.

(3) Depreciation and depletion must be charged off on the taxpayer's books, or suitable subsidiary records must be kept to show the basis of the depletable property together with capital additions and all other adjustments. After depreciation or depletion to the extent \_\_\_ 100 percent of the cost or other income tax basis of the depreciable or depletable assets has been allowed, no further deduction will be permitted, except with respect to depletion when the percentage method is used. Land is not subject to a deduction for depreciation.

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