

## **IRS Tax Deduction for Depletion on Groundwater Used for Irrigation**

(Consult your tax advisor before submitting form)

Taxpayers who extract groundwater for irrigation purposes from the Ogallala Formation, will be allowed a deduction for depletion. This deduction is allowed under Revised Rulings 82-214 and 65-296 under Section 611 for the Internal Revenue Code. Section 611 grants depletion allowances for mines, oil and gas wells, and other natural deposits and timber which are non-replaceable. Revised Ruling 65-296 allows a groundwater cost depletion to taxpayers who extract groundwater from the Ogallala Formation in the Southern High Plains, whereas, Revised Ruling 82-214 amplifies the previous ruling to include taxpayer who extract groundwater from areas of the Ogallala Formation other than the Southern High Plains.

In computing cost depletion, the taxpayer must be able to show the following:

- 1). An economic interest in certain lands overlaying the Ogallala Formation from which groundwater is being extracted for irrigation of crops.
- 2). An appropriation permit has been issued by the State of Kansas, which grants exclusive rights to the use of the groundwater for irrigation.
- 3). The amount of water under said lands was established at the time of acquisition, the cost basis of water, the amount of exhaustion (water-level decline) for each of the taxable years involved, and the amount of cost depletion deduction.

The attached form can be used in computing a deduction for depletion on groundwater used for irrigation.

**IRS TAX DEDUCTION FOR DEPLETION ON  
GROUNDWATER USED FOR IRRIGATION**

Purchase date of property \_\_\_\_\_

Legal description of property \_\_\_\_\_

**Purchase price of land and improvements** \$ \_\_\_\_\_

Less purchase price assigned to improvements on land \_\_\_\_\_

Cost of land and water \$ \_\_\_\_\_

Less land cost - \_\_\_\_\_

Cost of ground water \$ \_\_\_\_\_

Depth of well at acquisition \_\_\_\_\_

Depth to water surface at acquisition \_\_\_\_\_

Water thickness at acquisition \_\_\_\_\_

Water thickness at date water cost depletion became a possibility \_\_\_\_\_

Average cost of ground water per foot \$ \_\_\_\_\_

Cost of ground water \$ \_\_\_\_\_

Water thickness \_\_\_\_\_ (feet).

Depth to water surface January \_\_\_\_\_

Depth to water surface January \_\_\_\_\_

Decline in water level \_\_\_\_\_

Average cost of ground water per foot \$ \_\_\_\_\_

Decline in water level (feet) \_\_\_\_\_

Computed water cost depletion for \_\_\_\_\_ \$ \_\_\_\_\_

(year)