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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Texas Oil Driller Settles \$618M IRS Dispute In Tax Court

By **David Hansen**

Law360, Washington (January 19, 2018, 6:24 PM EST) -- The oil exploration unit of Texas-based Lewis Energy Group LP has reached a settlement with the IRS that will see the company recognize far less income for its 2011 tax year than the \$618 million originally sought by the agency, according to a decision entered in the U.S. Tax Court Friday.

The agreement will see Segundo Navarro Drilling Ltd.'s ordinary income adjusted up to \$3.6 million from \$3.5 million for the tax year, while its capital gain will rise to \$162 million from \$157.9 million, according to the decision signed earlier this month by the parties' legal representatives. Segundo also will not face a penalty for underpayment of tax related to the adjustments, the decision entered by Judge Maurice B. Foley stated.

The San Antonio-based partnership **filed** a petition with the Tax Court in 2016 disputing a final partnership administrative adjustment increasing its ordinary income for tax year 2011 by \$618 million. The Internal Revenue Service had found that Segundo's tax basis in seven properties sold to Webb-LaSalle Venture Partnership, a related business, was zero.

Segundo originally had claimed a \$98.5 million basis in the properties, leading it to report only \$3.5 million as the net gain from the transaction, according to the petition. The FPAA increased the net gain figure to \$621.5 million.

Other determinations in the 2011 FPAA included the disallowance of \$631,593 in claimed losses on sales of properties, with the finding that Segundo hadn't substantiated the losses for seven oil fields.

Lewis Energy Group operates more than 1,600 wells in the Wilcox, Escondido, Olmos, Eagle Ford and Edwards formations in South Texas, the most of any company in the region. Lewis, which was formed in the early 1980s, has now expanded into Latin America, with operations in Colombia and a multiservice contract with Pemex, Mexico's state-owned oil company.

Mary E. Wood of Meadows Collier Reed Cousins Crouch & Ungerman LLP, who represents Segundo, said the company was pleased with the result.

The IRS could not be reached for comment.

Segundo is represented by Mary E. Wood and Josh O. Ungerman of Meadows Collier Reed Cousins Crouch & Ungerman LLP.

The IRS is represented by in-house counsel Candace M. Williams.

The case is Segundo Navarro Drilling Ltd. et al. v. Commissioner of Internal Revenue, Docket No. 10983-16, in the United States Tax Court.

--Editing by Tim Ruel.

Update: This article has been updated to include a comment by a representative of Segundo.

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