Internal Revenue Code Section 1016(a)(2)
Adjustments to basis.

(a) General rule.
Proper adjustment in respect of the property shall in all cases be made-

1. for expenditures, receipts, losses, or other items, properly chargeable to capital account, but no such adjustment shall be made-
   1. for taxes or other carrying charges described in section 266, or
   2. for expenditures described in section 173 (relating to circulation expenditures),

   for which deductions have been taken by the taxpayer in determining taxable income for the taxable year or prior taxable years;

2. in respect of any period since February 28, 1913, for exhaustion, wear and tear, obsolescence, amortization, and depletion, to the extent of the amount-
   1. allowed as deductions in computing taxable income under this subtitle or prior income tax laws, and
   2. resulting (by reason of the deductions so allowed) in a reduction for any taxable year of the taxpayer's taxes under this subtitle (other than chapter 2, relating to tax on self-employment income), or prior income, war-profits, or excess-profits tax laws,

but not less than the amount allowable under this subtitle or prior income tax laws. Where no method has been adopted under section 167 (relating to depreciation deduction), the amount allowable shall be determined under the straight line method. Subparagraph (B) of this paragraph shall not apply in respect of any period since February 28, 1913, and before January 1, 1952, unless an election has been made under section 1020 (as in effect before the date of the enactment of the Tax Reform Act of 1976). Where for any taxable year before the taxable year 1932 the depletion allowance was based on discovery value or a percentage of income, then the adjustment for depletion for such year shall be based on the depletion which would have been allowable for such year if computed without reference to discovery value or a percentage of income;