c18 Taxes

Remington Rand Inc.
BRANCHES EVERYWHERE
MADE IN U. S. A.

ANGLE TAB VISIBLE-NAME FOLDERS

CAT. NO. 50939

VAT

Why the big push?

They say corp. inc. tax hits efficient firm harder. This overlooks rent, & ownership of equity. Corp. inc. tax hits ownership of equity, which yields taxable inc. that cannot be offset by costs.

Corps. have been plowing back for decades, to avoid distribn. & personal inc. tax.

Corps. have been expensing capl. to avoid corp. inc. tax. Now they want to unfreeze the capl. — stop plowing back so much. Pressure of cap. shortage. This would let them use current plowbacks for working capl. more.

More clearly. They have built up large deferred tax liability by expensing capl; by fast write off. Now they can't offset this taxable inc. by repeating the cycle, bec. there is more pressure to distribute earn; and loopholes are being examined & threatened.

Desirable in tax:

1. No excess burden (Inelast. S&D) (Broader coverage steepens S&D)
   ~~"Lies where it falls"~~
   a. Lies where it falls (inel. S)
2. Maintains or improves incentives. Incentive ∝ mgnl return / assets (h.o. power)
   To supply labor, land, cap; & create cap.
3. Raise $
4. Easily collected (& w/o destroying liberty) (recall bankruptcy principle vs. debt slavery. Ad rem & ad personem.
5. Bears "equitably"
   a. ~~Affects everyone?~~ Treats all by same principle.
   b. Ability to pay? Good idea to equalize assets. Is socializing things, so is any tax, but may prevent worse kinds of soc-ism. Comm. has come where taxes regressive: Russ, China, Italy, France (& 1789 too)
   c. Benefits received?
6. Certain (so can plan, know what expect. Unlike pers. prop.; tax frivs)
7. Open – everyone's business (public records)
8. Comprehensible

Other taxes 8, Thurs.

Fed ~~Exp~~: Rev.

Psnl Inc

Corp Inc.

Excises. Who pays? Incidence.

Misc. FICA, incidence

Workmen's compensation?
Unempl. ins.
Casualty ins.
Life ins.

State Rev.

Prop.

Inc.

Sales

Gas.

Local Rev.

Kickbacks

Prop.

Psnl.

Impr.

Land.

Prop tax

Decline of. From 50% to 5%. Shift to ~~central~~ Fed. gov'ts. involved.

Shift within it – from land to "personal." Extra-statutory.

New improvements get hit. "Normal value" doctrine.

Both shifts unfortunate. Take 2d first.

Defects of personal prop. tax. Lower stocks, customers' selection. Entrepot. Yr-end clear-out. Rafts on Columbia. Move tobacco from W-Salem to Va.

Impr. tax. Keep old bldgs, or vacant. Level timber.

Land tax. Ec. ideal. No hurt incentive. Helps ~~Exc~~ $\frac{dI}{dE} = P_i - \Delta P$

Faults in income tax.

1. Incentives, general. Max. depress'g effect.

2. Excuse is cut down conc. But inc. less conc. than prop.

3. Enforcement, jail. Burden of proof on you, guilty until innocent. Encourage illegal occupations.

4. Some particular problems:

a. Irregular income penalized. Risk discouraged, & interesting lines. Specs don't sell when public needs, but to min. tax.

b. Non-monetary income exempt.

Fri, 11

So move into pleasant, easy occupations.

Allocate assets to yr own pleasure more. Esp. land, which does not depreciate.

Do it yrself. Short-circuit exchange. Decline of Rome.

c. Co. perks, pensions, etc. — nice, but lessens free choice. Also is loophole.

Cap. gains loophole. Take inc. That way rather than use land. Residence loophole.

No tax if never sell.

If "in bus.", don't get it. R.E. man & prostitute. Landlord gets it, owner-op. doesn't.

d. Deduct maint'ce as go, thus build new bldg

e. No depree-n on trng, ed-n.

f. % depletion, in perp.

g. Differential impact of local prop. taxes, according to tax brackets. Rich have lower int. cost, too, tax used to offset.

h. Expense acc't loophole — you entertain me, I'll entertain you.

i. Risk taking, increases advantage of big, as small can't benefit from losses.
Reduces concern over losses. Gamble for fun, no matter how allocate resources.

j. Encourages borrowing, bcs of int. deduction
Corp. bonds
Debt vs ptnsp
Personal borrowing

k. Encourages padding expenses
Advertising
Gentleman farms, other losing businesses

l. Lax enforcement of land vs imp. alloc-n.

~~Tues.~~ Mon. 9

Inc. of church? Taxable?

Short term cap. gain, 50%

Depletion on underground water?)

Income tax.

Keep records of back deductions — merely bes allowed, doesn't stop post-audit.

1. What is income, ~~Reg 1.61-1~~

~~"Adjusted~~ No gifts. But prizes.

No insurance. No scholarships (athletic?)

No inheritance. Non-monetary inc., some.

accrued int. Work abroad, gmly yes, but possessions often no, see p. 25-6

Refunds no. Sick pay no. Expenses no.

a. Gross income.

Wages.

Interest

Dividends

Rents, net of costs

Costs include depreciation.

Get double by renting & selling?

Business "profit", accounting profit.

Includes increased inventory.

Add gross receipts & Δ inv.; deduct expenses, costs.

Costs include deprec-n, obsolescence, deplet-n. Cost basis.

Amortiz-n rates important.

Except land. (So understate it)

Appreciates, get you when sell, if ever.

Minerals, oil wells, deplete, beyond cost basis. "Cost" is purchase or value as of 3-1-1913, + improvements, minus depreciation

Farming, special treatment.

~~Cap.~~ ~~Farming~~ Soil & water "conservation" expenditures. (Farm swimming pools, SCS) Deductible immediately.

(Rationale, watershed protection)

Cap. gains, special treatment

Tax deferred until sell

Then enter only 50% of gain as income.

Residence, no tax, if put in new. (Then if sell, prob'ly (home built up cost by expenses meanwhile, no tax)

Exclusions, p. 50

This gets you to Adjusted Gross Income

Now take personal deductions, if > 10% q.v., discuss.
Advantage of tagging deductions for "business".
Gets you to taxable income. See inside back cover.
How much is a wife worth?

@ $10,000 adj. gross inc.,

	Single	Married
Adj. gross	10,000	10,000
Deduct	1,000	1,000
Exempt	600	1,200
		7,800
Taxable	8,400	
Tax	1,910 + .34(400)	800 + .22(3800)
	+ 136	+ 836
	2096	1636

She'll lower yr tax by 20%; I lower surtax from .34 to .22

Adj. gross	100,000	100,000
Deduct	1,000	1,000
ex.	600	1,200
Taxable	98,400	97,800
Tax.	58,620 + .87 × 8,400	45,000 + .75 × 9,200
	+ 1,308	+ 6,624
	65,928	51,624

Depreiable prop.

Not on residence, clothes, land.

Useful life.

Basis – is cost, plus improvements.

Salvage value –

3 methods

a, Straight line

b. Const %

c. Sum of the yrs digits.

Cost 2100, life 10, salvage $100

$\frac{10}{55} \times \$2,000 = \$363.64$

20% declining balance method gives faster deprec-n, but less total. ~~You can change met~~

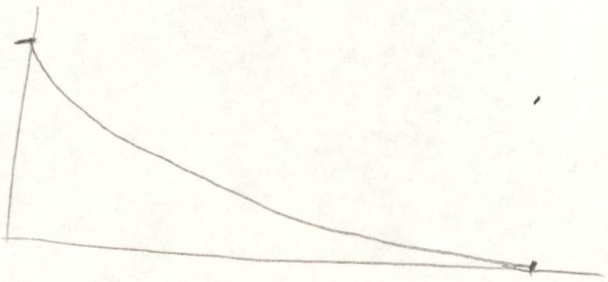
Changes require consent?

Depletion:

% depletion vs cost depletion.

~~Pf~~ Should mntnce of bld'g be excludible from taxable income?

W/o mntnce it will depreciate, so by mntng it you are really build'g a new bld'g. If you did so directly, not deductible.



If you build a new bld'g by maintaining old, you deduct all expenses as made; if you clear ground & start fresh, must depreciate over time. Here is basic inequity, distorts allocation.

On top of this, maybe other loopholes. Say you build new bld'g by mnting old. Depreciate old fully. Then sell – can buyer depreciate at cost? Yes. Or must he take your basis? p. 41 says "The basis of purchased property is the purchase price ..." No exceptions noted. Leaves door open also for imputing land price to bld'g.

But when you sell, it is all taxable income – [except is cap. gain, unless is yr own bus.] This prevents any gross disparity, but leaves some more subtle ones. This way you can defer inc. tax until you sell, & then take cap. gains, pay on just ½ the inc. Cf man who saved up over 10 yrs, to build new place, he has paid over 10 yrs, at full rates.

Thoughts on govt revenues.

K&H.

— Table, p 715, misleadg. Looks like prop tax almost sole support of local govt. Omits kickbacks; grants-in-aid.

✓ — e.g. income. Esp. districts. Municip-tax'g dist. Also, benefits clear, use benefits theory. Hard for local to use other tax, e.g. income, bcs boundary problems. also drive bus. away.

✓ — Oregon, 6% limit. Dur'g depr., munic. lost tax base.
✓ — Can deduct from fed inc tax, so less burden to rich.
— Regressive ass. common. Out of date. Now revalu'g Oregon, centrally, find'g disc. — clipp'g. —

K&H unduly deprecate. Best tax. & K&H inconsist., as usual — p 516-18 they're for it.

✓ → Severance tax -- O-n has one. (Interest'g how bleed'g hearts weep vs tax that makes cut down trees, but not one that mks tear down houses.) Similar reform often proposed for cities — don't tax stand'g timber nor stand'g houses.

✓ → State rev. — used to be prop. Now sales, gas, inc — pers & corp; unempl. comp. (wage), car & license, alc. & tob., prop, severance, death & gift.

— Depr. gave big holders opp. to get sales tax, inc. tax in. Bcs. many had bought land boom prices, were going under. Took advantage of sit. to engineer tax strikes, push thru other taxes. Those who cdn't pay were those w poor land, hi taxes — not big specs.

✓ — Ore. also kickbacks from fed govt — tho trees ~~support~~ don't go to school. O&C — Lane gets almost $1 m

— Pro & con sales tax.

Tax out of staters.?

— Prop. tax, nobody pays — cap-d.

Govt. Expenditures. (Discuss test?)

What does govt spend its $ for? Freisser, welfare state? U.N. (c. 16¢, in taxes)

The Δ.

Stat. distortion. The tricks

a. Cut off bottom

b. Ignore infl. (how deflate?)

c. Choose base yr (e.g. TTC case)

d. Ignore shift of fns away from local govts, family, neighbors etc -- Fed. hiways, e.g. — why have fed. control? Why not local — each man bld. for own lot, a la Mormons.

e. " growth of pop, territory, NI, etc (how deflate for that)

f. Forget we hv bn fightg wars since '40.

Simplest solution to all: express as % of NI, ~~per cap~~.

p. 706, Imp. table — refer to it, discuss it. '45 peak, then what?

On exam p. 707 " " " " " " " "

2 main causes of Δ: ~~xxxxx~~ depression, then war. Postwar, they don't stack off. to prewar.

3d cause: Δ's complexity & interdependence -- e.g. T.D.s.

Debt → '30s, deficit finance thy began. Contra cyclical spendg. Can't do it from taxes, as yield falls in depression.

$MV = PT$

Idea to ΔM — bcs banks had broken down. (How was that?

~~Banks create M~~ How can banks destroy M?) (stress s.e.; decline of commercial loan)

Wed.

Inequal inc. ok, just so it is earned

Unearned inc. – matter of def.

Inher.

Land inc. "Unearned Δ"

Govt. favors & interference – tariff, low i.r.

Mnpy

all barriers to mobility.

Luck

Movie actress?

Producer surplus. Cut in on it somehow. E.g. irrig. water. Fixed factor captures benefits. That, combined with decreasg cost arg, powerful.

Pro inequality:

Incentive (pro ~~inequality~~ unequ inc, not assets)

Inequality itself not nec. for incentive: but the possibility of earning ~~it~~ more.

All the $ you earn is tainted, bcs these unearned inc.s are possible.

Modern weak minded solution, tax inc.s from every source, bcs too lazy to discriminate among resources.

(But now exempt unearned inc. – e.g. cap gains; depletion allowance.

Used to tax it at higher rate)

Used to tax by 'benefits received' – most public improvements went to Δ r.e. values, taxed r.e.. Also, much acquired fraudulently. & however acquired, was a free benefit

Progressive collections:

Inc. tax.

Business excise taxes? Passed on

Inheritance tax? Probly good – injures incentive less than inc. tax.

Direct conflict of progressive tax & incentives. Incentive tax just opposite of progressive – poll tax, or regressive inc. tax. Africans.

~~One~~ Yet can't allow society to split into very rich & very poor. Differential b.r. hastens it.

~~Labor~~ Class struggle, ~~it~~ splits & disrupts society.

No small bus. – rich who have too much to be int. in bus; poor, not enough to go in at all. No middle class.

End of society as we know it. Levant. a Comm.

One solution, tax that is progressive, yet no burden on incentive. ~~Land~~ Traditional Am. g. prop'ty tax.

No burden bcs ~~fall on~~ adds to fixed, not MC. Unearned inc.

Progressive bcs ppty very conc. – more than inc.

Govt. Debt.

Why borrow?

Local govt, to finc constn. of p.w. Useful. Bahai temple

E.g., JDs, Utah, no borrow, no go.

~~Headaches~~ No, cap-d. Int on bonds often biggest expense of local govt.

Despite special subsidy of tax exemption.

&

Despite Munic. Bankruptcy Act - astounding Amazg. a Munic. can go thru it w/o turng over pledged collateral to creditors. I wdn't touch a munic. bond if I were you.

Fed debt.

Other purposes.

Finc war.

Combat depression. Control M supply. Review via class discussion.

Paid off in past via sale of public lands. Now, give away Tidelands oil, enough to pay debt.

& turn more & more to tax system that discourages incentives: Excises, wage taxes like Italy, Spain, S.A., moth-eaten countries of world.

Public debt.

Reduced it 3 times in hist.

1. Selling public lands, Jackson 1835 no debt.
2. Civil war, to min. in 1893, c. $1b.
3. WW I, to 16b, 1930.

43b, '40

Now $2126, limit 275

→ Int. $6b. Treas.'s job to keep it low. - debt mgmt. Hence continued low i.r. policy, ~~—~~. infl. also, infl. lowers real burden, repudiates much.

Treas. vs FR — infl. vs hi i.r. & taxes.

Shift to future gen? Credits as well as debts. Whether is burden or not depends on tax system. P.D.s, tax system & bonds kept l.r. low.

K & H. pass over problem w/ sterile platitudes. Real danger.

Burden on future? Depends what you mean. - get some discussion.

A. In some ~~ways~~ senses, is NOT a burden on future.
   1. Internally held - "owe it to ourselves", as a nation
   2. We got something for $ we spent, also pass that on to future.
   3. Munic. debt, cap into l.r., right now. (even if tax on something else)

B. ~~Some senses,~~ is burden
   1. ~~If pay as go,~~ Is a burden on future taxpayers, which they wd not have if their fathers had paid debt out of own belts, E.g., landholder wd. be leaving his ~~son~~ heirs, heiress more, if no bonds vs community.
   2. Bonds, Fed, proceeds shot in war, discourage cap. fmtn, being assets
   3. Future gnrtns some inherit bonds, others must pay steep inc. taxes, destroys incentive - France. Fallacy of "owe it to ourselves" idea - ignores how we get things, free or as incentives.

or same people

Hist. of public debt. Ask class.

Fault of welfare state? Or of debt mgmt?

—

Debt mgmt as sub. for chang'g amt of debt – Schmidt. Monetize & demonetize. In effect, use it to control M supply. Fine – unless public won't buy debt.

What are we shift'g to future gnstns?

~~????~~ Bankruptcy likely?

What K&H say? Internal debt ok

What you think.

Total incentive in gmt $\propto$ $\frac{\text{mgmt inc}}{\text{assets on hand}}$

—

Effect on cap. fmtn.

Cap. fmtn. ~~Total incentive~~ $\propto$ $\frac{\text{Mgmt incentive \& \# Income}}{\text{Total assets}}$ Δ i.a. lowers assets, Δ mgmt incentive

Cap. fmtn in Eur. – govt.

—

What hope of ever gett'g out from under debt?

1, a. Cd. pay off from nat. res.s, public domain. Like a. Jackson e.g. offshore oil. Gimme boys

b. Δ taxes. Incentive problem.

2. " " " by settl'g int-l tensions, stop war expenses.

Otherwise bigger & bigger

3. Pay by infl. – already have cut out ½ debt that way.

4. Δ M.?. -- K&H.

5. Repudiate. Un American? Mun. Bankruptcy Act. 1837.

Gov't borrow's, infl. & non-infl.

B&C on disadvantages of public debt, pretty good, pp 344-45

A. We owe it to ourselves, so int. & amort-n are redistr., not net loss

B. Real disadv.:

1. Is M sub., → ΔC, ~~may~~ tendency to inflate. / even the part held by public. Maybe good if need ΔC & inflate. add (fails to mention effect on cap. fmtn ⅔: a, currently when new issues come out, reduces pvt. inv. maybe; b, More imptnt, existence of outstand's debt satisfies hunger to save, reduces cap. fmtn. Franco. Turn to gov't cap. fmtn.

2. Continuous infl. threat, as ~~govt~~ Treas. presses for easy M policy to min. int. burden.

Add: a) To ease tax burden, gov'ts have inflated, thus facilitating pay's int., & also repay's debt.

b) Monetiz's debt a danger ~~as~~ if public loses conf. in future of $. Cumulation.

3. Δ inequality? Maybe, but dubious. (Nazi bonds move into few hands, & Am Rev. bonds, etc)

4. Extra taxes hurt incentives? (Depends on type. Munic. debt a good thing

5. Large debt discourages future borrowings for things maybe needed.

Size of debt: 275, + guarantees, hiway corps, etc.

	State exp.	Local	Fed			(From p 710?) p 715 gives expenditures, roughly parallel.
1913	15 %	56 %	29 %	=	100 %	
1949	15 %	16 %	69 %	=	100 %	

Why did fed take over fns?

War, obvious.

Welfare — labor migratory, no town wd do it.

Hi ways — speed traps etc. Must serve interstate.

Reg. corps, interstate, many bigger than states - USS, 3 states.

What about cutbacks to local govt! State aid. Grants-in-aid, Represents political opp. to prop. tax -- attempt to shift from prop. to sales or inc. tax, by big land holders esp. (not small, as they stand to pay more in sales than prop tax.) Don't know who all here — probly C-J, W-n, SP, NP, UP, Hines, Pope & Talbot, Meier & Frank, etc In Bay Area, SP, Sa. Fe, S.O., Downtown ass.,

So that cd just as well be local — much centralized spending is unnec. — by no means all tho.

Don't take K & H seriously when railing vs prop. tax, p 710 & 715 Myopic. See all abuses, attribute to tax itself. See none of virtue.

They omit most important trend: collecting state & fed taxes, kicking back. Why? Bes if locality tried it, all move out of town.

Neglect to mention tax free privilege of local bonds. - gigantic subsidy

Canons of txtn.

ability to pay vs benefits received.

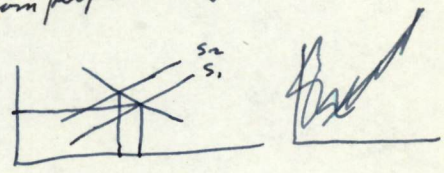
What think of K&H on this?

special ass., benefit received. K&H limit to sidewalks. Also might apply to all l.v.

ability to pay

— Bear lightly on production: take no more from people than gives to govt.

Incentive — no "excess burden"



Govt gets T × Q; indivs lose that plus ~~Δ~~. triangles.



— any tax that falls on incentives has that excess burden.

Inherent flexibility. — all taxes have it.

Easily collected, cheaply.

Certain

Open, clear

Direct, known (who knows all insides of others' inc? No longer public info)

Bear equally.

Car, gas taxes.

Benefits received? Who benefits?

Fed. - p 721 table

Pers. inc.

WW2, Ad from 10% to 40% all rev, all parts.

Higher rates, higher coverage. 4m to 50m payers.

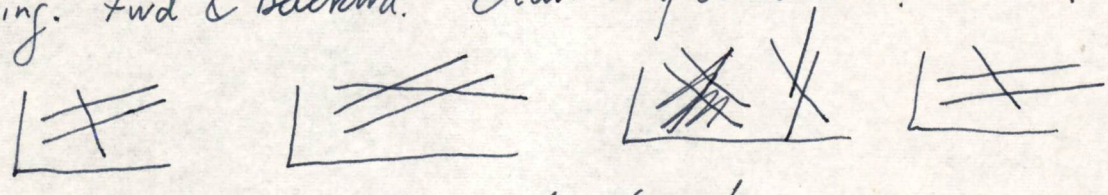
Distorts resources, K&H to contrary.

Corp Inc. – int. not counted as profit. But divid. double taxed. a kind-inc. tax, not bad.

Excises. – liquor, tobacco, furs, etc. Perhaps ok, as are nuisances. Shd extend to radio & smoke.

Tariff used to be main. No longer.

Shifting. Fwd & backwd. Elasticity determines. S&D.



Depends on elast. Above from buyer's view.

What kind of tax won't kill goose? Fixed – not a MC.

K&H. mention franchise tax. Good e.g. More gunky?

Who pays inc. tax? Depends on how affects supply, of different factors.

Whichever goes out of use, its relative share of inc. goes up.

On of how govt to raise rev., one of most imp-t you will be faced with all your lives. You are going to spend rest of yr lives payg taxes.

c. $\frac{1}{3}$ NI collected in taxes. $\frac{1}{3}$ of what we produce goes to state, feed war machine.

In a sense, that can makes us slaves of state. But we have choice of det-g method of taxation.

Taxes ad rem, & ad hominem. Personal liability - Joe Louis Hv. bn turng to ad hom. - from ad rem.

Prop. tax.

1. Is 3 taxes. Land. Impr. Pers.

2. Changes. as adm. of it changes. Used to be mostly on land, esp. after 1912.

Up to date on pers.

&

New impr.s. Trailers, no mercy – contrast demand for immediate paym't or confiscation, vs deling. of specs – 40 yrs etc

Behind on slums, old estates, etc. – doctrine of "normal value".

Hence shift. Portland figs.

Long run, suicidal. Remember, Eng. hist. – old towns by-passed by new – can't blame all on gilds – like S F & NY today, blame all on unions. Just part

3. Diff. effects, of diff. components

a. Pers. Used to be clothes etc, snoopig. Reaction, 1912. Now has returned as tax on bus. inv.

Lower stocks. Wider retailer's margin.

Hinders growth. Recall entrepot – useful to have big stocks on hand.

& exchange calls for havig labor stored up in material form. To create form, place, time, & ownership utilities

Yr end clear out. Log decks, seasonal unemployment

Rafts on Columbia.

b. Improvements

Keep old ones longer, bld fewer new ones

Trailers, leave town

Timber, long life span.

c. Land, can't leave. Site

Tax cap'd into l.v.

Students:

Explaining in class why prop tax decline.

De-emphasize conflict of prop. owners vs. others

Emphasize most people are on both sides – but more aware of one int. than other. Perhaps bus, more stylish to ally w. those above than below, a factor.

$$T = rV$$

$$V = \frac{a - T}{i} \quad (=$$

$$T = \frac{r(a-T)}{i}$$

$$Ti = r(a-T)$$

$$Ti + Tr = ra$$

$$T(i+r) = ra$$

$$T = r\frac{a}{i+r}$$

$$V = \frac{a-T}{i} = \frac{a - rV}{i}$$

$$Vi + Vr = a$$

$$V = \frac{a}{i+r}$$

~~p. 5~~

Taxes

Quiz: List main sources of revenue for fed, state, local.

After quiz show relative imptnce of various levels; & various taxes. Show changes.

~~1. Describe major taxes, relative importance.~~

Emphasize ~~tax~~ changes in type of taxes levied. Groups pushing burden onto others (bad manners in company, like Clara in Kindergarten, is frequent in politics)

Describe major taxes: (save evaluation to later)

1. Income tax: (pers., ~~corp~~ fed state, corp.)

A ~~Fed.~~ Personal

Fed.

Highly "progressive" (in respect to inc. at least) Mgmt vs. ave. Schedule on p. 14, cf. also Stern.

Withheld at source for salaried

Many loopholes.

Very complex

Ad personem – go to jail

State

Like Fed., but lower & less progr. $\frac{2}{3}$ have 'em.

Interstate problems

B. Corp.

Prop-rd, 52%.

(E.P.T., sporadic)

2. Excises

Fed – on ~~specific items~~ particular commodities

State – all retail sales.

3. Wage tax

4. Prop. tax.

3 components

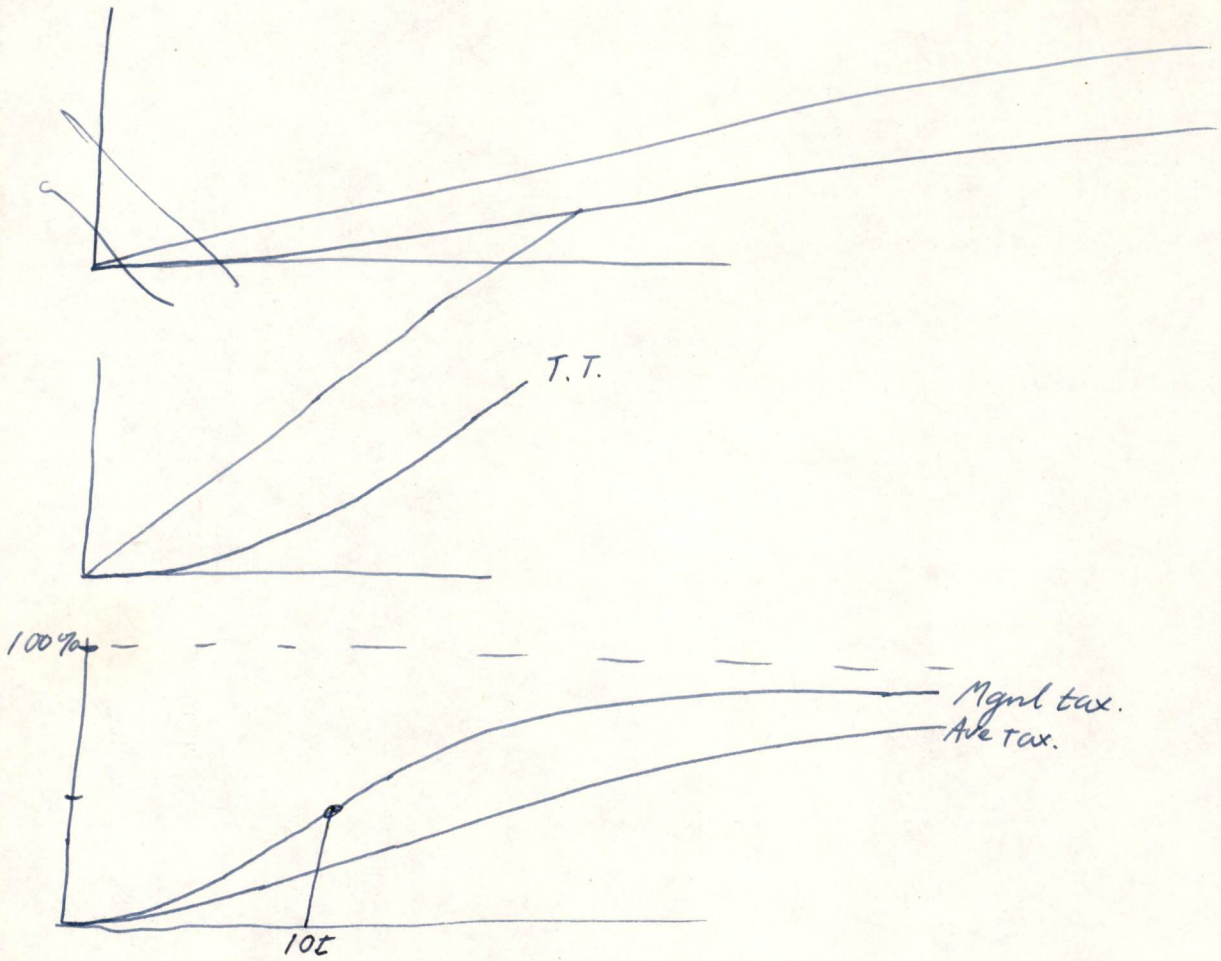
Why do localities stick with it?

4. Infinite other e.g.

II. Only non-destructive tax is non-contingent

2 kinds: ad rem; & ad personem. Latter is slavery.

Only tax not destroying or perverting incentives is ad valorem land tax.



Most rapid Δ of mgnl tax is 10 - $2,000

Greatest excess of mgnl over ave. is at 100 - $50,000

I. Review income tax.

a. Mgnl rate is what affects incentives

~~b. Only tax not destroying incentives is non-contingent. ad rem vs ad hominem.~~

b. E.g.s:

~~Cap g~~

1. Labor.

Shorter hours

Easier pursuits, pleasanter, less dangerous

Avoid bunching earnings in one year - ~~than~~ avoid h. higher ed-n, long training; also prof. athletics.

Take non-mon. income ... expense accts, corp. picnics,

Do it yourself

2. Capital

Avoid creating it - waste, or idle money

Use it for pleasure, not business - consumer capital

Is esp. good if can call it a business expense, deduct it — gentleman farming

Let it run down, or be destroyed ... more depres-n, less income.

Speculators, don't sell in year when public needs stuff, but when min. tax.

3. Land.

Use for pleasure

Hold idle, or nearly so for cap. gains. Is strong tendency to do this anyway. Residence loophole. Local taxes deductible.

Tax errors, loopholes, distortions.

1. Deduct prop. taxes, so big man holds land for less. Deduct interest. if not, not. Favors bigness
2. Subtract losses, if have other inc. to deduct from.
3. Cap gains loophole.
4. Residence .. — buy, spec. in place you live in, resell for gain, no tax if buy new residence. Do so, take tax free inc. from residence — equivalent of rent.
5. Deduct depletion
6. accelerated amort.
7. Illegal occupations. Lose respect for law. Present bootlegging, e.g. Go into honest profession, must fight imposts, unions, lawyers, ICC, etc etc — & then tax collector. No wonder we have crime.
8. ~~Reduce~~ Avoid unpleasant occ.
9. No deduct inv. in educ., trng. — nor of course int. on inv. Avoid occs that require trng — e.g. medicine
10. Take inc. in non-mon. forms. Destroys exchange, basis of efficiency, specialization.
    - Corp. man
    - Isolated man
    - Inflexible man
11. Live on your assets — destroy topsoil, as well as cap. Anti-conservation.

Return to middle ages — which came about just this way.

Pers. inc. tax:

1. Excess burden, bcs exempts non-mon. inc. (see p. 4a). & many other forms of inc.
2. Destroy incentives – extravd. effective at it.
3. Good – but not forever
4. Easy? – only for some. Gross discrim. ~~among~~ vs employees. ad personem – evil people.
5. cf. 4. Full of loopholes, exceptions (p. 4b)
6. Change law often. Complex – don't know what you can get away with.
7. Secret.

~~Drop inc tax~~

Instructions for the 1956 U. S. Partnership Return—Form 1065

The term "partnership" includes a limited partnership, syndicate, group, pool, joint venture, or other unincorporated organization, through or by means of which any business, financial operation, or venture is carried on, and which is not, within the meaning of the Internal Revenue Code of 1954, a corporation or trust or estate. The term "partner" means a member of a partnership.

(References are to the Internal Revenue Code of 1954, unless otherwise noted.)

GENERAL INSTRUCTIONS

A. Who must file Form 1065.—Every partnership (see general instruction L for exceptions) shall, for its taxable year, make a return of income on Form 1065 stating specifically the items of gross income and allowable deductions, and such additional information required under the following Specific Instructions. If the return is filed on behalf of a syndicate, pool, joint venture, or similar group, a copy of the agreement, together with all amendments thereto, should be attached to the return, unless a copy has been previously filed.

B. Period to be covered by return.—The return shall be filed for the calendar year 1956 or other taxable year beginning in 1956. A partnership taxable year shall be determined as though the partnership were a taxpayer.

C. Change in or adoption of accounting period.—A change by any partnership or principal partner from one taxable year to another, or the adoption by a new partnership of an initial taxable year, must meet the provisions of section 706 (b) of the Code. A principal partner is one who has an interest of 5 percent or more in the partnership profits or capital.

For the taxable years of partnerships resulting from a merger or division of other partnerships, see sections 706 (b) and 708 (b) (2).

D. Time and place for filing.—The return must be filed on or before the 15th day of the 4th month following the close of the taxable year of the partnership, with the District Director of Internal Revenue for the District in which the partnership has its principal office or principal place of business. The return for a foreign partnership shall be filed on or before the 15th day of the 6th month following the close of the taxable year, and if such foreign partnership does not have any principal place of business or principal office or agency in the United States, the return shall be filed with the District Director of Internal Revenue, Baltimore 2, Md.

E. Signature.—The return must be signed by one partner or member. If receivers, trustees in bankruptcy, or assignees are in control of the property or business of the organization, such receivers, trustees, or assignees must sign the return.

The statement at the bottom of page 1 of the Form 1065 is required to be signed by any person, firm, or corporation who prepares the taxpayer's return. If the return is prepared by a firm or corporation, the return should be signed in the name of the firm or corporation. The statement is not required if the return is prepared by a regular, full-time employee of the taxpayer such as clerk, secretary, bookkeeper, etc.

F. Penalties.—Severe penalties are provided by law for willful failure to make and file a return on time and for willful attempt to evade or defeat payment of tax.

G. Methods of accounting.—If the partnership's books are kept on an accrual method, report all income accrued and expenses incurred. If the books are kept on the cash receipts and disbursements method, or if the partnership kept no books, make the return by the cash receipts and disbursement method and report all income received or constructively received, such as bank interest credited to the partnership's account and coupon bond interest matured, and report expenses actually paid. The books may be kept by (1) cash method, (2) accrual method, or (3) any permissible combination of methods.

Rounding Off to Whole-Dollar Amounts

If you wish, the money items on your return and accompanying schedules required by such return may be shown as whole-dollar amounts. This means that you eliminate any amount less than 50 cents, and increase any amount from 50 cents through 99 cents to the next higher dollar. Your choice as to whether or not you round off to whole-dollar amounts may not be changed after the due date for filing your return.

H. Items exempt from tax.—Items exempt from tax are contained in sections 101 to 121 inclusive, for example:

(1) *Interest on governmental obligations.*—The interest on obligations of a State, a Territory, or a possession of the United States, or any political subdivision of any of the foregoing, or of the District of Columbia is exempt.

(2) *Proceeds of insurance policies.*—In general, the proceeds of life insurance policies, paid to the partnership by reason of the death of a partner, are exempt. If any part of the proceeds is held by the insurer under an agreement to pay interest, the interest is taxable.

(3) *Income from improvements by lessee.*—Income, other than rent, derived by a lessor of real property upon the termination of a lease, representing the value of such property attributable to buildings erected or other improvements made by the lessee, is exempt.

I. Information at source.—Every partnership which, in the course of its trade or business, made payment of rents, salaries, wages, premiums, annuities, compensation, remuneration, emoluments, or other fixed or determinable gains, profits, and income of $600 or more during the calendar year 1956 to another person, must make returns on Forms 1096 and 1099. If a portion of such salary or wage payments was reported on a withholding statement (Form W–2), only the remainder must be reported on Form 1099.

J. Balance sheets.—The balance sheets, Schedule L, should agree with the books of account or any differences should be explained in an attached statement. Partnerships reporting to the Interstate Commerce Commission or to any national, State, municipal, or other public officer, may submit, in lieu of Schedule L, copies of their balance sheets prescribed by said Commission or State and municipal authorities, as at the beginning and end of the taxable year.

In case the balance sheet as at the beginning of the current taxable year does not agree in every respect with the balance sheet which was submitted as at the end of the previous taxable year, the differences should be explained.

K. Principal business activity.—On page 4 of the return, give the one business activity that accounts for the largest percentage of "total receipts." "Total receipts" means gross receipts (line 1, Schedule A) plus all other sources of ordinary income (lines 4 through 9), page 1 of the return. State the broad field of business activity as well as the specific product or service, such as "Wholesale food," "Retail apparel," etc.

L. Elections.—(1) A partnership may elect to be taxed as a domestic corporation if it qualifies under section 1361. In such cases, Form 1120 rather than Form 1065 should be filed.

(2) An unincorporated organization qualifying under section 761(a) as an investing partnership or as participating in the joint production, extraction, or use of property under an operating agreement may elect to be excluded from treatment as a partnership in accordance with section 1.761–1 (a) (2) of the regulations. Such unincorporated organization must make the election in a statement attached to Form 1065 for the first year for which an election to be excluded is desired. For subsequent years such unincorporated organization must file, instead of Form 1065, Forms 1096 and 1099. See section 1.761–1 (a) (2) of the regulations.

(3) With one exception, elections affecting the computation of taxable income derived from partnership operations shall be made by the partnership. Such elections might be as to the method of accounting employed, methods of depreciation, etc. The one exception is with regard to the Foreign Tax Credit provided for in section 901, in which case each partner may make a separate election on his individual income tax return.

(4) Information with regard to elections affecting the basis of partnership property, the basis of partners' interests, and the distribution

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of property and other elections, may be found under the applicable sections of Chapter 1, subchapter K of the Code and the Regulations issued thereunder.

M. Section 702 (a) items.—Each partner is required by the Code to take into account separately his distributive share of the items reported on lines 25 through 34 on page 1. These items are explained under the specific instructions and are reflected in Schedule K.

N. Distribution of unrealized receivables and inventory items.—Where a partner receives a distribution of unrealized receivables or substantially appreciated inventory items in exchange for all, or a part, of his interest in other partnership property (including money), the transaction is treated as a sale or exchange of such property between the distributee partner and the partnership. The gain realized by the partnership is treated as ordinary income and reported on line 9 of page 1. See section 751 and the Regulations issued thereunder.

O. Net operating loss deduction.—The benefit of the deduction for net operating losses provided by section 172 shall not be allowed to a partnership. In computing his own net operating loss or his own taxable income for any taxable year for the purposes of the computation required by section 172, however, each partner shall take into account his share of the income and losses of the partnership. The net operating loss deduction shall not be allowed in computing the net earnings from self-employment.

P. Information regarding renegotiable contracts.—Every partnership which held, during the taxable year, contracts or subcontracts which were subject to the Renegotiation Act of 1951, shall, in answer to question 5, page 4, state the actual or if not accurately determinable, its best estimate of the aggregate gross dollar amount billed during the current taxable year under all contracts and/or subcontracts. The gross amount billed on cost-plus-fixed-fee contracts, and not merely the fixed fee, shall be included.

The term "subcontract" means any purchase order or agreement to perform all or any part of the work, or to make or furnish any article, required for the performance of another contract or subcontract.

SPECIFIC INSTRUCTIONS

The following instructions correspond with line numbers on the first page of the return, and with schedules appearing on other pages of the return.

2. Cost of goods sold.—If the production, manufacture, purchase, or sale of merchandise is an income-producing factor in the trade or business, inventories of merchandise on hand should be taken at the beginning and end of the taxable year and may, unless the LIFO method is used, be valued at (*a*) cost, (*b*) cost or market, whichever is lower, or (*c*) any other method approved by the Commissioner. The method of valuing inventory adopted for the first year is controlling, and a change can be made only after permission is secured from the Commissioner. Application for permission to change the method of valuing inventories shall be made in writing and filed with the Commissioner within 90 days after the beginning of the taxable year in which it is desired to effect a change.

If the partnership desires to adopt the LIFO inventory method provided in sections 472 and 1321, it must file application to do so on Form 970.

Installment sales.—If, pursuant to section 453, the installment method is used, attach to the return a schedule showing separately for the years 1953, 1954, 1955, and 1956 the following: (*a*) Gross sales; (*b*) cost of goods sold; (*c*) gross profits; (*d*) percentage of gross profits to gross sales; (*e*) amount collected; and (*f*) gross profit on amount collected.

Farmer's income schedule.—If the partnership operates a farm, obtain from the District Director and attach to the return, separate Schedule F (Form 1040), Schedule of Farm Income and Expenses. (See Instruction 24.)

4. Income (or loss) from other partnerships, syndicates, pools, etc.—Enter the partnership's share of the profits (whether received or not) or losses of another partnership, except the partnership's distributive share of another partnership's capital gains or losses, which should be reported in Schedule D. If the taxable year on the basis of which the partnership's return is filed does not coincide with the annual accounting period of the other partnership, include in the return the distributive share of the net profits (or losses) for the accounting period of such other partnership ending within the period for which the return is filed.

5. Nonqualifying dividends.—Nonqualifying dividends are taxable dividends which are included in Ordinary Income and for which the individual partner is NOT entitled to an exclusion or credit. Such dividends are derived from the following sources:

(*a*) Life insurance companies, and mutual insurance companies (other than mutual marine or mutual fire insurance companies issuing perpetual policies);

(*b*) Corporations organized under the China Trade Act (section 941);

(*c*) Corporations which, for the taxable year of the corporation in which the distribution is made, or for the next preceding taxable year of the corporation, are—

(1) Exempt from tax under section 501 (charitable, etc., organizations) or section 521 (farmers' cooperatives); or

(2) Corporations to which section 931 (income from sources within possessions of the United States) applies;

(*d*) Mutual savings banks, cooperative banks, domestic building and loan associations, domestic savings and loan associations, Federal savings and loan associations on deposits or withdrawable accounts. Dividends from these organizations must be reported as interest.

(*e*) Regulated investment companies except to the extent designated by the company to be taken into account as a dividend for these purposes.

(*f*) Foreign corporations.

Qualifying dividends are taxable dividends received from domestic corporations and not listed above. These dividends must be entered on line 28.

6. Interest.—Enter total interest from all sources except:

(*a*) interest wholly exempt from tax

(*b*) interest on tax-free covenant bonds to be reported on line 29

(*c*) partially tax-exempt interest to be reported on line 30.

7. Rents.—Enter gross rents received or accrued. Deductions claimed for interest, taxes, repairs, and depreciation should be included in lines 14, 15, 18, and 19. Enter other deductions on line 22.

8. Royalties.—Enter gross royalties received or accrued. If a deduction is claimed on account of depletion, it should be included in line 21. (See section 611.)

9. Other income.—Enter any other taxable income for which no space is provided elsewhere on page 1 of the return and explain its nature, using a separate sheet if necessary for that purpose. Include taxable income from annuities and insurance proceeds.

11. Salaries and wages.—Enter all salaries and wages not included as a deduction in line 1 (c) of Schedule A, except salaries to partners.

12. Payments to partners—salaries and interest (Guaranteed Payments).—In computing Ordinary Income, a deduction may be taken for payments to a partner for services or the use of capital where such payments are determined without regard to the income of the partnership. Do not include distributive shares of partnership profits. Allocate to the appropriate partners in column 4, Schedule K.

13. Rent.—Enter rent on business property but do not deduct rent for a dwelling occupied by any partner for residential purposes.

14. Interest.—Enter interest on business indebtedness. Amounts paid by a partnership to a partner for the use of capital should be entered on line 12. However, amounts paid as interest by a partnership to a partner as the result of a transaction wherein the partner acts in a capacity other than as a partner should be entered on this line. Do not include interest on indebtedness incurred or continued to purchase or carry obligations the interest upon which is wholly exempt from taxation. (The limitations on deductions for unpaid interest are set forth in section 267 of the Code.)

15. Taxes.—Enter taxes paid on business property or incurred for carrying on business if not reflected in cost of goods sold. Federal import duties and Federal excise and stamp taxes are deductible only if paid or incurred in carrying on a trade or business, or in the production or collection of income, or for the management, conservation, or maintenance of property held for the production of income. Do not deduct taxes assessed against local benefits tending to increase the value of the property assessed, as for paving, etc., Federal income taxes, estate, inheritance, legacy, succession, and gift taxes, or taxes entered on line 33, page 1. Do not deduct taxes imposed on the interest of the partnership as stockholder of a corporation which are paid by the corporation without reimbursement from the partnership. See section 164 (d) for special rules for allocation of real estate property taxes between buyer and seller of property.

16. Losses by fire, storm, shipwreck, or other casualty, or theft.—Enter losses sustained during the year, if arising by fire, storm, shipwreck, or

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other casualty, or from theft, and not compensated for by insurance or otherwise, nor reflected in cost of goods sold. (See sec. 165 (c).) Theft losses can be deducted in the year in which the partnership discovers the loss, and only in that year. Attach a statement setting forth a description of the property, date acquired, cost, subsequent improvements, depreciation allowed or allowable since acquisition, insurance, salvage value, and deductible loss claimed.

17. Bad debts.—Bad debts may be deducted either (1) when they become wholly or partially worthless, or (2) by a reasonable addition to a reserve for bad debts. No change of method is allowed without permission of the Commissioner. (See Instructions 25–26 regarding nonbusiness debts.)

18. Repairs.—Enter the cost of incidental repairs, including labor, supplies, and other items, which do not add to the value or appreciably prolong the life of the property repaired. Expenditures for new buildings, machinery, equipment, or for permanent improvements or betterments which increase the value of the property are chargeable to capital accounts. Expenditures for restoring or replacing property are not deductible, since such expenditures are chargeable to capital accounts or to depreciation reserves, depending on how depreciation is charged on the books of the partnership.

19. Depreciation.—A reasonable allowance for the exhaustion, wear and tear, and obsolescence of property used in the trade or business or of property held by the partnership for the production of income shall be allowed as a depreciation deduction. The allowance does not apply to inventories, stock-in-trade, or to land apart from the improvements or physical development added to it. The cost or other basis of leasehold improvements, patents, and copyrights should also be depreciated in Schedule G.

The useful life of an asset can be measured in units of production or machine hours (for machinery) or in miles of operation (for automotive equipment), etc., but the ordinary practice is to measure useful life in years. Business experience, engineering information, and other relevant factors provide a reasonable basis for estimating the useful life of property. The cost (or other basis) to be recovered should be charged off over the expected useful life of the property. For guidance, comprehensive tables of "average useful lives" of various kinds of buildings, machines, and equipment in many industries and businesses have been published in a booklet called Bulletin F, which you can buy for 30 cents from the Superintendent of Documents, Government Printing Office, Washington 25, D. C.

(1) *Straight line method.*—The most common method of computing depreciation is the "straight line" method. It allows for the recovery of cost in equal annual amounts over the life of the property, with only salvage value remaining at the end of its useful life. To compute the deduction, add the cost of improvements to the cost (or other basis) of the asset and deduct both the estimated salvage value and the total depreciation allowed or allowable in past years. Divide the result by the number of years of useful life remaining to the asset—the quotient is the depreciation deduction.

(2) *Declining Balance Method.*—Under this method a uniform rate is applied each year to the remaining cost or other basis of property (without adjustment for salvage value) determined at the beginning of such year. For property acquired before January 1, 1954, or used property whenever acquired, the rate of depreciation under this method may not exceed one and one-half times the applicable straight-line rate.

(3) *Special rules for new assets acquired after December 31, 1953.*—The cost or other basis of an asset acquired after December 31, 1953, may be depreciated under methods proper in the past, or it may be depreciated under any of the following methods provided: (1) That the asset is tangible, (2) that it has an estimated useful life of 3 years or more, and (3) that the original use of the asset commenced with the partnership and commenced after December 31, 1953. If an asset is constructed, reconstructed, or erected by the partnership, so much of the basis of the asset as is attributable to construction, reconstruction, or erection after December 31, 1953, may be depreciated under methods proper in the past, or it may be depreciated under any of the following methods provided that the asset meets qualifications (1) and (2) above.

(*a*) *Declining Balance Method.*—This method may be used with a rate not in excess of twice the applicable straight-line rate.

(*b*) *Sum of the years-digits method.*—Under this method annual allowances for depreciation are computed by applying changing fractions to the partnership's cost or other basis of property (reduced by estimated salvage).

The deduction for each year is computed by multiplying the cost or other basis of the asset (reduced by estimated salvage value) by the number of years of useful life remaining (including the year for which the deduction is computed) and dividing the product by the sum of all the digits corresponding to the years of the estimated useful life of the asset. In the case of a 5-year life this sum would be 15 (5+4+3+2+1). For the first year five-fifteenths of the cost reduced by estimated salvage value would be allowable, for the second year four-fifteenths, etc.

(*c*) *Other methods.*—A partnership may use any consistent method which does not result in accumulated allowances at the end of any year greater than the total of the accumulated allowances which would have resulted from the use of the declining balance method. This limitation applies only during the first two-thirds of the useful life of the property.

20. Amortization.—If the partnership elects the deduction with respect to the amortization of (a) the adjusted basis of any emergency facility (section 168) with respect to which the Government has issued a certificate of necessity, or a grain storage facility (section 169), or (b) certain expenditures relating to research and experiment (section 174), trademark and trade name expenditures (section 177), exploration (section 615), and development (section 616), a statement of the pertinent facts should be filed with the return. Do not enter the amortization of bond premium on this line.

21. Depletion of mines, oil and gas wells, timber, etc.—If a deduction is claimed on account of depletion, procure from the District Director Form M (mines and other natural deposits), Form O (oil and gas), or Form T (timber), and file with return. If complete valuation data have been filed in previous years, then file with the return information necessary to bring the depletion schedule up to date, setting forth, in full, a statement of all the transactions bearing on the deductions from or additions to the value of physical assets during the taxable year, with an explanation of how the depletion deduction for the taxable year has been determined. (See sections 611 and 612.)

22. Other deductions authorized by law.—Enter any other authorized deductions for which no space is provided elsewhere on page 1 of the return. Do not deduct losses incurred in transactions which were neither connected with the trade or business nor entered into for profit. No deduction is allowable for the amount of any item or part thereof allocable to a class of exempt income, other than the allowable portion attributable to wholly exempt interest income. Items directly attributable to such exempt income shall be allocated thereto, and items directly attributable to any class of taxable income shall be allocated to such taxable income. If an item is attributable both to taxable income and exempt income, a reasonable proportion thereof, determined in the light of all the facts in each case, shall be allocated to each.

A partnership receiving any exempt income, other than interest, or holding any property or engaging in any activity the income from which is exempt shall submit with its return as a part thereof an itemized statement, in detail, showing (1) the amount of each class of exempt income, and (2) the amount of expense items allocated to each such class (the amount allocated by apportionment being shown separately).

24. Ordinary income (or loss).—A farm partnership (see Instruction 2—Farmer's income schedule) should include in the total shown on line 24 the net farm profit (or loss). Do NOT include in that computation the amounts applicable to lines 4 through 9 and 25 through 34 of this form.

25–26. Gains and losses from sales or exchanges of property.—Report details in Schedule D, page 2, Form 1065.

"Capital assets" defined.—The term "capital assets" means property held by the partnership (whether or not connected with the trade or business) but does NOT include—

(*a*) stock in trade or other property of a kind properly includible in the inventory if on hand at the close of the taxable year;
(*b*) property held by the partnership primarily for sale to customers in the ordinary course of the trade or business;
(*c*) property used in the trade or business of a character which is subject to the allowance for depreciation provided in section 167;
(*d*) real property used in the trade or business of the partnership;
(*e*) certain Government obligations issued on or after March 1, 1941, at a discount, payable without interest and maturing at a fixed date not exceeding one year from date of issue;
(*f*) certain copyrights, literary, musical, or artistic compositions, etc.; or
(*g*) accounts and notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of property referred to in (*a*) or (*b*) above.

In connection with (*b*) above, the law allows dealers in securities capital gain or loss treatment with respect to certain securities which were clearly identified as being held for investment. Also certain real property subdivided for sale may be treated as a capital asset. Sections 1236 and 1237.

A capital gain dividend, as defined in section 852 (relating to tax on regulated investment companies), shall be treated by the shareholder as a long-term capital gain.

Description of property listed.—State the following facts: (*a*) For real estate, location and description of land and improvements; (*b*) for bonds or other evidences of indebtedness, name of issuing corporation, particular issue, denomination, and amount; and (*c*) for stocks, name of corporation, class of stock, number of shares, and capital changes affecting basis (including nontaxable distributions).

Basis.—In determining gain or loss in case of property acquired after February 28, 1913, use cost, except as specially provided. In deter-

mining GAIN in case of property acquired before March 1, 1913, use the cost or the fair market value as of March 1, 1913, as adjusted, whichever is greater, but in determining LOSS use cost as adjusted.

Losses on securities becoming worthless.—If (*a*) shares of stock become worthless during the year, or (*b*) corporate securities with interest coupons or in registered form become worthless during the year, and are capital assets, the loss therefrom shall be considered as from the sale or exchange of capital assets as of the last day of such taxable year.

Nonbusiness debts.—If a debt, such as a personal loan, becomes totally worthless within the taxable year, the loss resulting therefrom shall be considered a loss from the sale or exchange, during the taxable year, of a capital asset held for not more than 6 months. Enter such loss in column (h) and describe in column (a) in the schedule of short-term capital gains and losses in Schedule D, page 2. This does not apply to (*a*) a debt evidenced by a corporate security with interest coupons or in registered form and (*b*) a debt acquired in the trade or business.

Classification of capital gains and losses.—The phrase "short-term" applies to gains and losses from the sale or exchange of capital assets held for 6 months or less; the phrase "long-term" applies to gains and losses from the sale or exchange of capital assets held for more than 6 months.

Collapsible corporations.—Gain from the sale or exchange of stock in a collapsible corporation is not a capital gain. Section 341.

"Wash sales" losses.—Losses from the sale or other disposition of stocks or securities are not deductible (unless sustained in connection with the partnership trade or business) if, within 30 days before or after the date of sale or other disposition, the partnership has acquired (by purchase or by an exchange upon which the entire amount of gain or loss was recognized by law) or has entered into a contract or option to acquire, substantially identical stocks or securities.

Certain sales or exchanges of property with respect to controlled partnerships.—No deduction shall be allowed with respect to a loss on a sale or exchange of property (other than an interest in the partnership), directly or indirectly, between a partnership and a partner who owns, directly or indirectly, more than 50 percent of the capital interest or profits interest in such partnership. A loss on a sale or exchange of property, directly or indirectly, between two partnerships in which the same persons own, directly or indirectly, more than 50 percent of the capital interests or profits interests in each partnership shall not be allowed.

Any gain recognized upon the sale or exchange, directly or indirectly, of property which in the hands of the transferee is property other than a capital asset, shall be ordinary income if the transaction is between a partnership and a partner who owns, directly or indirectly, more than 80 percent of the capital interest or profits interest in the partnership. This rule also applies where such a transaction is between partnerships in which the same persons own, directly or indirectly, more than 80 percent of the capital interests or profits interests in each partnership.

The ownership of a capital interest or profits interest in a partnership is determined in accordance with the rules for constructive ownership of stock provided in section 267 (c) (1), (2), (4), and (5) of the Code. Under these provisions an interest in a partnership may be attributed to a person who is not a partner.

27 (a). Net gain (or loss) under section 1231.—Gains and losses from transactions described in section 1231 (see below) shall be separately stated and reported in Part II of Schedule D, page 2. The partner's distributive share of the net gain (or loss) from such transactions should be combined with his net gain (or loss) from any similar transactions when filing his individual income tax return for his taxable year.

Section 1231 deals with gains and losses arising from—

(*a*) sale, exchange, or involuntary conversion of land (including in certain cases unharvested crops sold with the land) and depreciable property if they are used in the trade or business and held for more than 6 months,

(*b*) sale, exchange, or involuntary conversion of livestock (not including poultry) held for draft, breeding, or dairy purposes and held for 1 year or more,

(*c*) the cutting of timber or the disposal of timber or coal to which section 631 applies, and

(*d*) the involuntary conversion of capital assets held more than 6 months.

See sections 1231 and 631 for specific conditions applicable.

27 (b). Net gain (or loss) from sale or exchange of other property.—Gains and losses from the sale or exchange of property other than capital assets or section 1231 items shall be reported in Part III of Schedule D, page 2.

28. Qualifying dividends.—Qualifying dividends are taxable dividends received from domestic corporations, other than those includible in line 5. (See instruction 5.)

29. Interest on tax-free covenant bonds.—Enter interest on bonds upon which a Federal income tax was paid at the source by the debtor corporation, if an ownership certificate was filed with the interest coupons.

30. Partially exempt interest.—Enter all interest, unless wholly exempt from tax, less amortization, on (1) United States savings bonds and Treasury bonds issued prior to March 1, 1941, (2) obligations of certain instrumentalities of the United States issued prior to March 1, 1941, and (3) "dividends" on share accounts in Federal savings and loan associations in case of shares issued prior to March 28, 1942.

31. Other separate income.—Enter all income, gains or losses, which the individual partner is required to take into account separately and which lines have not been provided for under the 702 (a) items. For further information see section 702 (a) (8) of the Code and the Regulations issued thereunder.

32. Contributions.—Enter the total charitable contributions paid by the partnership within the partnership's taxable year. For the definition of the term "charitable contribution," see section 170 (c) of the Code.

33. Foreign taxes.—Enter income and profits taxes paid to a foreign country or a possession of the United States. Form 1116 and a receipt for each such tax payment must be submitted with the partnership return. In case the amount entered includes foreign taxes accrued but not paid, attach to the form a certified copy of the return on which the taxes were based. The Commissioner may require the partners or members to give a bond on Form 1117 for the payment of any additional tax found due if the foreign tax when paid differs from the amount claimed.

34. Other deductions.—Enter all losses and deductions which the individual partner is required to take into account separately and which lines have not been provided for under the 702 (a) items. For further information see section 702 (a) (8) of the Code and the Regulations issued thereunder.

Schedule K—Partners' shares of income and credits.—Enter the names and addresses of each partner on lines (a), (b), (c), etc., in column 1, Schedule K, and extend in the proper column each partner's share of amounts entered on lines 24 through 34, page 1, in the columns provided, whether distributed or not. Note.—The amount on line 27 (b) should be included in column 3. If amounts are entered on lines 29, 31, or 34, page 1, attach a schedule showing each partner's distributive share. Schedule K should show complete information with respect to all the persons who were members of the partnership, syndicate, group, etc., during any portion of the taxable year. The percentage of time devoted to the business by each partner must be shown in column 2. Although the partnership is not subject to income tax, the members thereof are liable for income tax in their individual capacities and are taxable upon their distributive shares of the income of the partnership, whether distributed or not, and each is required to include his proportionate share in his individual return. Each partner should be advised by the partnership of his proportionate share of the income and credits as shown in Schedule K.

Schedule N—Computation of net earnings (or loss) from self-employment.—Payments to partners—salaries and interest.—The total of amounts paid to partners which were included in line 12, on page 1 of the return, must be entered on line 2 and added back to the ordinary income in arriving at the net earnings (or loss) from self-employment.

In determining the amount of net earnings from self-employment, there should be excluded income from the following sources and deductions attributable thereto:

Nonqualifying dividends from line 5, page 1;

Interest.—Interest on bonds, debentures, notes, certificates, or other evidences of indebtedness, issued with interest coupons or in registered form by a corporation, or by a government or political subdivision thereof, unless received in the course of a trade or business as a dealer in stocks or securities.

Real estate rentals.—Rentals from real estate, except rentals received in the course of a trade or business as a real-estate dealer. Receipts for the use or occupancy of rooms or other space where services are also rendered to the occupant, such as rooms in hotels, boarding houses, apartment houses furnishing hotel services, tourist camps, tourist homes, or space in parking lots, warehouses, or storage garages do not constitute rentals from real estate and therefore are included in determining net earnings from self-employment.

Partnerships with income from farming.—A partner may use the optional method of computing net earnings from self-employment from farming on his individual income tax return. See pages 3 and 4 of Schedule F (Form 1040) for instructions and the computation of net earnings from self-employment from farming. In figuring the gross profits from farming to be included in line 13, page 4 of Schedule F (Form 1040) enter your share of the gross profits shown on line 5 of either page 1 or 2 of the Schedule F (Form 1040) filed with the partnership return.

U. S. GOVERNMENT PRINTING OFFICE cnr-16—72858-1

FORM 1065

U. S. Treasury Department
Internal Revenue Service

U. S. PARTNERSHIP RETURN OF INCOME

(To Be Filed Also by Syndicates, Pools, Joint Ventures, Etc.)

FOR CALENDAR YEAR 1956

1956

Do not write in space below

or other taxable year beginning , 1956, and ending , 195

PLEASE TYPE OR PRINT PLAINLY

Name

Number and Street

City, town, postal zone number, county, State

Line and Instruction No.	GROSS INCOME		
1.	Gross receipts from business or profession $_____, Less: Returns and allowances $_____	$	
2.	Less: Cost of goods sold (from Schedule A)		
3.	Gross profit (or loss) from business or profession		
4.	Income (or loss) from other partnerships, syndicates, pools, etc. **(State separately name, address, and amount):**		
5.	Nonqualifying dividends (see Instruction 5)		
6.	Interest (fully taxable)		
7.	Rents		
8.	Royalties		
9.	Other income **(Attach statement showing nature of income)**		
10.	Total income (lines 1 through 9)		$
	DEDUCTIONS		
11.	Salaries and wages (other than to partners)	$	
12.	Payments to partners—salaries and interest (see Instruction 12)		
13.	Rent		
14.	Interest (from Schedule B)		
15.	Taxes (from Schedule C)		
16.	Losses by fire, storm, shipwreck, or other casualty or theft. **(Attach statement)**		
17.	Bad debts (from Schedule E)		
18.	Repairs		
19.	Depreciation (from Schedule G)		
20.	Amortization. **(Attach schedule)**		
21.	Depletion of mines, oil and gas wells, timber, etc. **(Attach schedule)**		
22.	Other deductions authorized by law (from Schedule H)		
23.	Total deductions (lines 11 through 22)		
24.	Ordinary income (or loss) (line 10 less line 23)		
	ITEMS DESCRIBED IN SECTION 702 (a). (See General Instruction M)		
25.	Net short-term capital gain (or loss) (from line 3, Schedule D)		
26.	Net long-term capital gain (or loss) (from line 6, Schedule D)		
27.	(a) Net gain (or loss) under section 1231 (from line 9, Schedule D)		
	(b) Net gain (or loss) from sale or exchange of other property (from line 12, Schedule D)		
28.	Qualifying dividends (see Instruction 5)		
29.	Interest on tax-free covenant bonds upon which a Federal tax was paid at source		
30.	Partially tax-exempt interest on obligations of the United States, etc. (see Instruction 30)		
31.	Other separate income (or loss) (see Instruction 31) **(Attach statement)**		
32.	Contributions (from Schedule I)		
33.	Foreign taxes (see Instruction 33)		
34.	Other deductions (see Instruction 34) **(Attach statement)**		$

SIGNATURE AND VERIFICATION

I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me, and to the best of my knowledge and belief is a true, correct, and complete return.

(Signature of partner or member) (Date)

I declare under the penalties of perjury that I prepared this return for the person(s) named herein; and that this return (including any accompanying schedules and statements) is, to the best of my knowledge and belief, a true, correct, and complete return based on all the information relating to the matters required to be reported in this return of which I have knowledge.

(Individual or Firm Signature) (Address) (Date)

Schedule A.—COST OF GOODS SOLD

1. (a) Opening inventory
   (b) Purchases
   (c) Cost of labor, supplies, etc.
   (d) Total of lines (a), (b), and (c)
   (e) Less: Closing inventory
2. Cost of goods sold. Enter here and on line 2, page 1

Schedule B.—INTEREST. (See Instruction 14)

Explanation	Amount
Total (Enter on line 14, page 1)	

Schedule C.—TAXES. (See Instruction 15)

Explanation	Amount
Total (Enter on line 15, page 1)	

Schedule D.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY

a. Kind of property (if necessary, attach statement of descriptive details not shown below)	b. Date acquired (mo., day, yr.)	c. Date sold (mo., day, yr.)	d. Gross sales price (contract price)	e. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	f. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	g. Expense of sale	h. Gain or loss (column d plus column e less sum of columns f and g)
(I) CAPITAL ASSETS (See Instructions 25 and 26)							
Short-Term Capital Gains and Losses—Assets Held Not More Than 6 Months							
1.							
2. Enter your share of net short-term gain (or loss) from partnerships and fiduciaries							
3. Net short-term gain (or loss) from lines 1 and 2. Enter here and on line 25, page 1, and in column 5, Schedule K							
Long-Term Capital Gains and Losses—Assets Held More Than 6 Months							
4.							
5. Enter the full amount of your share of net long-term gain (or loss) from partnerships and fiduciaries							
6. Net long-term gain (or loss) from lines 4 and 5. Enter here and on line 26, page 1, and in column 6, Schedule K							
(II) SALE OR EXCHANGE OF PROPERTY UNDER SECTION 1231 (See Instruction 27(a))							
7.							
8. Enter the full amount of your share of gain (or loss) of section 1231 items from partnerships and fiduciaries							
9. Net gain (or loss) from lines 7 and 8. Enter here and on line 27(a), page 1, and in column 7, Schedule K							
(III) SALE OR EXCHANGE OF OTHER PROPERTY (See Instruction 27(b))							
10.							
11. Enter your share of such gain (or loss) from other partnerships and fiduciaries							
12. Net gain (or loss) from lines 10 and 11. Enter here and on line 27(b), page 1, and in column 3, Schedule K							

Schedule E.—BAD DEBTS. (See Instruction 17)

1. Taxable year	2. Net income reported	3. Sales on account	4. Bad debts of organization if no reserve is carried on books	If organization carried a reserve	
				5. Gross amount added to reserve	6. Amount charged against reserve
1953					
1954					
1955					
1956					

NOTE.—Securities which are capital assets and which became worthless within the taxable year should be reported in Schedule D.

Schedule G.—DEPRECIATION. (See Instruction 19)

1. Kind of property (if buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Method of computing depreciation	6. Rate (%) or life (years)	7. Depreciation for this year
Total (Enter on line 19, page 1)						

Schedule H.—OTHER DEDUCTIONS. (See Instruction 22)

Explanation	Amount	Explanation	Amount
		Total (Enter on line 22, page 1)	

Schedule I.—CONTRIBUTIONS. (See Instruction 32)

Name and address of organization	Amount	Name and address of organization	Amount
		Total (Enter on line 32, page 1)	

Schedule K.—PARTNERS' SHARES OF INCOME AND CREDITS. (See Instruction for Schedule K)

1. Name and address of each partner (Designate nonresident aliens, if any) Where return of partner or member is filed in another internal revenue district, specify district	2. Percentage of time devoted to business	3. Ordinary income (or loss) (line 24, page 1) plus line 27 (b), page 1	4. Payments to partners —salaries and interest (line 12, page 1)	5. Net short-term gain (or loss) from sale or exchange of capital assets (line 25, page 1)	6. Net long-term gain (or loss) from sale or exchange of capital assets (line 26, page 1)
(a)					
(b)					
(c)					
(d)					
Totals					

Continuation of Schedule K

	7. Net gain (or loss) under section 1231 (line 27 (a), page 1)	8. Qualifying dividends (line 28, page 1)	9. Partially tax-exempt interest less amortization (line 30, page 1)	10. Charitable contributions (line 32, page 1)	11. Income and profits taxes paid to a foreign country or United States possession (line 33, page 1)	12. Net earnings from self-employment (from line 8, Schedule N)
(a)						
(b)						
(c)						
(d)						
Totals						

NOTE: A separate schedule must be attached showing each partner's distributive share of amounts reported on lines 29, 31, and 34, page 1.

Schedule L.—BALANCE SHEETS

ASSETS	Beginning of Taxable Year		End of Taxable Year	
	Amount	Total	Amount	Total
1. Cash				
2. Notes and accounts receivable				
(a) Less: Reserve for bad debts				
3. Inventories:				
(a) Other than last-in, first-out				
(b) Last-in, first-out				
4. Investments				
5. Buildings and other fixed depreciable assets				
(a) Less: Accumulated depreciation and amortization				
6. Depletable assets				
(a) Less: Accumulated depletion				
7. Land (net of any amortization)				
8. Intangible assets (amortizable)				
(a) Less: Accumulated amortization				
9. Other assets (Attach schedule)				
10. Total Assets				
LIABILITIES AND CAPITAL				
11. Accounts and notes payable				
12. Accrued expenses (Attach schedule)				
13. Mortgages payable				
14. Other liabilities (Attach schedule)				
15. Partners' capital accounts				
16. Total Liabilities and Capital				

Schedule M.—RECONCILIATION OF PARTNERS' CAPITAL ACCOUNTS

	1. Capital account at beginning of year	2. Capital contributed during year	3. Income from lines 25-31, page 1, plus nontaxable income	4. Ordinary income (or loss) from line 24, page 1	5. Losses from lines 25-34, page 1, plus unallowable deductions	6. Withdrawals and distributions	7. Capital account at end of year
(a)							
(b)							
(c)							
(d)							

Schedule N.—COMPUTATION OF NET EARNINGS FROM SELF-EMPLOYMENT. (See Instruction for Schedule N)

1. Ordinary income increased by casualty losses (line 24 plus line 26, page 1). Do not include income received for the performance of services as a doctor of medicine		
2. Add: Payments to partners—salaries and interest (line 12, page 1)		
3. Total		
4. Less: Portion of line 4, page 1, which does not constitute net earnings from self-employment		
5. Nonqualifying dividends (from line 5, page 1)		
6. Interest (See Instruction)		
7. Net rentals from real estate (line 7, page 1, less allowable deductions)		
8. Net earnings from self-employment. (Enter in column 12, Schedule K)		

ADDITIONAL INFORMATION REQUIRED

1. Date of organization
2. Principal business activity (see General Instruction K)
3. Is any member of the partnership related by blood or marriage to any other member? ☐ Yes ☐ No
4. Is any member of the partnership a trust for the benefit of any person related by blood or marriage to any other member? ☐ Yes ☐ No
5. Did the partnership, during the taxable year, have any contracts or subcontracts subject to the Renegotiation Act of 1951? ☐ Yes ☐ No

   If "Yes," state the approximate aggregate gross dollar amount billed during the taxable year under all such contracts and/or subcontracts (See General Instruction P)
6. Did the partnership pay (or agree to pay) anyone for assistance in the preparation of this return? ☐ Yes ☐ No

   If "Yes," enter his name

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How To Prepare Your 1956 Corporation Income Tax Return ON FORM 1120

(References are to the Internal Revenue Code).

GENERAL INSTRUCTIONS

A. Corporations required to make a return on Form 1120.—Every domestic and every resident foreign corporation not expressly exempt from taxation under chapter 1 (Section 501), whether or not having any taxable income, must file a return. The term "corporation" is defined by the Code to include associations, joint-stock companies, and insurance companies.

Partnerships and proprietorships may elect to be taxed as domestic corporations if an election is made not later than 60 days after the close of the taxable year and if certain qualifications are met. (Section 1361.) If the return is filed by a proprietorship or partnership, electing to be taxed as a corporation under section 1361, it must be signed by the proprietor or a partner.

If a receiver, trustee in dissolution, trustee in bankruptcy, or assignee has possession of or holds title to all or substantially all the property or business of a corporation, whether or not the property or business is being operated, he must make a return of income for the corporation in the same manner and form required of other corporations. (Section 6012.)

A mutual savings bank not having capital stock represented by shares; a domestic building and loan association, a domestic savings and loan association, a Federal savings and loan association, substantially all the business of which is confined to making loans to members; and a cooperative bank without capital stock, operated for mutual purposes and without profit, are subject to income tax and must file returns.

B. Period to be covered by return.—Returns shall be filed for the calendar year 1956 or fiscal year beginning in 1956 and ending in 1957. A fiscal year is an accounting period of 12 months ending on the last day of a calendar month other than December, but if a taxpayer has made the election provided in section 441 (f), the term "fiscal year" means an annual period varying from 52 to 53 weeks. If a taxpayer has no annual accounting period, or keeps no books, or has an accounting period which does not qualify as a fiscal year, the return must be filed for the calendar year, except as provided in section 443.

For the procedure to follow in changing an established accounting period, see your District Director.

C. Accounting methods.—Taxable income shall be computed in accordance with the method of accounting regularly used by the taxpayer in maintaining its books and records. In all cases the method adopted should clearly reflect taxable income. The basic methods of accounting are the "cash receipts and disbursements method" and the "accrual method." Section 446 permits the use of these methods or any other method permitted under the Code or any combination of these methods in accordance with regulations. If a taxpayer engages in more than one trade or business, it may, with respect to each trade or business, use a different method of accounting. Each method must, however, clearly reflect the income of the particular trade or business with which it is used, and separate profit and loss statements for each trade or business must be submitted. Except in those cases where the law specifically permits it, a taxpayer may not change the method of accounting upon the basis of which it has reported its income in prior years (for its income as a whole or with respect to any separate trade or business) without first securing consent. For procedure to be followed in securing consent, see your District Director

Cash receipts and disbursements method.—Under this method, a taxpayer includes all items of taxable income (whether cash, property, or services) in the year when it is actually or constructively received and claims as deductible expenses only those expenses actually paid. Income is constructively received when the amount is credited to the taxpayer's account, or set aside for it, and is unconditionally subject to its command. This includes uncashed checks, bank interest credited, matured bond coupons, and other similar items which can be immediately turned into cash. Do not deduct capital expenditures.

Accrual method.—Under this method income is reported in the year when the taxpayer first has a definite right to income, the amount of which can be ascertained with reasonable accuracy while deductions are taken in the year in which there is first established a specific liability, the amount of which can be ascertained with reasonable accuracy. Where the right to income or the liability for expense is uncertain, or the amount of such income or expense cannot be ascertained with reasonable accuracy, accrual is generally postponed until a determination is possible.

Other methods.—Separate provisions are contained in section 453 for installment method of accounting. For other information on accounting methods, see your District Director.

Rounding off to whole-dollar amounts.—If you wish, the money items on your return or accompanying schedules required by such return may be shown as whole-dollar amounts. This means that you eliminate any amount less than 50 cents, and increase any amount from 50 cents through 99 cents to the next highest dollar. Your choice as to whether you round off to whole-dollar amounts may not be changed after the due date for filing your return.

D. Filing of return and payment of tax.—Returns of domestic and resident foreign corporations must be filed on or before the 15th day of the third month following the close of the taxable year with the District Director of Internal Revenue for the district in which the corporation's principal place of business or principal office or agency is located. Returns of exempt cooperative associations taxable under section 522 must be filed on or before the 15th day of the 9th month following the close of the taxable year. (Section 6072.)

Request for automatic extension of 3 months for filing of return must be made on Form 7004. (Section 6081 (b).)

The balance of tax due as shown on line 3, page 1 of the return, must be paid in full when the return is filed or in two installments, 50 percent on or before the 15th day of the third month and 50 percent on or before the 15th day of the sixth month following the close of the taxable year.

If any installment is not paid on or before the date fixed for its payment, the whole amount of the tax unpaid shall be paid upon notice and demand by the District Director. The tax may be paid in cash or by check or money order drawn to the order of "Internal Revenue Service." Cash payment should be made only in person at the District Director's office.

A declaration of estimated tax must be made by every corporation which is subject to income tax under section 11 or 1201 (a), or subchapter L of chapter 1 (relating to insurance companies), if its income tax for the taxable year can reasonably be expected to exceed $100,000 plus the amount of any estimated credits against tax. (See Form 1120–ES.) In the case of affiliated corporations filing a consolidated return, see consolidated return regulations prescribed under section 1502.

Additional charge for underpayment of estimated tax.—Underpayment of installments of estimated tax will result in additional charges for the period from the due date of each installment until paid, or until the due date for filing the tax return, whichever is the earlier.

The charge with respect to any underpayment of any installment is mandatory and will be made unless the exceptions specified in section 6655 (d) are applicable.

If you have an underpayment of estimated tax and believe the additional charge should not be asserted due to the applicability of the "relief provisions" of section 6655 (d), attach a statement to your return explaining which of the provisions applies to you, showing any necessary computations. If you wish, you may obtain Form 2220 from the nearest Internal Revenue Service office for this purpose.

E. Signature and verification.—The return must be signed either by the president, vice-president, treasurer, assistant treasurer or chief accounting officer, or by any other corporate officer authorized to sign. A receiver, trustee, or assignee must sign any return which he is required to file on behalf of a corporation. The statement at the bottom of page 1 of the return is required to be signed by any person, firm, or corporation who prepared the taxpayer's return. If the return is prepared by a firm or corporation, it should be signed in the name of the firm or corporation. The statement is not required if the return is prepared by a regular, full-time employee.

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F. Failure to file, etc.—Substantial additions to the tax are imposed for failing to file a return, for late filing, and for filing a false or fraudulent return.

G–(1). Information at the source.—Every corporation making payments in the course of its trade or business of (1) interest, rents, commissions, or other fixed or determinable income of $600 or more during the calendar year 1956 to an individual, a partnership, or a fiduciary, or (2) salaries or wages of $600 or more shall make returns on Forms 1096 and 1099, except that the making of such returns will not be required with respect to salary or wage payments included on Form W–2, provided copies of withholding statements on Form W–2 are furnished. If a portion of such salary or wage payments was reported on a Withholding Statement (Form W–2), only the remainder must be reported on Form 1099.

Except as stated below, the returns on Forms 1096 and 1099 shall also include dividend payments totaling $10 or more during the calendar year 1956 to each shareholder who is an individual (citizen or resident of the United States), a resident fiduciary, or a resident partnership any member of which is a citizen or resident. In the case of a building and loan association, a cooperative bank, a homestead association, a credit union, or a savings and loan association, such total shall be $600 or more. In the case of a corporation described in sections 501 (c) (12), (15), (16), 521 and 522, or in the case of a national farm loan association or a production credit association, such total shall be $100 or more.

The returns on Forms 1096 and 1099 shall also include (except in the case of insurance companies taxable under Subchapter L and corporations exempt under section 501 (c) (12) or (15)) patronage dividends, rebates, and refunds totaling $100 or more during the calendar year 1956, whether in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner.

G–(2). Information regarding dissolution or liquidation.—Every corporation shall, within 30 days after the adoption by the corporation of a resolution or plan for the dissolution of the corporation or for the liquidation of the whole or any part of its capital stock, render a correct return on Form 966 setting forth the terms of such resolution or plan.

Every corporation making distributions in liquidation of the whole or any part of its capital stock shall also make returns on Forms 1096 and 1099L, as required by instructions on Form 1096, for the calendar year 1956.

G–(3). Certain transfers of property on or after January 1, 1951.—Under certain circumstances the $25,000 exemption from surtax and the $60,000 accumulated earnings credit are not allowed or may be reduced to a lesser figure. Section 1551 provides that if a corporation on or after January 1, 1951, transfers all or part of its property (other than money) to another corporation which was created for the purpose of acquiring such property or which was not actively engaged in business at the time of such acquisition and if after such transfer the transferor corporation or its stockholders, or both, are in control of such transferee corporation during any part of the taxable year of such transferee corporation, the transferee corporation shall not for such taxable year (except as may be otherwise determined under section 269 (b)) be allowed either the $25,000 exemption from surtax provided in section 11 (c) or the $60,000 accumulated earnings credit provided in section 535 (c), unless such transferee corporation shall establish by clear preponderance of the evidence that the securing of such exemption or credit was not a major purpose of such transfer. For this purpose control means the ownership of stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of stock of the corporation. Rules are provided in sections 544 and 1551 for determining ownership of stock. For allocation of the surtax exemption and the accumulated earnings credit in certain cases, see section 269 (b).

G–(4). Information regarding renegotiable contracts.—Every corporation which held, during the taxable year, contracts or subcontracts which were subject to the Renegotiation Act of 1951 shall, in answer to question G, page 1, state the actual or, if not accurately determinable, its best estimate of the aggregate gross dollar amount billed during the current taxable year under all contracts and/or subcontracts.

H. Returns of certain corporations. *Domestic corporations entitled to benefits of section 931.*—Domestic corporations within the possessions of the United States (except the Virgin Islands) may report as gross income only gross income from sources within the United States, provided (*a*) 80 percent or more of the gross income for the 3-year period immediately preceding the close of the taxable year (or such part thereof as may be applicable) was derived from sources within a possession of the United States, and (*b*) 50 percent or more of the gross income for such period or such part thereof was derived from the active conduct of a trade or business within a possession of the United States.

Resident foreign corporations.—Foreign corporations which at any time within the taxable year are engaged in trade or business within the United States shall make returns on Form 1120 of income derived from sources within the United States. (Section 882.)

Nonresident foreign corporations.—Foreign corporations not engaged in trade or business within the United States at any time within the taxable year are subject to tax upon gross income from sources within the United States (determined under the provisions of sections 861 through 864) consisting of fixed or determinable annual or periodical income and of certain gains derived from the disposal of timber and coal. They are required to make returns on Form 1120NB with respect to such income only in the event their tax liability has not been fully satisfied at the source.

Insurance companies.—Life insurance companies subject to tax imposed by section 802 shall make returns on Form 1120L. Mutual insurance companies subject to tax imposed by section 821 shall make returns on Form 1120M. Insurance companies described in section 831, and mutual savings banks described in section 594 and conducting life insurance business, shall make returns on Form 1120. There should be filed with the return a copy of the 1956 annual statement approved by the National Convention of Insurance Commissioners which contains the underwriting and investment exhibit.

Regulated investment companies.—If for any given year the investment company satisfies the requirements of section 851 it will be considered a regulated investment company. (See Tax Computation Instructions, item 9.)

Personal holding companies.—Section 541 imposes a tax upon the undistributed personal holding company income (as defined in section 545) of corporations classified as personal holding companies. Every personal holding company must file a schedule 1120PH with its return.

Under the provisions of section 542, a corporation is a "personal holding company" if at least 80 percent of its gross income for the taxable year is personal holding company income as defined in section 543, and if at any time during the last half of the taxable year more than 50 percent in value of its outstanding stock is owned, directly or indirectly, by or for not more than five individuals. (Sections 541–547.)

Foreign personal holding companies.—Section 551 (a) requires that the undistributed foreign personal holding company income of a foreign personal holding company, as defined in section 552, shall be included as a dividend in the gross income of the United States shareholders in the amount provided by subsection (b). Schedule 1120PH is not required, but monthly and annual information returns on Forms 957 and 958 must be filed by the officers, directors, and certain United States shareholders as provided by sections 6035 (a) and (b).

A foreign corporation which is a personal holding company, as defined in section 542 but not within the definition of section 552, is subject to the tax imposed by section 541 on undistributed personal holding company income and must file a schedule 1120PH with its return.

I. Consolidated returns.—Subject to the provisions of sections 1501 through 1552 and the regulations, an affiliated group of corporations may make a consolidated income tax return in lieu of separate returns. The making of a consolidated return shall be upon the condition that all corporations which at any time during the taxable year have been members of the affiliated group consent to all the consolidated return regulations prescribed under section 1502 prior to the last day prescribed by law for the filing of such return. The common parent corporation, when filing a consolidated return, shall attach thereto a schedule showing the names and addresses of all the corporations included in the return. Form 851, Affiliations Schedule, should be obtained from the District Director of Internal Revenue and filed as a part of the return. Each subsidiary must prepare two signed copies of Form 1122 authorizing the making of the return on its behalf. One such form shall be attached to the consolidated return as a part thereof, and the other shall be filed, at or before the time the consolidated return is filed, in the office of the District Director for the subsidiary's district.

Supporting schedules shall be filed with the consolidated return. These schedules shall be prepared in columnar form, one column being provided for each corporation included in the consolidation, showing in detail the items of gross income and deductions and the computation of taxable income; one column for a total of like items before adjustments are made; one column for intercompany eliminations and adjustments; and one column for a total of like items after giving effect to the eliminations and adjustments. The items included in the column for eliminations and adjustments should be symbolized to identify contra items affected, and suitable explanations appended, if necessary. Similar schedules shall also contain in columnar form a reconciliation of surplus for each corporation, together with a reconciliation of the consolidated surplus.

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Consolidated balance sheets as of the beginning and close of the taxable year of the group shall accompany the consolidated return in a form similar to that required for reconciliation of surplus.

J. Tax on improperly accumulated earnings.—In order to prevent accumulation of earnings and profits for the purpose of enabling shareholders to avoid the tax on individuals, section 531 provides an additional tax upon the accumulated taxable income of corporations formed or availed of for the purpose of such tax avoidance.

K. Stock ownership in foreign corporations.—In addition to the information to be shown in Schedule C of the return, a corporation owning any stock of a foreign corporation must attach a statement showing the name and address of each company and the total number of shares of each class of outstanding stock owned during the taxable year. If the corporation owned 5 percent or more in value of the outstanding stock of a foreign personal holding company, attach a statement setting forth in complete detail the information required by section 551 (d).

L. Balance sheets.—The balance sheets, Schedule L, should agree with the books of account or any differences should be reconciled. The balance sheets for a consolidated return of affiliated corporations should be furnished in accordance with Instruction I. All corporations reporting to the Interstate Commerce Commission or to any National, State, municipal, or other public officer, may submit, in lieu of Schedule L, copies of their balance sheets prescribed by such authorities as at the beginning and end of the taxable year.

Line 9, Schedule L, should show land less any accumulated amortization of the land as an emergency facility under the authority of sections 124 and 124A of the Internal Revenue Code of 1939 or section 168 of the Internal Revenue Code of 1954.

M. Forms other than prescribed by return.—Banks, insurance companies, and other corporations required to submit statements of income and expenses to any National, State, municipal, or other public officer may submit with the return a statement of income and expenses in the form furnished to such officer, in lieu of the information requested in lines 1 to 41, pages 2 and 3, except that a railroad company may submit with the return a statement on Form 1090. In such cases the taxable income will be reconciled by means of Schedule M with the net profits shown by the income and expense statement submitted, and should be entered as line 41, page 3.

SPECIFIC INSTRUCTIONS (Numbered to correspond with line numbers on pages 2 and 3 of return)

2. Cost of goods sold.—If the production, manufacture, purchase, or sale of merchandise is an income-determining factor in the trade or business, inventories of merchandise on hand should be taken at the beginning and end of the taxable year, and may be valued at cost, or at cost or market, whichever is lower, or by any other permissible method.

An inventory method once properly adopted is controlling until permission to change is obtained from the Commissioner. Application for permission to change an inventory method shall be made in writing and filed with the Commissioner within 90 days after the beginning of the taxable year in which it is desired to effect a change. In case the inventories reported do not agree with the balance sheet, attach a statement explaining the difference.

A corporation electing to use the last-in, first-out method of valuing inventory provided for in section 472 must file Form 970 with the return for the first year of the election. Thereafter, attach separate schedule showing: (1) a summary of all inventories; (2) with respect to any inventories computed under section 472, the computation of the quantities and cost by acquisition levels.

9. Interest on corporation bonds, etc.—Enter on line 9, page 2, the amount of interest on bonds, debentures, notes, or certificates or other evidences of indebtedness, issued by any corporation and bearing interest, with interest coupons or in registered form. Do not include interest on any such obligations which constitute stock in trade of the taxpayer or any such obligations of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or any such obligations held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business. Such interest should be entered on line 8. For provisions relating to amortizable bond premium, see section 171.

10. Interest on obligations of the United States, etc.—Enter in Schedule L the amounts of the various obligations owned. Also enter on line 3, Schedule M, all interest received or accrued during the year on the various obligations listed therein. The net amount of interest reported on line 10 (a), page 2, is also allowable as a deduction. See paragraph 35 of these instructions. The amount of interest received or accrued on obligations issued on or after March 1, 1941, by the United States or any agency or instrumentality thereof should be entered on line 10 (b), page 2. For provisions relating to amortizable bond premium, see section 171.

For special rules applicable to dealers in securities, with respect to premium attributable to certain tax-exempt securities, see section 75.

Non-interest-bearing obligations issued at a discount.—Taxpayers on the cash basis may elect, as to all non-interest-bearing obligations issued at a discount and redeemable for fixed amounts increasing at stated intervals (for example, United States Savings Bonds), to include the increase in redemption price applicable to the current year. For the year of election the total increase in redemption price of such obligations occurring between the date of acquisition and the end of the year must be included. Attach statement listing obligations owned and computation of the increase. (Section 454.)

11. Rents.—Enter the gross amount received for the rent of property. Any expenses, including repairs, interest, taxes, and depreciation should be included in the proper lines for deductions on pages 2 and 3. In the case of a lease entered into prior to January 1, 1954, if both lessor and lessee are corporations and if under the lease the lessee is obligated to pay any part of the lessor's income tax on the rental payment, this tax is excluded from lessor's gross income and may not be deducted by lessee. (Section 110.)

12. Royalties.—Enter the gross amount received as royalties. If a deduction is claimed for depletion, it must be reported on line 27, page 3.

13. Gains and losses from sales or exchanges of capital assets and other property.—The computation of gains and losses from sales or exchanges of capital assets and property other than capital assets should be made on separate Schedule D. Every sale or exchange of property, even though no gain or loss is indicated, must be reported in detail. If for any taxable year the net long-term capital gain exceeds the net short-term capital loss, or in case of only a net long-term capital gain, a computation of the alternative tax should be made on separate Schedule D.

14. Other income.—Enter total amount of other income not reported elsewhere in the return and attach schedule showing details, if spaces provided are not sufficient.

18. Rents.—Enter rent paid or accrued for business property in which the corporation has no equity. With respect to leases entered into prior to January 1, 1954, see instruction No. 11.

19. Repairs.—Enter the cost of incidental repairs, including labor, supplies, and other items, which do not add to the value or appreciably prolong the life of the property. Expenditures for new buildings, machinery, equipment, or for permanent improvements or betterments which increase the value of the property are chargeable to capital account.

20. Bad debts.—Bad debts may be treated in either of two ways—(1) by a deduction from income in respect of debts which become worthless in whole or in part, or (2) by a deduction from income of a reasonable addition to a reserve for bad debts. (Section 166.)

A taxpayer filing a first return of income may select either of the two methods, and that method must be followed for subsequent years, unless permission is granted by the Commissioner to change to the other method. Application for permission to change the method shall be made in writing at least 30 days prior to the close of the taxable year for which it is desired to effect the change.

Worthless debts arising from unpaid rents, and similar items of taxable income, will not be allowed as a deduction unless the income such items represent has been included in the return of income for the year for which the bad debt deduction is claimed, or for a previous year.

For treatment of bad debts of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, and a cooperative bank without capital stock organized and operated for mutual purposes and without profit, see section 593 and the regulations thereunder.

21. Interest.—Enter interest paid or accrued on business indebtedness. Do not include in line 21 interest on indebtedness incurred or continued to purchase or carry obligations (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest on which is wholly exempt from income tax. (Section 265.)

See section 267 for limitation on deductions for unpaid expenses and interest in the case of transactions between related taxpayers.

22. Taxes.—Enter taxes paid or accrued during the taxable year and fill in Schedule G. Do not include Federal income, war-profits, and excess-profits taxes; estate, inheritance, legacy, succession, and gift taxes; foreign or United States possession income taxes if any credit is claimed in line 47, page 3; Federal taxes paid on bonds containing a tax-free covenant, nor taxes not im-

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posed upon the taxpayer. See section 164 (d) regarding apportionment of taxes on real property between seller and purchaser.

23. Contributions or gifts paid.—Enter contributions or gifts actually paid within the taxable year to or for the use of (1) a State, a Territory, a possession of the United States, or any political subdivision of any of the foregoing, or the United States or the District of Columbia for exclusively public purposes; (2) a corporation, trust, or community chest, fund, or foundation, created or organized in the United States or in any possession thereof or under the law of the United States, or of any State or Territory, or of the District of Columbia, or of any possession of the United States, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes or the prevention of cruelty to children or animals (but in the case of contributions or gifts to a trust, chest, fund, or foundation only if such contributions or gifts are to be used within the United States or any of its possessions exclusively for such purposes), no part of the net earnings of which inures to the benefit of any private shareholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation; (3) posts or organizations of war veterans, or auxiliary units of, or trusts or foundations for, any such posts or organizations, if such posts, organizations, units, trusts, or foundations are organized in the United States or any of its possessions, and if no part of their net earnings inures to the benefit of any private shareholder or individual; or (4) nonprofit cemetery or burial companies. The amount claimed shall not exceed 5 percent of the corporation's taxable income computed without regard to (1) this deduction, (2) the "special deductions" in lines 35 to 39, page 3, and (3) any net operating loss carryback to the taxable year under section 172.

In the case of a corporation on the accrual basis, any contribution or gift will, at the election of the taxpayer, made at the time the return is filed, be considered as paid during the taxable year if payment is actually made on or before the fifteenth day of the third month following the close of the taxable year, and if the contribution or gift has during the taxable year been authorized by the board of directors of the corporation. A copy of such authorization must be attached to the return. Do not deduct as a business expense charitable contributions which come within the above description, but which are unallowable in whole or in part because of the limitation contained in section 170.

Any contributions paid during the taxable year in excess of the amount deductible may be carried over and deducted in the two succeeding taxable years subject to the 5 percent limitation provided in section 170 (b) (2).

24. Losses by fire, storm, shipwreck, or other casualty, or theft.—Enter losses sustained during the year, arising from fire, storm, shipwreck, or other casualty. For determination of the amount deductible, see section 165 (b) and the regulations thereunder. Theft losses are deductible only in the year in which discovered.

25. Amortization.—If a deduction is claimed on account of amortization, fill in Schedule I. The law makes special provisions for amortization of certain kinds of assets and expenditures:

(*a*) *Emergency facilities.*—A corporation is entitled at its election to a deduction with respect to the amortization of the adjusted basis (for determining gain) of an emergency facility, such amortization to be based on a period of 60 months. The term "emergency facility" means any facility, land, building, machinery, or equipment, or any part thereof, the construction, installation, or acquisition of which was completed after December 31, 1949, and with respect to which a certificate has been issued. The cost or other basis subject to amortization is limited to the portion thereof which has been certified as attributable to defense purposes by the appropriate certifying authority. The corporation may elect to take such a deduction starting with the month following the month in which the facility is completed or acquired, or with the succeeding taxable year, by filing a statement with the return for the taxable year in which falls the first month of the period so elected. The portion of the basis of such a facility not subject to amortization may be recovered by deductions for depreciation under section 167. A corporation may elect to terminate its amortization deductions at any time by filing a written statement with the District Director of Internal Revenue. If the taxpayer elects to discontinue amortization deductions, the unamortized basis of the facility is subject to the depreciation provisions of law. (Section 168.)

(*b*) *Grain storage facilities.*—A corporation may elect to amortize the adjusted basis (for determining gain) of a grain storage facility ratably over a 60-month period. The term "grain storage facility" means (1) any public grain warehouse permanently equipped for receiving, elevating, conditioning, and loading out grain, and (2) any corncrib, grain bin, or grain elevator, or any similar structure suitable primarily for and intended for the storage of grain produced by the taxpayer. Such term does not include any facility any part of which is an "emergency facility." The amortization deduction is allowable only if the facility is completed after December 31, 1952, and only with respect to property of a character which is subject to the allowance for depreciation under section 167. If a structure is converted through alteration or remodeling into a structure so described and if the alteration or remodeling is completed after December 31, 1952, then such alteration or remodeling shall be treated as the construction of a grain storage facility. The 60-month period shall, at the election of the taxpayer, begin with the month following the month in which the facility is completed or acquired, or with the succeeding taxable year. The election must be made by a statement in the return for the year in which the period begins, and may be terminated at any time by filing a written statement to that effect with the District Director of Internal Revenue. If the taxpayer elects to discontinue amortization deductions, the unamortized basis of the facility is subject to the depreciation provisions of law. (Section 169.)

(*c*) *Research and experimental expenditures.*—A corporation may treat research or experimental expenditures paid or incurred by it during the taxable year as expenses not chargeable to capital account and may deduct them. As an alternative, such expenditures, if they are chargeable to capital account, may at the taxpayer's election, be treated as deferred expenses, and amortized ratably over a period of not less than 60 months beginning with the month in which the taxpayer first realizes benefits from such expenditures. However, if the property resulting from such expenditures has a determinable useful life, the capitalized expenditures must be amortized over such life in accordance with the provisions of section 167.

Expenditures which are chargeable to property of a character subject to an allowance for depreciation or depletion, expenditures for land, and expenditures for the purpose of ascertaining the existence, location, extent, or quality of any deposits of ore or other mineral (including oil or gas) are not subject to amortization as deferred expenses for research and experimentation.

A corporation electing to amortize research and experimental expenditures may make an election by attaching a statement to the return for the first taxable year to which the election is applicable. The method or period selected for such amortization cannot be changed unless prior approval is secured. (Section 174.)

(*d*) *Exploration expenditures.*—Under section 615 a corporation may deduct expenditures paid or incurred by it during the taxable year for ascertaining the existence, location, extent or quality of any deposit of ore or other mineral (other than oil or gas) in an amount not exceeding $100,000 paid or incurred before the beginning of the development of such deposit. At its election it may treat such expenditures (in an amount not exceeding $100,000 in a taxable year) as deferred expenses deductible on a ratable basis as the units of produced ores or minerals (discovered or explored by reason of such expenditures) are sold. Such election must be made on the return or by filing a statement not later than 6 months after the filing of the return, for any taxable year to which such election is applicable. The election shall be binding for the taxable year with respect to which it is made. No further deduction or election may be taken or exercised under section 615 if in any four preceding years (not necessarily consecutive) the taxpayer or certain transferors of such mineral or property have been allowed a deduction or made such election. (Section 615.)

(*e*) *Development expenditures.*—A corporation may deduct expenditures paid or incurred during the taxable year for the developing of a mine or any other natural deposit (other than an oil or gas well) if paid or incurred after the existence of ores or minerals in commercially marketable quantities has been disclosed. At its election it may treat such expenditures as deferred expense deductible on a ratable basis as the units of produced ores or minerals benefited by such expenditures are sold. Such election must be made on the return or by filing a statement not later than 6 months after filing the return for the taxable year for which the election is applicable. (Section 616.)

(*f*) *Organizational expenditures.*—A corporation may elect to amortize expenditures which are incident to the creation of the corporation ratably over a period of not less than 60 months (beginning with the month in which the corporation begins business). These expenses must be chargeable to capital account and of a character which, if expended incident to the creation of a corporation with limited life, would be amortizable over such life. Amortization may not be taken on such expenditures paid or incurred before August 16, 1954. Such election may be made by filing a statement with the return for the year in which the election is made. The statement shall set forth the description and amount of the expenditures and the number of months over which such expenditures are to be deducted. (Section 248.)

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(*g*) *Trademark and tradename expenditures.*—A corporation may elect to treat these expenditures (if paid or incurred in a taxable year beginning after December 31, 1955) as deferred expense, deductible ratably over a period of not less than 60 months. (Section 177.)

26. Depreciation.—If a deduction is claimed on account of depreciation, fill in Schedule J. A reasonable allowance for the exhaustion, wear and tear, and obsolescence of property used in the trade or business or of property held by the taxpayer for the production of income shall be allowed as a depreciation deduction. The allowance does not apply to inventories or stock-in-trade nor to land apart from the improvements or physical developments added to it. Depreciation on leasehold improvements, patents and copyrights shall be included in Schedule J.

The useful life of an asset can be measured in units of production, etc., but the ordinary practice is to measure useful life in years. Business experience, engineering information, and other relevant factors provide a reasonable basis for estimating the useful life of property. The cost (or other basis) to be recovered should be charged off over the expected useful life of the property. For guidance, comprehensive tables of "average useful lives" of various kinds of buildings, machines, and equipment in many industries and businesses have been published in a booklet called Bulletin F, which may be purchased for 30 cents from the Superintendent of Documents, Government Printing Office, Washington 25, D. C. A brief description of the various methods of depreciation follows:

(*a*) *Straight line method.*—The most common method of computing depreciation is the "straight line" method. It allows for the recovery of cost in equal annual amounts over the life of the property, with only salvage value remaining at the end of its useful life. To compute the deduction, add the cost of improvements to the cost (or other basis) of the asset and deduct both the estimated salvage value and the total depreciation allowed or allowable in past years. Divide the result by the number of years of useful life remaining to the asset—the quotient is the depreciation deduction.

(*b*) *Declining balance method.*—Under this method a uniform rate is applied each year to the remaining cost or other basis of property (without adjustment for salvage value) determined at the beginning of such year. For property acquired before January 1, 1954, or used property whenever acquired, the rate of depreciation under this method may not exceed one and one-half times the applicable straight-line rate.

(*c*) *Special rules for new assets acquired after December 31, 1953.*—The cost or other basis of an asset acquired after December 31, 1953, may be depreciated under methods proper in the past; or, it may be depreciated under any of the following methods provided (1) that the asset is tangible, (2) that it has an estimated useful life of three years or more, and (3) that the original use of the asset commenced with the taxpayer and commenced after December 31, 1953. If an asset is constructed, reconstructed, or erected by the taxpayer, so much of the basis of the asset as is attributable to construction, reconstruction, or erection after December 31, 1953, may be depreciated under methods proper in the past; or, it may be depreciated under any of the following methods provided that the asset meets qualifications (1) and (2) above.

(*1*) *Declining balance method.*—This method may be used with a rate not in excess of twice the applicable straight-line rate.

(2) *Sum of the years-digit method.*—Under this method annual allowances for depreciation are computed by applying changing fractions to the taxpayer's cost or other basis of property (reduced by estimated salvage).

The deduction for each year is computed by multiplying the cost or other basis of the asset (reduced by estimated salvage value) by the number of years of useful life remaining (including the year for which the deduction is computed) and dividing the product by the sum of all the digits corresponding to the years of the estimated useful life of the asset. In the case of a 5-year life this sum would be 15 (5+4+3+2+1). For the first year five-fifteenths of the cost reduced by estimated salvage value would be allowable, for the second year four-fifteenths, etc.

(*3*) *Other methods.*—A taxpayer may use any consistent method which does not result in accumulated allowances at the end of any year greater than the total of the accumulated allowances which would have resulted from the use of the declining balance method. This limitation applies only during the first two-thirds of the useful life of the property.

27. Depletion of mines, oil and gas wells, timber, etc.—If a deduction is claimed on account of depletion, procure from the District Director: Form M (mines and other natural deposits), Form O (oil and gas), or Form T (timber), fill in and file with return. If complete valuation data have been filed with questionnaire in previous years, then file with your return information necessary to bring your depletion schedule up to date, setting forth in full statement of all transactions bearing on deductions from or additions to value of physical assets during the taxable year with explanation of how depletion deduction for the taxable year has been determined. (Sections 611, 612, and 613.) Expenditures to be deferred and deducted ratably under the election provided in sections 616 (b), relating to certain expenditures in the development of mines, and 615 (b), relating to deductions for mine exploration, are not to be taken into account in determining the adjusted basis for property for the purpose of computing a deduction for depletion under section 611.

28. Advertising.—Enter on line 28 the total amount paid or incurred during the year for advertising. Expenditures for advertising, to be deductible, must be ordinary and necessary and bear a reasonable relation to the business activities in which the corporation is engaged.

29 (a). Pension, annuity, stock bonus, or profit-sharing plans.—Enter on line 29 (a) the total amount deductible under section 404. A corporation claiming a deduction under section 404 must submit with its return, in addition to the information specified in the regulations concerning such deduction, a statement with respect to each plan showing the type of plan, i. e., pension, annuity, profit-sharing, stock bonus, or other plan deferring the receipt of compensation, whether or not the plan is qualified under section 401 (a), and if trusteed, whether or not the trust is exempt under section 501 (a), and the method of funding, i. e., individual annuity or insurance contracts, group annuity contract, group permanent contract, or self-insured trust. If not funded, so indicate.

29 (b). Other employee benefit plans.—Enter on line 29 (b) deductions for contributions to employee benefit plans other than those claimed on line 29 (a), such as insurance, health, or welfare plans. Submit with the return a schedule for each plan showing (1) the nature of benefits, i. e., group term life insurance, group permanent life insurance, noninsured death benefit, hospitalization, surgical, medical, sickness, accident, major medical expense, or other welfare benefits; (2) method of financing, i. e., insured, industry or areawide fund, self-insured fund, or direct benefit payments; (3) the amount of deduction; (4) the amount of employee contributions; (5) the number of employees covered; and (6) if a self-insured plan, the amount of benefits paid during the taxable year. Also show the number of employees employed by the corporation.

30. Other deductions authorized by law.—Enter on line 30 any other authorized deductions for which no space is provided on the return. Any deduction claimed should be explained in Schedule K.

No deduction is allowable for the amount of any item or part thereof allocable to a class of exempt income, including tax-exempt interest income only to the extent that amounts otherwise allowable under section 212 are allocable thereto. However, for interest on indebtedness incurred or continued to purchase or carry tax-exempt securities, see instruction 21. Items directly attributable to wholly exempt income shall be allocated thereto, and items directly attributable to any class of taxable income shall be allocated to such taxable income. If an item is indirectly attributable both to taxable income and exempt income, a reasonable proportion thereof, determined in the light of all the facts and circumstances in each case, shall be allocated to each. A taxpayer receiving any such exempt income, or holding any property or engaging in any activity the income from which is exempt shall submit with its return as a part thereof an itemized statement, in detail, showing (1) the amount of each class of exempt income, and (2) the amount of expense items allocated to each such class (the amount allocated by apportionment being shown separately).

In the case of mutual savings banks, cooperative banks, and domestic building and loan associations, any amounts paid or credited to the accounts of depositors or holders of accounts as dividends on their deposits or withdrawable accounts, if such amounts may be withdrawn on demand subject only to customary notice of intention to withdraw, are allowable deductions in computing taxable income. (Section 591.)

Under section 592 a special deduction in computing taxable income is allowed a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, or a cooperative bank without capital stock organized and operated for mutual purposes and without profit, for repayment during the taxable year of loans made before September 1, 1951, by the United States or its wholly owned agencies, or by a mutual fund established under the authority of State law.

For deductions on account of research and experimental expenditures, and exploration and development expenditures in the case of mines, see instruction 25.

33. Net operating loss deduction.—The "net operating loss deduction" is the sum of the net operating loss carryovers and carrybacks to the taxable year. (Section 172 (a).) A net operating loss for taxable years ending after December 31, 1953, may be carried back 2 years (1 year for excess profits tax purposes)

and carried over 5 years. The net operating loss must first be carried to the earliest of the 7 taxable years to which it may be carried, then to the next earliest year, etc. The portion of such loss which shall be carried to each of the other 6 taxable years shall be the excess, if any, of the amount of such loss over the sum of the taxable income for each of the prior taxable years to which such loss may be carried. (Section 172 (b).)

The term "net operating loss" means, for taxable years ending after December 31, 1953, the excess of allowable deductions over gross income, computed with the following modifications:

(*a*) No net operating loss deduction is allowed.

(*b*) The special deductions provided in section 242 (partially tax-exempt interest) and section 922 (Western Hemisphere trade corporations) are not allowed.

(*c*) The special deductions allowed by section 243 (dividends received by corporations), section 244 (dividends received on certain preferred stock of public utilities), and section 245 (dividends received from certain foreign corporations) are computed without regard to the 85-percent limitation provided in section 246 (b).

(*d*) The special deduction allowed by section 247 (dividends paid on certain preferred stock of public utilities) is computed without regard to the provisions of subsection (a) (1) (B) of such section.

As stated, the net operating loss deduction is the sum of the carryovers and carrybacks. However, the following modifications must be taken into account in determining the taxable income for any year which must be subtracted from a net operating loss to determine the portion of such loss which will still be available to carry to a subsequent year:

(*a*) The special deductions provided in sections 242 (partially tax-exempt interest) and 922 (Western Hemisphere trade corporations) are not allowed.

(*b*) The amount of the net operating loss deduction is determined without regard to the net operating loss for the loss year or any taxable year thereafter.

With respect to all taxable years, whether they begin before, on, or after January 1, 1954, in determining the amount of any net operating loss carryback or carryover to any taxable year, the necessary computations involving any other taxable year must be made under the law applicable to such other taxable year. (Section 172 (e).)

The determination of any taxable year to which a net operating loss sustained in a taxable year ending before January 1, 1954, may be carried, must be made under the Internal Revenue Code of 1939; such determination for a net operating loss sustained in any taxable year ending after December 31, 1953, shall be made under the 1954 Code. (Section 172 (g).)

If the corporation desires prompt adjustment for an overpayment attributable to a net operating loss carryback, an application for a tentative adjustment should be filed on Form 1139 within 12 months after the close of the taxable year in which the net operating loss is sustained. (Section 6411.)

For treatment of net operating loss carryovers in certain corporate acquisitions, see section 381.

For special limitation on net operating loss carryovers in case of a corporate change of ownership, see section 382.

Section 852 (b) (2) provides that no net operating loss deduction shall be allowed in the case of a regulated investment company.

35. Partially tax-exempt interest.—Enter the amount received as interest on obligations of the United States or on obligations of corporations organized under Act of Congress which are instrumentalities of the United States, but only if (1) such interest is included in gross income; and (2) such interest is exempt from normal tax under the Act authorizing the issuance of such obligations. This deduction must be reduced by any amortizable bond premium as provided in section 171.

36. Dividends received deductions.—(*a*) *Dividends received from a domestic corporation.*—Enter an amount equal to 85 percent of the amount received as dividends (except dividends on certain preferred stock of public utilities) from a domestic corporation subject to income tax. Amounts received as dividends from mutual savings banks, cooperative banks, and domestic building and loan associations and allowed as a deduction to such banks or building and loan associations shall not be treated as dividends. In the case of dividends received from a regulated investment company, see section 854 regarding limitations on amount deductible.

(*b*) *Dividends received on certain preferred stock of public utilities.*—Enter 62.115 percent for taxable years beginning after December 31, 1953, and prior to April 1, 1957 (59.681 percent for taxable years beginning on or after April 1, 1957), of the amount received as dividends on the preferred stock of a public utility which is subject to income tax and is allowed a deduction, as provided in section 247, for dividends paid.

(*c*) *Dividends received from certain foreign corporations.*—Enter 85 percent of dividends received from certain foreign corporations. See section 245 for qualifications and limitations on the amount of this deduction.

37. Total dividends-received deductions.—In a year in which a net operating loss occurs, sections 172 (d) and 246 (b) provide that the 85-percent limitation on the amount of these special deductions shall not apply.

38. Deduction for dividends paid on certain preferred stock of public utilities.—In the case of a public utility there is allowed, in accordance with section 247, an amount equal to 26.923 percent for taxable years beginning after December 31, 1953, and prior to April 1, 1957 (29.787 percent for taxable years beginning on or after April 1, 1957), of the lesser of (1) the amount of dividends paid on its preferred stock during the taxable year, or (2) the taxable income for the taxable year computed without regard to the deduction provided in section 247. In a year in which a net operating loss occurs, section 172 (d) provides that this special deduction shall be computed without regard to section 247 (a) (1) (B).

39. Deduction for Western Hemisphere trade corporations.—In the case of a Western Hemisphere trade corporation, as defined in section 921, there is allowed under section 922 a deduction equal to 26.923 percent for taxable years beginning after December 31, 1953, and prior to April 1, 1957 (29.787 percent for taxable years beginning on or after April 1, 1957), of the taxable income of such corporation computed without regard to the deduction provided in section 922. Under the provisions of section 172 (d), this special deduction is not allowed in a year in which a net operating loss occurs.

41. Taxable income.—Under the provisions of section 443 (b) (1) if a corporation changes its accounting period, the taxable income for the short period beginning on the day after the close of the former taxable year and ending at the close of the day before the day designated as the first day of the new taxable year shall be placed on an annual basis by multiplying the amount thereof by 12 and dividing by the number of months in the short period. The tax shall be that same part of the tax computed on the annual basis which the number of months in the short period is of 12 months.

However, taxpayers may elect to compute the tax for the short period according to the method described below if an application to do so is filed not later than the date when (giving effect to any extensions granted) the return for the first full taxable year after the beginning of the short period must be filed. (Section 443 (b) (2).) For details concerning the form and content of such an application, consult your District Director.

If a proper application is filed, the taxpayer may elect to pay whichever tax under the following two methods is greater, in place of the short period tax under section 443 (b) (1): (1) Establish the actual taxable income for the 12 months beginning with the first day of the short period; then compute the tax on that income. Then determine as a short period tax that part of the tax so computed which bears the same proportion to the total tax so computed as the taxable income of the short period bears to the taxable income of the 12 months. However, a taxpayer which distributes substantially all its assets before the end of the 12-month period described above, shall employ in the above computation the 12-month period ending with the last day of the short period. (2) Compute a tax on the taxable income of the short period as if the short period were a full taxable year.

In annualizing income of a short period consisting of 7 days or more, by reason of a change to a 52–53 week fiscal year, the annualization is made on a daily basis as provided in section 441 (f) (2) (B) (iii).

TAX COMPUTATION INSTRUCTIONS

1. Normal tax.—Section 11 provides a normal tax for taxable years beginning before April 1, 1957, equal to 30 percent of taxable income. In the case of a taxable year beginning after March 31, 1957, the normal tax is equal to 25 percent of taxable income.

2. Surtax.—Section 11 provides a surtax equal to 22 percent of the amount by which the taxable income (computed without regard to the deduction, if any, provided in section 242 for partially tax-exempt interest) exceeds $25,000.

3. Exceptions.—The tax imposed by section 11 shall not apply to a corporation subject to a tax imposed by—(1) section 594 (relating to mutual savings banks conducting life insurance business), (2) subchapter L (section 801 and following, relating to insurance companies), (3) subchapter M (section 851 and following, relating to regulated investment companies), or (4) section 881 (a) (relating to foreign corporations not engaged in business in United States).

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4. Consolidated returns.—Section 1503 provides that the tax imposed under section 11 (c) or section 831 shall be increased for any taxable year for which an affiliated group of includible corporations makes or is required to make a consolidated return by 2 percent of the consolidated taxable income (computed without regard to the deduction, if any, provided in section 242 for partially tax-exempt interest). If the affiliated group includes one or more Western Hemisphere trade corporations or one or more regulated public utilities, the increase of 2 percent shall be applied only on the amount by which the consolidated taxable income of the affiliated group exceeds the portion (if any) of the consolidated taxable income attributable to the Western Hemisphere trade corporations and regulated public utilities included in such group.

5. Insurance companies other than life or mutual.—All insurance companies (other than life or mutual insurance companies), including mutual marine insurance companies and mutual fire insurance companies exclusively issuing either perpetual policies or policies for which the sole premium charged is a single deposit, are subject to the taxes imposed by section 11. The taxable income of such insurance companies is defined in section 832 and differs from the taxable income of other corporations. This paragraph does not apply to foreign insurance companies not carrying on an insurance business within the United States. (Section 831.)

6. Life insurance departments of mutual savings banks.—A mutual savings bank not having capital stock represented by shares, authorized under State law to conduct a life insurance business and which conducts such business in a separate department the accounts of which are maintained separately from the accounts of other departments of the bank is taxable under section 594 provided the life insurance department would, if it were treated as a separate corporation, qualify as a life insurance company under section 801.

The tax consists of the sum of—(1) a partial tax computed under section 11 upon the taxable income of the bank determined without regard to any items of gross income or deductions properly allocable to the business of the life insurance department; and (2) a partial tax upon the taxable income (computed as provided in section 803) of the life insurance department determined without regard to any items of gross income or deductions not properly allocable to such department, at the rates and in the manner provided in subchapter L with respect to life insurance companies.

Tax computation.—For the purpose of computing the first partial tax, a mutual savings bank should use Form 1120, filling in all applicable items (except lines 46 and 48, page 3) and schedules. The first partial tax should be computed by using lines 42 to 46 on page 3 of Form 1120. For the purpose of computing the second partial tax Form 1120L should be used. The first partial tax should be added to the second partial tax and the sum thereof entered on line 46 as the total income tax. Subtract from line 46 the sum of any credits on line 47 and enter on line 48 the balance of income tax. Form 1120L properly filled in should be attached to and made a part of Form 1120 and properly identified as an accompanying schedule. However, any Form 1120L so used need not be separately executed under the penalty of perjury.

7. Credit for taxes.—If, in accordance with section 901, a credit is claimed by a domestic corporation on line 47, page 3, on account of income, war profits and excess profits taxes paid or accrued to a foreign country or a possession of the United States, Form 1118 should be submitted with the return. In case credit is sought for taxes accrued but not paid, the District Director may require a bond on Form 1119 as a condition precedent to the allowance of the credit.

8. Resident foreign corporations.—Foreign corporations engaged in trade or business within the United States are subject to tax on their income from sources within the United States at the rates specified in section 11. (Section 882.)

9. Regulated investment companies.—For provisions relating to the method of taxation of regulated investment companies, see sections 851 through 855.

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PRINCIPAL BUSINESS ACTIVITY

In reporting the "Principal business activity," on page 1, give the one business activity that accounts for the largest percentage of "total receipts." "Total receipts" means gross sales (line 1, page 2), plus gross receipts (line 4, page 2), plus all other income (lines 7 through 14, page 2). State the broad field of business activity as well as the specific product or service, such as "Mining copper," "Manufacturing cotton broad woven fabric," "Wholesale food," or "Retail apparel." *Where receipts are derived from two or more of the detailed industry groups listed below, show only one which is the major source of receipts.* Use the appropriate group under the heading "FINANCE" if over 50 percent of "total receipts" consists of investment income.

Enter the "business group code number" on page 1 from the following list. Give the code for the specific industry group from which the largest percentage of "total receipts" is derived.

AGRICULTURE, FORESTRY, AND FISHERIES

Code

011 Farms and agricultural services.
081 Forestry, excluding logging camps.
091 Fisheries.

MINING

Metal mining:
101 Iron ore.
102 Copper, lead, zinc, gold, silver ores.
109 Other metal mining.

Coal mining:
111 Anthracite coal.
121 Bituminous coal and lignite.

Crude petroleum and natural gas extraction:
131 Crude petroleum, natural gas, and natural gasoline.
138 Oil- and gas-field contract services.

Nonmetallic mineral mining:
141 Stone, sand, gravel.
149 Other nonmetallic minerals, except fuels.

CONSTRUCTION

151 General contractors: buildings.
152 General contractors: other.
155 Special trade contractors.
159 Other construction.

MANUFACTURING

Beverages:
191 Bottled soft drinks and carbonated waters.
192 Malt liquors and malt.
194 Wines.
195 Distilled, rectified, blended liquors.

Food and kindred products:
200 Meat products.
201 Dairy products, except market milk dealers.
202 Canning and preserving fruits, vegetables, and seafoods.
203 Grain-mill products, except cereal preparations.
204 Bakery products.
205 Sugar, cane and beet.
206 Confectionery, related products.
207 Cereal preparations.
208 Other food preparations and kindred products, including manufactured ice and flavoring sirups.

Tobacco manufacturers:
212 Cigars.
219 Other.

Textile-mill products:
220 Yarn and thread mills (cotton, wool, silk, and synthetic fiber).
221 Broad-woven fabric mills (woolen and worsted).
222 Broad-woven fabric mills (cotton).
223 Narrow fabrics and other small wares mills (cotton, wool, silk, and synthetic fiber).
224 Knitting mills.
225 Dyeing and finishing textiles, except knit goods.
226 Carpets, rugs, and other floor coverings.
227 Hats, except cloth and millinery.
228 Other textile goods, including rayon and silk broad-woven fabric mills.

Apparel and other finished products made from fabrics and similar materials:
231 Men's and boys' clothing and furnishings, except fur and rubber.
233 Women's clothing, and children's and infants' wear, except fur and rubber.
235 Millinery.
236 Fur goods.
237 Other apparel and accessories including gloves, robes, and raincoats.
238 Other fabricated textile products including curtains, bags, and awnings.

Lumber and wood products (except furniture):
241 Logging camps, logging contractors, sawmills, and planing mills.
243 Millwork, plywood, and prefabricated structural wood products.
244 Wooden containers.
249 Other wood products.

Furniture and fixtures (wood or metal):
251 Furniture—household, office, public building, and professional.
254 Partitions, shelving, lockers; and office and store fixtures.

Code

256 Window and door screens, shades and venetian blinds.
259 Other, including restaurant furniture.

Paper and allied products:
261 Pulp, paper, and paperboard mills.
266 Paper bags and paperboard containers and boxes.
269 Pulp goods, and other converted paper products.

Printing, publishing, and allied industries:
271 Newspapers.
272 Periodicals.
273 Books.
275 Commercial printing, including lithographing.
278 Other publishing, bookbinding, and service industries for the printing trade.

Chemicals and allied products:
280 Industrial inorganic chemicals.
281 Industrial organic chemicals, including plastic materials, synthetic rubber, and synthetic fibers.
282 Drugs and medicines.
283 Soap and glycerin, cleaning and polishing preparations, and sulfonated oils and assistants.
284 Paints, varnishes, lacquers, color pigments, etc.
285 Perfumes, cosmetics, and other toilet preparations.
286 Fertilizers.
287 Vegetable and animal oils and fats, except edible cooking oils.
288 Other chemicals, including gum and wood chemicals.

Products of petroleum and coal:
291 Petroleum refining.
299 Other.

Rubber products:
301 Tires and inner tubes.
309 Other rubber products.

Leather and leather products:
311 Leather: tanned, curried, etc.
314 Footwear (except rubber).
319 Other leather goods.

Stone, clay, and glass products:
321 Glass and glass products.
324 Cement (hydraulic).
325 Structural clay products.
326 Pottery and related products.
327 Concrete, gypsum, and plaster products, including lime.
328 Cut-stone and stone products.
329 Abrasive, asbestos, and other nonmetallic mineral products.

Primary metal industries:
331 Blast furnaces, steel works, and rolling mills.
332 Iron and steel foundries.
333 Primary and secondary smelting, refining, rolling, drawing, and alloying of nonferrous metals and alloys.
336 Nonferrous foundries.
338 Other primary metal industries, including iron and steel forgings and wire drawing.

Fabricated metal products (except ordnance, machinery, and transportation equipment):
340 Tin cans and other tinware.
341 Cutlery, hand tools, and general hardware.
342 Heating apparatus (except electric) and plumbers' supplies.
343 Fabricated structural metal products, including boiler shop products.
345 Metal stamping, coating, and engraving.
346 Lighting fixtures.
347 Fabricated wire products.
348 Other fabricated metal products, including screw machine products.

Machinery (except electrical):
350 Engines and turbines, except automotive, aircraft, and railway.
351 Agricultural mchy. and tractors.
352 Construction and mining machinery and equipment.
353 Metalworking machinery including machine tools.
354 Special-industry machinery.
355 General industry machinery and equipment.

Code

356 Office and store machines and devices.
357 Service industry and household machines.
358 Other machinery parts, and machine shops.

Electrical machinery, equipment, and supplies:
361 Electrical generating, transmission, distribution and industrial apparatus.
362 Electrical appliances.
363 Insulated wire and cable.
364 Electrical equipment for motor vehicles, aircraft, and railway locomotives and cars.
365 Electric lamps.
366 Radio, radar, and television equipment, and phonographs (except radio tubes).
367 Other communication equipment and related products.
368 Miscellaneous electrical products, including batteries.

Transportation equipment (except electrical and motor vehicle equipment):
372 Aircraft and parts, including aircraft engines.
373 Ship and boat building, repairing.
374 Railroad equipment, including locomotives, and street cars.
375 Motorcycles, bicycles and parts.
379 Other transportation equipment.

Motor vehicles and motor vehicle equipment (except electrical equipment):
381 Motor vehicles, including bodies and truck trailers.
384 Motor vehicle parts and accessories, including engines, and trailers for passenger cars.

Ordnance and accessories:
391 Guns, and related equipment including small arms.
396 Small arms ammunition.
399 Other.

Professional, scientific, and controlling instruments; photographic and optical goods:
401 Professional, scientific, and controlling instruments, including photographic and optical goods.
407 Watches, clocks, and clockwork-operated devices.

Other manufacturing industries:
411 Jewelry (precious metal), silverware and plated ware.
412 Costume jewelry (except precious metal).
413 Fabricated plastic products, except plastic materials.
419 Other, including matches.

TRANSPORTATION, COMMUNICATION, AND OTHER PUBLIC UTILITIES

Transportation:
461 Railroads, railway express.
462 Urban, suburban, and interurban railways (with and without busses).
463 Trucking and warehousing.
464 Other motor vehicle transportation, including taxicabs and busses.
465 Petroleum pipelines.
466 Water transportation.
467 Air transportation.
468 Services, supplementary to transportation.
469 Other transportation.

Communication:
471 Telephone (wire or radio).
472 Telegraph (wire and radio).
473 Radio broadcasting and television.
479 Other communication.

Electric and gas utilities:
481 Electric light and power.
482 Gas production and distribution, except natural gas production.

Other public utilities:
491 Water supply.
499 Other public utilities.

WHOLESALE TRADE

501 Commission merchants.

Other wholesalers:
510 Food, including milk.
511 Alcoholic beverages.
512 Apparel and dry goods.
513 Chemicals, paints, and drugs.
514 Hardware, electrical goods, plumbing and heating equipment, and supplies.
515 Lumber, millwork, and construction materials.

Code

516 Machinery, equipment, and supplies.
517 Farm products—raw materials.
518 Other wholesalers.

RETAIL TRADE

521 Food, including milk.

General merchandise:
531 Department stores.
532 Mail-order houses.
533 Variety stores.
539 Other general merchandise.
541 Apparel and accessories.
551 Furniture, home furnishings, etc.

Automotive dealers, dealers in parts and accessories, and filling stations:
561 Automobiles and trucks.
563 Parts, accessories, tires, batteries.
564 Filling stations.
571 Drug stores.
581 Eating and drinking places.

Lumber, building materials, and hardware:
591 Lumber and building materials.
595 Hardware and farm implements.

Other retail trade:
601 Liquor stores.
607 Jewelry stores.
608 Other retail stores.

FINANCE, INSURANCE, AND REAL ESTATE

Banks and trust companies:
621 Banks and trust companies (excluding mutual savings banks).
622 Mutual savings banks.

Credit agencies other than banks:
632 Savings and loan associations.
634 Personal credit agencies.
635 Business credit agencies.
638 Other credit institutions.

Holding and other investment companies:
641 Operating-holding companies (companies which derived less than 90 percent but more than 50 percent of "total receipts" from investments).
642 Other investment and holding companies (companies which derived 90 percent or more of total receipts from investments).
651 Security and commodity brokers, dealers, exchanges, and services.

Insurance carriers:
661 Life insurance.
662 Mutual, except life or marine, and except mutual fire insurance companies issuing perpetual policies.
669 Other.
671 Insurance agents, brokers, and service

Real estate:
681 Real estate owners and operators, including lessors of buildings (excludes developers of real property and lessors of real property other than buildings).
683 Developers of real property, including traders on own account.
684 Agents, brokers, managers, etc.
685 Title abstract companies.
689 Other real estate.

Lessors of real property, except buildings:
691 Agricultural, forest, and similar properties.
692 Mining, oil, and similar properties.
693 Railroad property.
694 Public-utility property.
699 Other real property except buildings.

SERVICES

701 Hotels, rooming and boarding houses, camps.

Personal services:
721 Laundries, cleaning and dyeing.
723 Photographic studios including commercial photography.
729 Other personal service.

Business services:
731 Advertising.
739 Other business services.
751 Automobile repair services and garages.
761 Other repair services.

Motion pictures:
781 Motion picture production, distribution and service industries.
783 Motion picture theaters.
791 Amusement and recreation services except motion pictures.
801 Other services, including schools.

cnr—16—72859-1

FORM 1120

U. S. Treasury Department
Internal Revenue Service

U. S. CORPORATION INCOME TAX RETURN

FOR CALENDAR YEAR 1956

or other taxable year beginning ----------, 1956,
and ending , 195

1956

Do not write in space below

PLEASE TYPE OR PRINT PLAINLY

Name

Number and street

City or town, postal zone number, county, State

A. Date incorporated ----------

B. Place incorporated ----------

C. Business group code number and principal business activity (See page 8 of Instructions)

D. Did the corporation at any time during the taxable year own 50 percent or more of the voting stock of another domestic corporation? ☐ Yes ☐ No

Did any corporation, individual, partnership, trust, or association at any time during the taxable year own 50 percent or more of the corporation's voting stock? ☐ Yes ☐ No

(If either answer is "Yes," attach separate schedule showing:
(1) name and address;
(2) percentage of stock owned;
(3) date stock was acquired; and
(4) the District Director's office in which the income tax return of such corporation, individual, partnership, trust, or association for the last taxable year was filed.)

E. If corporation is a cooperative association, check whether:
(1) ☐ farmers' marketing or a farmers' purchasing cooperative association,
(2) ☐ consumers' cooperative association, or
(3) ☐ other cooperative association.

F. Check if taxpayer is a sole proprietorship ☐ or partnership ☐ electing under section 1361 to be taxed as a corporation?

G. Did the corporation, during the taxable year, have any contracts or subcontracts subject to the Renegotiation Act of 1951? ☐ Yes ☐ No

(If answer is "Yes," state the approximate aggregate gross dollar amount billed during the taxable year under all such contracts and/or subcontracts.

(See General Instruction G–(4).) $----------

H. Did the corporation pay (or agree to pay) anyone other than an employee for assistance in the preparation of this return? ☐ Yes ☐ No

If answer is "Yes," enter his name

I. Enter amount of income (or deficit) from:
(a) item 31, page 1, Form 1120, 1954 $----------
(b) line 32, page 3, Form 1120, 1955 ----------

J. Is this a consolidated return? (See Instruction I) ☐ Yes ☐ No

K. Is taxpayer a personal holding company? ☐ Yes ☐ No
(If answer is "Yes," Schedule 1120 PH must be attached.)

L. Did the corporation make a return of information on Forms 1096 and 1099 or Form W–2 for the calendar year 1955? (See General Instruction G–(1)) ☐ Yes ☐ No

FILL IN REMAINDER OF THIS PAGE AFTER COMPLETING PAGES 2 AND 3

▶ Enter amounts shown on page 2, if none write "None": line 1, $---------- line 4, $---------- line 15, $----------

COMPUTATION OF TAX DUE OR REFUND

1. Total income tax (line 50, page 3)		$
2. Credits for amounts paid on 1956 income tax:		
A. Tax paid with application for extension of time in which to file	$	
B. Payments and credits on 1956 Declaration of Estimated Tax		$
3. If tax (line 1) is larger than payments (line 2), the balance is **TAX DUE.** **Enter such balance here** ⟶ (**For installment payments see Instruction D.**)		$
4. If payments (line 2) are larger than tax (line 1) **Enter the OVERPAYMENT here** ⟶		$
5. Enter amount of line 4 you want: Credited on 1957 estimated tax $		
Refunded $		

SIGNATURE AND VERIFICATION (See Instruction E)

I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct, and complete return.

CORPORATE SEAL

---------- (Date) ---------- (Signature of officer) ---------- (Title)

I declare under the penalties of perjury that I prepared this return for the taxpayer named herein; and that this return (including any accompanying schedules and statements) is, to the best of my knowledge and belief, a true, correct, and complete return based on all the information relating to the matters required to be reported in this return of which I have any knowledge.

---------- (Date) ---------- (Individual or firm signature) ---------- (Address)

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Instruction and Line No.

GROSS INCOME

1. Gross sales (where inventories are an income-determining factor) $_____; Less: Returns and allowances $_____ $_____

2. Less: Cost of goods sold (Schedule A) _____

3. Gross profit from sales $_____

4. Gross receipts (where inventories are not an income-determining factor) $_____

5. Less: Cost of operations (Schedule B) _____

6. Gross profit where inventories are not an income-determining factor _____

7. Dividends (Schedule C) _____

8. Interest on loans, notes, mortgages, bonds, bank deposits, etc. _____

	Gross Amount of Interest	Less: Amortizable Bond Premium	
9. Interest on corporation bonds, etc.	$	$	
10. Interest on obligations of the United States, etc.:			
(a) Issued prior to March 1, 1941—(1) U. S. savings bonds and Treasury bonds owned in excess of the principal amount of $5,000, and (2) obligations of an instrumentality of the U. S.			
(b) Obligations issued on or after March 1, 1941, by the U. S. or any agency or instrumentality thereof.			

11. Rents _____

12. Royalties _____

13. Gains and losses (from separate Schedule D):

(a) Net short-term capital gain reduced by any net long-term capital loss _____

(b) Net long-term capital gain reduced by any net short-term capital loss _____

(c) Net gain (or loss) from sale or exchange of property other than capital assets _____

14. Other income (itemize):

_____

_____

_____

15. Total income in lines 3, and 6 to 14, inclusive $_____

DEDUCTIONS

16. Compensation of officers (Schedule E) $_____

17. Salaries and wages (not deducted elsewhere) _____

18. Rents _____

19. Repairs (Do not include cost of improvements or capital expenditures) _____

20. Bad debts (Schedule F) _____

21. Interest _____

22. Taxes (Schedule G) _____

23. Contributions or gifts paid (Schedule H) _____

24. Losses by fire, storm, shipwreck, or other casualty, or theft (Attach schedule) _____

25. Amortization (Schedule I)		
26. Depreciation (Schedule J)		
27. Depletion of mines, oil and gas wells, timber, etc. (Attach schedule)		
28. Advertising (Attach schedule)		
29. Amounts contributed under:		
(a) Pension, annuity, stock bonus, or profit-sharing plans (Attach schedule)		
(b) Other employee benefit plans (Attach schedule)		
30. Other deductions (Schedule K)		
31. Total deductions in lines 16 to 30, inclusive		
32. Taxable income before net operating loss deduction and special deductions		$
33. Less: Net operating loss deduction (Attach schedule)		
34. Taxable income before special deductions		$
SPECIAL DEDUCTIONS		
35. Deduction for partially tax-exempt interest (net amount entered on line 10 (a))	$	
36. Dividends-received deductions:		
(a) 85% of column 2, Schedule C	$	
(b) 62.115% of column 3, Schedule C		
(c) 85% of dividends received from certain foreign corporations		
37. Total dividends-received deductions (sum of lines 36 (a), (b), and (c) but not to exceed 85 percent of the excess of line 32 over the sum of lines 35 and 39) (See instructions in case of net operating loss)		
38. Deduction for dividends paid on certain preferred stock of public utilities (See instructions in case of net operating loss)		
39. Deduction for Western Hemisphere trade corporations (See instructions in case of net operating loss)		
40. Total special deductions		$
41. Line 34 less line 40 (Enter income or loss here and on line 42(b))		$

TAX COMPUTATION FOR CALENDAR YEAR 1956 AND TAXABLE YEARS ENDING ON OR BEFORE MARCH 31, 1957
For other taxable years attach Schedule 1120 FY (See tax computation instructions)

42. (a) Amount of line 35, $ ____ (b) plus amount of line 41, $ ____ Enter total here →		$
43. If amount of line 42 is:		
(a) **Not over $25,000—**		
Enter 30 percent of line 42 (32 percent if a consolidated return)		$
(b) **Over $25,000—**		
Enter 52 percent of line 42 (54 percent if a consolidated return)	$	
Subtract $5,500, and enter difference	5,500.00	$
44. Adjustment for partially tax-exempt interest. Enter 30 percent of line 35, but not in excess of 30 percent of line 42		
45. Normal tax and surtax (line 43 less line 44)		$
46. Income tax (line 45, or line 20 of separate Schedule D)	$	
47. Credit allowed a domestic corporation for income taxes paid to a foreign country or United States possession (submit Form 1118)		
48. Balance of income tax (line 46 less line 47)		$
49. Tax under section 541 of the Internal Revenue Code (from Schedule 1120 PH)		
50. Total income tax (line 48 plus line 49). **Enter here and on line 1, page 1**		$

The information required in Schedules A through K on pages 5 and 6 may be furnished on separate attachments if all the required facts are included and the necessary figures are carried forward to the appropriate lines on pages 2 and 3. If separate attachments are used, detach and discard pages 5 and 6.

Name and Address (Number, street, city, postal zone, county, State)

Schedule A.—COST OF GOODS SOLD. (See Instruction 2)
(Where inventories are an income-determining factor)

1. Inventory at beginning of year	$	
2. Merchandise bought for manufacture or sale		
3. Salaries and wages		
4. Other costs per books (Attach schedule)		
5. Total	$	
6. Less: Inventory at end of year		
7. Cost of goods sold (Enter here and on line 2, page 2)	$	

Schedule B.—COST OF OPERATIONS
(Where inventories are not an income-determining factor)

1. Salaries and wages	$
2. Other costs (to be detailed):	
(a)	
(b)	
(c)	
(d)	
(e)	
3. Total (Enter here and on line 5, page 2)	$

Schedule C.—INCOME FROM DIVIDENDS

1. Name of Declaring Corporation	2. Domestic Corporations Taxable Under Chapter 1, Internal Revenue Code*	3. Certain Preferred Stock of Public Utilities Taxable Under Chapter 1, Internal Revenue Code	4. Foreign Corporations	5. Other Corporations
	$	$	$	$
Totals	$	$	$	$
Total of columns 2, 3, 4, and 5 (Enter here and on line 7, page 2)				$

*Except (a) dividends on certain preferred stock of public utilities, which should be entered in column 3; and (b) dividends, which should be entered in column 5, received from China Trade Act corporations, from corporations to which section 931 applies, and from corporations exempt from tax under sections 501 and 521.

Schedule D.—Separate Schedule D (Form 1120) should be used in reporting sales or exchanges of property and filed with this return (See Instruction 13)

Schedule E.—COMPENSATION OF OFFICERS

1. Name and Address of Officer	2. Official Title	3. Time Devoted to Business	Percentage of Corporation's Stock Owned		6. Amount of Compensation
			4. Common	5. Preferred	
Total compensation of officers (Enter here and on line 16, page 2)					

Schedule F.—BAD DEBTS. (See Instruction 20)

1. Taxable Year	Amount of Notes and Accounts Receivable Outstanding at—		4. Taxable (or Net) Income Reported	5. Sales on Account	6. Bad Debts of Corporation if No Reserve Is Carried on Books	If Corporation Carries a Reserve	
	2. Beginning of Year	3. End of Year				7. Gross Amount Added to Reserve	8. Amount Charged Against Reserve
1953							
1954							
1955							
1956							

NOTE: Securities which are capital assets and which became worthless within the taxable year should be reported in separate Schedule D.

Schedule G.—TAXES. (See Instruction 22)

Explanation	Amount
	$
Total (Enter here and on line 22, page 2)	$

Schedule H.—CONTRIBUTIONS OR GIFTS PAID (See Instruction 23)

Name and Address of Organization	Amount
	$
Contributions carryover (See instructions)	
Total contributions (Enter here and on line 23, page 2, subject to 5 percent limitation)	$

Schedule I.—AMORTIZATION. (See Instruction 25)

1. Describe Facilities or Expenditures Being Amortized	2. Date Acquired, Completed, or Expended	3. Amount Being Amortized	4. Amortization Deducted in Prior Years	5. Amortization Period (Number of months)	6. Amortization This Year
		$	$		$

1. Total
2. Less: Amount of amortization claimed in Schedules A and B and elsewhere on return
3. Balance—Enter here and on line 25, page 3 $

Schedule J.—DEPRECIATION. (See Instruction 26)

1. Kind of Property (if buildings, state material of which constructed). Exclude Land and Other Nondepreciable Property. List Assets in Groups by Depreciation Method	2. Date Acquired	3. Cost or Other Basis	4. Depreciation Allowed (or allowable) in Prior Years	5. Method	6. Rate (%) or Life (years)	7. Depreciation This Year
		$	$			$

1. Total
2. Less: Amount of depreciation claimed in Schedules A and B and elsewhere on return
3. Balance—Enter here and on line 26, page 3 $

SUMMARY OF SCHEDULES I AND J

Part A.—DEPRECIATION		Part B.—AMORTIZATION	
1. Straight line method	$	7. Emergency facilities	$
2. Declining balance method		8. Grain storage facilities	
3. Sum of the years-digits method		9. Research or experimental expenditures	
4. Based on units of production		10. Exploration and development expenditures	
5. Other methods		11. Organizational expenditures	
		12. Trademark and trade name expenditures	
6. Total depreciation claimed	$	13. Total amortization claimed	$

Schedule K.—OTHER DEDUCTIONS. (See Instruction 30)

	$		$
		Total (Enter here and on line 30, page 3)	$

*PO 16—72782-1

Schedule L.—BALANCE SHEETS (See Instructions)

ASSETS	Beginning of Taxable Year Amount	Beginning of Taxable Year Total	End of Taxable Year Amount	End of Taxable Year Total
1. Cash		$		$
2. Notes and accounts receivable	$		$	
(a) Less: Reserve for bad debts				
3. Inventories:				
(a) Other than last-in, first-out				
(b) Last-in, first-out				
4. Prepaid expenses and supplies				
5. Investments in governmental obligations: (a) Obligations of a State, Territory, or a possession of the United States, or any political subdivision of any of the foregoing, or of the District of Columbia				
(b) Obligations of the United States and its instrumentalities				
6. Other investments (Attach schedule)				
7. Buildings and other fixed depreciable assets				
(a) Less: Accumulated amortization and depreciation				
8. Depletable assets				
(a) Less: Accumulated depletion				
9. Land (net of any amortization)				
10. Intangible assets (amortizable only)				
(a) Less: Accumulated amortization				
11. Other assets (Attach schedule)				
12. Total Assets				
LIABILITIES AND CAPITAL				
13. Accounts payable				
14. Bonds, notes, and mortgages payable (maturing less than one year from date of balance sheet)				
15. Accrued expenses (Attach schedule)				
16. Bonds, notes, and mortgages payable (maturing more than one year from date of balance sheet)				
17. Other liabilities (Attach schedule)				
18. Capital stock: (a) Preferred stock				
(b) Common stock				
19. Paid-in or capital surplus				
20. Surplus reserves (Attach schedule)				
21. Earned surplus and undivided profits				
22. Total Liabilities and Capital		$		$

Schedule M.—RECONCILIATION OF TAXABLE INCOME AND ANALYSIS OF EARNED SURPLUS AND UNDIVIDED PROFITS

1. Earned surplus and undivided profits at end of preceding taxable year (Schedule L)	$	9. Total distributions to stockholders charged to earned surplus during the taxable year: (a) Cash	$
2. Taxable income before net operating loss deduction and special deductions (line 32, page 3)		(b) Stock of the corporation	
3. Nontaxable interest on: (a) Obligations of a State, Territory, or a possession of the United States, or any political subdivision of any of the foregoing, or of the District of Columbia		(c) Other property	
		10. Contributions in excess of 5% limitation	
		11. Federal income and excess profits taxes	
(b) Obligations of the United States issued on or before Sept. 1, 1917; all postal savings bonds		12. Income taxes of foreign countries or United States possessions if claimed as a credit in whole or in part on line 47, page 3	
		13. Insurance premiums paid on the life of any officer or employee where the corporation is directly or indirectly a beneficiary	
4. Other nontaxable income (Attach schedule)		14. Unallowable interest incurred to purchase or carry tax-exempt interest obligations	
5. Charges against surplus reserves deducted from income in the return (Attach schedule)		15. Excess of capital losses over capital gains	
		16. Additions to surplus reserves (Attach schedule)	
6. Adjustments for tax purposes not recorded on books (Attach schedule)		17. Other unallowable deductions (Attach schedule)	
		18. Adjustments for tax purposes not recorded on books (Attach schedule)	
7. Sundry credits to earned surplus (Attach schedule)		19. Sundry debits to earned surplus (Attach schedule)	
8. Total of lines 1 to 7	$	20. Total of lines 9 to 19	$
		21. Earned surplus and undivided profits at end of the taxable year (Schedule L) (Line 8 less line 20 of Schedule M)	$

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Income Tax Guides

for United States Citizens Abroad

U. S. Treasury Department
Internal Revenue Service
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FOREWORD

If you are a United States citizen and reside or travel outside the United States, you will be interested in the contents of this pamphlet. It has been prepared by the Internal Revenue Service and sets forth guides which should assist you in the preparation of your Federal income tax return.

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INCOME TAX GUIDES

For U. S. Citizens Abroad

Section 1. Purpose

The purpose of this pamphlet is to provide assistance and guidance to United States citizens, residing or physically present in foreign countries, in the preparation of their Federal income tax returns.

Section 2. Scope

The information set forth herein relates only to the tax problems peculiar to United States citizens residing or physically present in foreign countries for taxable years beginning on or after January 1, 1951, and is intended to supplement information issued by the Internal Revenue Service for taxpayers generally. Therefore, in the preparation of their Federal income tax returns and other forms, such citizens should follow the instructions issued in connection with the forms insofar as they are applicable. The guides set forth in this pamphlet do NOT apply to (1) taxable years beginning prior to January 1, 1951, except to the extent hereinafter noted; (2) resident aliens temporarily absent from the United States; and (3) citizens performing civilian or military services for the United States or any agency or instrumentality thereof. A resident alien temporarily absent from the United States is, in general, taxable on income derived from all sources. Compensation for personal services performed by a citizen as an employee of the United States, or any agency or instrumentality thereof, is required to be included in gross income regardless of where the services are performed. (For Federal income tax purposes, the nonappropriated fund activities of the Armed Forces, such as the Army and Air Force Exchange Service, the Navy Exchange, officers' and enlisted men's clubs and other similarly organized activities under the jurisdiction of the Armed Forces, are agencies of the United States.)

Section 3. Applicability of tax to United States citizens abroad

.01 *Taxable years beginning on or after January 1, 1954, and ending after August 16, 1954.* The right of the United States to impose income tax upon its citizens, wherever resident, is based on citizenship. *United States citizens residing or physically present in foreign countries are taxable in the same manner as those residing within the United States, unless they can satisfy the requirements of section 911 of the Internal Revenue Code of 1954.* If the citizen meets either the "foreign residence" test or the "presence in a foreign country" test provided by section 911, he is entitled to exclude from gross income amounts received as "earned income" for personal services rendered outside the United States.

.02 *Taxable years beginning on or after January 1, 1951, and fiscal years ending in 1954.* Section 116 (a) of the Internal Revenue Code of 1939, as amended by the Revenue Act of 1951 and the Technical Changes Act of 1953, is, in substance, identical with section 911 of the 1954 Code, except that in the definition of earned income, in a situation where *both* personal services *and capital* are material income-producing factors, the limitation is 20 percent, as contrasted to 30 percent under the present law.

Section 4. **Exclusion under section 911 (a) (1) based upon bona fide residence in foreign countries**

.01 *General.* A United States citizen is entitled to exclude from gross income under section 911 (a) (1) of the 1954 Code, his "earned income" (as defined in section 7 of this pamphlet) if—

(a) He has been a bona fide resident of a foreign country or countries for an uninterrupted period which includes an entire taxable year; *and*

(b) Such income is—

(1) Received for personal services rendered outside the United States;

(2) Attributable to such uninterrupted period; *and*

(3) Not paid by the United States or any agency or instrumentality thereof.

All of these requirements must be met by the citizen in order to claim the exclusion from gross income. For example, a privately employed citizen was a bona fide resident of a foreign country for an uninterrupted period, as hereinafter defined, beginning August 1, 1952, and ending June 30, 1954, and files his returns on the calendar year basis. He is entitled to exclude from gross income the amount of compensation received for personal services rendered abroad during such period. (These same rules are also applicable to taxable years beginning on or after January 1, 1951, which fall within the scope of the 1939 Code. See par. .04 of this section for rules applicable to prior taxable years.)

.02 *Bona fide foreign residence.* No specific rule can be stated for determining whether a United States citizen is a bona fide resident of a foreign country, since it involves his intentions with respect to the length and nature of his stay. The intention of the taxpayer to establish a bona fide residence in a foreign country may be evidenced by words and acts, but where they conflict, more emphasis will be placed on the acts than on the words. Generally, a citizen who goes to a foreign country for a definite purpose, which is of a temporary nature, and who returns to the United States after it has been accomplished, is not a bona fide resident of such foreign country. However, if his purpose is of such a nature that an extended and indefinite stay may be necessary for its accomplishment, and to that end he establishes residence in the foreign country, he may be a bona fide resident of such foreign country for Federal income tax purposes. For example, American citizens who go to foreign countries to work on construction projects, which are obviously of a temporary nature, cannot be classified as bona fide residents of such countries for the purposes of section 911 (a) (1) of the 1954 Code, even though they remain abroad for an entire taxable year or longer. (For information as to whether the "earned income" attributable to such personal services rendered abroad is excludable under the "presence in a foreign country" rule, see sec. 5 of this pamphlet.) However, citizens of the United States who are permanently assigned to foreign divisions of business concerns and who establish and maintain their residence in a foreign country or countries for a period of indefinite duration may be classified as bona fide residents of a foreign country or countries for the purposes of section 911 (a) (1) of the 1954 Code.

.03 *Temporary absence from foreign country.* Once bona fide residence in a foreign country or countries has been established, temporary visits to the United States or elsewhere on vacation or business trips will not necessarily deprive the citizen of his STATUS as a bona fide resident of a foreign country. (But see sec. 8 of this pamphlet for the effect of such

trips on source of income.) Such absences must not be unreasonable in length, there must be full intention on the part of the individual to return to his foreign post, and there must be substantial evidence that the foreign residence has not been relinquished. Long periods of time spent in the United States or any possessions thereof would be considered as evidence that the citizen had relinquished bona fide residence in a foreign country.

.04 *Prior law relating to "bona fide foreign residence."* For taxable years beginning on or after January 1, 1951, which are subject to the provisions of the 1939 Code, the law in effect with respect to the exclusion under the "bona fide foreign residence" rule was, in substance, identical with such exclusion under section 911 (a) (1) of the 1954 Code, except for the revision from 20 percent to 30 percent regarding the definition of "earned income." (See sec. 7.02 of this pamphlet.) Under the law in effect prior to January 1, 1951 (and after 1942), a United States citizen was permitted to exclude earned income from sources outside the United States if he had been a bona fide resident of a foreign country or countries "during the entire taxable year." Therefore, a citizen who established residence in a foreign country in the course of the taxable year was not entitled to such exclusion for such taxable year. However, if he had been a bona fide resident of a foreign country or countries for a period of at least two years before the date on which he ceased to be resident of such foreign country or countries, he could exclude from gross income, for the year in which he relinquished his foreign residence, earned income from sources outside the United States attributable to that part of such period of foreign residence before the date of relinquishment. However, under section 116 (a) (1) of the 1939 Code, as amended by the Revenue Act of 1951, a citizen who was a bona fide resident of a foreign country or countries for an uninterrupted period which included an entire taxable year is entitled to exclude from gross income the amount of compensation received on or after January 1, 1951, for personal services rendered abroad, attributable to such uninterrupted period. For example, a privately employed citizen, who files his returns on the calendar-year basis, was a bona fide resident of a foreign country for an uninterrupted period beginning July 1, 1949, and ending October 31, 1951. Under section 116 (a) (1) of the 1939 Code, as amended by the Revenue Act of 1951, the taxpayer is entitled to exclude the "earned income" attributable to such period and received on or after January 1, 1951, since his period of bona fide foreign residence includes an entire taxable year (1950).

Section 5. Exclusion under section 911 (a) (2) based on presence in a foreign country

.01 *General.* A citizen of the United States may exclude from gross income under section 911 (a) (2) of the 1954 Code, amounts constituting "earned income" (as defined in sec. 7 of this pamphlet) if—

(a) He is present in a foreign country or countries during a total of at least 510 full days during any period of 18 consecutive months; *and*

(b) Such earned income is—

(1) Received for personal services rendered outside the United States;
(2) Attributable to such 18-month period; *and*
(3) Not paid by the United States or any agency or instrumentality thereof.

All of these requirements must be met in order for the citizen to qualify for the exclusion. The excluded gross income may be attributable to any 18-consecutive-month period during which the citizen is in a foreign

country or countries for 510 full days. For example, a citizen of the United States, privately employed, arrives in a foreign country on August 3, 1953, and remains there continuously until his departure therefrom on December 27, 1954, a period during which he is present in the foreign country 510 full days. The citizen may exclude from gross income the "earned income" from sources without the United States that is attributable to any 18-consecutive-month period which includes the above 510 full days, notwithstanding that the citizen was actually present in the foreign country for a period of less than 18 months. For example, the exclusion would be applicable but not limited to the following 18-month periods: an 18-month period which commences August 4, 1953, and ends February 3, 1955; an 18-month period which commences June 28, 1953, and ends December 27, 1954; or an 18-month period which commences July 1, 1953, and ends December 31, 1954.

.02 *Limitation on amount excludable.* The amount excluded from gross income under the provisions of section 911 (a) (2) of the 1954 Code shall not exceed $20,000 in those cases in which the 18-month period includes the entire taxable year. In those cases in which the 18-month period does not include the entire taxable year, the $20,000 annual limitation shall be prorated in the following manner: The amount excluded from gross income under such section for such taxable year shall not exceed an amount which bears the same ratio to $20,000 as the number of days in the part of the taxable year within the 18-month period bears to the total number of days in such year. For example, a taxpayer was present in a foreign country 510 full days during the 18-month period ending June 30, 1954, during which the requirements of section 911 (a) (2) of the 1954 Code were satisfied. During the calendar year 1953 he received $26,000, and during the period January 1, 1954, through June 30, 1954, he received $13,000 as salary. If the taxpayer reported on a calendar year basis, only $20,000 of the $26,000 received during 1953 would be excludable, and only $9,917.81 (181/365 of $20,000) would be excludable in 1954. The balance of $6,000 would be includible in the taxpayer's gross income for 1953 and $3,082.19 for 1954. (There is no limitation upon the amount of "earned income" which may be excluded from gross income under the "bona fide foreign residence" rule.)

.03 *Computation of 510 full days presence in foreign country.* In computing the minimum of 510 full days presence in a foreign country or countries, all separate periods of such presence during the 18-month period are to be aggregated. For the purpose of section 911 (a) (2) of the 1954 Code, if an individual travels over international waters from one place in a foreign country to another place in the same country, or to a place in another foreign country, and if such travel extends over a period of less than 24 hours and does not involve travel within the United States or any possession thereof, such individual shall not be deemed outside a foreign country during the period of such travel. For example, a citizen of the United States, privately employed, departs by aircraft from Tokyo, Japan, at 11 p. m. on July 23 and arrives in Manila, Philippines, at 8 a. m. on the following morning. The citizen, for the purpose of section 911 (a) (2) of the 1954 Code, will not be deemed outside a foreign country during the period of travel from Tokyo to Manila, inasmuch as such period of travel is less than 24 hours. On the other hand, if a privately employed citizen of the United States departs by vessel from Genoa, Italy, on August 20 and arrives in Naples, Italy, on August 22, the citizen, for the purpose of section 911 (a) (2) of the 1954 Code, will be deemed outside a foreign country for a period of 3 days

from August 20 to August 22. The 510 full days need not be consecutive, but may be interrupted by periods during which the citizen is not present in a foreign country. Time spent in a foreign country in the employment of the United States Government will count toward satisfaction of the 510 full-day requirement, even though amounts paid by such Government are not excludable from gross income. The period during which the citizen was present in a foreign country, or countries, prior to January 1, 1951, may be taken into account in determining whether such citizen is present in a foreign country or countries during at least 510 full days during any 18-month period. However, the income attributable to the period prior to January 1, 1951, is not excludable from gross income if received before such date, since the exclusion is applicable only to taxable years beginning on or after January 1, 1951.

.04 *Computation of 18-month period.* The 18-consecutive-month period may be part of a longer period of presence in a foreign country and need not commence with the citizen's day of arrival therein or terminate with the day of his departure therefrom. For example, a citizen who arrives in a foreign country on January 1, 1953, and finally departs therefrom on February 14, 1955, may not be present in such country for 510 full days during the 18-month period commencing with January 1, 1953, and ending with the close of June 30, 1954, because of his visits to the United States during such period. However, he may satisfy the 510 full-day requirement during the 18-month period commencing with February 15, 1953, and ending with the close of August 14, 1954. In such event, the exclusion will apply to income attributable to the latter period, but not to income attributable to the period commencing with January 1, 1953, and ending with the close of February 14, 1953. The exclusion is applicable as long as there is a continuing period throughout which the citizen satisfies the requirement of 510 full days presence in a foreign country or countries during an 18-month period.

.05 *Definitions.* The term "full day" means a continuous period of 24 hours commencing from midnight and ending with the following midnight. The term "18 consecutive months" means any 18-month period commencing with the beginning of any day of any month and ending with the close of the day preceding the corresponding day in the succeeding eighteenth month; or if there is no such corresponding day, with the close of the last day of the succeeding eighteenth month. For example, the period July 3, 1953, through January 2, 1955, and the period July 1, 1953, through December 31, 1954, would both be periods of "18 consecutive months." The term "foreign country" includes only territory under the sovereignty of a government other than that of the United States; it does not include the territories (Hawaii and Alaska) or the possessions of the United States.

.06 *Prior law relating to "presence in a foreign country."* The exclusion under the "presence in a foreign country" rule is applicable only to taxable years beginning on or after January 1, 1951. Under the law in effect for taxable years beginning on or after that date and ending before January 1, 1953, there was no limitation upon the amount of earned income received during such period which could be excluded from gross income under the "presence in a foreign country" rule. However, for taxable years ending after December 31, 1952, but only with respect to amounts received after such date, the amount excluded from gross income under such rule could not, as under present law, exceed $20,000 in those cases in which the 18-month period included the entire taxable year. In those cases in which the 18-month period did not include the entire taxable year, the $20,000 annual limitation was subject to the same proration explained in section

5.02 of this pamphlet. A special rule was applicable to a fiscal year beginning in 1952 and ending in 1953. (For taxable years beginning before January 1, 1951, a citizen was entitled to exclude earned income from sources outside the United States only if he could establish that he was a *bona fide* foreign resident.)

Section 6. Income derived from possessions of the United States

Income derived from possessions of the United States may, under certain circumstances, be excluded from gross income in accordance with the provisions of section 931 and section 933 and, in some rare instances, under section 911 of the 1954 Code. Generally, section 911 of the 1954 Code has no application to citizens of the United States performing personal services or engaged in a trade or business within the possessions. However, a citizen who has qualified for the "foreign residence" or "presence in a foreign country" exclusion under section 911 of the 1954 Code may exclude earned income attributable to a period he is temporarily present in a possession during such qualifying period. For example: A privately employed citizen arrived in Brazil on December 31, 1952, and remained there continuously until May 26, 1954, a period during which he qualified for the "presence in a foreign country" exclusion. (See sec. 5 of this pamphlet.) On May 26, 1954, he left Brazil for a temporary assignment in the Panama Canal Zone, a possession of the United States, where he remained until July 15, 1954, when he returned to the United States for a permanent assignment. The citizen may exclude from gross income under the "presence in a foreign country" rule, the earned income attributable to the period beginning January 1, 1953, and ending June 30, 1954, subject to the limitation of $20,000, since he was present in a foreign country for 510 full days during such 18-month period and such income was for personal services rendered outside the United States. He may not exclude the earned income attributable to the period July 1 to July 15, 1954, since he did not qualify for the "presence in a foreign country" exclusion for an 18-month period which included such period. For purposes of this section, some of the more important possessions of the United States are the Panama Canal Zone, Guam, American Samoa, Wake, Midway Island, Puerto Rico, and the Virgin Islands.

Section 7. Earned income

.01 *Compensation for personal services rendered.* The term "earned income" means wages, salaries, professional fees, and other amounts received as compensation for personal services actually rendered. It does not include such income as dividends, other distributions of corporate earnings or profits, gambling gains, interest, rents, or gains or profits from dealing in real or personal property. For example, where a citizen performs personal services for a corporation in which he owns stock, "earned income" means only such portion of any income received from the corporation which represents a *reasonable allowance as compensation for the personal services actually rendered.* The entire amount received as professional fees by a citizen engaged in a professional occupation, such as a doctor or lawyer, may be treated as "earned income" even though he employs assistants in the performance of the services, if the patients or clients are those of the citizen and look to him as the person responsible for the services rendered, and capital is not a material income-producing factor.

.02 *Profit from trade or business.* If a citizen is engaged in a trade or business, either as sole proprietor or as a member of a partnership, in

which *both* personal services *and capital* are material income-producing factors, a reasonable allowance as compensation for the personal services actually rendered by him shall be considered to be "earned income," but the amount which may be treated as "earned income" from such trade or business may not exceed 30 percent of his share of the net profits therefrom. To illustrate: A citizen qualifying for the "foreign residence" exclusion operates a retail sales outlet in a foreign country. Since capital is a material income-producing factor in the business, not more than 30 percent of the net profits from the business may be treated as "earned income" and excluded. The balance of the profits must be included in gross income for Federal income tax purposes. (For taxable years beginning before January 1, 1954, and for short taxable years beginning in 1954 and ending before August 17, 1954, not more than 20 percent of the net profits from such trade or business could be treated as "earned income.")

Section 8. Source of income

For the purpose of section 911 of the 1954 Code, the place where personal services are performed is considered to be the source of the income for such services, irrespective of the place where payment is made. Therefore, if "earned income" is attributable to a period in which the citizen satisfies either the "foreign residence" test or the "presence in a foreign country" test, the amounts of such income received for personal services rendered outside the United States may be excluded from gross income, subject to the limitations set forth in section 5.02 of this pamphlet, even though received within the United States. Compensation for personal services rendered within the United States is taxable and is not excludable from gross income, regardless of the place where payment is made. For example, a United States citizen who is a bona fide resident of a foreign country returns to the United States on a business trip. The compensation for the services rendered while in the United States is taxable and includible in gross income, even though payment for such services may be received by the taxpayer after his return to the foreign country.

Section 9. Income received in foreign currency

The income reported on a Federal income-tax return must be expressed in terms of United States dollars. Where income is actually or constructively received in foreign currency, the computation in terms of United States dollars must be based on the rate of exchange at the time of receipt by the citizen, or when credited to his account in the foreign country, even though not actually converted into United States currency at that time. (In the case of blocked foreign income, see sec. 10 of this pamphlet.)

Section 10. Blocked foreign income

Generally, all income (other than that excludable by law) of United States citizens from sources within a foreign country or countries, whether in terms of United States dollars or foreign currencies, is includible in gross income for Federal income tax purposes, notwithstanding the fact that under the laws or regulations of the foreign country or countries conversion of such foreign income into United States dollars, or into other money or property which is readily convertible into United States currency, may be blocked. The citizen must include the blocked income in his gross income when such income is either actually or constructively received or is credited to his account in the foreign country, unless he

takes affirmative action to elect to defer the reporting of such income until it ceases to be blocked. If he wishes to make such election and defer the income taxes otherwise due on such income he must comply with the procedural requirements of the Internal Revenue Service relating to blocked foreign income, including the filing, with his regular return, of a tentative return reflecting such blocked income, but on which no tax is computed. Details of the requirements are published in the Internal Revenue Bulletins. See Mimeograph 6475, C. B. 1950–1, 50, as amended by Mimeograph 6494, C. B. 1950–1, 54, and Mimeograph 6584, C. B. 1951–1, 19. Income ceases to be blocked and is includible in gross income when it is convertible, or has been converted, into United States dollars or into other money or property which is convertible into United States currency; or the citizen uses the income for his personal expenditures; or disposes of it by way of gift, bequest, devise or inheritance, or in some other manner.

Section 11. Filing of income tax returns

.01 *Gross income.* A citizen of the United States, wherever resident, who has gross income of $600 or more (other than income excluded by law) during the taxable year must file an income tax return, regardless of his marital status, the number of his dependents, or the amount of his deductions. For example, a citizen who qualifies for the "foreign residence" exclusion files his return on a calendar-year basis. For the year 1954 he received a salary of $10,000 for services performed in a foreign country, dividends of $500 from a foreign corporation, and interest of $200 from investments in foreign countries. The citizen must file a return for such year since he had gross income of $600 or more exclusive of the salary of $10,000 excludable under the provisions of section 911 (a) (1) of the 1954 Code. A self-employed citizen not meeting the above requirements may nevertheless be required to file a return for purposes of the self-employment tax if he is engaged in a trade or business as defined in section 1402 of the 1954 Code, and has net earnings of $400 or more from self-employment. (See sec. 12.01 of this pamphlet.)

.02 *Deductions.* Any expenses, losses, and other deductions which are attributable to income properly excluded under section 911 are not allowable as deductions in a Federal income tax return. For example, a salesman residing and traveling abroad, who properly excluded from gross income under section 911 of the 1954 Code income earned abroad, may not deduct in his Federal income tax return traveling and other expenses incurred by him in earning such excluded income. Expenses, losses, and other deductions which cannot be identified as being attributable exclusively to either includible or excludable income but are attributable to both must be allocated or apportioned.

.03 *Income taxes paid to foreign countries.* If a citizen is required to include in his income tax return, Form 1040, income from foreign sources on which income taxes to a foreign country or countries are paid or accrued, he may claim credit for such foreign *income* taxes against his United States income tax in accordance with the provisions of section 901 of the Internal Revenue Code, *provided* he does not claim the standard deduction or compute his tax by the use of the optional tax table included in the instructions for Form 1040. The foreign tax credit should be claimed on the line provided therefor (line 9 of the 1954 Form 1040) at the bottom of page 3 of the return. The method of computing the foreign tax credit allowable under section 901 of the 1954 Code is explained on Form 1116, which must be filed with the income tax return by

every taxpayer claiming credit under that section. If credit is claimed under section 901 of the 1954 Code and a redetermination of the taxpayer's foreign income tax liability discloses that he has overpaid or underpaid such tax, he should immediately notify the Commissioner of Internal Revenue in order that appropriate adjustment may be made of the foreign tax credit claimed on his Federal income tax return. As an alternative to claiming the foreign income tax as a direct *credit* against his United States income tax, the taxpayer may claim the amount of income taxes paid to a foreign country or countries as a *deduction* on page 3 of Form 1040 in computing his taxable income, provided he itemizes his deductions. In most cases, however, it will be to the taxpayer's advantage to claim foreign income taxes as a credit against the Federal tax under section 901 of the 1954 Code. Taxpayers who claim the foreign *income* taxes either as a credit or as a deduction may not also have the benefit of the standard deduction.

.04 *Where right to exemption not yet established.* If a citizen employed abroad has not been there long enough to qualify for exemption under either the "foreign residence" rule or the "presence in a foreign country" rule at the time his income tax return is due to be filed, he must either include the compensation in his gross income and pay the Federal tax due thereon, or obtain an extension of time for the filing of his return. (See par. .06 of this section.) If he *elects* to include the compensation in his gross income, he may, after he has met the statutory requirements for exemption and within the statutory period, file an amended return or a claim on Form 843 for refund or credit of any tax thus overpaid. For example, a citizen was a bona fide resident of a foreign country from November 1, 1953, through January 31, 1955, during which period he performed personal services abroad. He would be required to include in his 1953 return, filed on the calendar year basis, all income for the year, including the "earned income" received during the period November 1, 1953, through December 31, 1953, since he had not met the requirements of section 911 (a) (1) of the 1954 Code as of the due date for the filing of such return. However, since the requirements of that section would be met as of December 31, 1954, he would then be entitled to a refund or credit of any overpayment of tax resulting from the exclusion of the "earned income" received during the period November 1, 1953, through December 31, 1953, and a claim on Form 843 or amended return should then be filed.

.05 *Due date for filing returns.* Citizens of the United States who, on April 15, are residing or traveling outside of the United States and who file their returns on the calendar year basis are automatically allowed an extension of time until June 15 for filing the return for the preceding taxable year. Similarly, an extension of 2 months is granted to fiscal-year taxpayers. A taxpayer who takes advantage of this extension must attach to his return a statement showing that he was residing or traveling outside the United States on the due date (April 15, for calendar-year taxpayers), and he must pay interest at the rate of 6 percent per annum on the unpaid tax, if any, from the due date until paid.

.06 *Extensions of time for filing returns.* An extension of time for filing income tax returns may be granted for more than 6 months in the case of citizens of the United States who are abroad. A citizen desiring an extension of time, in addition to the 2 months automatically granted, for filing his return until after the completion of the qualifying period under section 911 of the 1954 Code should make application therefor with the district director of internal revenue with whom the return is required

to be filed. The application must be in writing, properly signed by the taxpayer or his duly authorized agent, and must be made before the due date for filing the return with respect to which the extension is requested. The application should set forth the facts relied upon to justify the extension of time requested and should include a statement as to the earliest date the taxpayer expects to be in a position to determine whether he will be entitled to the exclusion provided by section 911 of the 1954 Code.

Section 12. **Self-employment tax**

.01 *Taxable years ending on or before December 31, 1954.* In general, a citizen of the United States, wherever resident, who derives income during the taxable year from a trade or business carried on by him or from a partnership of which he is a member is subject to the self-employment tax. Such citizen is required to file a return on Form 1040 for the purpose of reporting the self-employment tax if he has net earnings from self-employment of $400 or more, even though he may not have sufficient income to require the filing of an income tax return. For self-employment tax purposes, "earned income" which qualifies for either the "bona fide foreign residence" exclusion or the "presence in a foreign country" exclusion is not to be taken into account in computing net earnings from self-employment. A schedule for the computation of the tax is provided on page 3 of separate Schedule C of the income tax return (Form 1040), and instructions for its completion are shown on page 4 of the Schedule. "Net earnings from self-employment" is the gross income derived by an individual from any trade or business carried on by him, less the allowable deductions attributable to such trade or business, plus his share of self-employment net earnings (or loss) from a partnership of which he is a member. The deductions for personal exemptions are not allowable in determining the net earnings from self-employment. The term "trade or business" as used herein includes all self-employment activities of the citizen except those specifically excluded by law. Some of the self-employment activities so excluded by law for taxable years ending before January 1, 1955, are the practice of certain professions, such as the medical, accounting and legal professions; or services as a minister or member of a religious order; or farming. For a list of excluded activities and income, see "EXCLUSIONS" on page 4 of separate Schedule C (Form 1040).

.02 *Taxable years ending after December 31, 1954.* The Social Security Amendments of 1954 brings certain self-employed individuals, previously excluded, within the social security system. These changes are effective for taxable years ending after December 31, 1954. A citizen who is a Christian Science practitioner, architect, accountant, funeral director, engineer, minister, member of a religious order, or a farmer *and reports his income on the basis of a fiscal year beginning in 1954 and ending in 1955* should communicate with the district director of internal revenue with whom he files his return for detailed information regarding the changes in the law which affect his liability for self-employment tax.

Section 13. **Declaration of estimated tax**

.01 *Who must file.* Every citizen of the United States who, for taxable years beginning on or after January 1, 1955, expects to receive more than $100 of gross income during the taxable year from sources other than wages subject to withholding must file a declaration of estimated tax on Form 1040–ES if his gross income from all sources (exclusive of income exempt from tax) is reasonably expected to exceed the sum of $600 multi-

plied by the number of exemptions to which he is entitled, plus $400. A citizen who expects no more than $100 of gross income during the taxable year from sources other than wages subject to withholding is required to file a declaration if his gross income is reasonably expected to exceed $5,000 in the case of a single individual or a married person filing a separate declaration, $10,000 for a person who qualifies as a head of household or surviving widow or widower, and $5,000 in the case of a married person who files a joint declaration and the total income of both husband and wife can reasonably be expected to exceed $10,000. Specific instructions for the preparation and filing of the declaration are printed on Form 1040–ES and, with the exceptions mentioned herein, should be followed by citizens outside the United States.

.02 *Due date for filing declarations.* The declaration is required to be filed on or before the 15th day of the 4th month of the taxable year for which it is made. However, a citizen traveling or residing in a foreign country on the due date for filing the declaration is allowed an extension of time to and including the 15th day of the 6th month of the taxable year (June 15, for calendar-year taxpayers) for filing the declaration and payment, without interest, of all installments of estimated tax then due.

Section 14. Where returns and declarations should be filed

Income tax returns and declarations of estimated tax should be filed with the district director of internal revenue for the district in which the taxpayer's legal residence or principal place of business in the United States is located, or if he has no legal residence or place of business in the United States, with the District Director of Internal Revenue, Baltimore 2, Maryland, U. S. A.

Section 15. Penalties

Citizens of the United States residing or present in foreign countries are liable, to the same extent as taxpayers within the United States, for all the penalties and additions to the tax imposed by law, including penalties and additions to the tax in respect of declarations and payments of estimated tax.

Section 16. Where forms may be obtained

Necessary forms for the filing of returns, declarations, and/or claims for refund may be obtained from any district director of internal revenue and from most United States embassies and consulates.

Section 17. Correspondence

Any taxpayer desiring additional information concerning this pamphlet, or information relating to the law or regulations applicable to taxable years for which no return has been filed, may address a communication to the Commissioner of Internal Revenue, Attention: Assistant Commissioner (Technical), Washington 25, D. C. A taxpayer desiring information relating to a taxable year for which a return has been filed should communicate with the district director of internal revenue with whom his income tax return was filed.

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U. S. GOVERNMENT PRINTING OFFICE: 1955

SCHEDULE C (Form 1040)

U. S. Treasury Department—Internal Revenue Service

PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION

(For Computation of Self-Employment Tax, see Page 3)

1956

Attach this schedule to your Income Tax Return, Form 1040 — Partnerships, Joint Ventures, Etc. Must File On Form 1065

For Calendar Year 1956, or other taxable year beginning , 1956, and ending , 195

Name and Address as shown on page 1, Form 1040

Item **(see instructions—page 2)**

A. Principal business activity: ---- (Retail trade, wholesale trade, lawyer, etc.) ---- (Principal product or service)

B. Business name: ----

C. Business address: ---- (Number and street or rural route) ---- (City or post office) ---- (County) ---- (State)

● **IMPORTANT**—If you had more than one business, a separate page 1 of Schedule C must be completed for each business.

Line **(see instructions—page 2)**

1. Total receipts $----, less allowances, rebates, and returns $----		$----	
2. Inventory at beginning of year	$----		
3. Merchandise purchased $----, less any items withdrawn from business for personal use $----	----		
4. Cost of labor (do not include salary paid to yourself)	----		
5. Material and supplies	----		
6. Other costs **(explain in Schedule C–2)**	----		
7. Total of lines 2 through 6	$----		
8. Inventory at end of year	----		
9. Cost of goods sold (line 7 less line 8)		----	
10. Gross profit (line 1 less line 9)		$----	
OTHER BUSINESS DEDUCTIONS			
11. Salaries and wages not included on line 4 (do not include any paid to yourself)	$----		
12. Rent on business property	----		
13. Interest on business indebtedness	----		
14. Taxes on business and business property	----		
15. Losses of business property **(attach statement)**	----		
16. Bad debts arising from sales or services	----		
17. Depreciation and obsolescence **(explain in Schedule C–1)**	----		
18. Repairs **(explain in Schedule C–2)**	----		
19. Depletion of mines, oil and gas wells, timber, etc. **(attach schedule)**	----		
20. Amortization **(attach statement)**	----		
21. Other business expenses **(explain in Schedule C–2)**	----		
22. Total of lines 11 through 21		----	
23. Net profit (or loss) (line 10 less line 22). Also enter on line 24, page 3 of this schedule, and on line 8, page 1, Form 1040		$	

Schedule C–1. EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED ON LINE 17

1. Kind of property (if buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Method of computing depreciation	6. Rate (%) or life (years)	7. Depreciation for this year
----	----	$----	$----	----	----	$----
----	----	----	----	----	----	----
----	----	----	----	----	----	----
----	----	----	----	----	----	----
----	----	----	----	----	----	----

Schedule C–2. EXPLANATION OF LINES 6, 18, AND 21

Line No.	Explanation	Amount	Line No.	Explanation	Amount
----	----	$----	----	----	$----
----	----	----	----	----	----
----	----	----	----	----	----
----	----	----	----	----	----
----	----	----	----	----	----
----	----	----	----	----	----

C

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If you owned a business, or practiced a profession, you must fill in separate Schedule C on other side and enter the net profit (or loss) on line 8, page 1, Form 1040.

Separate Schedule C should include income from (1) sale of merchandise, or products of manufacturing, mining, and construction; (2) business service; and (3) professional service. In general, you should report any income in the earning of which you have incurred expenses for material, labor, supplies, and the like.

All farmers should use separate Schedule F (Form 1040) to report their farm income whether reporting on the cash or accrual method.

Item A—Business Activity.—State the general classification of business activity, as well as the principal product or service. For example, "Wholesale food," "Retail men's apparel," "Manufacture of upholstered wooden household furniture," "Transportation by truck," "Broker, real estate," "Contractor—carpenter work," "Physician," etc. Do not use such terms as "partnership," "owner," "student," etc. The "principal business activity" is the one which accounts for the largest percentage of your total receipts. All trades and businesses except those specifically excluded are subject to self-employment tax.

Item C—Business Address.—Do not use home address as business address unless business is actually conducted from home.

Line 1—Total Receipts.—Include all income derived from your trade or business. Enter in the space provided such items as returned sales, rebates, and allowances from the sale price or service charge.

If you have dividend income from stocks held by you in the ordinary course of carrying on your trade or business, such dividends must be considered together with your dividends from stocks regularly held for investment purposes in computing your dividend exclusion and credit.

Installment Sales.—If you use the installment method of reporting income from sales, you must attach to your return a schedule showing separately for the years 1953, 1954, 1955, and 1956 the following: (a) Gross sales; (b) cost of goods sold; (c) gross profits; (d) percentage of profits to gross sales; (e) amounts collected; and (f) gross profits on amount collected.

COST OF GOODS SOLD

Lines 2-9.—If you are engaged in a trade or a business in which the production, purchase, or sale of merchandise is an income producing factor, you must take inventories of merchandise and materials on hand at the beginning and end of the taxable year in order to reflect the gross profits correctly. The usual methods of valuing inventory are (a) cost and (b) cost or market whichever is lower. The method properly adopted for the first year in which inventory is taken must be continued unless permission to change is secured from the Commissioner of Internal Revenue, Washington 25, D. C. Application for permission to change the method of valuing inventories must be made in writing and filed with the Commissioner within 90 days after the beginning of the taxable year in which it is desired to effect a change. You should enter the letters "C" or "C or M" immediately before the amount column if inventories are valued either at cost, or at cost or market whichever is lower.

Other methods of valuing inventories of material or merchandise are provided for dealers in securities, for farmers, for miners, for manufacturers who produce more than one product from a single process, and for retail merchants using the "retail method."

A special method based on cost, LIFO, is allowable only if you file an application on Form 970 with your return for the first year used. The requirements for adopting and using the LIFO method are set forth on Form 970. Thereafter, you must attach a separate schedule showing: (a) a summary of all inventories; (b) with respect to inventories computed under the LIFO method, the computation of quantities and cost by acquisition levels.

OTHER BUSINESS DEDUCTIONS

Line 11—Salaries and Wages.—Enter all salaries and wages not included as "Cost of Labor" in "Cost of Goods Sold." Do not deduct any salary or wages for your own services or services of others not performed in connection with your business.

Line 12—Rent on Business Property.—Rents paid or accrued on business property in which you have no equity are deductible. Do not include rent for a building, or any part, which you occupy solely for residential purposes.

Line 13—Interest on Business Indebtedness.—Interest on business indebtedness to others is deductible. Do not include interest to yourself on capital invested in or advanced to the business.

Line 14—Taxes on Business and Business Property.—Include taxes paid or accrued on business property or incurred in carrying on your business. Federal import duties and Federal excise and stamp taxes are deductible if paid or incurred in carrying on a trade or business. Do not include taxes assessed against local benefits of a kind tending to increase the value of the property assessed, as for paving, sewers, front foot benefits, etc.

Line 15—Losses of Business Property.—You may deduct losses of business property by fire, storm, or other casualty, or theft, not compensated by insurance or otherwise and not made good by repairs claimed as a deduction. Attach a statement showing a description of the property, date acquired, cost, subsequent improvements, depreciation allowable since acquisition, insurance, salvage value, and deductible loss.

Line 16—Bad Debts Arising From Sales or Services.—Include debts, or portions thereof, arising from sales or professional services that have been included in income, which have been definitely ascertained to be worthless; or such reasonable amount as has been added within the taxable year to a reserve for bad debts. A debt which is deducted as bad and which reduces your tax must, if subsequently collected, be returned as income for the year in which collected.

Line 17—Depreciation and Obsolescence.—You may deduct a reasonable allowance for exhaustion, wear and tear, and obsolescence of property used in the trade or business. For additional information regarding depreciation, especially on new property acquired or constructed after December 31, 1953, see depreciation section in the instructions for Form 1040.

If a deduction is claimed on account of depreciation, fill in Schedule C-1. In case obsolescence is included, state separately amount claimed and basis upon which it is computed. The value or cost of land must not be included in this schedule, and where land and buildings were purchased for a lump sum, the cost of the building subject to depreciation must be established. The adjusted property accounts and the accumulated depreciation shown in the schedule should be reconciled with those accounts as reflected on your books.

Line 18—Repairs.—You may deduct the cost of incidental repairs, including labor, supplies, and other items, which do not add to the value or appreciably prolong the life of the property. Expenditures for new buildings, machinery, and equipment, or for permanent improvements or betterments which increase the value of the property are chargeable to capital accounts. Expenditures for restoring or replacing property are not deductible, since such expenditures are chargeable to capital accounts or to depreciation reserve depending on how depreciation is charged on your books.

Line 19—Depletion of Mines, Oil and Gas Wells, Timber, Etc.—If a deduction is claimed on account of depletion, procure from your District Director Form M (mines and other natural deposits), Form O (oil and gas), or Form T (timber), fill in and file with return. If complete valuation data have been filed with questionnaire in previous years, then file with your return information necessary to bring depletion schedule up to date, setting forth in full a statement of all transactions bearing on deductions from or additions to value of physical assets during the taxable year with explanation of how depletion deduction for the taxable year has been determined. (See sections 615 and 616 of the Internal Revenue Code of 1954 for election to capitalize or deduct expenditures for exploration and development of mineral properties.)

Line 20—Amortization.—If you elect the deduction with respect to the amortization of the adjusted basis of (a) any emergency facility with respect to which the Government has issued a certificate of necessity, or (b) a grain storage facility, a statement of the pertinent facts should be filed with your return. (See sections 168 and 169 of the Internal Revenue Code of 1954.)

For the election to amortize research or experimental expenditures not subject to depreciation or depletion, see section 174 of the Code.

For the election to amortize trademark or tradename expenditures, see section 177 of the Code.

Line 21—Other Business Expenses.—Include all ordinary and necessary business expenses for which no space is provided in the schedule. Any deduction claimed should be explained in Schedule C-2. Do not include cost of business equipment or furniture, expenditures for replacements, or for permanent improvements to property, or personal living and family expenses.

Net Operating Loss Deduction.—Any net operating loss deduction should be applied as an adjustment of the amount shown on line 11, page 1, Form 1040. See instructions for Form 1040 and attach statement.

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COMPUTATION OF SELF-EMPLOYMENT TAX
(For social security)
(See Instructions—Page 4)

▶ **Each self-employed person must file a separate schedule. See instructions, page 4, for joint returns and partnerships.**
▶ **If you had wages of $4,200 or more which were subject to the deduction for social security, do not fill in this page.**
▶ **If you have more than one business, a separate page 1, Schedule C, must be completed for each business. However, only one page 3 is to be completed and filed showing the combined net profit or loss from such businesses.**

NAME OF SELF-EMPLOYED PERSON (as shown on social security card)

STATE EACH BUSINESS ACTIVITY SUBJECT TO SELF-EMPLOYMENT TAX (for example: Restaurant, Building Contractor, but not Partner or Owner)

Line				
24.	Net profit (or loss) shown on line 23, page 1 **(Enter combined amount if more than one business)**	$		
25.	Add to net profit (or subtract from net loss) losses of business property shown on line 15, page 1			
26.	Total (or difference)		$	
27.	Net income (or loss) from excluded services or sources included on line 26			
	Specify excluded services or sources			
28.	Net earnings (or loss) from self-employment—			
	(a) From business (line 26 less any amount on line 27)		$	
	(b) From partnerships, joint ventures, etc. (other than farming)			
	(c) From service as a minister, member of a religious order or a Christian Science practitioner			
	(d) From farming reported on line 12 or 13, separate Schedule F (Form 1040)			
29.	Total net earnings (or loss) from self-employment reported on line 28		$	
	(If line 29 is under $400, you are not subject to self-employment tax. Do not fill in rest of page.)			
30.	Maximum amount subject to self-employment tax	$ 4,200	00	
31.	**Less:** Total wages, subject to deduction for social security, paid to you during the taxable year. (For wages reported on Form W-2, see "F. I. C. A. Wages" box.)			
32.	Balance (line 30 less line 31)	$		
33.	Self-employment income—line 29 or 32, whichever is smaller		$	
34.	Self-employment tax—3 percent of amount on line 33. Enter here and on line 15, page 1, Form 1040		$	

IMPORTANT—FILL IN ITEMS BELOW COMPLETELY BUT DO NOT DETACH

SCHEDULE SE (Form 1040)
U. S. Treasury Department
Internal Revenue Service

U. S. REPORT OF SELF-EMPLOYMENT INCOME
For Crediting to Your Social Security Account

1956

1. CHECK ONE — CALENDAR YEAR 1956 ☐ — OTHER TAXABLE YEAR ☐ — Beginning _____, 1956 and Ending _____, 195____

2. BUSINESS ACTIVITIES SUBJECT TO SELF-EMPLOYMENT TAX (Grocery Store, Restaurant, etc.)

3. BUSINESS ADDRESS (Number and Street, City or Town, Postal Zone Number, State)

4. SOCIAL SECURITY ACCOUNT NUMBER OF PERSON NAMED IN ITEM 5 BELOW.

5. PRINT OR TYPE NAME OF SELF-EMPLOYED PERSON AS SHOWN ON SOCIAL SECURITY CARD

PRINT OR TYPE HOME ADDRESS (Number and Street or Rural Route)

(City or Post Office, Postal Zone Number, State)

PLEASE DO NOT WRITE IN THIS SPACE

6. ENTER TOTAL EARNINGS FROM SELF-EMPLOYMENT SHOWN ON LINE 29 ABOVE... $

7. ENTER WAGES, IF ANY SHOWN ON LINE 31 ABOVE..... $

8. ENTER AMOUNT SHOWN ON LINE 33 ABOVE ..... $

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In general, every individual deriving income during the taxable year from a trade or business carried on by him or from a partnership of which he is a member is subject to the self-employment tax, the computation of which is made on lines 24 through 34.

"Net earnings from self-employment" means (a) gross income derived by an individual from any trade or business carried on by him, less the allowable deductions attributable to such trade or business; and (b) in the case of a duly ordained, commissioned, or licensed minister of a church, or a member of a religious order, or a Christian Science practitioner, who has elected, by filing Form 2031, to be covered by the Social Security Act, his earnings from the performance of services in the exercise of his profession. (A member of a religious order who has taken a vow of poverty as a member of such order cannot elect to be covered.) In addition to (a) and (b) above, his share of self-employment net earnings (or loss) from a partnership (Schedule K, Form 1065) of which he is a member, plus any guaranteed payments, should be included.

No deductions for personal exemptions.—The deductions for personal exemptions are not allowable in determining net earnings from self-employment.

Farm income.—Farmers should report their farm income and compute their net income from self-employment from farming on separate Schedule F (Form 1040).

EXCLUSIONS

Income (or loss) from the following sources and deductions attributable thereto are not taken into account in figuring net earnings from self-employment. Use line 27 to exclude any such amounts reported on page 1 that should not be taken into account in figuring your self-employment income.

Doctors of medicine.—Income from the performance of service as a doctor of medicine or income from the performance of such service by a partnership.

Christian Science practitioners.—Income from the performance of service as a Christian Science practitioner, unless such Christian Science practitioner has elected by filing Form 2031 to be covered by the Social Security Act, as explained above.

Religious services.—Income from the performance of service by a duly ordained, commissioned, or licensed minister of a church in the exercise of his ministry or by a member of a religious order in the exercise of duties required by such order, unless such minister or member of a religious order has elected by filing Form 2031 to be covered by the Social Security Act, as explained above.

Employees and public officials.—Income from the performance of service as:

(a) a public official, including a notary public;
(b) an employee or employee representative under the railroad retirement system; or
(c) an employee.

Note.—The income of an employee over the age of 18 from the sale of newspapers or magazines to an ultimate consumer is subject to the self-employment tax if the income consists of retained profits from such sales.

Real estate rentals.—Rentals from real estate, except rentals received in the course of a trade or business as a real estate dealer. This includes cash and crop shares received from a tenant or sharefarmer. These amounts should be reported in Schedule G of Form 1040. However, rental income from a farm is not excluded if the rental arrangement provides for material participation by the landlord and he does participate materially in the production or in the management of the production of farm products on his land. Such income represents farm earnings and should be reported on separate Schedule F (Form 1040).

Payments for the use or occupancy of rooms or other space where services are also rendered to the occupant, such as rooms in hotels, boarding houses, apartment houses furnishing hotel services, tourist camps, tourist homes, or space in parking lots, warehouses, or storage garages do not constitute rentals from real estate and, therefore, are included in determining net earnings from self-employment.

Interest and dividends.—Dividends on shares of stock, and interest on bonds, debentures, notes, certificates, or other evidences of indebtedness, issued with interest coupons or in registered form by a corporation, or by a government or political subdivision thereof, unless received in the course of a trade or business as a dealer in stocks or securities. These amounts should be reported in Schedules A and B of Form 1040.

Property gains and losses.—Gain or loss: (a) from the sale or exchange of a capital asset; (b) to which sections 631 and 1231 are applicable; or (c) from the sale, exchange, involuntary conversion, or other disposition of property if such property is neither (1) stock in trade or other property of a kind which would properly be includible in inventory if on hand at the close of the taxable year, nor (2) property held primarily for sale to customers in the ordinary course of the trade or business. These amounts should be reported on separate Schedule D (Form 1040).

Net operating losses.—No deduction for net operating losses of other years shall be allowed in determining the net earnings from self-employment. Such deduction should be reflected on line 11, page 1, of Form 1040.

MORE THAN ONE TRADE OR BUSINESS

If an individual is engaged in more than one trade or business, his net earnings from self-employment are the combined net earnings from self-employment of all trades or businesses carried on by him. Thus, the loss sustained in one trade or business will operate to reduce the income derived from another trade or business. An individual shall fill in and file only one page 3 of this form, including Schedule SE, for any one year.

JOINT RETURNS

Where husband and wife file a joint income tax return, page 3 of Schedule C (Form 1040) should show the name of the one with self-employment income. Where husband and wife each have self-employment income, a separate Schedule C must be attached for each. In such cases the total of amounts shown on line 23 of each separate schedule should be entered on line 8, page 1, Form 1040, and the aggregate self-employment tax (line 34) should be entered on line 15, page 1, Form 1040.

COMMUNITY INCOME

For the purpose of computing net earnings from self-employment, if any of the income from a trade or business is community income, all the income from such trade or business is considered the income of the husband unless the wife exercises substantially all the management and control of the trade or business, in which case all of such income is considered the income of the wife.

If separate income tax returns are filed by husband and wife, a complete Schedule C should be attached to the return of the one with self-employment income. Community income included on such a schedule must, however, be allocated between the two returns (on line 8, page 1, Form 1040) on the basis of the community property laws.

Partnerships.—In computing his combined net earnings from self-employment, a partner should include his entire share of such earnings from a partnership including any guaranteed payments. No part of that share may be attributed to the partner's wife (or husband) even though the income may, under State law, be community income. In the case of a husband and wife partnership, like other partnerships, the distributive share of each should be entered in Schedule H, page 3 of Form 1040, for income tax purposes. For self-employment tax purposes the distributive share of each partner should be entered on line 28(b), page 3, of this form (except that farm partnership earnings are to be reported on line 11(b), separate Schedule F (Form 1040) rather than on line 28(b) of this schedule).

SCHEDULE SE (Form 1040)

This schedule provides the Social Security Administration with the information on self-employment income necessary for computing benefits under the social security program.

To assure proper credit to your account, be sure to enter your name and social security account number on Schedule SE (Form 1040) exactly as they are shown on your social security card. If you do not have a social security account number, you must get one. These account numbers are obtainable from any of the approximately 600 Social Security Administration offices throughout the country. The telephone directory or your local post office will give you the address. Do not delay filing your return beyond the due date.

Regardless of whether joint or separate returns, Form 1040, are filed by husband and wife, Schedule SE (Form 1040) must show only the name of the one with the self-employment income. If both had net earnings from self-employment, a separate Schedule SE must be filed by each.

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SCHEDULE D (Form 1040)

U. S. Treasury Department—Internal Revenue Service

GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY

Attach this schedule to your Income Tax Return, Form 1040

1956

For Calendar Year 1956, or other taxable year beginning , 1956, and ending , 195

Name and Address

(I) CAPITAL ASSETS

Short-Term Capital Gains and Losses—Assets Held Not More Than 6 Months

a. Kind of property (if necessary, attach statement of descriptive details not shown below)	b. Date acquired (mo., day, yr.)	c. Date sold (mo., day, yr.)	d. Gross sales price (contract price)	e. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	f. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	g. Expense of sale	h. Gain or loss (column d plus column e less sum of columns f and g)
1.			$	$	$	$	$

2. Enter your share of net short-term gain (or loss) from partnerships and fiduciaries
3. Enter unused capital loss carryover from 5 preceding taxable years (**Attach statement**)
4. Net short-term gain (or loss) from lines 1, 2, and 3 $

Long-Term Capital Gains and Losses—Assets Held More Than 6 Months

5.			$	$	$	$	$

6. Enter the full amount of your share of net long-term gain (or loss) from partnerships and fiduciaries
7. Net long-term gain (or loss) from lines 5 and 6 $
8. Combine the amounts shown on lines 4 and 7, and enter the net gain (or loss) here $
9. **If line 8 shows a GAIN**—Enter 50 percent of line 7 or 50 percent of line 8, whichever is smaller. **(Enter zero if there is a loss or no entry on line 7)**
10. Deduct line 9 from line 8. Enter balance here and on line 1, Schedule D Summary on page 3 of Form 1040 $
11. **If line 8 shows a LOSS**—Enter here and on line 1, Schedule D Summary, Form 1040, the **smallest** of the following: (a) the amount on line 8; (b) taxable income computed without regard to capital gains and losses and the deduction for exemptions; or (c) $1,000 $

COMPUTATION OF ALTERNATIVE TAX

(See instructions on other side as to when the alternative tax applies)

12. Enter the amount from line 5, page 2, of Form 1040 $
13. Enter amount from line 9
14. Balance (line 12 less line 13) $
15. Enter tax on amount on line 14 (Use applicable Tax Rate Schedule on page 11 of Form 1040 Instructions) $
16. Enter 50 percent of line 13
17. Alternative tax (line 15 plus line 16). If smaller than amount on line 6, page 2, Form 1040, enter this alternative tax on line 7, page 2, Form 1040 $

(II) PROPERTY OTHER THAN CAPITAL ASSETS

a. Kind of property (if necessary, attach statement of descriptive details not shown below)	b. Date acquired (mo., day, yr.)	c. Date sold (mo., day, yr.)	d. Gross sales price (contract price)	e. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	f. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	g. Expense of sale	h. Gain or loss (column d plus column e less sum of columns f and g)
1.			$	$	$	$	$

2. Enter your share of gain (or loss) from partnerships and fiduciaries
3. Net gain (or loss) from lines 1 and 2. Enter here and on line 2, Schedule D Summary, Form 1040 $

cnr—16—72755-1

INSTRUCTIONS—(References are to the Internal Revenue Code of 1954)

GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY.—Report details in schedule on other side.

"Capital assets" defined.—The term "capital assets" means property held by the taxpayer (whether or not connected with his trade or business) but does NOT include—

(a) stock in trade or other property of a kind properly includible in his inventory if on hand at the close of the taxable year;
(b) property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business;
(c) property used in the trade or business of a character which is subject to the allowance for depreciation provided in section 167;
(d) real property used in the trade or business of the taxpayer;
(e) certain government obligations issued on or after March 1, 1941, at a discount, payable without interest and maturing at a fixed date not exceeding one year from date of issue;
(f) certain copyrights, literary, musical, or artistic compositions, etc.; or
(g) accounts and notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of property referred to in (a) or (b) above.

Special rules apply to dealers in securities for determining capital gain or ordinary loss on the sale or exchange of securities. Also, in the case of a taxpayer other than a corporation, certain real property subdivided for sale may be treated as capital assets. Sections 1236 and 1237.

If the total distribution to which an employee is entitled under an employees' pension, bonus, or profit-sharing trust plan, which is exempt from tax under section 501(a), is received by the employee in one taxable year, on account of the employee's separation from the service, the aggregate amount of such distribution, to the extent it exceeds the amounts contributed by the employee, shall be treated as a long-term capital gain. See section 402.

A capital gain dividend, as defined in section 852 (relating to tax on regulated investment companies), shall be treated by the shareholder as a long-term capital gain.

Gain on sale of depreciable property between husband and wife or between a shareholder and a "controlled corporation" shall be treated as ordinary gain. Section 1239.

A transfer (other than by gift, inheritance, or devise) by an individual "holder" of all substantial rights evidenced by a patent, or an undivided interest therein, shall be considered the sale or exchange of a capital asset held for more than 6 months.

Gains and losses from transactions described in section 1231 (see below) shall be treated as gains and losses from the sale or exchange of capital assets held for more than 6 months if the total of these gains exceeds the total of these losses. If the total of these gains does not exceed the total of these losses, such gains and losses shall not be treated as gains and losses from the sale or exchange of capital assets. Thus, in the event of a net gain, all these transactions should be entered in the "long-term capital gains and losses" portion of Schedule D. In the event of a net loss, all these transactions should be entered in the "property other than capital assets" portion of Schedule D, or in other applicable schedules on Form 1040.

Section 1231 deals with gains and losses arising from—

(a) sale, exchange, or involuntary conversion, of land (including in certain cases unharvested crops sold with the land) and depreciable property if they are used in the trade or business and held for more than 6 months,
(b) sale, exchange, or involuntary conversion of livestock held for draft, breeding, or dairy purposes (but not including poultry) and held for 1 year or more,
(c) the cutting of timber or the disposal of timber or coal to which section 631 applies, and
(d) the involuntary conversion of capital assets held more than 6 months.

See sections 1231 and 631 for specific conditions applicable.

Description of property listed.—State following facts: (a) For real estate (including owner-occupied residences), location and description of land and improvements; (b) for bonds or other evidences of indebtedness, name of issuing corporation, particular issue, denomination, and amount; and (c) for stocks, name of corporation, class of stock, number of shares, and capital changes affecting basis (including nontaxable distributions).

Basis.—In determining gain or loss in case of property acquired after February 28, 1913, use cost, except as specially provided. The basis of property acquired by gift after December 31, 1920, is the cost or other basis to the donor in the event of gain, but, in the event of loss, it is the lower of either such donor's basis or the fair market value on date of gift. Generally, the basis of property acquired by inheritance is the fair market value at time of acquisition which usually is the date of death. For special cases involving property acquired from a decedent, see section 1014. In the case of sales and exchanges of automobiles and other property not used in your trade or business, or not used for the production of income, the basis for determining gain is the original cost plus the cost of permanent improvements thereto. No losses are recognized for income tax purposes on the sale and exchange of such properties. In determining GAIN in case of property acquired before March 1, 1913, use the cost or the fair market value as of March 1, 1913, as adjusted, whichever is greater, but in determining LOSS use cost as adjusted.

Sale of a personal residence.—See Form 1040 instructions for special rules applicable to sale or exchange of your residence.

Losses on securities becoming worthless.—If (a) shares of stock become worthless during the year or (b) corporate securities with interest coupons or in registered form become worthless during the year, and are capital assets, the loss therefrom shall be considered as from the sale or exchange of capital assets as of the last day of such taxable year.

Nonbusiness debts.—If a debt, such as a personal loan, becomes totally worthless within the taxable year, the loss resulting therefrom shall be considered a loss from the sale or exchange, during the taxable year, of a capital asset held for not more than 6 months. Enter such loss in column (h) and describe in column (a) in the schedule of short-term capital gains and losses on other side. This does not apply to: (a) a debt evidenced by a corporate security with interest coupons or in registered form and (b) a debt acquired in your trade or business.

Classification of capital gains and losses.—The phrase "short-term" applies to gains and losses from the sale or exchange of capital assets held for 6 months or less; the phrase "long-term" applies to capital assets held for more than 6 months.

Treatment of capital gains and losses.—Short-term capital gains and losses will be merged to obtain the net short-term capital gain or loss. Long-term capital gains and losses (taken into account at 100 percent) will be merged to obtain the net long-term capital gain or loss. If the net short-term capital gain exceeds the net long-term capital loss, 100 percent of such excess shall be included in income. If the net long-term capital gain exceeds the net short-term capital loss, 50 percent of the amount of such excess is allowable as a deduction from gross income. This deduction is given effect on line 9 of Schedule D.

Limitation on allowable capital losses.—If the sum of all the capital losses exceeds the sum of all the capital gains (all such gains and losses to be taken into account at 100 percent), then such capital losses shall be allowed as a deduction only to the extent of (1) current year capital gains plus (2) the smaller of either the taxable income of the current year (or adjusted gross income if tax table is used) or $1,000. For this purpose taxable income is computed without regard to capital gains or losses or the deduction for exemptions. The excess of such allowable losses over the sum of items (1) and (2) above is called "capital loss carryover." It may be carried forward and treated as a short-term capital loss in succeeding years. However, the capital loss carryover of each year should be kept separate, since the law limits the use of such carryover to the five succeeding years. In offsetting your capital gain and income of 1956 by prior year loss carryovers, use any capital loss carryover from 1951 before using any such carryover from 1952 or subsequent years. Any 1951 carryover which cannot be used in 1956 must be excluded in determining total loss carryover to 1957 and subsequent years.

Collapsible corporations.—Gain from the sale or exchange of stock in a collapsible corporation is not a capital gain. Section 341.

"Wash sales" losses.—Losses from the sale or other disposition of stocks or securities are not deductible (unless sustained in connection with the taxpayer's trade or business) if, within 30 days before or after the date of sale or other disposition, the taxpayer has acquired (by purchase or by an exchange upon which the entire amount of gain or loss was recognized by law) or has entered into a contract or option to acquire, substantially identical stock or securities. Section 1091.

Losses in transactions between certain persons.—No deduction is allowable for losses from sales or exchanges of property directly or indirectly between (a) members of a family, (b) a corporation and an individual (or a fiduciary) owning more than 50 percent of the corporation's stock (liquidations excepted), (c) a grantor and fiduciary of any trust, (d) a fiduciary and a beneficiary of the same trust, (e) a fiduciary and a fiduciary or beneficiary of another trust created by the same grantor, or (f) an individual and a tax-exempt organization controlled by the individual or his family. Section 267. Partners and Partnerships see Section 707(b).

ALTERNATIVE TAX.—If the net long-term capital gain exceeds the net short-term capital loss, or in the case of only a long-term capital gain, taxpayers (a) filing separate returns with taxable income exceeding $18,000, or (b) filing joint returns or as surviving husbands or wives with taxable income exceeding $36,000, or (c) filing as head of household with taxable income exceeding $24,000, will usually find it to their advantage to compute the alternative tax on the other side. The alternative tax, if less than the tax computed on page 2 of Form 1040, shall be the tax liability.

16—72755-1 GPO

U. S. GOVERNMENT PRINTING OFFICE: 1956 O - 391663

SCHEDULE F (Form 1040)

U. S. Treasury Department—Internal Revenue Service

SCHEDULE OF FARM INCOME AND EXPENSES

(For computation of Self-Employment Tax, see page 4)

Attach this schedule to your Income Tax Return, Form 1040

1956

For Calendar Year 1956, or other taxable year beginning , 1956, and ending , 195

Name and Address as shown on page 1, Form 1040

FARM INCOME FOR TAXABLE PERIOD COMPUTED ON THE CASH RECEIPTS AND DISBURSEMENTS METHOD

(See Instructions on Schedule D (Form 1040) for tax treatment of certain livestock held for draft, breeding, or dairy purposes)

1. SALE OF LIVESTOCK RAISED			2. SALE OF PRODUCE RAISED			3. OTHER FARM INCOME	
Kind	Quantity	Amount	Kind	Quantity	Amount	Items	Amount
Cattle		$	Grain		$	Mdse. rec'd for produce	$
			Hay			Machine work	
Horses			Cotton			Breeding fees	
Mules			Tobacco			Wood and lumber	
Sheep			Vegetables			Other forest products	
Swine			Fruits and nuts			Agricultural program payments	
Chickens			Dairy products			Patronage dividends, rebates or refunds	
Turkeys			Eggs			Other farm income (specify):	
Ducks			Meat products				
Bees			Poultry, dressed				
Other (specify):			Wool				
			Honey				
			Sirup and sugar				
			Other (specify):				
Total		$	Total		$	Total	$
		(Enter on line 1 of summary below)			(Enter on line 2 of summary below)		(Enter on line 3 of summary below)

F

4. SALE OF PURCHASED LIVESTOCK AND OTHER PURCHASED ITEMS

a. Description	b. Date acquired	c. Gross sales price	d. Cost or other basis	e. Profit (or loss)
		$	$	$

Total (enter on line 4 of summary below) $

SUMMARY OF INCOME AND DEDUCTIONS COMPUTED ON THE CASH RECEIPTS AND DISBURSEMENTS METHOD

1. Sale of livestock raised	$	**6.** Expenses (from page 2)	$
2. Sale of produce raised		**7.** Depreciation (from page 3)	
3. Other farm income		**8.** Other deductions (specify):	
4. Profit (or loss) on sale of purchased livestock and other purchased items			
5. Gross Profits*	$	**9.** Total Deductions	$

10. Net farm profit (or loss) (line 5 minus line 9) to be reported on line 9, page 1, Form 1040 $

* Use this amount for optional method of computing net earnings from self-employment. (See line 13, page 4.)

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FARM EXPENSES FOR TAXABLE YEAR (See Instructions)

(Do not include personal or living expenses or expenses not attributable to production of farm income, such as taxes, insurance, repairs, etc. on your dwelling)

1. Items	2. Amount	3. Items (Continued)	4. Amount (Continued)
Labor hired	$	Insurance on property (except your dwelling)	$
Feed purchased		Interest on farm notes and mortgages	
Seed and plants purchased		Water rent, electricity, and telephone	
Machine hire		Rent of farm, part of farm, or pasturage	
Supplies purchased		Freight, yardage, express, and trucking	
Cost of repairs and maintenance		Automobile upkeep (farm share)	
Breeding fees		Amortization of grain storage facilities (attach statement)	
Fertilizers and lime		Soil and water conservation expenses (attach statement showing computation)	
Veterinary and medicine for livestock		Other farm expenses (specify):	
Gasoline, other fuel and oil for farm business			
Storage and warehousing			
Taxes			
Total of Columns 2 and 4 (enter on line 6 of summary on page 1 (cash method) or line 6, below (accrual method))	$		

FARM INVENTORY FOR INCOME COMPUTED ON AN ACCRUAL METHOD

(Do not include certain livestock held for draft, breeding, or dairy purposes. See instructions on Schedule D (Form 1040))

Description (Kind of livestock, crops, or other products)	On Hand at Beginning of Year		Purchased During Year		Raised During Year		Consumed or Lost During Year		Sold During Year		On Hand at End of Year	
	Quantity	Inventory value	Quantity	Amount paid	Quantity	Inventory value	Quantity	Inventory value	Quantity	Amount received	Quantity	Inventory value
		$		$		$		$		$		$
Totals		$ (Enter on line 3)		$ (Enter on line 4)		$		$		$ (Enter on line 1(b))		$ (Enter on line 1(a))

SUMMARY OF INCOME AND DEDUCTIONS COMPUTED ON AN ACCRUAL METHOD

1(a). Inventory of livestock, crops, and products at end of year	$	**6.** Expenses (from above)	$
(b). Sales of livestock, crops, and products during year		**7.** Depreciation (from page 3)	
(c). Other farm income (specify):		**8.** Other deductions (specify):	
2. Total	$		
3. Inventory of livestock, crops, and products at beginning of year	$		
4. Cost of livestock and products purchased during year			
5. Gross profits (line 2 minus the sum of lines 3 and 4)*	$	**9.** Total Deductions	$

10. Net farm profit (or loss) (line 5 minus line 9) to be reported on line 9, page 1, Form 1040 $

*Use this amount for optional method of computing net earnings from self-employment. (See line 13, page 4.)

DEPRECIATION (See Instructions)

1. Kind of property (if buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Method of computing depreciation	6. Rate (%) or life (years)	7. Depreciation for this year
		$	$			$
Total (enter on line 7 of summary on page 1 (cash method) or line 7, page 2 (accrual method))						$

SEE ADDITIONAL INCOME TAX INSTRUCTIONS FOR FARMERS ON SEPARATE SHEET

SELF-EMPLOYMENT TAX INSTRUCTIONS

For years ending after December 31, 1954, individuals deriving income from farming operations are subject to self-employment tax. See page 4 for computation of earnings from self-employment and self-employment tax.

Optional method.—A farmer has an option of figuring his net farm earnings for **self-employment tax purposes only.** If his gross income for the year from farming is not more than $1,800, he may report two-thirds of his gross farm income instead of his actual net earnings from farming. If his gross income from farm self-employment is more than $1,800 and his actual net earnings from farming are less than $1,200, he may report $1,200. For the purpose of the optional method, a partner should compute his share of gross profits from a farm partnership in accordance with the partnership agreement. In the case of guaranteed payments, his share is his guaranteed payment plus his share of the gross profits after such gross profits are reduced by all guaranteed payments of the partnership.

SHARE-FARMING ARRANGEMENTS

An individual who undertakes to produce a crop or livestock on land belonging to another for a proportionate share of the crop or livestock produced, or the proceeds thereof, is considered to be an independent contractor and a self-employed person rather than an employee. His net earnings should be reported on Schedule F (Form 1040) for income tax and self-employment tax purposes.

Farm rentals.—Rental income from a farm counts for social security purposes if the arrangement provides for material participation by the landlord and he does participate materially in the production of the crop or livestock or in the management of the production of the farm products. Such rental income is farm earnings and should be reported on page 1 or 2 of this schedule. "Material participation" means the taking of an important part in the actual production or in the making of management decisions.

MORE THAN ONE TRADE OR BUSINESS

If an individual is engaged in farming and in one or more other trades or businesses, his net earnings from self-employment are the combined net earnings from self-employment of all trades or businesses carried on by him. Thus, the loss sustained in one trade or business will operate to reduce the income derived from another trade or business. In such cases, use both Schedule F (Form 1040) and Schedule C (Form 1040) to determine net profit from the farm and nonfarm activities, respectively. Make the combined calculation of self-employment tax on page 3 of Schedule C. Fill in only lines 11 through 13 on page 4 of Schedule F.

JOINT RETURNS

Where husband and wife file a joint income tax return, page 4 of this schedule should show the name of the one with self-employment income from farming. Where husband and wife each had self-employment income, a separate Schedule F, or a separate Schedule C, whichever is appropriate, must be filed by each. However, the total of the amounts shown as profit (or loss) from all businesses should, for income tax purposes, be reported on line 8 or 9, on page 1, Form 1040, and the combined self-employment tax should be entered on line 15, page 1, of Form 1040.

COMMUNITY INCOME

For the purpose of computing net earnings from self-employment (but not for income tax), if any of the income from a trade or business is community income, all the income from such trade or business is considered the income of the husband unless the wife exercises substantially all the management and control of the trade or business, in which case all of such income is considered the income of the wife. (Also see instructions on partnerships below.)

If separate income tax returns are filed by husband and wife, a complete Schedule F or Schedule C, whichever is appropriate, must be attached to the return of the one with self-employment income. Community income included on such a schedule must, however, be allocated, for income tax purposes, between the two returns (on line 8 or line 9, page 1, Form 1040) on the basis of the community property laws.

PARTNERSHIPS

In computing his combined net earnings from self-employment, a partner should include his entire share of such earnings from a partnership including any guaranteed payments. No part of that share may be attributed to the partner's wife (or husband) even though the income may, under State law, be community income. However, in the case of a husband and wife farm partnership, like other partnerships, the distributive share of each must be entered as partnership income in Schedule H, page 3, of Form 1040 for income tax purposes, and on line 11(b), page 4, of separate Schedule F for self-employment tax purposes. (Use separate Schedule C, page 3, to report nonfarm income for social security purposes.)

EXCLUSIONS FROM SELF-EMPLOYMENT

In determining the amount of net earnings from self-employment from farming, the following items should be excluded.

Real estate rentals.—Rentals from real estate, including any personal property that is leased with the land. This includes rentals received in cash or crop shares. These amounts should be reported in Schedule G of Form 1040. See, however, "Farm Rentals" above which should be reported on page 1 or 2 of this schedule.

Property gains and losses.—Gains and losses from the sale, exchange, or involuntary conversion of capital assets and other property which is not held primarily for sale to customers. These amounts should be reported on separate Schedule D (Form 1040).

Net operating losses.—In determining the net earnings from self-employment, no deduction for net operating losses of other years shall be allowed. Such deduction should be reflected on line 11, page 1, Form 1040.

SCHEDULE SE (FORM 1040)

To assure proper credit to your account, be sure to enter your name and social security account number on Schedule SE (Form 1040) exactly as they are shown on your social security card. If you do not have a social security account number, you must get one. These account numbers are obtainable from any of the approximately 600 Social Security Administration offices throughout the country. The telephone directory or your local post office will give you the address. Do not delay filing your return beyond the due date.

Regardless of whether joint or separate returns, Form 1040, are filed by husband and wife, Schedule SE (Form 1040) must show only the name of the one with self-employment income. If both had net earnings from self-employment, a separate Schedule SE must be filed by each.

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COMPUTATION OF INDIVIDUAL'S NET EARNINGS FROM FARM SELF-EMPLOYMENT (For social security)

▶ Each self-employed person must file a separate schedule. See instructions, page 3, for joint returns and partnerships.
▶ If you had wages of $4,200 or more which were subject to the deduction for social security, do not fill in this page.
▶ If you had net earnings from self-employment from both farm and nonfarm sources, fill in only lines 11 and 12 (line 13, if applicable), and use separate Schedule C to compute your self-employment tax. Net earnings from farm self-employment should be entered on line 28(d) of separate Schedule C (Form 1040).

NAME OF SELF-EMPLOYED PERSON (as shown on social security card)

CHOICE OF METHODS.—A farmer must report his net farm earnings for self-employment tax purposes. Net earnings may be computed under the optional method (line 13, below) by a farmer whose GROSS profits are $1,800 or less, or whose GROSS profits are more than $1,800 and NET earnings are less than $1,200. If your GROSS profits from farming are not more than $1,800 and you elect to use the optional method, you need not complete lines 11 and 12.

11. Net farm profit (or loss) from:
(a) Line 10, page 1 (cash method), or line 10, page 2 (accrual method) ..... $
(b) Farm partnerships .....
12. Net earnings from self-employment from farming. Total of line 11 (a) and (b) ..... $

Computation Under Optional Method

13. If gross profits from farming (see note below) are:
(a) Not more than $1,800, enter two-thirds of the gross profits .....
(b) More than $1,800 and the amount on line 12 above is less than $1,200, enter $1,200 ..... $

NOTE.—Gross profits from farming are the total of the gross profits on line 5, page 1 (cash method), or line 5, page 2 (accrual method), plus the distributive share of gross profit from farm partnerships as explained on page 3.

If line 12 (or line 13, if used) is under $400, do not fill in rest of page.

Computation of Self-Employment Tax (For social security)

14. Maximum amount subject to self-employment tax ..... $ 4,200 00
15. Less: Total wages, subject to deduction for social security, paid to you during the taxable year. (For wages reported on Form W–2, see "F. I. C. A. Wages" box.) ...
16. Balance (line 14 less line 15) ..... $
17. Self-employment income. Enter here your choice of:
EITHER (1) the smaller of line 12 or 16 **OR** (2) the smaller of line 13 or 16 ..... $
18. Self-employment tax—3% of amount on line 17. Enter here and on line 15, page 1, Form 1040 ..... $

IMPORTANT—FILL IN ITEMS BELOW COMPLETELY BUT DO NOT DETACH

SCHEDULE SE (Form 1040)
U. S. Treasury Department
Internal Revenue Service

U. S. REPORT OF SELF-EMPLOYMENT INCOME

For Crediting to Your Social Security Account

1956

1. CHECK ONE — CALENDAR YEAR 1956 ☐ — OTHER TAXABLE YEAR ☐ — Beginning ----------, 1956 and Ending ----------, 195----

2. FARM ACTIVITIES SUBJECT TO SELF-EMPLOYMENT TAX (Raising livestock, custom harvesting, etc.)

3. FARM ADDRESS (Rural Route, Post Office, State)

4. SOCIAL SECURITY ACCOUNT NUMBER OF PERSON NAMED IN ITEM 5 BELOW ▶

5. PRINT OR TYPE NAME OF SELF-EMPLOYED PERSON AS SHOWN ON SOCIAL SECURITY CARD

PRINT OR TYPE HOME ADDRESS (Number and Street, or Rural Route)

(City or Town, Postal Zone Number, State)

PLEASE DO NOT WRITE IN THIS SPACE

6. ENTER AMOUNTS, IF ANY, SHOWN ON
LINE 12 ABOVE.. $
LINE 13 ABOVE.. $

7. ENTER WAGES, IF ANY, SHOWN ON LINE 15 ABOVE.. $

8. ENTER AMOUNT SHOWN ON LINE 17 ABOVE.. $

U. S. GOVERNMENT PRINTING OFFICE 16—72766–1

Form M
U.S. TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE
(Revised Mar. 1953)

DEPLETION AND DEPRECIATION DATA FOR MINES AND OTHER NATURAL DEPOSITS

Name of taxpayer _____

Address _____

Filed in support of income tax return for calendar year _____; fiscal year ended _____

This form indicates the information required for the average property. Any unusual agreements, contracts, or conveyances relied upon should be evidenced by certified copies. Attach sufficient schedules to explain all important items. Use a separate form for each property and furnish a tabulated summary. Data need not be submitted on this form but should conform to it. *Furnish maps if possible.* Report production in the units ordinarily sold or paid for.

The bases for computing depletion are: (A) Cost of property; (B) value as of March 1, 1913, in case of properties acquired prior thereto; or discovery value in the case of certain nonmetals (sec. 114 (b) (2)); (C) Percentage of gross income. (Percentage depletion is applicable only to those minerals listed in sec. 114 (b) (4) of the Internal Revenue Code.) For the years 1932 to 1941, inclusive, percentage depletion is allowable only if an election to take it was properly made; for 1942 and subsequent years it is allowable if greater than if computed on the adjusted basis provided in section 113 (b) of the Internal Revenue Code. Percentage depletion may not exceed 50 percent of net income from the property. (Sec. 114 (b) (4).)

Name of property _____ Location and description _____

Area acquired _____ (Acres, sq. ft., etc.) From whom acquired _____ (Name and address)

Mineral produced _____ Method of recovery _____ (Underground, open pit, dredging, etc.)

Nature of interest _____ (Royalty, leasehold, etc.) Fraction owned _____ Date of acquisition _____

A. COST (To be submitted regardless of basis for depletion)

1. Cash, $_____ 2. Stock, $_____ 3. Other, $_____
(If property was acquired for stock or consideration other than cash, the cost set up must be substantiated)

4. Distribute the purchase price among the items enumerated below which apply to this transaction.
If deposit has been purchased at different times enter each separate purchase separately on additional schedules.

ITEM	COST	REMARKS
Surface (fee) not containing mineral	$	
Surface (fee) containing mineral		
Mineral (fee)		
Mineral rights		
Leasehold		
Plant		
Equipment		
Development		
Other assets (itemized)		
TOTAL		

B. MARCH 1, 1913, OR DISCOVERY VALUATION (Complete data in substantiation of the value must be submitted)

1. Value of minerals or leasehold at March 1, 1913, or date of discovery . . . . . $_____
2. Value of plant and equipment at basic date . . . . . _____
3. Value of surface at basic date . . . . . _____
4. TOTAL value of property at basic date . . . . . _____
5. Depletion of value for taxable period, from depletion schedule on page 2 . . . . . _____

Amount of depletion claimed as a deduction from income from above property . . . . . $_____

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C. PERCENTAGE DEPLETION (Must be computed separately for each property)

(As provided in section 23(m) and section 114(b)(4)

1. Gross income from sales of mineral . . . . . $_____
   Less: Any royalties paid thereon . . . . . $_____
   Any expenses and profits beyond concentration (sec. 29.23(m)–1(f) . . . . _____ _____
   Gross income from the property . . . . . _____
2. Data for limitation of allowable depletion:
   (*a*) Operating expenses (itemize on separate sheet) . . . . . $_____
   (*b*) Depreciation . . . . . $_____
   (*c*) Exploration—current or deferred deductions . . . . . $_____
   (*d*) Development—current or deferred deductions . . . . . $_____
   (*e*) Taxes pertaining to this property . . . . . $_____
   (*f*) Overhead and general expenses allocated . . . . . $_____
   (*g*) Other deductions pertaining to this property . . . . . $_____
3. Total allowable deductions exclusive of depletion (sum of items under 2) . . . . . _____
4. Net income before depletion (item 1 minus item 3) . . . . . _____
5. Limitation of allowable depletion (50 percent of item 4) . . . . . _____
6. Percent* of gross income from the property (item 1) . . . . . _____
7. Depletion allowable on percentage basis (item 5 or item 6, whichever is less) . . . . . _____
8. Depletion computed on cost or other basis . . . . . _____

*Refer to sec. 114(b)(4) for current rates.

DEPLETION SCHEDULE ON BASIS OF COST, MARCH 1, 1913, OR DISCOVERY VALUE

(Indicate which basis)

Include data for all years since March 1, 1913 or since production began. Note especially that for the years 1932 to 1941, inclusive, if percentage depletion was elected, the capital sum is the adjusted basis provided in section 113(b) using percentage depletion only, while in 1942 and subsequent years the allowable depletion is either percentage depletion or depletion on the adjusted basis, whichever is greater. The "capital sum remaining" or the "depletable sum" is the cost of a mine or deposit, when such mine or deposit is acquired by purchase after February 28, 1913; or the March 1, 1913 value, whichever is applicable, plus subsequent capital additions (as defined by regulations applicable to the particular year of expenditure) and less the cost of depreciable assets included therein and the cost of assets subsequently eliminated. The schedule starts with this figure, and for each succeeding year it is diminished by the depletion previously allowed or allowable, whether computed using the adjusted basis under sec. 113 (b) or percentage of income basis. The total ore reserve for the year is the total for the preceding year, minus the production for the prior year, with adjustments (if any) for the current year. The unit cost is the "capital sum remaining" divided by the total mineral reserves for the year. The depletion on adjusted basis is the production times the unit cost. When depletion is computed on discovery value, the deduction is limited to 50% of the net income from the property, but the capital sum remaining is the discovery value plus subsequent capital additions, reduced by the aggregate of depletion deductions which would have been allowed in prior years without reference to the net income limitation.

YEAR				
INVESTMENT:				
Beginning of period				
Additions				
Reductions				
Total for period				
DEPLETION RESERVE:				
Beginning of period				
Adjustments				
Adjusted reserve				
DEPLETABLE SUM				
MINERAL RESERVES:				
Beginning of period				
Adjustments				
Total for period				
PRODUCTION				
UNIT				
DEPLETION SUSTAINED				
DEPLETION ALLOWABLE				
DEPLETION RESERVE:				
End of period				

UNITS OF MEASUREMENT USED IN COMPUTATIONS _____
(Cu. yd., cu. ft., long tons, short tons, etc.)

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EXPLORATION AND DEVELOPMENT DATA.—(Submit the following information for *each* property)

If exploration or development expenditures have been deferred, submit schedules similar to depletion schedule based on cost.

DEPRECIATION SCHEDULE

The basis on which depreciation is computed must be consistently used in all years unless permission to change is obtained under sec. 29.41–2 of Regulations 111.

TYPE OF ASSET .....

YEAR ENDING				
Investment Beginning				
Additions (Gross)				
Reductions (Gross)				
Investment End Period				

RATE BASIS

(For assets not expected to last as long as the mine)

(A) Average Investment				
(S) Salvage Provision				
Depreciable Base (A)—(S)				
Depreciation Rate				
Depreciation Sustained				
Depreciation Reserve Beginning				
Debits to Reserve				
Credits to Reserve				
Depreciation Reserve End				
Ratio Reserve to Investment				

UNIT OF PRODUCTION BASIS

(For assets expected to serve until the mine is exhausted)

DEPRECIATION RESERVE:				
Beginning of period				
Adjustments				
Adjusted reserve				
BOOK VALUE				
PROVISION FOR SALVAGE:				
Percent total investment				
DEPRECIABLE SUM				
MINERAL RESERVES:				
Beginning of period				
Adjustments				
Total for period				
PRODUCTION				
UNIT				
AMOUNT SUSTAINED				
DEPRECIATION RESERVE:				
End of period				

If coal is produced, submit the following information for each property:

Grantor: Name and address	Year Bought	Amount of Consideration: Cash	Bonds	Stock
Property No. 1				
		$	$	$
Property No. 2				
		$	$	$
Property No. 3				
		$	$	$

Acres Acquired		Workable Seam			Tons Recoverable	
Surface	Coal	Name	Height	Acres	Per acre	Total at acquisition
Property No. 1						
Property No. 2						
Property No. 3						

SUPPLEMENTAL INFORMATION.—In the space below, or on a separate sheet, *show names and addresses of others holding interests in the property.* If the property, or any interest in it, was sold during the taxable year, furnish full particulars, including name and address of purchaser, date of sale, consideration received, and amount of depreciation and depletion previously allowed or allowable. If the ore contains two or more minerals, data showing gross income, quantities sold, ore reserves, and all other pertinent data, should be furnished for each product sold

DECLARATION

I (or we, the general officers of the corporation hereinbefore named) declare under the penalties of perjury that the answers to the questions herein, including statements and figures entered in the accompanying schedules and any additional statements and schedules attached hereto, are, to the best of my (or our) knowledge and belief, complete, true, and correct in each and every particular.

Dated: _____, 19____

_____
(Signature; state title)

_____
(Signature; state title)

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