

1942

GENERAL INSTRUCTIONS

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A. WHO MUST MAKE A RETURN.—Every citizen and resident of the United States having during the taxable year *gross income* (income derived from any source whatever, unless exempt from tax by law) in an amount specified below, *regardless of the amount of net income*, shall make a return if:

(1) *Single for entire year, or married and not living with husband or wife for any part of the taxable year.* If having a gross income of \$500 or over.

(2) *Married and living with husband or wife for the entire taxable year.* If each has income and their combined gross income is \$1,200 or over, they must each make a return or file a joint return. If only one has income and his gross income is \$1,200 or over, only that one is required to make a return.

(3) *Married and living with husband or wife for only part of the taxable year.* If each has income and their combined gross income is \$1,200 or over, or equal to, or in excess of, their total personal exemption (not including credit as head of a family or for dependents), they must each make a return or file a joint return. If only one has income and his gross income is \$1,200 or over, or equal to, or in excess of, his personal exemption (not including credit as head of a family or for dependents), only that one is required to make a return. (See Specific Instruction 21 as to personal exemption.)

Joint return.—May be filed by husband and wife *only* if they are (1) both citizens or residents of the United States and (2) living together at the end of the taxable year. A joint return is permissible even though one has no gross income. In a joint return the aggregate income, deductions, and credits are computed as though husband and wife were one person.

Deceased individuals.—The return for the period to the date of death of a decedent is a return for a fractional part of a year, and the credit for personal exemption (as well as credit as head of a family and for dependents) is reduced proportionately to the number of months in such period. The return is required on Form 1040, not Form 1040A, and is required if gross income to date of death is equal to, or in excess of, the credit for personal exemption as so reduced. Amounts (other than amounts includible by a partner under section 182 in computing net income) which would be includible in the net income of, or allowable as deductions and credits to, a decedent solely by reason of his death shall not be included in computing the decedent's income for the taxable period in which falls the date of death. All amounts of gross income which are not includible in the income of the decedent will, when received, be includible in the income of the estate or person receiving such amounts by inheritance or survivorship from the decedent under section 126.

B. FORM OF RETURN.—Citizens and resident alien individuals use Form 1040, except that those whose gross income, computed on the cash basis for the calendar year, is not more than \$3,000 and consists *wholly* of salary, wages, other compensation for personal services, dividends, interest, or annuities *may* use optional Form 1040A. In the case of a husband and wife living together at any time during the year, separate returns may not be made on Form 1040A unless each elects to use that form. Nonresident aliens use Form 1040B or 1040NB. Fiduciaries for estates and trusts use Form 1041.

C. FILING OF RETURNS AND PAYMENT OF TAX.—File on or before 15th day of 3d month following close of taxable year with collector for the district in which the taxpayer has his legal residence or principal place of business. If the taxpayer has no legal residence or place of business in United States, file with collector at Baltimore, Md. The taxpayer's home address must be given and a permanent business address may be added. Pay in cash at collector's office or by check or money order payable to "Collector of Internal Revenue." Pay in full with return or in four equal installments, on or before the 15th day of the 3d, 6th, 9th, and 12th month from close of taxable year.

D. TIME FOR PERFORMING CERTAIN ACTS POSTPONED BY REASON OF WAR.—Section 3804 (a) provides that any period of time after December 6, 1941, during which an individual is continuously outside the Americas for more than 90 days, and the next 90 days thereafter, shall be disregarded in making certain determinations under the internal revenue laws with respect to performance of certain listed acts. These acts include, among others, filing returns and making payments of income tax (with certain exceptions),

filing claims for credit or refund of any tax, and assessing and collecting any tax.

In the case of an individual who is a prisoner of war or otherwise detained by an enemy country or by enemy forces or who is in the military or naval forces of the United States, serving on sea duty or outside the continental United States, sections 13 and 14 of the Act approved March 7, 1942, specify as the due date for filing returns and making payments of income tax the fifteenth day of the third month following the month in which such status ceases or the present war is terminated, whichever is the earlier.

E. PENALTIES.—Severe penalties are imposed for failing to file a required return, for late filing, and for filing a false or fraudulent return.

F. DECLARATION.—The return shall contain or be verified by a written declaration that it is made under the penalties of perjury. The return may be made by an agent if the taxpayer is (1) too ill to make it or (2) absent from the United States for 60 days before the due date. A power of attorney on Form 935 or Form 936 (husband and wife) must accompany the return made by an agent. Person or persons actually preparing the return for the taxpayer must also sign the declaration.

G. RECEIVED OR ACCRUED INCOME.—If books are kept on accrual basis, report all income accrued, even though not received, and expenses incurred even though not paid. If books are not kept on accrual basis, or if no books are kept, report all income actually or constructively received, and all expenses paid.

H. ITEMS EXEMPT FROM TAX.—As to items of income exempt from tax other than those listed below, see sections 22 (b) and 116.

(1) Interest on governmental obligations is exempt to the extent indicated in Schedule A.

(2) **Proceeds of insurance policies.**—The proceeds of life insurance policies, paid by reason of the death of the insured, are exempt. If any part of the proceeds is held by the insurer under an agreement to pay interest, the interest is taxable. Amounts received under a life insurance or endowment policy, not payable by reason of the death of the insured, are not taxable until the aggregate of the amounts received exceeds the premiums or consideration paid for the policy. (See Specific Instruction 7 as to taxation of annuities.)

(3) **Miscellaneous items wholly exempt from tax:**

(a) Gifts (not received as a consideration for service rendered) and money and property acquired by bequest, devise, or inheritance (but income therefrom is taxable);

(b) Except in the case of amounts attributable to (and not in excess of) deductions allowed under section 23 (x) in any prior taxable year, amounts received through accident or health insurance or under workmen's compensation acts, as compensation for personal injuries or sickness plus the amount of any damages received, whether by suit or agreement, on account of such injuries or sickness, and amounts received as a pension, annuity, or similar allowance for personal injury or sickness resulting from active service in the armed forces of any country;

(c) The rental value of a dwelling house and appurtenances thereof furnished to a minister of the gospel as part of his compensation;

(d) Pensions and compensation received by veterans from the United States and pensions received from the United States by the family of a veteran, for services rendered by the veteran in time of war;

(e) Interest on adjusted service bonds and interest credited to postal savings accounts to the extent that they represent deposits made before March 1, 1941;

(f) 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;

(g) Income attributable to the recovery during the taxable year of a bad debt, prior tax, or delinquency amount, to the extent that such debt, tax, or delinquency amount did not operate to reduce the income tax liability of the taxpayer for any prior year with respect to such debt, tax, or amount; and

(h) Amount received by personnel below the grade of commissioned officer in the military or naval forces of the United States as salary or compensation in any form from the United States for active service in such forces not in excess of

\$250 in the case of a single person and \$300 in the case of a married person or head of a family. The determination of the taxpayer's status in the armed forces and his family status shall be made as of the end of the taxable year. Such personnel includes persons in the Marine Corps; the Coast Guard; the Army Nurse Corps, Female; the Women's Army Auxiliary Corps; the Navy Nurse Corps, Female; and the Women's Reserve Branch of the Naval Reserve; but does not include personnel in the inactive reserve or on retirement or members of the Army Specialist Corps. The amounts contributed by the Government to the servicemen's "monthly family allowance" are in the nature of gifts and need not be included in income.

I. DEPRECIATION, DEPLETION, AND AMORTIZATION OF EMERGENCY FACILITIES.—A reasonable allowance for exhaustion, wear and tear (including a reasonable allowance for obsolescence) (1) of property used in trade or business or (2) property held for the production of income, may be deducted, based on cost if acquired by purchase after February 28, 1913. If acquired before March 1, 1913, or otherwise than by purchase, see section 114.

For depletion deduction, see sections 23 (m) and 114.

Individuals, provided an election is made as prescribed in section 124 (b), are entitled to a deduction with respect to the

amortization of the adjusted basis (for determining gain) of an emergency facility (as defined in section 124 (c)), based on a period of sixty months. A statement of the pertinent facts should be filed with the taxpayer's return.

J. INFORMATION AT SOURCE.—Every person making payments of (1) interest, rents, commissions, or other fixed or determinable income of \$500 or more during calendar year 1942 to an individual, partnership, or fiduciary, or (2) salary or wages of \$500 or more to a single person or \$1,200 or more to a married person shall make a return on Forms 1096 and 1099.

K. STOCK OWNED IN FOREIGN CORPORATIONS AND PERSONAL HOLDING COMPANIES.—If at any time during the year you owned directly or indirectly stock of a foreign corporation, or a personal holding company (section 501), attach a statement showing name and address of each such company and total number of shares of each class of outstanding stock owned. If at any time during the year you owned stock in a foreign personal holding company (section 331), include in income as a dividend the amount required by section 337, and if you owned 5 percent or more in value of the outstanding stock of such company, attach a statement giving in detail the information required by section 337(d).

SPECIFIC INSTRUCTIONS

(Numbered to correspond with item numbers on page 1 of return)

1. SALARIES, ETC.—Include compensation received as an officer or employee of a State or political subdivision or any agency or instrumentality thereof. (See General Instruction H3(h) for exclusion allowance for military and naval personnel.)

2. DIVIDENDS.—Enter total of all taxable dividends. Include dividends on share accounts in Federal savings and loan associations in case of shares issued on or after March 28, 1942; dividends on shares issued before that date should be entered in Schedule A.

3. and 4. INTEREST ON CORPORATION BONDS, ETC.—Enter in item 4 interest on bonds, debentures, notes, or certificates or other evidences of indebtedness, issued by any corporation with interest coupons or in registered form. Do not include interest on any such obligation which constitutes stock in trade of the taxpayer or any such obligation 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 obligation held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business. Such interest should be entered in item 3. (See Instruction 5 for deduction of amortization of bond premium.)

5. INTEREST ON GOVERNMENT OBLIGATIONS, ETC.—Enter in Schedule A the amount owned at the end of the year of the various obligations listed therein and the interest received or accrued during the year. The total of column 5, line (h), Schedule A (amount subject to surtax only), should be entered as item 5 (a). Interest received or accrued during the year and reported in line (i), Schedule A (amount subject to normal tax and surtax), should be entered as item 5 (b).

Section 23 (v) provides for the deduction of amortizable bond premium by the owner of the bond. The term "bond" means any bond, debenture, note, or certificate or other evidence of indebtedness, issued by any corporation and bearing interest (including any like obligation issued by a government or political subdivision thereof), with interest coupons or in registered form, but does not include any such obligation which constitutes stock in trade of the taxpayer or any such obligation 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 obligation held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business. The amount of the deduction, computed under section 125, should be entered in the appropriate spaces in items 4 and 5, and deducted from the amount of interest received or accrued.

Amortization of bond premium is mandatory with respect to fully tax-exempt bonds (the interest on which is not subject to income tax). In the case of fully taxable bonds (the interest on which is subject to the normal tax and the surtax) and partially tax-exempt bonds (the interest on which is subject only to surtax), the amortization of bond premium is elective as to either one or as to both. Such election shall be made by the taxpayer by taking a deduction for the bond premium on his return for the first taxable year to which he desires the election to be applicable. Attach a statement showing the computation of the deduction.

The election shall apply to all bonds with respect to which it was made owned by the taxpayer at the beginning of the first taxable year to which the election applies and also to all bonds of such class (or classes) thereafter acquired by him,

and shall be binding for all subsequent taxable years, unless upon application by the taxpayer, the Commissioner permits the taxpayer to revoke the election.

In the case of a fully tax-exempt bond, the amortizable premium for the taxable year is an adjustment to the basis or adjusted basis of the bond, but no deduction is allowable on account of such amortizable premium. In the case of a fully taxable bond, the amortizable premium is both an adjustment to the basis or adjusted basis of the bond and also a deduction. In the case of a partially tax-exempt bond, the amortizable premium for the taxable year is used for three purposes; (1) as an adjustment to the basis or adjusted basis; (2) as a deduction; and (3) as a reduction to the credit for the interest on the bonds.

Noninterest-bearing obligations issued at a discount.—Taxpayer on the cash basis may elect, as to all noninterest-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. Taxpayer so electing shall report such income as interest in item 3, 4, or 5, page 1, whichever is applicable, and attach statement listing obligations owned and computation of accrued income. An election exercised in the current year or in a prior year is binding for all subsequent years.

6. RENTS AND ROYALTIES.—Include rent received in property or crops. Report crops received on crop-share basis in year in which disposed of (unless return is made on accrual basis).

7. ANNUITIES.—Amounts received as an annuity under an annuity or endowment contract shall be included in gross income to the extent of 3 percent of the aggregate premiums or consideration paid for such annuity. If the aggregate of the amounts received and excluded from gross income in this and prior years equals the aggregate premiums or consideration paid for such annuity, the entire amount thereafter received must be included in gross income.

FOR INSTRUCTIONS 8, 9, AND 10, SEE PAGE 4

12. CONTRIBUTIONS PAID.—Enter (not to exceed 15 percent of your net income computed without the benefit of this deduction, or of the deduction for extraordinary medical expenses deductible under section 23 (x)) contributions or gifts, payment of which was made within the year to or for the use of—

(a) 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 any possession of the United States, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals, 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;

(b) The United States, any State, Territory, or any political subdivision thereof, or the District of Columbia, or any possession of the United States, for exclusively public purposes;

(c) The special fund for vocational rehabilitation authorized by section 12 of the World War Veterans' Act, 1924;

(d) Posts or organizations of war veterans, or auxiliary units or societies of any such posts or organizations, if such posts, organizations, units, or societies 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

(e) A domestic fraternal society, order, or association, operating under the lodge system, but only if such contributions or gifts are to be used exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals.

13. INTEREST.—Enter interest on personal indebtedness as distinguished from business indebtedness (which should be entered in Schedules B and H). Do not include 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 upon which is wholly exempt from taxation. Include tenant-stockholder's proportion of interest paid or incurred by a cooperative apartment corporation on its outstanding indebtedness contracted in the acquisition, construction, alteration, rehabilitation, or maintenance of a cooperative apartment building or in the acquisition of the land on which the building is located. (See section 23 (z).) For limitations on deductions for unpaid expenses and interest, see section 24 (c). Do not deduct amounts paid or accrued on indebtedness incurred or continued to purchase a single premium life insurance or endowment contract. A contract shall be considered a single premium life insurance or endowment contract, if substantially all the premiums on such contract are paid within a period of 4 years from the date on which the contract is purchased.

14. TAXES.—Enter taxes paid or accrued during the taxable year except taxes entered in Schedules B and H and taxes not deductible. The taxes imposed by the United States Government on the following items may be deducted: Admissions, club dues, telephone and telegraph services, safe deposit boxes, transportation of persons and property, use of motor vehicle or boat, and documents. State and local retail sales taxes may be deducted to the extent that they are separately stated and paid by the purchaser. Do not include taxes assessed against local benefits, Federal income taxes or estate, inheritance, legacy, succession, gift taxes, taxes imposed on your interest as shareholder of a corporation which are paid by the corporation without reimbursement from you, nor income taxes claimed as a credit in item 32. Federal social security and employment taxes paid by or for an employee are not deductible by the employee. Include tenant-shareholder's proportion of real estate taxes on a cooperative apartment building and the land on which it is situated, allowable as a deduction under section 23 (c), paid or incurred by the cooperative apartment corporation. (See section 23 (z).)

15. LOSSES.—Enter property losses (not claimed in Schedule H), from fire, storm, shipwreck, or other casualty, or from theft, not compensated for by insurance or otherwise. Include also losses (not claimed in Schedule H) from property destroyed or seized in the course of military or naval operations during the war, and of property located in enemy countries or in areas which come under the control of the enemy. See section 127 for rules as to treatment of losses from war, taxation of property recovered, and basis of property. Explain in Schedule C, giving description of property, date acquired, cost, subsequent improvements, depreciation allowable, insurance, salvage value, and deductible loss.

16. BAD DEBTS.—Enter bad debts other than those claimed in Schedule H. Show in Schedule C: (a) of what the debts consisted; (b) name and family relationship, if any, of debtor; (c) when created; (d) when due; (e) efforts made to collect; and (f) how determined to be worthless. Enter in Schedule F losses from corporate securities with interest coupons or in registered form which become worthless during the year, and which are capital assets.

17. OTHER DEDUCTIONS.—Enter other authorized deductions, including net operating loss deduction allowed by section 23 (s). Every taxpayer claiming a deduction due to a net operating loss for the preceding taxable year or years shall file with his return the statement required by section 19.122-1 of the regulations. Include alimony and separate maintenance payments to the extent permitted by section 23 (u). Include non-trade or non-business expenses incurred either (1) for the production or collection of taxable income or (2) for the management, conservation, or maintenance of property held for the production of taxable income. Expenses paid, not compensated for by insurance or otherwise, for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body (including amounts paid for accident or health insurance) of the taxpayer, his spouse, or a dependent of the taxpayer, are

deductible. The deduction is limited to such expenses as exceed 5 percent of the net income computed without the benefit of the deduction for expenses paid for such medical care. Where the husband and wife file a joint return the limitation is 5 percent of the aggregate net income of such husband and wife. The maximum deduction in the case of a husband and wife who file a joint return or a head of a family may not exceed \$2,500, and in the case of all other individuals, \$1,250.

Do not deduct losses in transactions not connected with your trade or business or not entered into for profit. Losses from wagering transactions are allowable to the extent of gains therefrom.

21, 22. CREDIT FOR PERSONAL EXEMPTION AND DEPENDENTS.—A single person, or a married person not living with spouse, is allowed a personal exemption of \$500. A person who, during the entire taxable year, was the head of a family or was married and living with spouse, is allowed an exemption of \$1,200. On separate returns (Form 1040), the personal exemption may be taken by either husband or wife or divided between them in any proportion.

A "head of a family" is one who supports in one household one or more dependent individuals closely connected with him by blood relationship, relationship by marriage, or by adoption, and whose right to exercise family control is based upon some moral or legal obligation.

A credit of \$350 is allowed for each person (other than husband or wife) under 18 years of age, or incapable of self-support because mentally or physically defective, whose chief support was received from the taxpayer. If taxpayer is head of a family only because of dependents for whom he would be entitled to credit under preceding sentence, \$350 credit is allowed for each of such dependents except one.

If taxpayer's status, with respect to personal exemption and credit for dependents, changed during the taxable year, such exemption and credit shall be apportioned according to the number of months before and after such change. A fractional part of a month is disregarded unless it exceeds half a month, when it shall be considered a month.

25. EARNED INCOME CREDIT.—"Earned income" means wages, salaries, professional fees, and other amounts received as compensation for personal services actually rendered. Where a taxpayer is engaged in a trade or business in which both personal services and capital are material income-producing factors, a reasonable allowance as compensation for the personal services actually rendered by the taxpayer, not in excess of 20 percent of his share of the net profits of such trade or business, shall be considered as earned income. "Earned net income" means the excess of the amount of the earned income over the sum of the "earned income deductions," which are the ordinary and necessary expenses properly chargeable against earned income.

28. SURTAX.—The following table shows the surtax due for the taxable year upon certain specified amounts of surtax net income.

SURTAX TABLE

<i>If the surtax net income is:</i>	<i>The surtax shall be:</i>
Not over \$2,000	13% of the surtax net income.
Over \$2,000 but not over \$4,000	\$260, plus 16% of excess over \$2,000.
Over \$4,000 but not over \$6,000	\$580, plus 20% of excess over \$4,000.
Over \$6,000 but not over \$8,000	\$980, plus 24% of excess over \$6,000.
Over \$8,000 but not over \$10,000	\$1,460, plus 28% of excess over \$8,000.
Over \$10,000 but not over \$12,000	\$2,020, plus 32% of excess over \$10,000.
Over \$12,000 but not over \$14,000	\$2,660, plus 36% of excess over \$12,000.
Over \$14,000 but not over \$16,000	\$3,380, plus 40% of excess over \$14,000.
Over \$16,000 but not over \$18,000	\$4,180, plus 43% of excess over \$16,000.
Over \$18,000 but not over \$20,000	\$5,040, plus 46% of excess over \$18,000.
Over \$20,000 but not over \$22,000	\$5,960, plus 49% of excess over \$20,000.
Over \$22,000 but not over \$26,000	\$6,940, plus 52% of excess over \$22,000.
Over \$26,000 but not over \$32,000	\$9,020, plus 55% of excess over \$26,000.
Over \$32,000 but not over \$38,000	\$12,320, plus 58% of excess over \$32,000.
Over \$38,000 but not over \$44,000	\$15,800, plus 61% of excess over \$38,000.
Over \$44,000 but not over \$50,000	\$19,460, plus 63% of excess over \$44,000.
Over \$50,000 but not over \$60,000	\$23,240, plus 66% of excess over \$50,000.
Over \$60,000 but not over \$70,000	\$29,840, plus 69% of excess over \$60,000.
Over \$70,000 but not over \$80,000	\$36,740, plus 72% of excess over \$70,000.
Over \$80,000 but not over \$90,000	\$43,940, plus 75% of excess over \$80,000.
Over \$90,000 but not over \$100,000	\$51,440, plus 77% of excess over \$90,000.
Over \$100,000 but not over \$150,000	\$59,140, plus 79% of excess over \$100,000.
Over \$150,000 but not over \$200,000	\$98,640, plus 81% of excess over \$150,000.
Over \$200,000	\$139,140, plus 82% of excess over \$200,000.

31. INCOME TAX PAID AT SOURCE.—Enter 2 percent of interest on bonds on which Federal income tax was paid by debtor corporation.

32. FOREIGN TAX CREDIT.—If credit is claimed for taxes paid to a foreign country or possession of United States, submit Form 1116 and receipts for such payments. If credit is claimed for taxes accrued, attach to Form 1116 certified copy of return on which tax was based.

**INSTRUCTIONS ON THIS PAGE NEED BE CONSIDERED ONLY IF ENTRIES ARE MADE
IN ITEMS 8, 9, AND 10, PAGE 1 OF RETURN**

8. GAINS AND LOSSES FROM SALES OR EXCHANGES OF CAPITAL ASSETS AND OTHER PROPERTY.—Report details in Schedules F and G.

"Capital assets" defined.—The term "capital assets" means property held by the taxpayer (whether or not connected with his trade or business), but not stock in trade or other property of a kind which would properly be included in his inventory if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business, or property used in the trade or business of a character which is subject to the allowance for depreciation provided in section 23 (l), or an obligation of the United States or any of its possessions, or of a State or Territory, or any political subdivision thereof, or of the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding one year from the date of issue, or real property used in the trade or business of the taxpayer.

Section 165 (b) provides that if an employee receives the total distribution that he is entitled to under an employees' trust plan that meets the requirements of section 165 (a) in one taxable year on account of his separation from service, the amount of such distribution to the extent exceeding the amounts contributed by the employee shall be considered a gain from the sale or exchange of a capital asset held for more than 6 months.

A capital gain dividend, as defined in section 362 (relating to tax on regulated investment companies) shall be treated by the shareholder as gains from the sale or exchange of capital assets held for more than 6 months.

For special treatment of gains and losses from involuntary conversion, and from sale or exchange of certain property used in the trade or business, see section 117 (j).

Description of property.—State 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 non-taxable distributions).

Basis.—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, adjusted as provided in section 113 (b), whichever is greater, but in determining LOSS use cost so adjusted. If the property was acquired after February 28, 1913, use cost, except as otherwise provided in section 113.

Losses on securities becoming worthless.—If (1) shares of stock become worthless during the year or (2) 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.

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" to capital assets held for more than 6 months.

LIMITATION ON CAPITAL LOSSES.—Losses from sales or exchanges of capital assets shall be allowed only to the extent of the gains from such sales or exchanges, plus the net income (computed without regard to capital gains and losses) or \$1,000, whichever is smaller. However, the amount of the net short-term capital loss of the last taxable year beginning in 1941 (computed without regard to amounts treated as short-term capital losses from the preceding taxable year), which is not in excess of the net income for such year, shall, to the extent of the net short-term capital gain for the succeeding taxable year, be a short-term capital loss of such succeeding taxable year.

ALTERNATIVE TAX.—If the net long-term capital gain exceeds the net short-term capital loss, an alternative tax may

be imposed in lieu of the normal tax and surtax imposed on net income. (See Computation of Alternative Tax, Schedule F.)

"Wash sales" losses.—Loss from sale or other disposition of stocks or securities cannot be deducted 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.

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 owning more than 50 percent of its stock (liquidations excepted), (c) a grantor and fiduciary of any trust, or (d) a fiduciary and a beneficiary of the same trust.

9. BUSINESS OR PROFESSION.—Fill in Schedule H. Farmers keeping no books of account, or books on cash basis, must attach Form 1040F in lieu of Schedule H. A taxpayer electing to include in gross income amounts received during the year as loans from the Commodity Credit Corporation should file with his return a statement showing the details of such loans. (See section 123.)

If installment method is used, attach schedule showing separately for years 1939, 1940, 1941, and 1942: (a) Gross sales; (b) cost of goods sold; (c) gross profits; (d) percentage of profits to gross sales; (e) amount collected; and (f) gross profit on amount collected.

Bad debts may be deducted either (1) when they become wholly or partially worthless, or (2) by a reasonable addition to a reserve. (No change of method without permission of Commissioner.)

Except as stated below, if any increase or decrease in salary or wages is made after October 3, 1942, without the prior approval of the National War Labor Board or the Commissioner of Internal Revenue, no amount of such salary or wages paid or accrued in contravention of the Act of October 2, 1942, entitled "An Act to amend the Emergency Price Control Act of 1942, to aid in preventing inflation, and for other purposes," or regulations, rulings, or orders promulgated thereunder, is allowable as a deduction. Any increase, however, may be made without the prior approval of the National War Labor Board or the Commissioner of Internal Revenue if it is made in accordance with the terms of an established wage or salary agreement or established wage or salary rate schedule covering the work assignments and it is made as a result of individual promotions or reclassifications, individual merit increases within established rate ranges, operation of an established plan of wage or salary increases based upon length of service, increased productivity under piece-work or incentive plans, or operation of an apprentice or trainee system.

10 (a). INCOME FROM PARTNERSHIPS, FIDUCIARIES, ETC., WHOSE TAXABLE YEAR ENDS WITHIN THE TAXABLE YEAR COVERED BY THIS RETURN.—Enter as item 10 your share of profits (whether received or not) or losses of a partnership (including a syndicate, pool, etc., not taxable as a corporation) except capital gains and losses, which enter in Schedule F. Enter as item 10 income from an estate or trust. Enter in Schedule A your share of interest on obligations of the United States and instrumentalities, issued prior to March 1, 1941, owned by partnership, estate, or trust. Include in item 12, and explain in Schedule C, your share of any contribution or gift, payment of which was made by the partnership within its taxable year. Enter in items 31 and 32, respectively, your share of credits for Federal income tax paid at source and foreign income taxes.

10 (b). OTHER INCOME.—Enter any other taxable income, including earnings of minor children if parent is legally entitled thereto and alimony and separate maintenance income.