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1937

UNITED STATES INDIVIDUAL INCOME TAX RETURN

1937

Do not write in this space (Auditor's Stamp)

Treasury Department (FORM 1040) Internal Revenue Service FOR NET INCOMES FROM SALARIES, WAGES, INTEREST, AND DIVIDENDS OF MORE THAN \$5,000 AND INCOMES FROM OTHER SOURCES REGARDLESS OF AMOUNTS For Calendar Year 1937 or Fiscal Year beginning _____, 1937, and ended _____, 1938 File this return not later than the 15th day of the third month following the close of the taxable year PRINT NAME AND ADDRESS PLAINLY (See Instruction E) (Name) (Both husband and wife, if a joint return) (Street and number, or rural route) (Post office) (County) (State)

Do not use these spaces File Code Serial Number District (Cashiers Stamp) Cash—Check—M. O. First Payment \$

Table with columns for Item and Instruction No, INCOME, and monetary values. Rows include: 1. Salaries and other compensation for personal services; 2. Dividends from domestic and foreign corporations; 3. Interest on bank deposits, notes, mortgages, etc.; 4. Interest on corporation bonds; 5. Taxable interest on Government obligations, etc.; 6. Income (or loss) from partnerships, syndicates, pools, etc.; 7. Income from fiduciaries; 8. Rents and royalties; 9. Income (or loss) from business or profession; 10. Gain (or loss) from sale or exchange of property; 11. Other income; 12. Total income in items 1 to 11; DEDUCTIONS; 13. Contributions; 14. Interest; 15. Taxes; 16. Losses by fire, storm, etc.; 17. Bad debts; 18. Other deductions authorized by law; 19. Total deductions in items 13 to 18; 20. Net income (item 12 minus item 19).

COMPUTATION OF TAX Table with columns for item number, description, and monetary values. Rows include: 21. Net income (item 20 above); 22. Less: Personal exemption (from Schedule I); 23. Credit for dependents (from Schedule I); 24. Balance (surtax net income); 25. Less: Interest on Government obligations (item 5); 26. Earned income credit (from Schedule J); 27. Balance subject to normal tax; 28. Normal tax (4% of item 27); 29. Surtax on item 24 (see Instruction 29); 30. Total tax (item 28 plus item 29); 31. Less: Income tax paid at source; 32. Income tax paid to a foreign country or U. S. possession; 33. Balance of tax (item 30 minus items 31 and 32).

NOTE.—One form marked "DUPLICATE COPY" must be filed with this original return (\$5 will be assessed if duplicate copy is not filed)

Schedule A.—INCOME FROM SALARIES AND OTHER COMPENSATION FOR PERSONAL SERVICES. (See Instruction 1)

1. Name and Address of Employer or Nature of Income	2. Amount	3. Expenses (Itemize)	4. Amount
	\$		\$
Total column 2 minus total column 4 (enter as item 1, page 1)			\$

Schedule B.—INTEREST ON GOVERNMENT OBLIGATIONS, ETC. (See Instruction 5)

1. Obligations or Securities	2. Amount Owned at End of Year	3. Interest Received or Accrued During the Year	4. Interest Exempt From Taxation	5. Interest on Amount in Excess of Exemption
(a) Obligations of a State, Territory, or political subdivision thereof, or the District of Columbia, or United States possessions	\$	\$	All	XXXXXXXX XX
(b) Obligations issued under Federal Farm Loan Act, or under such Act as amended			All	XXXXXXXX XX
(c) Obligations of United States issued on or before September 1, 1917			All	XXXXXXXX XX
(d) Treasury Notes, Treasury Bills, and Treasury Certificates of Indebtedness			All	XXXXXXXX XX
(e) U. S. Savings Bonds and Treasury Bonds				\$
(f) Obligations of instrumentalities of the United States (other than obligations to be reported in (b) above)			None	
(g) Total (enter total of column 5 as item 5, page 1)				\$

Schedule C.—INCOME FROM RENTS AND ROYALTIES. (See Instruction 8)

1. Kind of Property	2. Amount	3. Depreciation (Explain in Schedule E)	4. Repairs	5. Other Expenses (Itemize below)	6. Net Profit (Enter as item 8, page 1)
	\$	\$	\$	\$	\$

Explanation of deductions claimed in column 5

Schedule D.—PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION. (See Instruction 9)

1. Total receipts (state nature of business or profession)		\$
COST OF GOODS SOLD		
2. Labor	\$	
3. Material and supplies		
4. Merchandise bought for sale		
5. Other costs (itemize below)		
6. Plus inventory at beginning of year		
7. Total (lines 2 to 6)	\$	
8. Less inventory at end of year		
9. Net cost of goods sold (line 7 minus line 8)	\$	
OTHER BUSINESS DEDUCTIONS		
10. Salaries not included as "Labor" (do not deduct compensation for yourself)	\$	
11. Interest on business indebtedness		
12. Taxes on business and property		
13. Losses (explain in Schedule G)		
14. Bad debts arising from sales or services		
15. Depreciation, obsolescence, and depletion (explain in Schedule E)		
16. Rent, repairs, and other expenses (itemize below or on separate sheet)		
17. Total (lines 10 to 16)	\$	
18. Total deductions (line 9 plus line 17)		
19. Net profit (or loss) (line 1 minus line 18) (enter as item 9, page 1)		\$

Enter "C", or "M", on lines 6 and 8 to indicate whether inventories are valued at cost, or cost or market, whichever is lower.

Explanation of deductions claimed on lines 5 and 16

Schedule E.—EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED IN SCHEDULES C AND D

1. Kind of Property (If Buildings, State Material of Which Constructed)	2. Date Acquired	3. Cost or Other Basis	4. Assets Fully Depreciated in Use at End of Year	5. Depreciation Allowed (or Allowable) in Prior Years	6. Remaining Cost or Other Basis to be Recovered	7. Life Used in Accumulating Depreciation	8. Estimated Remaining Life From Beginning of Year	9. Depreciation Allowable This Year
		\$	\$	\$	\$			\$

Schedule F—GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY. (See Instruction 10)

1. Reference Letter	2. Date Acquired <i>Mo. Day Year</i>	3. Date Sold or Exchanged <i>Mo. Day Year</i>	4. Time Held (Years, Months)	5. Gross Sales Price (Contract Price)	6. Cost or Other Basis	7. Expense of Sale and Cost of Improvements Subsequent to Acquisition or March 1, 1913	8. Depreciation Allowed or Allowable Since Acquisition or March 1, 1913 (Furnish details)	9. Gain or Loss
(a)	Description			\$	\$	\$	\$	\$
(b)	Description							
(c)	Description							
(d)	Description							
(e)	Description							
(f)	Description							
(g)	Description							
(h)	Description							
(i)	Description							
(j)	Description							

Combine amounts in column 9 by groups according to time held, into totals; and enter same on line (w) of the summary table below. Indicate by G or L whether entry is gain or loss.

Period of Time Held	1 Year or Less	Over 1 Year But Not Over 2 Years	Over 2 Years But Not over 5 Years	Over 5 Years But Not Over 10 Years	Over 10 Years	ITEM (Z) Enter Below Net Applicable Gain or Loss Obtained by Combining the Items on Line (y)
(w) Total gain or loss from column 9 above	\$	\$	\$	\$	\$	
(x) Percentage applicable	100%	80%	60%	40%	30%	
(y) Gain or loss applicable (line (w) times line (x))	\$	\$	\$	\$	\$	\$

Enter item (z) as item 10 on page 1; but if item (z) is a net loss, do not enter over \$2,000.

Give here descriptive details not shown above: _____

State here whether any item above was (1) acquired other than by purchase, or (2) was sold or transferred to purchaser having relationship to you: _____

Schedule G.—EXPLANATION OF DEDUCTIONS CLAIMED IN ITEMS 13, 14, 15, 16, 17, AND 18

1. Source of Income	2. Nature of Income	3. Amount
		\$

Schedule I.—EXPLANATION OF CREDITS CLAIMED IN ITEMS 22 AND 23. (See Instructions 22 and 23)

(a) Personal Exemption			(b) Credit for Dependents			
Status	Number of Months During Year in Each Status	Credit Claimed	Name of Dependent and Relationship	Number of Months During the Year		Credit Claimed
				Under 18 Years Old	Over 18 Year. Old	
Single, or married and not living with husband or wife		\$				\$
Married and living with husband or wife						
Head of family (explain below)						
Reason for credit			Reason for support if 18 years old or over			
Name of dependent and relationship						

Schedule J.—COMPUTATION OF EARNED INCOME CREDIT. (See Instruction 26)

(a) For Net Income of \$3,000, or Less		(b) For Net Income in Excess of \$3,000	
1. Net income (item 20, page 1)	\$	1. Earned net income (Not over \$14,000)	\$
2. Earned income credit (10% of line 1, above)		2. Net income (item 20, page 1)	
		3. Earned income credit 10% of line 1 or 2, above, whichever amount is smaller, but do not enter less than \$300	

QUESTIONS

- State your principal occupation or profession
- Check whether you are a citizen or resident alien
- If you filed a return for the preceding year, to which Collector's office was it sent?
- Are items of income or deductions of both husband and wife included in this return? (See Instruction B)
- State name of husband or wife if a separate return was made, and the Collector's office to which it was sent
- Check whether this return was prepared on the cash or accrual basis.
- Did you at any time during your taxable year own directly or indirectly any stock of a domestic or foreign personal holding company? (Answer "yes" or "no") If answer is yes, attach schedule required by Instruction M.

AFFIDAVIT. (See Instruction F)

I/we swear (or affirm) that this return (including any accompanying schedules and statements) has been examined by me/us, and to the best of my/our knowledge and belief is a true, correct, and complete return, made in good faith, for the taxable year stated, pursuant to the Revenue Acts of 1936 and 1937 and the regulations issued thereunder.

Subscribed and sworn to by _____
before me this _____ day of _____, 193__

(Signature) (See Instruction F)

(Signature)

(Signature and title of officer administering oath)

A return made by an agent must be accompanied by power of attorney. (See Instruction F.)

If this is a joint return (not made by agent) it must be signed by both husband and wife and sworn to before a proper officer by the spouse preparing the return, or if neither or both prepare the return then by both spouses.

AFFIDAVIT. (See Instruction F)

(If this return was prepared for you by some other person, the following affidavit must be executed)

I/we swear (or affirm) that I/we prepared this return for the person or persons named herein and that the return (including any accompanying schedules and statements) is a true, correct, and complete statement of all the information respecting the income-tax liability of the person or persons for whom this return has been prepared of which I/we have any knowledge.

Subscribed and sworn to before me this _____ day
of _____, 193__



(Signature of person preparing the return)

(Signature of person preparing the return)

(Signature and title of officer administering oath)

(Name of firm or employer, if any)

UNITED STATES

1937

INDIVIDUAL INCOME TAX RETURN

1937

Do not write in this space

(Auditor's Stamp)

Treasury Department (FORM 1040) Internal Revenue Service

FOR NET INCOMES FROM SALARIES, WAGES, INTEREST, AND DIVIDENDS OF MORE THAN \$5,000 AND INCOMES FROM OTHER SOURCES REGARDLESS OF AMOUNTS

For Calendar Year 1937 or Fiscal Year

beginning _____, 1937, and ended _____, 1938

File this return not later than the 15th day of the third month following the close of the taxable year

PRINT NAME AND ADDRESS PLAINLY (See Instruction E)

(Name) (Both husband and wife, if a joint return)

(Street and number, or rural route)

(Post office)

(County)

(State)

DUPLICATE COPY

IMPORTANT



One duplicate copy must be filed with original return.

(\$5 will be assessed if duplicate is not filed.)

First Payment

\$

INCOME

Table with 12 rows for income items (1-12) and columns for description, amount, and tax status.

DEDUCTIONS

Table with 8 rows for deduction items (13-20) and columns for description, amount, and tax status.

COMPUTATION OF TAX

Table with 10 rows for tax computation items (21-33) and columns for description, amount, and tax status.

1. Name and Address of Employer or Nature of Income	2. Amount	3. Expenses (Itemize)	Amount
	\$		\$
Total column 2 minus total column 4 (enter as item 1, page 1)			\$

Schedule B.—INTEREST ON GOVERNMENT OBLIGATIONS, ETC. (See Instruction 5)

1. Obligations or Securities	2. Amount Owed at End of Year	3. Interest Received or Accrued During the Year	4. Interest Exempt From Taxation	5. Interest on Amount in Excess of Description
(a) Obligations of a State, Territory, or political subdivision thereof, or the District of Columbia, or United States possessions	\$		All	XXX XX XX
(b) Obligations issued under Federal Farm Loan Act, or under such Act as amended			All	XXXXXXXX XX
(c) Obligations of United States issued on or before September 1, 1917			All	XXXXXXXX XX
(d) Treasury Notes, Treasury Bills, and Treasury Certificates of Indebtedness			All	XXXX XX
(e) U. S. Savings Bonds and Treasury Bonds				
(f) Obligations of instrumentalities of the United States (other than obligations to be reported in (b) above)				
(g) Total (enter to column 5 as item 5, page 1)				\$

Schedule C.—INCOME FROM RENTS AND ROYALTIES. (See Instruction 8)

1. Kind of Property	2. Amount	3. Depreciation (Explain in Schedule I)	4. Repairs	5. Other Expenses (Itemize below)	6. Net Profit (Enter as item 8, page 1)
	\$	\$	\$	\$	\$

Explanation of deductions claimed in column 5

Schedule D.—PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION. (See Instruction 9)

1. Total receipts (state nature of business or profession)		\$
COST OF GOODS SOLD		
2. Labor	\$	
3. Material and supplies		
4. Merchandise bought for sale		
5. Other costs (itemize below)		
6. Plus inventory at beginning of year		
7. Total (lines 2 to 6)	\$	
8. Less inventory at end of year		
9. Net cost of goods sold (line 7 minus line 8)	\$	
OTHER BUSINESS DEDUCTIONS		
10. Salaries not included as "Labor" (do not deduct compensation for yourself)	\$	
11. Interest on business indebtedness		
12. Taxes on business and property		
13. Losses (explain in Schedule G)		
14. Bad debts arising from sales or services		
15. Depreciation, obsolescence, and depletion (explain in Schedule E)		
16. Rent, repairs, and other expenses (itemize below or on separate sheet)		
17. Total (lines 10 to 16)	\$	
18. Total deductions (line 9 plus line 17)		
Profit (or loss) (line 1 minus line 18) (enter as item 9, page 1)		\$

Explanation of deductions claimed on lines 5 and 16

Schedule F

PLANATION OF DEPRECIATION CLAIMED IN SCHEDULES C AND D

1. Kind of Property (If Buildings, State Material of Which Constructed)	2. Date Acquired	3. Cost or Other Basis	4. Assets Fully Depreciated in Use at End of Year	5. Depreciation Allowed (or Allowable) in Prior Years	6. Remaining Cost or Other Basis to be Recovered	7. Life Used in Accumulating Depreciation	8. Estimated Remaining Life From Beginning of Year	9. Depreciation Allowable This Year
		\$	\$	\$	\$			\$

Schedule F—GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY. (See Instruction 10)

1. Reference Letter	2. Date Acquired <i>Mo. Day Year</i>	3. Date Sold or Exchanged <i>Mo. Day Year</i>	4. Time Held (Years, Months)	5. Gross Sales Price (Contract Price)	6. Cost or Other Basis	7. Expense of Sale and Cost of Improvements Subsequent to Acquisition or March 1, 1913	8. Depreciation Allowed (or Allowable) Since Acquisition or March 1, 1913 (furnish details)	9. Gain or Loss
(a)	Description			\$	\$	\$	\$	\$
(b)	Description							
(c)	Description							
(d)	Description							
(e)	Description							
(f)	Description							
(g)	Description							
(h)	Description							
(i)	Description							
(j)	Description							

Combine amounts in column 9 by groups according to time held, into totals; and enter same on line (w) of the summary table below. Indicate by G or L whether entry is gain or loss.

Period of Time Held	1 Year or Less	Over 1 Year But Not Over 2 Years	Over 2 Years But Not over 5 Years	Over 5 Years But Not Over 10 Years	Over 10 Years	ITEM (z) <small>Enter Below Net Applicable Gain or Loss Obtained by Combining the Items on Line (y)</small>
(w) Total gain or loss from column 9 above	\$	\$	\$	\$	\$	
(x) Percentage applicable	100%	80%	60%	40%	30%	
(y) Gain or loss applicable (line (w) times line (x))	\$	\$	\$	\$	\$	\$

Enter item (z) as item 10 on page 1; but if item (z) is a net loss, do not enter over \$2,000.

Give here descriptive details not shown above: _____

State here whether any item above was (1) acquired other than by purchase, or (2) was sold or transferred to purchaser having relationship to you: _____

Schedule G.—EXPLANATION OF DEDUCTIONS CLAIMED IN ITEMS 13, 14, 15, 16, 17, AND 18

Schedule H.—NONTAXABLE INCOME OTHER THAN INTEREST REPORTED IN SCHEDULE B. (See Instruction, 12)

1. Source of Income	2. Nature of Income	3. Amount
		\$

Schedule I.—EXPLANATION OF CREDITS CLAIMED IN ITEMS 22 AND 23. (See Instructions 22 and 23)

(a) Personal Exemption			(b) Credit for Dependents			
Status	Number of Months During Year in Each Status	Credit Claimed	Name of Dependent and Relationship	Number of Months During the Year		Credit Claimed
				Under 18 Years Old	Over 18 Year Old	
Single, or married and not living with husband or wife		\$				\$
Married and living with husband or wife						
Head of family (explain below)						
Reason for credit			Reason for support if 18 years old or over			
Name of dependent and relationship						

Schedule J.—COMPUTATION OF EARNED INCOME CREDIT. (See Instruction 26)

(a) For Net Income of \$3,000, or Less		(b) For Net Income in Excess of \$3,000	
1. Net income (item 20, page 1)	\$	1. Earned net income (Not over \$14,000)	\$
2. Earned income credit (10% of line 1, above)		2. Net income (item 20, page 1)	
		3. Earned income credit 10% of line 1 or 2, above, whichever amount is smaller, but do not enter less than \$300	

QUESTIONS

1. State your principal occupation or profession	5. State name of husband or wife if a separate return was made, and the Collector's office to which it was sent
2. Check whether you are a citizen <input type="checkbox"/> or resident alien <input type="checkbox"/>	6. Check whether this return was prepared on the cash <input type="checkbox"/> or accrual <input type="checkbox"/> basis.
3. If you filed a return for the preceding year, to which Collector's office was it sent?	7. Did you at any time during your taxable year own directly or indirectly any stock of a domestic or foreign personal holding company? (Answer "yes" or "no") If answer is yes, attach schedule required by Instruction M.
4. Are items of income or deductions of both husband and wife included in this return? (See Instruction B)	



UNITED STATES INDIVIDUAL INCOME TAX RETURN

Taxpayers will find it helpful to read General Instructions (A) to (M) before commencing to fill in their returns, and to read Specific Instructions in connection with filling in the item or items to which they refer.

GENERAL INSTRUCTIONS

(A) Who must use Form 1040.—All individuals, except nonresident aliens, required to make returns (1) whose net income, regardless of source, is more than \$5,000, or (2) whose income, regardless of amount, includes any item other than salaries or other compensation for personal services, dividends, and interest, or (3) who make returns on an accrual basis, or (4) who make returns for a fiscal year.

All other individuals, except nonresident aliens, required to make returns shall use Form 1040A. Nonresident aliens are required to use Form 1040B or 1040NB.

(B) Who must make a return.—Every citizen of the United States, whether residing at home or abroad, and every person residing in the United States though not a citizen thereof, whose gross income for the taxable year is \$5,000 or over, or whose net income is—

- (a) \$1,000 or over, if single or if married and not living with husband or wife;
- (b) \$2,500 or over, if married and living with husband or wife; or
- (c) Equal to or more than the personal exemption allowable if taxpayer was married and living with husband or wife during only part of the taxable year.

If the combined net income of husband and wife is \$2,500 or over, or if their combined gross income is \$5,000 or over, including in each case the earnings of minor children, if their parents have the legal right to the same, all such income must be reported in a joint return, or in separate returns of husband and wife. In the absence of proof to the contrary, a parent will be presumed to have the legal right to the earnings of a minor and must include such earnings in his return.

In order for a joint return to be filed by a husband and wife, both must have had some income or deductions in the year for which the return is filed and the return must include the income and deductions of both. A joint return of husband and wife may be filed only if they were living together at the close of their taxable year.

(C) Returns of income of decedents.—If the net income of a decedent to the date of his death was \$1,000 or over, if unmarried, or owed to in excess of the credit allowed him by section 25(b) (1) and (3) of the Revenue Act of 1936 (computed without regard to his status as the head of a family), if married and living with spouse, or if his gross income for the period was \$5,000 or over, the executor or administrator shall make a return for him on Form 1040 or 1040A. The return for a decedent shall include all items of income and deductions accrued up to the date of death regardless of the fact that the decedent may have kept his books on a cash basis or kept no books.

Returns of income of estates and trusts must be made on form 1041.

(D) Period to be covered by return.—Calendar year 1937 or fiscal year beginning in 1937 and ended in 1938.

The established accounting period must be adhered to for all years, unless permission is received from the Commissioner to make a change. An application for a change in the accounting period shall be made on Form 1128 and forwarded to the collector prior to the expiration of 30 days from the close of the proposed taxable year.

(E) When and where the return must be filed.—On or before the 15th day of the third month following the close of your taxable year with the collector of internal revenue for the district in which you live or have your principal place of business. In case you have no legal residence or place of business in the United States, the return should be forwarded to Collector of Internal Revenue, Baltimore, Md.

Your home or residential address should be given in the space provided at the top of the first page of the return. If you have a permanent business address, that address may be given as the principal or mailing address, provided that the complete home or residential address is also given.

(F) Affidavits.—The affidavit must be executed by the person whose income is reported or by his legal representative or agent. The return may be made by an agent (1) if, by reason of illness, the person liable for making of the return is unable to make it, or (2) if the taxpayer is unable to make the return by reason of continuous absence from the United States for a period of at least 60 days prior to the date prescribed by law for making the return. Whenever a return is made by an agent it must be accompanied by a power of attorney on Form 935, or, in the case of husband and wife, on Form 936 (copies of which may be obtained from the collector of internal revenue.)

Where the return is actually prepared by some person or persons other than the taxpayer, such person or persons must execute the affidavit at the foot of page 4 of the return.

The oath will be administered without charge by any collector, deputy collector, or internal revenue agent. If an internal revenue officer is not available, the return should be sworn to before a notary public, or other person authorized to administer oaths, except an attorney or agent employed to represent the taxpayer before the Department in connection with his tax liability.

(G) When and to whom the tax must be paid.—The tax must be paid in full when the return is filed, or in four equal installments as

follows: On or before the 15th day of the month, on or before the 15th day of the sixth month, on or before the 15th day of the ninth month, and on or before the 15th day of the twelfth month, from the close of the taxable year. If any installment is not paid on the date fixed for payment, the whole amount of tax unpaid shall be paid upon notice and demand by the collector.

The tax may be paid by sending or bringing with the return a check or money order drawn to the order of "Collector of Internal Revenue." Do not send cash by mail, nor pay it in person except at the collector's office.

(H) Penalties.—The law imposes severe penalties for failing to make a return or for making a false or fraudulent return. Penalties are also imposed for failing to file a return on time.

(I) Received or accrued income.—If your books of account are kept on the accrual basis, report all income accrued, even though it has not been actually received or entered on the books, and expenses incurred instead of expenses paid. As to disallowance of deductions for unpaid expenses and interest due to certain persons, see Specific Instruction 14. If your books are not kept on the accrual basis, or if you kept no books, make your return on a cash basis and report all income received or constructively received, such as bank interest credited to your account and coupon bond interest matured, and report expenses actually paid.

(J) Items exempt from tax.—All items of income received and claimed to be exempt from tax should be explained in Schedule H, except nontaxable interest to be reported in Schedule B.

The following items are exempt from Federal income tax, except where otherwise indicated, and should not be included in gross income:

(a) Amounts received under a life insurance contract paid by reason of the death of the insured; whether in a single sum or in installments (but if such amounts are held by the insurer under an agreement to pay interest thereon, the interest payments shall be included in gross income);

(b) Amounts received (other than amounts paid by reason of the death of the insured and interest payments on such amounts and other than amounts received as annuities) under a life insurance or endowment contract, but if such amounts (when added to amounts received before the taxable year under such contract) exceed the aggregate premiums or consideration paid (whether or not paid during the taxable year) then the excess shall be included in gross income;

(c) Gifts (not received as a consideration for service rendered) and money and property acquired by bequest, devise, or inheritance (but the income derived from such property is taxable and must be reported);

(d) Interest upon (1) the obligations of a State, Territory, or any political subdivision thereof, or the District of Columbia, or United States possessions; or (2) obligations issued under the provisions of the Federal Farm Loan Act or under such Act as amended; or (3) the obligations of the United States; or (4) the obligations of instrumentalities of the United States (other than obligations issued under the Federal Farm Loan Act or under such Act as amended), such as Federal Farm Mortgage Corporation bonds, Home Owners Loan Corporation bonds, etc. The interest on United States Savings Bonds and Treasury Bonds, owned in excess of \$5,000, and on obligations of instrumentalities of the United States (other than obligations issued under the Federal Farm Loan Act or under such Act as amended) is subject to surtax if the surtax net income is over \$1,000. Such interest should be reported in Schedule B (see also Specific Instructions 5);

(e) 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;

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

(g) Compensation paid by a State or political subdivision thereof to its officers or employees for services rendered if such compensation is constitutionally exempt from Federal taxation.

(h) 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 to the United States in time of war; and

(i) Amounts received as earned income from sources without the United States (except amounts paid by the United States or any agency thereof) by an individual citizen of the United States who is a bona fide nonresident for more than six months during the taxable year. The taxpayer in such a case may not deduct from his gross income any amount properly allocable to or chargeable against the amount so excluded from his gross income.

(K) Treatment of depreciation and depletion.—A reasonable allowance for the exhaustion, wear or tear, and obsolescence of property used in the trade or business may be deducted. All deductions for depreciation must be explained in Schedule E. If obsolescence is claimed, explain why the useful life is less than the actual life.

The amount of depreciation on property acquired by purchase should be determined upon the basis of the original cost (not replacement cost) of the property and the probable number of years remaining of its expected useful life, except if the property was purchased prior to March 1, 1913, it will be computed on the fair market value of such property as of that date or its original cost (less depreciation actually sustained before that date), whichever is greater. If the property was acquired in any other manner than by purchase, see section 114 of the Revenue Act of 1936.

See sections 23(m) and 114 of the Revenue Act of 1936 and Regulations 94 with respect to additional forms and information required if a deduction is claimed for depletion.

(L) Information at source.—Every person making payments of salaries, wages, interest, rents, commissions, or other fixed determinable income of \$1,000 or more during the calendar year 1937, to a single person, a partnership, or a fiduciary, or \$2,500 or more to a married person, is required to make a return on Forms 1096 and 1099 showing the amount of such payments and the name and address of

each recipient. These forms will be furnished by any collector of internal revenue upon request and must be forwarded to the Commission of Internal Revenue, Sorting Section, Washington, D. C., in time to be received not later than February 15, 1938.

(M) Stock owned in domestic and foreign personal holding companies.—If at any time during your taxable year you owned directly or indirectly any stock of a domestic or foreign personal holding company, attach to your return a statement setting forth the name and address of each such company and the highest percentage of the total number of shares of each class of outstanding stock owned by you

during the taxable year. If you owned stock at any time during the taxable year in a foreign personal holding company as defined in section 331 of the Revenue Act of 1936, as amended by the Revenue Act of 1937, you must include in your return as a dividend the amount required to be included in your gross income by section 337 of the Revenue Act of 1936, as amended by the Revenue Act of 1937. If you owned 5 percent or more in value of the outstanding stock in such foreign personal holding company, set forth in an attached statement in compliance with the information required by section 337 (d) of the Revenue Act of 1936, as amended by the Revenue Act of 1937.

SPECIFIC INSTRUCTIONS

The following instructions are numbered to correspond with item numbers on page 1 of return:

1. Income from salaries and other compensation for personal services.—Any amount claimed as a deduction for ordinary and necessary expenses against salaries, etc., such as traveling expenses while away from home in connection with your occupation, should be fully explained in Schedule A or in an attached statement. Traveling expenses ordinarily include expenditures for transportation, meals, and lodging. The expenses of a commuter in traveling to and from work are not deductible.

If a joint return, enter as separate items in Schedule A earnings of each spouse. Earnings of minor children should also be entered in Schedule A, if parent is legally entitled to such earnings.

5. Interest on Government obligations, etc.—Interest on an aggregate of not exceeding \$5,000 principal amount of the obligations enumerated on line (e), Schedule B, is exempt from the surtaxes imposed by section 12 of the Revenue Act of 1936. Enter in column 4, line (e), interest received from such obligations in an amount not exceeding the interest received or accrued on an aggregate principal of \$5,000 of such obligations. If at times during the taxable year you held more than \$5,000 principal in the aggregate of such obligations, enter in column 5, line (e), the interest received or accrued in excess of interest up to an aggregate of \$5,000 principal amount of such obligations.

Interest coupons falling due within the taxable year will be considered as income for such year where the books are kept on a cash basis. If the books are kept on an accrual basis, report the actual amount of interest accrued on the obligations owned during the taxable year. (See also General Instruction (J), paragraph (d).)

6, 7. Income from partnerships, syndicates, pools, etc., and fiduciaries.—Enter as item 6 your share of the profits (whether received or not) or of the losses of a partnership (including a syndicate, pool, etc., not taxable as a corporation), and as item 7 income from an estate or trust. Include in items 31 and 32, respectively, your share of credits claimed for Federal income tax paid at source, and foreign income and profits taxes.

If the taxable year on the basis of which you file your return does not coincide with the annual accounting period of the partnership or fiduciary, you should include in your return your distributive share of the net profits for such accounting period ending within your taxable year.

8. Income from rents and royalties.—Fill in Schedule C giving the information requested.

If you received property or crops in lieu of cash rents, report the income as though the rent had been received in cash. Crops received as rent on a crop-share basis should be reported as income for the year in which disposed of (unless your return is on the accrual basis).

9. Profit (or loss) from business or profession.—If you owned a business, or practiced a profession on your own account, fill in Schedule D of the return, and enter the net profit (or loss) as item 9 of the return.

Farmer's income schedule.—If you are a farmer and keep no books of account, or keep books on a cash basis, obtain from the collector, and attach to this return, Form 1040F, schedule of Farm Income and Expenses, and enter the net farm income as item 9 of this return. If your farm books of account are kept on an accrual basis, the filing of Form 1040F is optional.

Installment sales.—If the installment method is used, attach to the return a schedule showing separately for the years 1934, 1935, 1936, and 1937 the following: (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. (See section 44 of the Revenue Act of 1936.)

Inventories.—If engaged in a trade or business in which the production, manufacture, purchase and sale of merchandise is an income-producing factor, inventories of merchandise on hand should be taken at the beginning and end of the taxable year, which may be valued at cost, or (b) cost or market, whichever is lower. Taxpayers were given an option to adopt the basis of either (a) cost, or (b) cost or market, whichever is lower, for their 1920 inventories. The basis properly adopted for that year or any subsequent year is controlling and a change can now be made only after permission is secured from the Commissioner. Application for permission to change the basis 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 make the change.

Salaries.—Do not include compensation for services of yourself, your dependent minor children (if you are legally entitled to their earnings) or of husband or wife if a joint return is filed, which items are not deductible.

Interest.—Enter on line 11 interest on business indebtedness. Do not include interest to yourself on capital invested in or advanced to

the business. As to limitations on deductions for unpaid expenses and interest to certain persons, see Specific Instruction 14.

Taxes.—Enter on line 12 taxes on business property or for carrying on business. (See Specific Instruction 15.)

Losses.—Enter on line 13 losses incurred in the trade or business, if not compensated for by insurance or otherwise. (See also Specific Instruction 16.) Losses from sale or exchange of capital assets should be entered in Schedule F and item 10 of the return.

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

Taxpayers were given an option for 1921 to select either of these methods and the method used in the return for the year 1921 must be used in returns for all 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.

A taxpayer filing a first return of income may select either of the two methods mentioned above subject to approval by the Commissioner upon examination of the return. If the method selected is approved, it must be followed in returns for subsequent years, except as permission may be granted by the Commissioner to change to the other method.

If the reserve method is used, you should attach to your return the statement required by article 23 (k)-5 of Regulations 94.

Debts arising from sales or services are not deductible unless the original amount has been reported as income. Bonds ascertained to be worthless are to be treated as bad debts.

A debt previously charged off, allowed as a deduction, and subsequently collected must be returned as income for the year in which collected.

Rents, repairs, and other expenses.—Do not include rent for a dwelling occupied by you for residential purposes, the cost of business equipment or furniture, expenditures for replacements or permanent improvements to property, nor personal, living or family expenses.

10. Gains and losses from sales of property.—Report sales or exchanges of capital assets in Schedule F and enter the net amount of gain or loss to be taken into account in computing net income as item 10. (Capital losses are allowable only to the extent of \$2,000 plus capital gains. Therefore, if the total amount of capital losses is in excess of the total amount of capital gains, the amount to be entered as item 10 must not exceed \$2,000.) Every sale or exchange of property, even though no gain or loss may be indicated, must be reported in detail.

Enter full description of each item of property sold or exchanged. Such description should include the following facts: (a) For real estate, location and description of land, description of improvements, details explaining depreciation (column 8 of Schedule F); (b) for bonds or other evidences of indebtedness, name of issuing corporation, description of the particular issue, denomination, and amount; (c) for stocks, name of corporation, class of stock, number of shares, capital changes affecting basis (nontaxable stock dividends, other nontaxable dividends, stock rights, etc.).

The "basis" for the property is not subject to the same rule for reporting gains as for losses, if the property was acquired before March 1, 1913. If the property sold or exchanged was acquired prior to March 1, 1913, the basis for determining GAIN is the cost or the fair market value as of March 1, 1913, adjusted as provided in section 113(b) of the Revenue Act of 1936, whichever is greater, but in determining LOSS the basis is cost so adjusted. (See section 113 of the Revenue Act of 1936.) If property was acquired after March 1, 1913, basis for both gain and loss is the cost of such property, except as otherwise provided by section 113, Revenue Act of 1936. The exceptions arise only when property was acquired by gift, bequest, tax-free exchange, involuntary conversion, or sale of stock, and in such cases section 113 prescribes the basis that shall be used. If the amount shown as the basis is other than actual cash cost of the property sold or exchanged, full details must be furnished regarding the acquisition of the property.

Enter in column 8 of Schedule F the amount of depreciation, expiration, wear and tear, obsolescence, or depletion which has been allowed (but not less than the amount allowable) in respect of such property since date of acquisition, or since March 1, 1913, if the property was acquired before that date. In addition, if the property was acquired before March 1, 1913, the cost shall be reduced by the depreciation actually sustained before that date.

Subsequent improvements include expenditures for additions, improvements, and renewals and replacements made to restore the property or prolong its useful life. Do not deduct ordinary repairs, interest, or taxes in computing gain or loss.