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Parker

[CONFERENCE COMMITTEE PRINT]

REVENUE ACT OF 1934

COMPARATIVE PRINT

**Showing Changes from Existing Law Made by the Bill as Passed by
the Senate**

**73^D CONGRESS
2^D Session**

H. R. 7835

IN THE SENATE OF THE UNITED STATES

(Part printed in Italic is new matter; part struck through is present law proposed to be omitted; part in roman type is present law in which no change is proposed)

AN ACT

To provide revenue, equalize taxation, and for other purposes.

- 1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act, divided into titles and sections according to
4 the following Table of Contents, may be cited as the "Reve-
5 nue Act of ~~1932~~ 1934":

J. 53052—1

BEST AVAILABLE COPY

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TITLE I—INCOME TAX**SUBTITLE A—INTRODUCTORY PROVISIONS****SEC. 1. APPLICATION OF TITLE.**

The provisions of this title shall apply only to the taxable year 1933 and succeeding taxable years beginning after December 31, 1933. Income, war-profits, and excess-profits taxes for taxable years preceding the taxable year 1933 beginning prior to January 1, 1934, shall not be affected by the provisions of this title, but shall remain subject to the applicable provisions of prior revenue Acts, except as such provisions are modified by Title ~~IX~~ III of this Act or by legislation enacted subsequent to this Act.

SEC. 2. CROSS REFERENCES.

The cross references in this title to other portions of the title, where the word "see" is used, are made only for convenience, and shall be given no legal effect.

SEC. 3. CLASSIFICATION OF PROVISIONS.

The provisions of this title are herein classified and designated as—

Subtitle A—Introductory provisions,

Subtitle B—General provisions, divided into Parts
and sections,

Subtitle C—Supplemental provisions, divided into
Supplements and sections.

1 **SEC. 4. SPECIAL CLASSES OF TAXPAYERS.**

2 The application of the General Provisions and of Supple-
3 ments A to D, inclusive, to each of the following special
4 classes of taxpayers, shall be subject to the exceptions and
5 additional provisions found in the Supplement applicable to
6 such class, as follows:

7 (a) Estates and trusts and the beneficiaries thereof,—
8 Supplement E.

9 (b) Members of partnerships,—Supplement F.

10 (c) Insurance companies,—Supplement G.

11 (d) Nonresident alien individuals,—Supplement H.

12 (e) Foreign corporations,—Supplement I.

13 (f) Individual citizens of any possession of the United
14 States who are not otherwise citizens of the United States and
15 who are not residents of the United States,—Supplement J.

16 (g) Individual citizens of the United States or domestic
17 corporations, satisfying the conditions of section 251 by
18 reason of deriving a large portion of their gross income from
19 sources within a possession of the United States,—Supple-
20 ment J.

21 (h) China Trade Act corporations,—Supplement K.

1 SUBTITLE B—GENERAL PROVISIONS

2 Part I—Rates of Tax

3 SEC. 11. NORMAL TAX ON INDIVIDUALS.

4 There shall be levied, collected, and paid for each tax-
5 able year upon the net income of every individual a normal
6 tax equal to the sum of the following:

7 (a) 4 per centum of the first \$4,000 of the
8 amount of the net income in excess of the credits against
9 net income provided in section 25; and

10 (b) 8 per centum of the remainder of such excess
11 amount.

12 There shall be levied, collected, and paid for each
13 taxable year upon the net income of every individual a
14 normal tax of 4 per centum of the amount of the net income
15 in excess of the credits against net income provided in
16 section 25.

17 SEC. 12. SURTAX ON INDIVIDUALS.

18 (a) RATES OF SURTAX.—There shall be levied, col-
19 lected, and paid for each taxable year upon the net income
20 of every individual a surtax as follows:

21 Upon a net income of \$6,000 there shall be no
22 surtax; upon net incomes in excess of \$6,000 and not
23 in excess of \$10,000, 1 per centum of such excess:

24 \$40 upon net incomes of \$10,000; and upon net
25 incomes in excess of \$10,000 and not in excess of
26 \$12,000, 2 per centum in addition of such excess;

1 **\$80 upon net incomes of \$12,000; and upon net**
2 **incomes in excess of \$12,000 and not in excess of**
3 **\$14,000, 8 per centum in addition of such excess.**

4 **\$140 upon net incomes of \$14,000; and upon net**
5 **incomes in excess of \$14,000 and not in excess of**
6 **\$16,000, 4 per centum in addition of such excess.**

7 **\$220 upon net incomes of \$16,000; and upon net**
8 **incomes in excess of \$16,000 and not in excess of**
9 **\$18,000, 5 per centum in addition of such excess.**

10 **\$320 upon net incomes of \$18,000; and upon net**
11 **incomes in excess of \$18,000 and not in excess of**
12 **\$20,000, 6 per centum in addition of such excess.**

13 **\$440 upon net incomes of \$20,000; and upon net**
14 **incomes in excess of \$20,000 and not in excess of**
15 **\$22,000, 8 per centum in addition of such excess.**

16 **\$600 upon net incomes of \$22,000; and upon net**
17 **incomes in excess of \$22,000 and not in excess of**
18 **\$24,000, 9 per centum in addition of such excess.**

19 **\$780 upon net incomes of \$24,000; and upon net**
20 **incomes in excess of \$24,000 and not in excess of**
21 **\$26,000, 10 per centum in addition of such excess.**

22 **\$980 upon net incomes of \$26,000; and upon net**
23 **incomes in excess of \$26,000 and not in excess of**
24 **\$28,000, 11 per centum in addition of such excess.**

1 **\$1,200 upon net incomes of \$28,000; and upon**
2 **net incomes in excess of \$28,000 and not in excess of**
3 **\$30,000, 12 per centum in addition of such excess.**

4 **\$1,440 upon net incomes of \$30,000; and upon**
5 **net incomes in excess of \$30,000 and not in excess of**
6 **\$32,000, 12 per centum in addition of such excess.**

7 **\$1,700 upon net incomes of \$32,000; and upon**
8 **net incomes in excess of \$32,000 and not in excess of**
9 **\$36,000, 15 per centum in addition of such excess.**

10 **\$2,200 upon net incomes of \$36,000; and upon**
11 **net incomes in excess of \$36,000 and not in excess of**
12 **\$38,000, 16 per centum in addition of such excess.**

13 **\$2,620 upon net incomes of \$38,000; and upon**
14 **net incomes in excess of \$38,000 and not in excess of**
15 **\$40,000, 17 per centum in addition of such excess.**

16 **\$2,960 upon net incomes of \$40,000; and upon**
17 **net incomes in excess of \$40,000 and not in excess of**
18 **\$42,000, 18 per centum in addition of such excess.**

19 **\$3,320 upon net incomes of \$42,000; and upon**
20 **net incomes in excess of \$42,000 and not in excess of**
21 **\$44,000, 19 per centum in addition of such excess.**

22 **\$3,700 upon net incomes of \$44,000; and upon**
23 **net incomes in excess of \$44,000 and not in excess of**
24 **\$46,000, 20 per centum in addition of such excess.**

1 **\$4,100** upon net incomes of **\$46,000**; and upon
2 net incomes in excess of **\$46,000** and not in excess of
3 **\$48,000**, **21** per centum in addition of such excess.

4 **\$4,520** upon net incomes of **\$48,000**; and upon
5 net incomes in excess of **\$48,000** and not in excess of
6 **\$50,000**, **22** per centum in addition of such excess.

7 **\$4,980** upon net incomes of **\$50,000**; and upon
8 net incomes in excess of **\$50,000** and not in excess of
9 **\$52,000**, **23** per centum in addition of such excess.

10 **\$5,400** upon net incomes of **\$52,000**; and upon
11 net incomes in excess of **\$52,000** and not in excess of
12 **\$54,000**, **24** per centum in addition of such excess.

13 **\$5,900** upon net incomes of **\$54,000**; and upon
14 net incomes in excess of **\$54,000** and not in excess of
15 **\$56,000**, **25** per centum in addition of such excess.

16 **\$6,400** upon net incomes of **\$56,000**; and upon
17 net incomes in excess of **\$56,000** and not in excess of
18 **\$58,000**, **26** per centum in addition of such excess.

19 **\$6,920** upon net incomes of **\$58,000**; and upon
20 net incomes in excess of **\$58,000** and not in excess of
21 **\$60,000**, **27** per centum in addition of such excess.

22 **\$7,460** upon net incomes of **\$60,000**; and upon
23 net incomes in excess of **\$60,000** and not in excess of
24 **\$62,000**, **28** per centum in addition of such excess.

1 **\$8,020** upon net incomes of **\$62,000**; and upon
2 net incomes in excess of **\$62,000** and not in excess of
3 **\$64,000**, **20** per centum in addition of such excess.

4 **\$8,600** upon net incomes of **\$64,000**; and upon
5 net incomes in excess of **\$64,000** and not in excess of
6 **\$66,000**, **20** per centum in addition of such excess.

7 **\$9,200** upon net incomes of **\$66,000**; and upon
8 net incomes in excess of **\$66,000** and not in excess of
9 **\$68,000**, **21** per centum in addition of such excess.

10 **\$9,820** upon net incomes of **\$68,000**; and upon
11 net incomes in excess of **\$68,000** and not in excess of
12 **\$70,000**, **22** per centum in addition of such excess.

13 **\$10,460** upon net incomes of **\$70,000**; and upon
14 net incomes in excess of **\$70,000** and not in excess of
15 **\$72,000**, **23** per centum in addition of such excess.

16 **\$11,120** upon net incomes of **\$72,000**; and upon
17 net incomes in excess of **\$72,000** and not in excess of
18 **\$74,000**, **24** per centum in addition of such excess.

19 **\$11,800** upon net incomes of **\$74,000**; and upon
20 net incomes in excess of **\$74,000** and not in excess of
21 **\$76,000**, **25** per centum in addition of such excess.

22 **\$12,500** upon net incomes of **\$76,000**; and upon
23 net incomes in excess of **\$76,000** and not in excess
24 of **\$78,000**, **26** per centum in addition of such excess.

1 **\$12,220 upon net incomes of \$78,000; and upon**
2 **net incomes in excess of \$78,000 and not in excess**
3 **of \$80,000, 27 per centum in addition of such excess.**

4 **\$13,060 upon net incomes of \$80,000; and upon**
5 **net incomes in excess of \$80,000 and not in excess**
6 **of \$82,000, 28 per centum in addition of such excess.**

7 **\$14,720 upon net incomes of \$82,000; and upon**
8 **net incomes in excess of \$82,000 and not in excess**
9 **of \$84,000, 30 per centum in addition of such excess.**

10 **\$15,500 upon net incomes of \$84,000; and upon**
11 **net incomes in excess of \$84,000 and not in excess**
12 **of \$86,000, 40 per centum in addition of such excess.**

13 **\$16,800 upon net incomes of \$86,000; and upon**
14 **net incomes in excess of \$86,000 and not in excess**
15 **of \$88,000, 41 per centum in addition of such excess.**

16 **\$17,120 upon net incomes of \$88,000; and upon**
17 **net incomes in excess of \$88,000, and not in excess**
18 **of \$90,000, 42 per centum in addition of such excess.**

19 **\$17,060 upon net incomes of \$90,000; and upon**
20 **net incomes in excess of \$90,000 and not in excess of**
21 **\$92,000, 43 per centum in addition of such excess.**

22 **\$18,820 upon net incomes of \$92,000; and upon**
23 **net incomes in excess of \$92,000 and not in excess of**
24 **\$94,000, 44 per centum in addition of such excess.**

1 **\$10,700** upon net incomes of **\$04,000**; and upon
2 net incomes in excess of **\$04,000** and not in excess of
3 **\$06,000**, 45 per centum in addition of such excess.

4 **\$20,600** upon net incomes of **\$06,000**; and upon
5 net incomes in excess of **\$06,000** and not in excess of
6 **\$08,000**, 46 per centum in addition of such excess.

7 **\$21,520** upon net incomes of **\$08,000**; and upon
8 net incomes in excess of **\$08,000** and not in excess of
9 **\$100,000**, 47 per centum in addition of such excess.

10 **\$22,460** upon net incomes of **\$100,000**; and upon
11 net incomes in excess of **\$100,000** and not in excess of
12 **\$150,000**, 48 per centum in addition of such excess.

13 **\$46,460** upon net incomes of **\$150,000**; and upon
14 net incomes in excess of **\$150,000** and not in excess of
15 **\$200,000**, 49 per centum in addition of such excess.

16 **\$70,960** upon net incomes of **\$200,000**; and upon
17 net incomes in excess of **\$200,000** and not in excess of
18 **\$300,000**, 50 per centum in addition of such excess.

19 **\$120,960** upon net incomes of **\$300,000**; and
20 upon net incomes in excess of **\$300,000** and not in
21 excess of **\$400,000**, 51 per centum in addition of such
22 excess.

23 **\$171,960** upon net incomes of **\$400,000**; and
24 upon net incomes in excess of **\$400,000** and not in
25 excess of **\$500,000**, 52 per centum in addition of such
26 excess.

1 \$222,060 upon net incomes of \$500,000; and
 2 upon net incomes in excess of \$500,000 and not in
 3 excess of \$750,000, 53 per centum in addition of such
 4 excess.

5 \$256,460 upon net incomes of \$750,000; and
 6 upon net incomes in excess of \$750,000 and not in
 7 excess of \$1,000,000, 54 per centum in addition of such
 8 excess.

9 \$401,460 upon net incomes of \$1,000,000; and
 10 upon net incomes in excess of \$1,000,000, 55 per
 11 centum in addition of such excess.

12 (a) *DEFINITION OF "SURTAX NET INCOME".—As*
 13 *used in this section the term "surtax net income" means the*
 14 *amount of the net income in excess of the credits against net*
 15 *income provided in section 25 (b).*

16 (b) *RATES OF SURTAX.—There shall be levied, col-*
 17 *lected, and paid for each taxable year upon the surtax net*
 18 *income of every individual a surtax as follows:*

19 *Upon a surtax net income of \$4,000 there shall be*
 20 *no surtax; upon surtax net incomes in excess of \$4,000*
 21 *and not in excess of \$6,000, 5 per centum of such excess.*

22 *\$100 upon surtax net incomes of \$6,000; and*
 23 *upon surtax net incomes in excess of \$6,000 and not in*
 24 *excess of \$8,000, 7 per centum in addition of such excess.*

1 *\$240 upon surtax net incomes of \$8,000; and upon*
2 *surtax net incomes in excess of \$8,000 and not in excess*
3 *of \$10,000, 8 per centum in addition of such excess.*

4 *\$400 upon surtax net incomes of \$10,000; and*
5 *upon surtax net incomes in excess of \$10,000 and not in*
6 *excess of \$12,000, 9 per centum in addition of such*
7 *excess.*

8 *\$580 upon surtax net incomes of \$12,000; and*
9 *upon surtax net incomes in excess of \$12,000 and not*
10 *in excess of \$14,000, 10 per centum in addition of such*
11 *excess.*

12 *\$780 upon surtax net incomes of \$14,000; and*
13 *upon surtax net incomes in excess of \$14,000 and not*
14 *in excess of \$16,000, 11 per centum in addition of such*
15 *excess.*

16 *\$1,000 upon surtax net incomes of \$16,000; and*
17 *upon surtax net incomes in excess of \$16,000 and not*
18 *in excess of \$18,000, 12 per centum in addition of*
19 *such excess.*

20 *\$1,240 upon surtax net incomes of \$18,000; and*
21 *upon surtax net incomes in excess of \$18,000 and not*
22 *in excess of \$20,000, 13 per centum in addition of such*
23 *excess.*

24 *\$1,500 upon surtax net incomes of \$20,000; and*
25 *upon surtax net incomes in excess of \$20,000 and not*

1 *in excess of \$22,000, 15 per centum in addition of*
2 *such excess.*

3 *\$1,800 upon surtax net incomes of \$22,000; and*
4 *upon surtax net incomes in excess of \$22,000 and not*
5 *in excess of \$26,000, 17 per centum in addition of such*
6 *excess.*

7 *\$2,480 upon surtax net incomes of \$26,000; and*
8 *upon surtax net incomes in excess of \$26,000 and not*
9 *in excess of \$32,000, 19 per centum in addition of such*
10 *excess.*

11 *\$3,620 upon surtax net incomes of \$32,000; and*
12 *upon surtax net incomes in excess of \$32,000 and not*
13 *in excess of \$38,000, 21 per centum in addition of*
14 *such excess.*

15 *\$4,880 upon surtax net incomes of \$38,000; and*
16 *upon surtax net incomes in excess of \$38,000 and not*
17 *in excess of \$44,000, 24 per centum in addition of such*
18 *excess.*

19 *\$6,320 upon surtax net incomes of \$44,000; and*
20 *upon surtax net incomes in excess of \$44,000 and not*
21 *in excess of \$50,000, 27 per centum in addition of such*
22 *excess.*

23 *\$7,940 upon surtax net incomes of \$50,000; and*
24 *upon surtax net incomes in excess of \$50,000 and not*

1 *in excess of \$56,000, 30 per centum in addition of such*
2 *excess.*

3 *\$9,740 upon surtax net incomes of \$56,000; and*
4 *upon surtax net incomes in excess of \$56,000 and not*
5 *in excess of \$62,000, 33 per centum in addition of such*
6 *excess.*

7 *\$11,720 upon surtax net incomes of \$62,000;*
8 *and upon surtax net incomes in excess of \$62,000 and*
9 *not in excess of \$68,000, 36 per centum in addition of*
10 *such excess.*

11 *\$13,880 upon surtax net incomes of \$68,000;*
12 *and upon surtax net incomes in excess of \$68,000 and*
13 *not in excess of \$74,000, 39 per centum in addition of*
14 *such excess.*

15 *\$16,220 upon surtax net incomes of \$74,000;*
16 *and upon surtax net incomes in excess of \$74,000 and*
17 *not in excess of \$80,000, 42 per centum in addition of*
18 *such excess.*

19 *\$18,740 upon surtax net incomes of \$80,000; and*
20 *upon surtax net incomes in excess of \$80,000 and not in*
21 *excess of \$90,000, 45 per centum in addition of such*
22 *excess.*

23 *\$23,240 upon surtax net incomes of \$90,000; and*
24 *upon surtax net incomes in excess of \$90,000 and not*

1 *in excess of \$100,000, 50 per centum in addition of*
2 *such excess.*

3 *\$28,240 upon surtax net incomes of \$100,000;*
4 *and upon surtax net incomes in excess of \$100,000*
5 *and not in excess of \$150,000, 52 per centum in*
6 *addition of such excess.*

7 *\$54,240 upon surtax net incomes of \$150,000;*
8 *and upon surtax net incomes in excess of \$150,000*
9 *and not in excess of \$200,000, 53 per centum in addi-*
10 *tion of such excess.*

11 *\$80,740 upon surtax net incomes of \$200,000;*
12 *and upon surtax net incomes in excess of \$200,000*
13 *and not in excess of \$300,000, 54 per centum in*
14 *addition of such excess.*

15 *\$134,740 upon surtax net incomes of \$300,000;*
16 *and upon surtax net incomes in excess of \$300,000*
17 *and not in excess of \$400,000, 55 per centum in addi-*
18 *tion of such excess.*

19 *\$189,740 upon surtax net incomes of \$400,000;*
20 *and upon surtax net incomes in excess of \$400,000*
21 *and not in excess of \$500,000, 56 per centum in addi-*
22 *tion of such excess.*

23 *\$245,740 upon surtax net incomes of \$500,000;*
24 *and upon surtax net incomes in excess of \$500,000*

1 *and not in excess of \$750,000, 57 per centum in*
2 *addition of such excess.*

3 *\$388,240 upon surtax net incomes of \$750,000;*
4 *and upon surtax net incomes in excess of \$750,000 and*
5 *not in excess of \$1,000,000, 58 per centum in addition*
6 *of such excess.*

7 *\$533,240 upon surtax net incomes of \$1,000,000;*
8 *and upon surtax net incomes in excess of \$1,000,000,*
9 *59 per centum in addition of such excess.*

10 **(b) SALE OF MINES AND OIL OR GAS WELLS.**—For
11 **limitation of surtax attributable to sale of mines and oil or**
12 **gas wells, see section 102.**

13 **(c) CAPITAL NET GAINS AND LOSSES.**—For rate and
14 **computation of tax in lieu of normal and surtax in case of net**
15 **incomes of not less than \$16,000, approximately, or in case**
16 **of net incomes, excluding items of capital gain, capital loss,**
17 **and capital deductions; of not less than \$16,000, approxi-**
18 **mately, see section 101.**

19 **(c) TAX ON PERSONAL HOLDING COMPANIES.**—For
20 **surtax on personal holding companies, see section 351.**

21 **(d) EVASION AVOIDANCE OF SURTAXES BY INCOR-**
22 **PORATION.**—For ~~tax~~ **surtax on corporations which accumu-**
23 **late surplus to evade avoid surtax on stockholders, see section**
24 **104 102.**

1 **SEC. 13. TAX ON CORPORATIONS.**

2 (a) **RATE OF TAX.**—There shall be levied, collected,
3 and paid for each taxable year upon the net income of every
4 corporation, a tax of $13\frac{3}{4}$ per centum of the amount of the
5 net income in excess of the credit against net income pro-
6 vided in section 26.

7 (b) **EXEMPT CORPORATIONS.**—For corporations ex-
8 empt from tax, see section ~~108~~ 101.

9 (c) **TAX ON PERSONAL HOLDING COMPANIES.**—For
10 *surtax on personal holding companies, see section 351.*

11 ~~(e)~~ (d) **IMPROPER ACCUMULATION OF SURPLUS.**—
12 For ~~tax~~ *surtax* on corporations which accumulate surplus to
13 ~~evade avoid internal-revenue tax~~ *surtax* on stockholders, see
14 section ~~104~~ 102.

15 **SEC. 14. INCREASE OF TAX FOR 1934.**

16 *In the case of an individual the amount of tax payable*
17 *for any taxable year beginning after December 31, 1933,*
18 *and prior to January 1, 1935, shall be 10 per centum*
19 *greater than the amount of tax which would be payable if*
20 *computed without regard to this section, but after the appli-*
21 *cation of the credit for foreign taxes provided in section 131,*
22 *and the credit for taxes withheld at the source provided in*
23 *section 32.*

1 **SEC. 14. TAXABLE PERIOD EMBRACING YEARS WITH**
2 **DIFFERENT LAWS.**

3 If a taxable period embraces portions of two calendar
4 years for which the laws are different, the tax shall be
5 computed as provided in section 105.

6 **Part II—Computation of Net Income**

7 **SEC. 21. NET INCOME.**

8 "Net income" means the gross income computed
9 under section 22, less the deductions allowed by section 23.

10 **SEC. 22. GROSS INCOME.**

11 (a) **GENERAL DEFINITION.**—"Gross income" in-
12 cludes gains, profits, and income derived from salaries,
13 wages, or compensation for personal service, of whatever
14 kind and in whatever form paid, or from professions, voca-
15 tions, trades, businesses, commerce, or sales, or dealings in
16 property, whether real or personal, growing out of the
17 ownership or use of or interest in such property; also from
18 interest, rent, dividends, securities, or the transaction of
19 any business carried on for gain or profit, or gains or profits
20 and income derived from any source whatever. In the
21 case of Presidents of the United States and judges of courts
22 of the United States taking office after the date of the
23 enactment of this Act June 6, 1932, the compensation
24 received as such shall be included in gross income; and all
25 Acts fixing the compensation of such Presidents and judges
26 are hereby amended accordingly.

1 (b) EXCLUSIONS FROM GROSS INCOME.—The fol-
2 lowing items shall not be included in gross income and shall
3 be exempt from taxation under this title:

4 (1) LIFE INSURANCE.—Amounts received under
5 a life insurance contract paid by reason of the death of
6 the insured, whether in a single sum or ~~in installments~~
7 *otherwise* (but if such amounts are held by the insurer
8 under an agreement to pay interest thereon, the interest
9 payments shall be included in gross income);

10 (2) ANNUITIES, ETC.—Amounts received (other
11 than amounts paid by reason of the death of the insured
12 and interest payments on such amounts *and other than*
13 *amounts received as annuities*) under a life ~~insurance,~~
14 ~~endowment, or annuity insurance or endowment con-~~
15 ~~tract,~~ but if such amounts (when added to amounts
16 received before the taxable year under such contract)
17 exceed the aggregate premiums or consideration paid
18 (whether or not paid during the taxable year) then the
19 excess shall be included in gross income. *Amounts*
20 *received as an annuity under an annuity or endowment*
21 *contract shall be included in gross income; except that*
22 *there shall be excluded from gross income (until the*
23 *aggregate amount excluded from gross income under*
24 *this title or prior income tax laws in respect of such*
25 *annuity equals the aggregate premiums or considera-*

1 *tion paid for such annuity): (A) the excess of the*
2 *amount received in the taxable year over an amount*
3 *equal to 3 per centum of the aggregate premiums or*
4 *consideration paid for such annuity (whether or not*
5 *paid during such year), or (B) the entire amount of*
6 *the annuity if the sum thereof and amounts of other*
7 *annuities received in the same taxable year is not more*
8 *than \$500. In the case of a transfer for a valuable*
9 *consideration, by assignment or otherwise, of a life in-*
10 *surance, endowment, or annuity contract, or any inter-*
11 *est therein, only the actual value of such consideration*
12 *and the amount of the premiums and other sums sub-*
13 *sequently paid by the transferee shall be exempt from*
14 *taxation under paragraph (1) or this paragraph;*

15 (3) **GIFTS, BEQUESTS, AND DEVISES.**—The value
16 of property acquired by gift, bequest, devise, or inherit-
17 ance (but the income from such property shall be
18 included in gross income) ;

19 (4) **TAX-FREE INTEREST.**—Interest upon (A)
20 the obligations of a State, Territory, or any political sub-
21 division thereof, or the District of Columbia; or (B)
22 securities issued under the provisions of the Federal
23 Farm Loan Act, or under the provisions of such Act as
24 amended obligations of a corporation organized under
25 Act of Congress, if such corporation is an instrumen-

1 *tality of the United States; or (C) the obligations of*
2 *the United States or its possessions. Every person*
3 *owning any of the obligations or securities enumerated*
4 *in clause (A), (B), or (C) shall, in the return re-*
5 *quired by this title, submit a statement showing the*
6 *number and amount of such obligations and securities*
7 *owned by him and the income received therefrom, in*
8 *such form and with such information as the Commis-*
9 *sioner may require. In the case of obligations of the*
10 *United States issued after September 1, 1917 (other*
11 *than postal savings certificates of deposit) and in the*
12 *case of obligations of a corporation organized under Act*
13 *of Congress, the interest shall be exempt only if and*
14 *to the extent provided in the respective Acts authoriz-*
15 *ing the issue thereof as amended and supplemented, and*
16 *shall be excluded from gross income only if and to the*
17 *extent it is wholly exempt to the taxpayer from the*
18 *taxes imposed by this title;*

19 (5) COMPENSATION FOR INJURIES OR SICK-
20 NESS.—Amounts received, through accident or health
21 insurance or under workmen's compensation acts, as
22 compensation for personal injuries or sickness, plus the
23 amount of any damages received whether by suit or
24 agreement on account of such injuries or sickness;

1 (6) **MINISTERS.**—The rental value of a dwelling
2 house and appurtenances thereof furnished to a minister
3 of the gospel as part of his compensation;

4 (7) **MISCELLANEOUS ITEMS.**—The following
5 items, to the extent provided in section 116:

6 Earned income from sources without the
7 United States;

8 Salaries of certain Territorial employees;

9 The income of foreign governments;

10 Income of States, municipalities, and other
11 political subdivisions;

12 Receipts of shipowners' mutual protection
13 and indemnity associations;

14 Dividends from China Trade Act corpora-
15 tions.

16 (c) **INVENTORIES.**—Whenever in the opinion of the
17 Commissioner the use of inventories is necessary in order
18 clearly to determine the income of any taxpayer, inven-
19 tories shall be taken by such taxpayer upon such basis as
20 the Commissioner, with the approval of the Secretary, may
21 prescribe as conforming as nearly as may be to the best
22 accounting practice in the trade or business and as most
23 clearly reflecting the income.

24 (d) **DISTRIBUTIONS BY CORPORATIONS.**—Distribu-
25 tions by corporations shall be taxable to the shareholders as
26 provided in section 115.

1 (e) **DETERMINATION OF GAIN OR LOSS.**—In the case
2 of a sale or other disposition of property, the gain or loss
3 shall be computed as provided in sections 111, 112, and 113
4 *section 111.*

5 (f) **GROSS INCOME FROM SOURCES WITHIN AND**
6 **WITHOUT UNITED STATES.**—For computation of gross in-
7 come from sources within and without the United States,
8 see section 119.

9 **SEC. 23. DEDUCTIONS FROM GROSS INCOME.**

10 In computing net income there shall be allowed as
11 deductions:

12 (a) **EXPENSES.**—All the ordinary and necessary ex-
13 penses paid or incurred during the taxable year in carrying
14 on any trade or business, including a reasonable allowance
15 for salaries or other compensation for personal services
16 actually rendered; traveling expenses (including the entire
17 amount expended for meals and lodging) while away from
18 home in the pursuit of a trade or business; and rentals
19 or other payments required to be made as a condition to
20 the continued use or possession, for purposes of the trade
21 or business, of property to which the taxpayer has not
22 taken or is not taking title or in which he has no equity.

23 (b) **INTEREST.**—All interest paid or accrued within
24 the taxable year on indebtedness, except ~~(1)~~ on indebted-
25 ness incurred or continued to purchase or carry obligations

1 ~~or securities~~ (other than obligations of the United States
 2 issued after September 24, 1917, and originally subscribed
 3 for by the taxpayer) the interest upon which is wholly
 4 exempt from the taxes imposed by this title, ~~or (2)~~ on
 5 indebtedness incurred or continued in connection with the
 6 purchasing or carrying of an annuity.

7 (c) TAXES GENERALLY.—Taxes paid or accrued
 8 within the taxable year, except—

9 (1) *Federal* income, war-profits, and excess-
 10 profits taxes imposed by the authority of the United
 11 States;

12 (2) income, war-profits, and excess-profits taxes
 13 imposed by the authority of any foreign country or pos-
 14 session of the United States; but this deduction shall be
 15 allowed in the case of a taxpayer who does not signify
 16 in his return his desire to have to any extent the
 17 benefits of section 131 (relating to credit for taxes
 18 of foreign countries and possessions of the United
 19 States); and

20 (3) *estate, inheritance, legacy, succession, and*
 21 *gift taxes; and*

22 ~~(3)~~ (4) taxes assessed against local benefits of a
 23 kind tending to increase the value of the property
 24 assessed; but this paragraph shall not exclude the allow-
 25 ance as a deduction of so much of such taxes as is

1 properly allocable to maintenance or interest charges.
2 For the purpose of this subsection, estate, inheritance, legacy,
3 and succession taxes accrue on the due date thereof, except
4 as otherwise provided by the law of the jurisdiction imposing
5 such taxes, and shall be allowed as a deduction only to the
6 estate.

7 (d) TAXES OF SHAREHOLDER PAID BY CORPORATION.—The deduction for taxes allowed by subsection (c)
8 shall be allowed to a corporation in the case of taxes
9 imposed upon a shareholder of the corporation upon his
10 interest as shareholder which are paid by the corporation
11 without reimbursement from the shareholder, but in such
12 cases no deduction shall be allowed the shareholder for the
13 amount of such taxes.
14

15 (e) LOSSES BY INDIVIDUALS.—Subject to the limita-
16 tions provided in subsection (r) of this section, in In the
17 case of an individual, losses sustained during the taxable
18 year and not compensated for by insurance or otherwise—

19 (1) if incurred in trade or business; or

20 (2) if incurred in any transaction entered into for
21 profit, though not connected with the trade or
22 business; or

23 (3) of property not connected with the trade or
24 business, if the loss arises from fires, storms, shipwreck,
25 or other casualty, or from theft. No loss shall be allowed

1 as a deduction under this paragraph if at the time of
 2 the filing of the return such loss has been claimed as
 3 a deduction for estate tax purposes in the estate tax
 4 return.

5 (f) LOSSES BY CORPORATIONS.—Subject to the limi-
 6 tations provided in subsection ~~(r)~~ of this section, in In the
 7 case of a corporation, losses sustained during the taxable
 8 year and not compensated for by insurance or otherwise.

9 (g) WAGERING LOSSES.—Losses from wagering
 10 transactions shall be allowed only to the extent of the gains
 11 from such transactions.

12 ~~(g)~~ (h) BASIS FOR DETERMINING LOSS.—The basis
 13 for determining the amount of deduction for losses sustained,
 14 to be allowed under subsection (e) or (f), shall be the
 15 adjusted basis provided in section 113 (b) for determining
 16 the gain or loss from the sale or other disposition of
 17 property.

18 ~~(h)~~ (i) LOSS ON WASH SALES OF STOCK OR SECURI-
 19 TIES.—For disallowance of loss deduction in the case of
 20 sales of stock or securities where within thirty days before
 21 or after the date of the sale the taxpayer has acquired
 22 substantially identical property, see section 118.

23 (j) CAPITAL LOSSES.—Losses from sales or ex-
 24 changes of capital assets shall be allowed only to the extent
 25 provided in section 117(d).

1 ~~(j)~~ (k) **BAD DEBTS.**—Debts ascertained to be worth-
2 less and charged off within the taxable year (or, in the discre-
3 tion of the Commissioner, a reasonable addition to a reserve
4 for bad debts); and when satisfied that a debt is recover-
5 able only in part, the Commissioner may allow such debt,
6 in an amount not in excess of the part charged off within
7 the taxable year, as a deduction.

8 ~~(k)~~ (l) **DEPRECIATION.**—A reasonable allowance for
9 the exhaustion, wear and tear of property used in the trade or
10 business, including a reasonable allowance for obsolescence.
11 In the case of property held by one person for life with
12 remainder to another person, the deduction shall be com-
13 puted as if the life tenant were the absolute owner of the
14 property and shall be allowed to the life tenant. In the
15 case of property held in trust the allowable deduction shall
16 be apportioned between the income beneficiaries and the
17 trustee in accordance with the pertinent provisions of the
18 instrument creating the trust, or, in the absence of such
19 provisions, on the basis of the trust income allocable to each.

20 ~~(l)~~ (m) **DEPLETION.**—In the case of mines, oil and gas
21 wells, other natural deposits, and timber, a reasonable allow-
22 ance for depletion and for depreciation of improvements,
23 according to the peculiar conditions in each case; such rea-
24 sonable allowance in all cases to be made under rules and
25 regulations to be prescribed by the Commissioner, with the

1 approval of the Secretary. In any case in which it is ascer-
2 tained as a result of operations or of development work that
3 the recoverable units are greater or less than the prior esti-
4 mate thereof, then such prior estimate (but not the basis for
5 depletion) shall be revised and the allowance under this
6 subsection for subsequent taxable years shall be based upon
7 such revised estimate. In the case of leases the deductions
8 shall be equitably apportioned between the lessor and lessee.
9 In the case of property held by one person for life with
10 remainder to another person, the deduction shall be computed
11 as if the life tenant were the absolute owner of the property
12 and shall be allowed to the life tenant. In the case of
13 property held in trust the allowable deduction shall be appor-
14 tioned between the income beneficiaries and the trustee in
15 accordance with the pertinent provisions of the instrument
16 creating the trust, or, in the absence of such provisions, on
17 the basis of the trust income allocable to each. (For per-
18 centage depletion *allowable under this subsection*, see section
19 114(b), (3) and (4).)

20 ~~(m)~~ (n) BASIS FOR DEPRECIATION AND DEPLE-
21 TION.—The basis upon which depletion, exhaustion, wear
22 and tear, and obsolescence are to be allowed in respect
23 of any property shall be as provided in section 114.

24 ~~(n)~~ (o) CHARITABLE AND OTHER CONTRIBU-
25 TIONS.—In the case of an individual, contributions or gifts
26 made within the taxable year to or for the use of:

1 (1) the United States, any State, Territory, or
2 any political subdivision thereof, or the District of
3 Columbia, for exclusively public purposes;

4 (2) a corporation, or trust, or community chest,
5 fund, or foundation, organized and operated exclusively
6 for religious, charitable, scientific, literary, or educa-
7 tional purposes, or for the prevention of cruelty to
8 children or animals, no part of the net earnings of
9 which inures to the benefit of any private shareholder
10 or individual, *and no substantial part of the activities*
11 *of which is participation in partisan politics or is carry-*
12 *ing on propaganda, or otherwise attempting, to influence*
13 *legislation;*

14 (3) the special fund for vocational rehabilitation
15 authorized by section 12 of the World War Veterans'
16 Act, 1924;

17 (4) posts or organizations of war veterans, or
18 auxiliary units or societies of any such posts or organi-
19 zations, if such posts, organizations, units, or societies
20 are organized in the United States or any of its posses-
21 sions, and if no part of their net earnings inures to the
22 benefit of any private shareholder or individual; or

23 (5) a fraternal society, order, or association,
24 operating under the lodge system, but only if such
25 contributions or gifts are to be used exclusively for

1 religious, charitable, scientific, literary, or educational
2 purposes, or for the prevention of cruelty to children
3 or animals;

4 to an amount which in all the above cases combined does
5 not exceed 15 per centum of the taxpayer's net income as
6 computed without the benefit of this subsection. Such con-
7 tributions or gifts shall be allowable as deductions only if
8 verified under rules and regulations prescribed by the Com-
9 missioner, with the approval of the Secretary. (For
10 unlimited deduction if contributions and gifts exceed 90 per
11 centum of the net income, see section 120.)

12 ~~(c) FUTURE EXPENSES IN CASE OF CASUAL SALES~~
13 ~~OF REAL PROPERTY.~~—In the case of a casual sale or other
14 casual disposition of real property by an individual, a reason-
15 able allowance for future expense liabilities, incurred under
16 the provisions of the contract under which such sale or
17 other disposition was made, under such regulations as the
18 Commissioner, with the approval of the Secretary, may
19 prescribe, including the giving of a bond, with such sureties
20 and in such sum (not less than the estimated tax liability
21 computed without the benefit of this subsection) as the
22 Commissioner may require, conditioned upon the payment
23 (notwithstanding any statute of limitations) of the tax, com-
24 puted without the benefit of this subsection, in respect of any
25 amounts allowed as a deduction under this subsection and

1 not actually expended in carrying out the provisions of such
2 contract.

3 (p) DIVIDENDS RECEIVED BY CORPORATIONS.—In
4 the case of a corporation, the amount received as dividends—

5 ~~(1)~~ from a domestic corporation which is subject
6 to taxation under this title, or

7 *dividends from a domestic corporation which is subject to*
8 *taxation under this title.*

9 ~~(2)~~ from any foreign corporation when it is shown
10 to the satisfaction of the Commissioner that more than
11 50 per centum of the gross income of such foreign
12 corporation for the three-year period ending with the
13 close of its taxable year preceding the declaration of
14 such dividends (or for such part of such period as the
15 foreign corporation has been in existence) was derived
16 from sources within the United States as determined
17 under section 110.

18 The deduction allowed by this subsection shall not be allowed
19 in respect of dividends received from a corporation organized
20 under the China Trade Act, 1922, or from a corporation
21 which under section 251 is taxable only on its gross income
22 from sources within the United States by reason of its
23 receiving a large percentage of its gross income from sources
24 within a possession of the United States.

1 (q) PENSION TRUSTS.—An employer establishing or
2 maintaining a pension trust to provide for the payment of
3 reasonable pensions to his employees (if such trust is exempt
4 from tax under section 165, relating to trusts created for the
5 exclusive benefit of employees) shall be allowed as a deduc-
6 tion (in addition to the contributions to such trust during the
7 taxable year to cover the pension liability accruing during
8 the year, allowed as a deduction under subsection (a) of
9 this section) a reasonable amount transferred or paid into
10 such trust during the taxable year in excess of such con-
11 tributions, but only if such amount (1) has not theretofore
12 been allowable as a deduction, and (2) is apportioned in
13 equal parts over a period of ten consecutive years, beginning
14 with the year in which the transfer or payment is made.
15 Any deduction allowable under section 23 (q) of the Reve-
16 nue Act of 1928 or the Revenue Act of 1932 which under
17 such section was apportioned to any taxable year subsequent
18 to the taxable year 1931 shall beginning after December 31,
19 1933, shall be allowed as a deduction in the years to which
20 so apportioned to the extent allowable under such section
21 if it had remained in force with respect to such year.

22 (r) LIMITATION ON STOCK LOSSES.—

23 (1) Losses from sales or exchanges of stocks and
24 bonds (as defined in subsection (t) of this section)
25 which are not capital assets (as defined in section 101)

1 shall be allowed only to the extent of the gains from
 2 such sales or exchanges (including gains which may
 3 be derived by a taxpayer from the retirement of his
 4 own obligations);

5 ~~(2)~~ This subsection shall not apply to a dealer in
 6 securities (as to stocks and bonds acquired for resale
 7 to customers) in respect of transactions in the ordinary
 8 course of his business, nor to a bank or trust company
 9 incorporated under the laws of the United States or
 10 of any State or Territory.

11 ~~(s) SAME—SHORT SALES.~~—For the purposes of this
 12 title, gains or losses ~~(A)~~ from short sales of stocks and bonds,
 13 or ~~(B)~~ attributable to privileges or options to buy or sell
 14 such stocks and bonds, or ~~(C)~~ from sales or exchanges of
 15 such privileges or options, shall be considered as gains or
 16 losses from sales or exchanges of stocks or bonds which
 17 are not capital assets.

18 ~~(t) DEFINITION OF STOCKS AND BONDS.~~—As used
 19 in subsections ~~(r)~~ and ~~(s)~~, the term “stocks and bonds”
 20 means ~~(1)~~ shares of stock in any corporation, or ~~(2)~~ rights
 21 to subscribe for or to receive such shares, or ~~(3)~~ bonds,
 22 debentures, notes, or certificates or other evidences of indebt-
 23 edness, issued by any corporation (other than a government
 24 or political subdivision thereof), with interest coupons or in
 25 registered form, or ~~(4)~~ certificates of profit, or of interest

1 in property or accumulations, in any investment trust or
2 similar organization holding or dealing in any of the instru-
3 ments mentioned or described in this subsection, regardless
4 of whether or not such investment trust or similar organi-
5 zation constitutes a corporation within the meaning of this
6 Act.

7 **SEC. 24. ITEMS NOT DEDUCTIBLE.**

8 (a) **GENERAL RULE.**—In computing net income no
9 deduction shall in any case be allowed in respect of—

10 (1) Personal, living, or family expenses;

11 (2) Any amount paid out for new buildings or for
12 permanent improvements or betterments made to
13 increase the value of any property or estate;

14 (3) Any amount expended in restoring property
15 or in making good the exhaustion thereof for which an
16 allowance is or has been made; or

17 (4) Premiums paid on any life insurance policy
18 covering the life of any officer or employee, or of any
19 person financially interested in any trade or business
20 carried on by the taxpayer, when the taxpayer is
21 directly or indirectly a beneficiary under such policy;
22 *policy;*

23 (5) *Any amount otherwise allowable as a deduc-*
24 *tion which is allocable to one or more classes of income*
25 *other than interest (whether or not any amount of*

1 *income of that class or classes is received or accrued)*
 2 *wholly exempt from the taxes imposed by this title; or*
 3 *(6) Loss from sales or exchanges of property,*
 4 *directly or indirectly, (A) between members of a family,*
 5 *or (B) except in the case of distributions in liquidation,*
 6 *between an individual and a corporation in which such*
 7 *individual owns, directly or indirectly, more than 50 per*
 8 *centum in value of the outstanding stock. For the pur-*
 9 *pose of this paragraph—(C) an individual shall be con-*
 10 *sidered as owning the stock owned, directly or indirectly,*
 11 *by his family; and (D) the family of an individual shall*
 12 *include only his brothers and sisters (whether by the*
 13 *whole or half blood), spouse, ancestors, and lineal*
 14 *descendants.*

15 **(b) HOLDERS OF LIFE OR TERMINABLE INTEREST.—**
 16 **Amounts paid under the laws of any State, Territory, Dis-**
 17 **trict of Columbia, possession of the United States, or foreign**
 18 **country as income to the holder of a life or terminable inter-**
 19 **est acquired by gift, bequest, or inheritance shall not be**
 20 **reduced or diminished by any deduction for shrinkage (by**
 21 **whatever name called) in the value of such interest due to**
 22 **the lapse of time, nor by any deduction allowed by this Act**
 23 **(except the deductions provided for in subsections ~~(k)~~ (l)**
 24 **and ~~(l)~~ (m) of section 23) for the purpose of computing the**
 25 **net income of an estate or trust but not allowed under the**

1 laws of such State, Territory, District of Columbia, possession
 2 of the United States, or foreign country for the purpose of
 3 computing the income to which such holder is entitled.

4 ~~(c) TAX WITHHELD ON TAX-FREE COVENANT~~
 5 ~~BONDS.—For tax withheld on tax-free covenant bonds, see~~
 6 ~~section 148 (a)(3).~~

7 **SEC. 25. CREDITS OF INDIVIDUAL AGAINST NET INCOME.**

8 There shall be allowed for the purpose of the normal
 9 tax, but not for the surtax, the following credits against the
 10 net income:

11 ~~(a) DIVIDENDS.—The amount received as dividends—~~

12 ~~(1) from a domestic corporation which is subject~~
 13 ~~to taxation under this title, or~~

14 ~~(2) from a foreign corporation when it is shown~~
 15 ~~to the satisfaction of the Commissioner that more than~~
 16 ~~50 per centum of the gross income of such foreign~~
 17 ~~corporation for the three-year period ending with the~~
 18 ~~close of its taxable year preceding the declaration of~~
 19 ~~such dividends (or for such part of such period as the~~
 20 ~~corporation has been in existence) was derived from~~
 21 ~~sources within the United States as determined under~~
 22 ~~the provisions of section 110.~~

23 The credit allowed by this subsection shall not be
 24 allowed in respect of dividends received from a corporation
 25 organized under the China Trade Act, 1922, or from a cor-

1 peration which under section 251 is taxable only on its gross
2 income from sources within the United States by reason of
3 its receiving a large percentage of its gross income from
4 sources within a possession of the United States.

5 (b) INTEREST ON UNITED STATES OBLIGATIONS.—

6 The amount received as interest upon obligations of the
7 United States which is included in gross income under
8 section 22.

9 (c) PERSONAL EXEMPTION.—In the case of a single
10 person, a personal exemption of \$1,000; or in the case of
11 the head of a family or a married person living with husband
12 or wife, a personal exemption of \$2,500. A husband and
13 wife living together shall receive but one personal exemp-
14 tion. The amount of such personal exemption shall be
15 \$2,500. If such husband and wife make separate returns,
16 the personal exemption may be taken by either or divided
17 between them.

18 (d) CREDIT FOR DEPENDENTS.—\$400 for each per-
19 son (other than husband or wife) dependent upon and
20 receiving his chief support from the taxpayer if such
21 dependent person is under eighteen years of age or is inca-
22 pable of self-support because mentally or physically defective.

23 (e) CHANGE OF STATUS.—If the status of the tax-
24 payer, in so far as it affects the personal exemption or credit
25 for dependents, changes during the taxable year, the per-

1 sonal exemption and credit shall be apportioned, under rules
2 and regulations prescribed by the Commissioner with the
3 approval of the Secretary, in accordance with the number
4 of months before and after such change. For the purpose
5 of such apportionment a fractional part of a month shall be
6 disregarded unless it amounts to more than half a month in
7 which case it shall be considered as a month.

8 (a) *CREDITS FOR NORMAL TAX ONLY.*—There shall
9 be allowed for the purpose of the normal tax, but not for
10 the surtax, the following credits against the net income:

11 (1) *DIVIDENDS.*—The amount received as divi-
12 dends from a domestic corporation which is subject
13 to taxation under this title. The credit allowed by this
14 paragraph shall not be allowed in respect of dividends
15 received from a corporation organized under the China
16 Trade Act, 1922, or from a corporation which under
17 section 251 is taxable only on its gross income from
18 sources within the United States by reason of its re-
19 ceiving a large percentage of its gross income from
20 sources within a possession of the United States.

21 (2) *INTEREST ON UNITED STATES OBLIGA-*
22 *TIONS.*—The amount received as interest upon ob-
23 ligations of the United States which is included in
24 gross income under section 22.

1 (3) *INTEREST ON OBLIGATIONS OF INSTRU-*
2 *MENTALITIES OF THE UNITED STATES.*—The amount
3 received as interest on obligations of a corporation
4 organized under Act of Congress, if (A) such corpora-
5 tion is an instrumentality of the United States; and
6 (B) such interest is included in gross income under
7 section 22; and (C) under the Act authorizing the
8 issue thereof, as amended and supplemented, such
9 interest is exempt from normal tax.

10 (4) *EARNED INCOME CREDIT.*—10 per centum
11 of the amount of the earned net income, but not in
12 excess of 10 per centum of the amount of the net income.

13 (5) *EARNED INCOME DEFINITIONS.*—For the
14 purposes of this section—

15 (A) “*Earned income*” means wages, sal-
16 aries, professional fees, and other amounts re-
17 ceived as compensation for personal services
18 actually rendered, but does not include any amount
19 not included in gross income, nor that part of the
20 compensation derived by the taxpayer for personal
21 services rendered by him to a corporation which
22 represents a distribution of earnings or profits
23 rather than a reasonable allowance as compen-
24 sation for the personal services actually rendered.

1 *In the case of a taxpayer engaged in a trade*
2 *or business in which both personal services and*
3 *capital are material income producing factors,*
4 *a reasonable allowance as compensation for the*
5 *personal services actually rendered by the tax-*
6 *payer, not in excess of 20 per centum of his share*
7 *of the net profits of such trade or business, shall*
8 *be considered as earned income.*

9 (B) "*Earned income deductions*" means
10 *such deductions as are allowed by section 23 for*
11 *the purpose of computing net income, and are*
12 *properly allocable to or chargeable against earned*
13 *income.*

14 (C) "*Earned net income*" means the ex-
15 *cess of the amount of the earned income over the*
16 *sum of the earned income deductions. If the*
17 *taxpayer's net income is not more than \$3,000,*
18 *his entire net income shall be considered to be*
19 *earned net income, and if his net income is more*
20 *than \$3,000, his earned net income shall not be*
21 *considered to be less than \$3,000. In no case*
22 *shall the earned net income be considered to be*
23 *more than \$20,000.*

24 (b) *CREDITS FOR BOTH NORMAL TAX AND SUR-*
25 *TAX.*—*There shall be allowed for the purposes of the normal*
26 *tax and the surtax the following credits against net income:*

1 (1) *PERSONAL EXEMPTION.*—In the case of a
2 *single person, a personal exemption of \$1,000; or in*
3 *the case of the head of a family or a married person*
4 *living with husband or wife, a personal exemption of*
5 *\$2,500. A husband and wife living together shall*
6 *receive but one personal exemption. The amount of*
7 *such personal exemption shall be \$2,500. If such*
8 *husband and wife make separate returns, the personal*
9 *exemption may be taken by either or divided between*
10 *them.*

11 (2) *CREDIT FOR DEPENDENTS.*—\$400 for each
12 *person (other than husband or wife) dependent upon*
13 *and receiving his chief support from the taxpayer if*
14 *such dependent person is under eighteen years of age*
15 *or is incapable of self-support because mentally or*
16 *physically defective.*

17 (3) *CHANGE OF STATUS.*—If the status of the
18 *taxpayer, in so far as it affects the personal exemption*
19 *or credit for dependents, changes during the taxable*
20 *year, the personal exemption and credit shall be ap-*
21 *portioned, under rules and regulations prescribed by*
22 *the Commissioner with the approval of the Secretary,*
23 *in accordance with the number of months before and*
24 *after such change. For the purpose of such apportion-*
25 *ment a fractional part of a month shall be disregarded*

1 *unless it amounts to more than half a month in which*
 2 *case it shall be considered as a month.*

3 **SEC. 26. CREDITS OF CORPORATION AGAINST NET INCOME.**

4 For the purpose only of the tax imposed by section 13
 5 there shall be allowed as a credit against net income the
 6 amount received as interest upon obligations of the United
 7 States *or of corporations organized under Act of Congress*
 8 *which is included in gross income under section 22 allowed*
 9 *to an individual as a credit for purposes of normal tax by*
 10 *section 25(a)(2) or (3).*

11 **Part III—Credits Against Tax**

12 **SEC. 31. TAXES OF FOREIGN COUNTRIES AND POSSES-**
 13 **SIONS OF UNITED STATES.**

14 The amount of income, war-profits, and excess-profits
 15 taxes imposed by foreign countries or possessions of the
 16 United States shall be allowed as a credit against the tax,
 17 to the extent provided in section 131.

18 **SEC. 32. TAXES WITHHELD AT SOURCE.**

19 The amount of tax withheld at the source under
 20 section ~~143~~ 142 shall be allowed as a credit against the tax.

21 **SEC. 33. ERRONEOUS PAYMENTS CREDIT FOR OVERPAY-**
 22 **MENTS.**

23 ~~(a) CREDIT FOR OVERPAYMENTS.~~—For credit against
 24 the tax of overpayments of taxes imposed by this title for
 25 other taxable years, see section 322.

1 (b) **FISCAL YEAR ENDING IN 1932.**—For credit
2 against the tax of amounts of tax paid for a fiscal year
3 beginning in 1931 and ending in 1932, see section 132.

4 **Part IV—Accounting Periods and Methods of Accounting**

5 **SEC. 41. GENERAL RULE.**

6 The net income shall be computed upon the basis of
7 the taxpayer's annual accounting period (fiscal year or
8 calendar year, as the case may be) in accordance with the
9 method of accounting regularly employed in keeping the
10 books of such taxpayer; but if no such method of accounting
11 has been so employed, or if the method employed does not
12 clearly reflect the income, the computation shall be made
13 in accordance with such method as in the opinion of the
14 Commissioner does clearly reflect the income. If the tax-
15 payer's annual accounting period is other than a fiscal year
16 as defined in section 48 or if the taxpayer has no annual
17 accounting period or does not keep books, the net income
18 shall be computed on the basis of the calendar year. (For
19 use of inventories, see section 22 (c).)

20 **SEC. 42. PERIOD IN WHICH ITEMS OF GROSS INCOME**
21 **INCLUDED.**

22 The amount of all items of gross income shall be in-
23 cluded in the gross income for the taxable year in which
24 received by the taxpayer, unless, under methods of account-
25 ing permitted under section 41, any such amounts are to be

1 properly accounted for as of a different period. *In the case*
2 *of the death of a taxpayer there shall be included in computing*
3 *net income for the taxable period in which falls the date of*
4 *his death, amounts accrued up to the date of his death if not*
5 *otherwise properly includible in respect of such period or a*
6 *prior period.*

7 **SEC. 43. PERIOD FOR WHICH DEDUCTIONS AND CREDITS**
8 **TAKEN.**

9 The deductions and credits provided for in this title shall
10 be taken for the taxable year in which "paid or accrued" or
11 "paid or incurred", dependent upon the method of account-
12 ing upon the basis of which the net income is computed,
13 unless in order to clearly reflect the income the deductions
14 or credits should be taken as of a different period. *In the*
15 *case of the death of a taxpayer there shall be allowed as*
16 *deductions and credits for the taxable period in which*
17 *falls the date of his death, amounts accrued up to the*
18 *date of his death if not otherwise properly allowable in*
19 *respect of such period or a prior period.*

20 **SEC. 44. INSTALLMENT BASIS.**

21 (a) **DEALERS IN PERSONAL PROPERTY.**—Under regu-
22 lations prescribed by the Commissioner with the approval
23 of the Secretary, a person who regularly sells or otherwise
24 disposes of personal property on the installment plan may
25 return as income therefrom in any taxable year that proper-

tion of the installment payments actually received in that year which the gross profit realized or to be realized when payment is completed, bears to the total contract price.

(b) SALES OF REALTY AND CASUAL SALES OF PERSONALTY.—In the case (1) of a casual sale or other casual disposition of personal property (other than property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year), for a price exceeding \$1,000, or (2) of a sale or other disposition of real property, if in either case the initial payments do not exceed 40 per centum of the selling price 30 per centum of the selling price (or, in case the sale or other disposition was in a taxable year beginning prior to January 1, 1934, the percentage of the selling price prescribed in the law applicable to such year), the income may, under regulations prescribed by the Commissioner with the approval of the Secretary, be returned on the basis and in the manner above prescribed in this section. As used in this section the term "initial payments" means the payments received in cash or property other than evidences of indebtedness of the purchaser during the taxable period in which the sale or other disposition is made.

(c) CHANGE FROM ACCRUAL TO INSTALLMENT BASIS.—If a taxpayer entitled to the benefits of subsection (a) elects for any taxable year to report his net income on

1 the installment basis, then in computing his income for the
2 year of change or any subsequent year, amounts actually
3 received during any such year on account of sales or other
4 dispositions of property made in any prior year shall not be
5 excluded.

6 (d) GAIN OR LOSS UPON DISPOSITION OF INSTALL-
7 MENT OBLIGATIONS.—If an installment obligation is satis-
8 fied at other than its face value or distributed, transmitted,
9 sold, or otherwise disposed of, gain or loss shall result to the
10 extent of the difference between the basis of the obligation
11 and (1) in the case of satisfaction at other than face value
12 or a sale or exchange—the amount realized, or (2) in case
13 of a distribution, transmission, or disposition otherwise
14 than by sale or exchange—the fair market value of the
15 obligation at the time of such distribution, transmission, or
16 disposition. *Any gain or loss so resulting shall be considered*
17 *as resulting from the sale or exchange of the property in*
18 *respect of which the installment obligation was received.*
19 The basis of the obligation shall be the excess of the face
20 value of the obligation over an amount equal to the income
21 which would be returnable were the obligation satisfied in
22 full. This subsection shall not apply to the transmission at
23 death of installment obligations if there is filed with the
24 Commissioner, at such time as he may by regulation pre-
25 scribe, a bond in such amount and with such sureties as he

1 may deem necessary, conditioned upon the return as income,
2 by the person receiving any payment on such obligations, of
3 the same proportion of such payment as would be returnable
4 as income by the decedent if he had lived and had received
5 such payment.

6 (e) Any taxpayer holding on December 31, 1933,
7 installment obligations on capital transactions reported under
8 section 44(b) originally maturing in the years prior to
9 January 1, 1934, but which were extended or renewed so
10 that they thereafter matured in 1934 or subsequent years,
11 shall have the option of paying a tax on such installments
12 when paid or otherwise disposed of at the capital gain rate in
13 effect in the year of original maturity.

14 **SEC. 45. ALLOCATION OF INCOME AND DEDUCTIONS.**

15 In any case of two or more ~~trades or organizations,~~
16 *trades, or businesses* (whether or not incorporated, whether
17 or not organized in the United States, and whether or not
18 affiliated) owned or controlled directly or indirectly by the
19 same interests, the Commissioner is authorized to distribute,
20 apportion, or allocate gross income or deductions between or
21 among such ~~trades or organizations, trades, or businesses,~~ if
22 he determines that such distribution, apportionment, or allo-
23 cation is necessary in order to prevent evasion of taxes or
24 clearly to reflect the income of any of such ~~trades or organi-~~
25 *zations, trades, or businesses.*

SEC. 46. CHANGE OF ACCOUNTING PERIOD.

If a taxpayer changes his accounting period from fiscal year to calendar year, from calendar year to fiscal year, or from one fiscal year to another, the net income shall, with the approval of the Commissioner, be computed on the basis of such new accounting period, subject to the provisions of section 47.

SEC. 47. RETURNS FOR A PERIOD OF LESS THAN TWELVE MONTHS.

(a) RETURNS FOR SHORT PERIOD RESULTING FROM CHANGE OF ACCOUNTING PERIOD.—If a taxpayer, with the approval of the Commissioner, changes the basis of computing net income from fiscal year to calendar year a separate return shall be made for the period between the close of the last fiscal year for which return was made and the following December 31. If the change is from calendar year to fiscal year, a separate return shall be made for the period between the close of the last calendar year for which return was made and the date designated as the close of the fiscal year. If the change is from one fiscal year to another fiscal year a separate return shall be made for the period between the close of the former fiscal year and the date designated as the close of the new fiscal year.

(b) INCOME COMPUTED ON BASIS OF SHORT PERIOD.—Where a separate return is made under sub-

1. section (a) on account of a change in the accounting period,
2. and in all other cases where a separate return is required
3. or permitted, by regulations prescribed by the Commis-
4. sioner with the approval of the Secretary, to be made for
5. a fractional part of a year, then the income shall be com-
6. puted on the basis of the period for which separate return
7. is made.

8. (c) INCOME PLACED ON ANNUAL BASIS.—If a
9. separate return is made under subsection (a) on account
10. of a change in the accounting period, the net income, com-
11. puted on the basis of the period for which separate return
12. is made, shall be placed on an annual basis by multiplying
13. the amount thereof by twelve and dividing by the number
14. of months included in the period for which the separate
15. return is made. The tax shall be such part of the tax,
16. computed on such annual basis as the number of months,
17. in such period is of twelve months.

18. (d) CAPITAL NET GAINS AND LOSSES—EARNED
19. INCOME.—The Commissioner with the approval of the
20. Secretary shall by regulations prescribe the method of apply-
21. ing the provisions of subsections (b) and (c) (relating to
22. computing income on the basis of a short period, and plac-
23. ing such income on an annual basis) to cases where the
24. taxpayer makes a separate return under subsection (a) on
25. account of a change in the accounting period, and it appears

1 that for the period for which the return is so made he has
 2 derived a capital net gain, or sustained a capital net loss,
 3 or received earned income.

4 (e) REDUCTION OF CREDITS AGAINST NET IN-
 5 COME.—In the case of a return made for a fractional part
 6 of a year, except a return made under subsection (a), on
 7 account of a change in the accounting period, the personal
 8 exemption and credit for dependents shall be reduced respec-
 9 tively to amounts which bear the same ratio to the full
 10 credits provided as the number of months in the period for
 11 which return is made bears to twelve months.

12 (f) CLOSING OF TAXABLE YEAR IN CASE OF JEOP-
 13 ARDY.—For closing of taxable year in case of jeopardy, see
 14 section 146 145.

15 **SEC. 48. DEFINITIONS.**

16 When used in this title—

17 (a) TAXABLE YEAR.—“Taxable year” means the cal-
 18 endar year, or the fiscal year ending during such calendar year,
 19 upon the basis of which the net income is computed under
 20 this Part. “Taxable year” includes, in the case of a return
 21 made for a fractional part of a year under the provisions of
 22 this title or under regulations prescribed by the Commissioner
 23 with the approval of the Secretary, the period for which such
 24 return is made. ~~The first taxable year, to be called the~~

1 taxable year 1932, shall be the calendar year 1932 or any
2 fiscal year ending during the calendar year 1932.

3 (b) FISCAL YEAR.—“Fiscal year” means an
4 accounting period of twelve months ending on the last day
5 of any month other than December.

6 (c) PAID, INCURRED, ACCRUED.—The terms “paid
7 or incurred” and “paid or accrued” shall be construed
8 according to the method of accounting upon the basis of
9 which the net income is computed under this Part.

10 (d) TRADE OR BUSINESS.—The term “trade or
11 business” includes the performance of the functions of a
12 public office.

13 Part V—Returns and Payment of Tax

14 SEC. 51. INDIVIDUAL RETURNS.

15 (a) REQUIREMENT.—The following individuals shall
16 each make under oath a return stating specifically the items
17 of his gross income and the deductions and credits allowed
18 under this title—

19 (1) Every individual having a net income for
20 the taxable year of \$1,000 or over, if single, or if
21 married and not living with husband or wife;

22 (2) Every individual having a net income for
23 the taxable year of \$2,500 or over, if married and
24 living with husband or wife; and

1 (3) Every individual having a gross income for
2 the taxable year of \$5,000 or over, regardless of the
3 amount of his net income.

4 (b) HUSBAND AND WIFE.—If a husband and wife
5 living together have an aggregate net income for the taxable
6 year of \$2,500 or over, or an aggregate gross income for
7 such year of \$5,000 or over—

8 (1) Each shall make such a return, or

9 (2) The income of each shall be included in a
10 single joint return, in which case the tax shall be com-
11 puted on the aggregate income.

12 (c) PERSONS UNDER DISABILITY.—If the taxpayer
13 is unable to make his own return, the return shall be made
14 by a duly authorized agent or by the guardian or other
15 person charged with the care of the person or property of
16 such taxpayer.

17 (d) FIDUCIARIES.—For returns to be made by fidu-
18 ciaries, see section 142 141.

19 **SEC. 52. CORPORATION RETURNS.**

20 ~~(a) REQUIREMENT.~~—Every corporation subject to
21 taxation under this title shall make a return, stating specifi-
22 cally the items of its gross income and the deductions and
23 credits allowed by this title. The return shall be sworn to
24 by the president, vice president, or other principal officer
25 and by the ~~treasurer or assistant treasurer~~ *treasurer, assistant*

1 *treasurer, or chief accounting officer.* In cases where
2 receivers, trustees in bankruptcy, or assignees are operating
3 the property or business of corporations, such receivers,
4 trustees, or assignees shall make returns for such corporations
5 in the same manner and form as corporations are required
6 to make returns. Any tax due on the basis of such returns
7 made by receivers, trustees, or assignees shall be collected in
8 the same manner as if collected from the corporations of
9 whose business or property they have custody and control.

10 ~~(b) CONSOLIDATED RETURNS.~~—For provision as to
11 consolidated returns of affiliated corporations, see section
12 141.

13 **SEC. 53. TIME AND PLACE FOR FILING RETURNS.**

14 **(a) TIME FOR FILING.—**

15 (1) **GENERAL RULE.**—Returns made on the basis
16 of the calendar year shall be made on or before the 15th
17 day of March following the close of the calendar year.
18 Returns made on the basis of a fiscal year shall be
19 made on or before the 15th day of the third month
20 following the close of the fiscal year.

21 (2) **EXTENSION OF TIME.**—The Commissioner
22 may grant a reasonable extension of time for filing
23 returns, under such rules and regulations as he shall
24 prescribe with the approval of the Secretary. Except

1 in the case of taxpayers who are abroad, no such
2 extension shall be for more than six months.

3 (b) TO WHOM RETURN MADE.—

4 (1) INDIVIDUALS.—Returns (other than cor-
5 poration returns) shall be made to the collector for
6 the district in which is located the legal residence or
7 principal place of business of the person making the
8 return, or, if he has no legal residence or principal place
9 of business in the United States, then to the collector at
10 Baltimore, Maryland.

11 (2) CORPORATIONS.—Returns of corporations
12 shall be made to the collector of the district in which is
13 located the principal place of business or principal office
14 or agency of the corporation, or, if it has no principal
15 place of business or principal office or agency in the
16 United States, then to the collector at Baltimore,
17 Maryland.

18 **SEC. 54. RECORDS AND SPECIAL RETURNS.**

19 (a) BY TAXPAYER.—Every person liable to any tax
20 imposed by this title or for the collection thereof, shall keep
21 such records, render under oath such statements, make such
22 returns, and comply with such rules and regulations, as the
23 Commissioner, with the approval of the Secretary, may from
24 time to time prescribe.

1 (b) TO DETERMINE LIABILITY TO TAX.—Whenever
2 in the judgment of the Commissioner necessary he may
3 require any person, by notice served upon him, to make a
4 return, render under oath such statements, or keep such
5 records, as the Commissioner deems sufficient to show
6 whether or not such person is liable to tax under this title.

7 (c) INFORMATION AT THE SOURCE.—For require-
8 ment of statements and returns by one person to assist in
9 determining the tax liability of another person, see sections
10 147 to 150 146 to 149.

11 **SEC. 55. PUBLICITY OF RETURNS.**

12 Returns made under this title shall be open to inspection
13 in the same manner, to the same extent, and subject to the
14 same provisions of law, including penalties, as returns made
15 under Title II of the Revenue Act of 1926; and all returns
16 made under this Act after June 16, 1933, shall constitute
17 public records and shall be open to public examination and
18 inspection to such extent as shall be authorized in rules and
19 regulations promulgated by the President.

20 (a) Returns made under this title upon which the tax
21 has been determined by the Commissioner shall constitute
22 public records and shall be open to public examination and
23 inspection under rules and regulations promulgated by the
24 Secretary and approved by the President. Whenever a

1. return is open to the inspection of any person a certified
2. copy thereof shall, upon request, be furnished to any person
3. under rules and regulations prescribed by the Commissioner
4. with the approval of the Secretary. The Commissioner may
5. prescribe a reasonable fee for furnishing such copy.

6. (b) (1) The Secretary and any officer or employee
7. of the Treasury Department, upon request from the Com-
8. mittee on Ways and Means of the House of Representatives,
9. the Committee on Finance of the Senate, or a select com-
10. mittee of the Senate or House specially authorized to investi-
11. gate returns by a resolution of the Senate or House, or a
12. joint committee so authorized by concurrent resolution, shall
13. furnish such committee sitting in executive session with any
14. data of any character contained in or shown by any return.

15. (2) Any such committee shall have the right, acting
16. directly as a committee, or by or through such examiners
17. or agents as it may designate or appoint, to inspect any
18. or all of the returns at such times and in such manner as
19. it may determine.

20. (3) Any relevant or useful information thus obtained
21. may be submitted by the committee obtaining it to the Sen-
22. ate or the House, or to both the Senate and the House, as
23. the case may be.

24. (c) The Commissioner shall as soon as practicable
25. in each year cause to be prepared and made available to

1 public inspection in such manner as he may determine,
2 in the office of the collector in each internal-revenue district
3 and in such other places as he may determine, lists contain-
4 ing the name and the post-office address of each person
5 making an income-tax return in such district.

6 **SEC. 56. PAYMENT OF TAX.**

7 (a) **TIME OF PAYMENT.**—The total amount of tax
8 imposed by this title shall be paid on the fifteenth day of
9 March following the close of the calendar year, or, if the
10 return should be made on the basis of a fiscal year, then on
11 the fifteenth day of the third month following the close of
12 the fiscal year.

13 (b) **INSTALLMENT PAYMENTS.**—The taxpayer may
14 elect to pay the tax in four equal installments, in which case
15 the first installment shall be paid on the date prescribed for
16 the payment of the tax by the taxpayer, the second install-
17 ment shall be paid on the fifteenth day of the third month,
18 the third installment on the fifteenth day of the sixth month,
19 and the fourth installment on the fifteenth day of the ninth
20 month, after such date. If any installment is not paid on or
21 before the date fixed for its payment, the whole amount of
22 the tax unpaid shall be paid upon notice and demand from
23 the collector.

24 (c) **EXTENSION OF TIME FOR PAYMENT.**—At the
25 request of the taxpayer, the Commissioner may extend the

1 time for payment of the amount determined as the tax by
2 the taxpayer, or any installment thereof, for a period not to
3 exceed six months from the date prescribed for the payment
4 of the tax or an installment thereof. In such case the amount
5 in respect of which the extension is granted shall be paid on
6 or before the date of the expiration of the period of the
7 extension.

8 (d) VOLUNTARY ADVANCE PAYMENT.—A tax im-
9 posed by this title, or any installment thereof, may be paid,
10 at the election of the taxpayer, prior to the date prescribed
11 for its payment.

12 (e) ADVANCE PAYMENT IN CASE OF JEOPARDY.—
13 For advance payment in case of jeopardy, see section 146
14 145.

15 (f) TAX WITHHELD AT SOURCE.—For requirement
16 of withholding tax at the source in the case of nonresident
17 aliens and foreign corporations, and in the case of so-called
18 “tax-free covenant bonds”, see sections 143 and 144 142
19 and 143.

20 (g) FRACTIONAL PARTS OF CENT.—In the payment
21 of any tax under this title a fractional part of a cent shall
22 be disregarded unless it amounts to one-half cent or more,
23 in which case it shall be increased to 1 cent.

24 (h) RECEIPTS.—Every collector to whom any pay-
25 ment of any income tax is made shall upon request give to

1 the person making such payment a full written or printed
2 receipt *therefor*, stating the amount paid and the particular
3 account for which such payment was made; and whenever
4 any debtor pays taxes on account of payments made or to be
5 made by him to separate creditors the collector shall, if
6 requested by such debtor, give a separate receipt for the tax
7 paid on account of each creditor in such form that the debtor
8 can conveniently produce such receipts separately to his sev-
9 eral creditors in satisfaction of their respective demands up to
10 the amounts stated in the receipts; and such receipt shall be
11 sufficient evidence in favor of such debtor to justify him in
12 withholding from his next payment to his creditor the amount
13 therein stated; but the creditor may, upon giving to his
14 debtor a full written receipt acknowledging the payment to
15 him of any sum actually paid and accepting the amount of
16 tax paid as aforesaid (specifying the same) as a further
17 satisfaction of the debt to that amount, require the surrender
18 to him of such collector's receipt.

19 **SEC. 57. EXAMINATION OF RETURN AND DETERMINA-**
20 **TION OF TAX.**

21 As soon as practicable after the return is filed the Com-
22 missioner shall examine it and shall determine the correct
23 amount of the tax.

1 **SEC. 58. ADDITIONS TO TAX AND PENALTIES.**

2 (a) For additions to the tax in case of negligence or
3 fraud in the nonpayment of tax or failure to file return
4 therefor, see Supplement M.

5 (b) For criminal penalties for nonpayment of tax or
6 failure to file return therefor, see section 145 144.

7 **SEC. 59. ADMINISTRATIVE PROCEEDINGS.**

8 For administrative proceedings in respect of the non-
9 payment or overpayment of a tax imposed by this title, see
10 as follows:

11 (a) Supplement L, relating to assessment and collec-
12 tion of deficiencies.

13 (b) Supplement M, relating to interest and additions
14 to tax.

15 (c) Supplement N, relating to claims against trans-
16 ferees and fiduciaries.

17 (d) Supplement O, relating to overpayments.

18 **Part VI—Miscellaneous Provisions**

19 **SEC. 61. LAWS MADE APPLICABLE.**

20 All administrative, special, or stamp provisions of law,
21 including the law relating to the assessment of taxes, so far
22 as applicable, are hereby extended to and made a part of
23 this title.

1 **SEC. 62. RULES AND REGULATIONS.**

2 The Commissioner, with the approval of the Secretary,
3 shall prescribe and publish all needful rules and regulations
4 for the enforcement of this title.

5 **SEC. 63. TAXES IN LIEU OF TAXES UNDER 1928 1932 ACT.**

6 The taxes imposed by this title shall be in lieu of the
7 corresponding taxes imposed by the sections of the Revenue
8 Act of 1928 bearing the same numbers *Revenue Act of 1932*.

9 **SEC. 64. SHORT TITLE.**

10 This title may be cited as the "Income Tax Act of
11 1932 1934."

12 **SEC. 65. EFFECTIVE DATE OF TITLE.**

13 This title shall take effect as of January 1, 1932, except
14 that sections 145 and 150, and this section, shall take effect
15 on the enactment of this Act.

16 **SUBTITLE C—SUPPLEMENTAL PROVISIONS**

17 **Supplement A—Rates of Tax**

18 [Supplementary to Subtitle B, Part I]

19 **SEC. 101. CAPITAL NET GAINS AND LOSSES.**

20 (a) **TAX IN CASE OF CAPITAL NET GAIN.**—In the
21 case of any taxpayer, other than a corporation, who for any
22 taxable year derives a capital net gain (as hereinafter
23 defined in this section), there shall, at the election of the
24 taxpayer, be levied, collected, and paid, in lieu of all other

1 taxes imposed by this title; a tax determined as follows:
2 A partial tax shall first be computed upon the basis of the
3 ordinary net income at the rates and in the manner as if this
4 section had not been enacted and the total tax shall be this
5 amount plus 12½ per centum of the capital net gain.

6 (b) TAX IN CASE OF CAPITAL NET LOSS.—In the
7 case of any taxpayer, other than a corporation, who for any
8 taxable year sustains a capital net loss (as hereinafter defined
9 in this section), there shall be levied, collected, and paid, in
10 lieu of all other taxes imposed by this title, a tax determined
11 as follows: A partial tax shall first be computed upon the
12 basis of the ordinary net income at the rates and in the
13 manner as if this section had not been enacted, and the total
14 tax shall be this amount minus 12½ per centum of the capital
15 net loss; but in no case shall the tax of a taxpayer who has
16 sustained a capital net loss be less than the tax computed
17 without regard to the provisions of this section.

18 (c) DEFINITIONS.—For the purposes of this title—

19 (1) "Capital gain" means taxable gain from the
20 sale or exchange of capital assets consummated after
21 December 31, 1921.

22 (2) "Capital loss" means deductible loss result-
23 ing from the sale or exchange of capital assets.

24 (3) "Capital deductions" means such deductions
25 as are allowed by section 23 for the purpose of com-

1 puting net income, and are properly allocable to or
2 chargeable against capital assets sold or exchanged
3 during the taxable year.

4 (4) "Ordinary deductions" means the deductions
5 allowed by section 23 other than capital losses and
6 capital deductions.

7 (5) "Capital net gain" means the excess of the
8 total amount of capital gain over the sum of (A) the
9 capital deductions and capital losses, plus (B) the
10 amount, if any, by which the ordinary deductions
11 exceed the gross income computed without including
12 capital gains.

13 (6) "Capital net loss" means the excess of the
14 sum of the capital losses plus the capital deductions
15 over the total amount of capital gain.

16 (7) "Ordinary net income" means the net
17 income, computed in accordance with the provisions
18 of this title, after excluding all items of capital gain,
19 capital loss, and capital deductions.

20 (8) "Capital assets" means property held by
21 the taxpayer for more than two years (whether or not
22 connected with his trade or business), but does not
23 include stock in trade of the taxpayer or other property
24 of a kind which would properly be included in the
25 inventory of the taxpayer if on hand at the close of

1 the taxable year, or property held by the taxpayer
2 primarily for sale in the course of his trade or business.
3 For the purposes of this definition—

4 (A) In determining the period for which the
5 taxpayer has held property received on an ex-
6 change there shall be included the period for which
7 he held the property exchanged, if under the pro-
8 visions of section 112, the property received has,
9 for the purpose of determining gain or loss from a
10 sale or exchange, the same basis in whole or in
11 part in his hands as the property exchanged.

12 (B) In determining the period for which the
13 taxpayer has held property however acquired there
14 shall be included the period for which such prop-
15 erty was held by any other person, if under the
16 provisions of section 112, such property has, for
17 the purpose of determining gain or loss from a sale
18 or exchange, the same basis in whole or in part
19 in his hands as it would have in the hands of such
20 other person.

21 (C) In determining the period for which the
22 taxpayer has held stock or securities received upon
23 a distribution where no gain is recognized to
24 the distributee under the provisions of section 112
25 (g) of this Act or the Revenue Act of 1928, there

1 shall be included the period for which he held the
2 stock or securities in the distributing corporation
3 prior to the receipt of the stock or securities upon
4 such distribution.

5 ~~(D)~~ In determining the period for which the
6 taxpayer has held stock or securities the acquisition
7 of which ~~(or the contract or option to acquire~~
8 ~~which)~~ resulted in the nondeductibility ~~(under~~
9 section 118 of this Act or the Revenue Act of
10 1928, relating to wash sales) of the loss from the
11 sale or other disposition of substantially identical
12 stock or securities, there shall be included the
13 period for which he held the stock or securities the
14 loss from the sale or other disposition of which was
15 not deductible.

16 ~~(d)~~ **COLLECTION AND PAYMENT OF TAX.**—The total
17 tax determined under subsection ~~(a)~~ or ~~(b)~~ shall be col-
18 lected and paid in the same manner, at the same time, and
19 subject to the same provisions of law, including penalties, as
20 other taxes under this title.

21 **SEC. 102. SALE OF MINES AND OIL OR GAS WELLS.**

22 ~~(a)~~ In the case of a bona fide sale of mines, oil or gas
23 wells, or any interest therein, where the principal value of
24 the property has been demonstrated by prospecting or
25 exploration and discovery work done by the taxpayer, the

1 portion of the tax imposed by section 12 of this title attrib-
2 utable to such sale shall not exceed 16 per centum of the
3 selling price of such property or interest.

4 (b) For limitation to 12½ per centum rate of tax;
5 see section 101.

6 **SEC. 101. EXEMPTIONS FROM TAX ON CORPORATIONS.**

7 The following organizations shall be exempt from
8 taxation under this title—

9 (1) Labor, agricultural, or horticultural organi-
10 zations;

11 (2) Mutual savings banks not having a capital
12 stock represented by shares;

13 (3) Fraternal beneficiary societies, orders, or
14 associations, (A) operating under the lodge system or
15 for the exclusive benefit of the members of a fraternity
16 itself operating under the lodge system; and (B) pro-
17 viding for the payment of life, sick, accident, or other
18 benefits to the members of such society, order, or
19 association or their dependents;

20 (4) Domestic building and loan associations sub-
21 stantially all the business of which is confined to mak-
22 ing loans to members; and cooperative banks without
23 capital stock organized and operated for mutual
24 purposes and without profit;

1 (5) Cemetery companies owned and operated
2 exclusively for the benefit of their members or which
3 are not operated for profit; and any corporation char-
4 tered solely for burial purposes as a cemetery corpora-
5 tion and not permitted by its charter to engage in any
6 business not necessarily incident to that purpose, no
7 part of the net earnings of which inures to the benefit
8 of any private shareholder or individual;

9 (6) Corporations, and any community chest,
10 fund, or foundation, organized and operated exclusively
11 for religious, charitable, scientific, literary, or educa-
12 tional purposes, or for the prevention of cruelty to
13 children or animals, no part of the net earnings of
14 which inures to the benefit of any private shareholder
15 or individual, *and no substantial part of the activities of*
16 *which is participation in partisan politics or is carrying*
17 *on propaganda, or otherwise attempting, to influence*
18 *legislation;*

19 (7) Business leagues, chambers of commerce,
20 real-estate boards, or boards of trade, not organized for
21 profit and no part of the net earnings of which inures
22 to the benefit of any private shareholder or individual;

23 (8) Civic leagues or organizations not organized
24 for profit but operated exclusively for the promotion of

1 social welfare, or local associations of employees, the
2 membership of which is limited to the employees of a
3 designated person or persons in a particular municipi-
4 pality, and the net earnings of which are devoted
5 exclusively to charitable, educational, or recreational
6 purposes;

7 (9) Clubs organized and operated exclusively for
8 pleasure, recreation, and other nonprofitable purposes,
9 no part of the net earnings of which inures to the
10 benefit of any private shareholder;

11 (10) Benevolent life insurance associations of a
12 purely local character, mutual ditch or irrigation com-
13 panies, mutual or cooperative telephone companies, or
14 like organizations; but only if 85 per centum or more of
15 the income consists of amounts collected from members
16 for the sole purpose of meeting losses and expenses;

17 (11) Farmers' or other mutual hail, cyclone,
18 casualty, or fire insurance companies or associations
19 (including interinsurers and reciprocal underwriters)
20 the income of which is used or held for the purpose of
21 paying losses or expenses;

22 (12) Farmers', fruit growers', or like associa-
23 tions organized and operated on a cooperative basis
24 (a) for the purpose of marketing the products of mem-
25 bers or other producers, and turning back to them the

1 proceeds of sales, less the necessary marketing expenses,
2 on the basis of either the quantity or the value of the
3 products furnished by them, or (b) for the purpose of
4 purchasing supplies and equipment for the use of mem-
5 bers or other persons, and turning over such supplies
6 and equipment to them at actual cost, plus necessary
7 expenses. Exemption shall not be denied any such
8 association because it has capital stock, if the dividend
9 rate of such stock is fixed at not to exceed the legal rate
10 of interest in the State of incorporation or 8 per centum
11 per annum, whichever is greater, on the value of the
12 consideration for which the stock was issued, and if
13 substantially all such stock (other than nonvoting
14 preferred stock, the owners of which are not entitled
15 or permitted to participate, directly or indirectly, in
16 the profits of the association, upon dissolution or other-
17 wise, beyond the fixed dividends) is owned by pro-
18 ducers who market their products or purchase their
19 supplies and equipment through the association; nor
20 shall exemption be denied any such association because
21 there is accumulated and maintained by it a reserve
22 required by State law or a reasonable reserve for any
23 necessary purpose. Such an association may market
24 the products of nonmembers in an amount the value
25 of which does not exceed the value of the products

1 marketed for members, and may purchase supplies and
2 equipment for nonmembers in an amount the value of
3 which does not exceed the value of the supplies and
4 equipment purchased for members, provided the value
5 of the purchases made for persons who are neither
6 members nor producers does not exceed 15 per centum
7 of the value of all its purchases;

8 *Neither shall any such association be denied exemp-*
9 *tion because it does not keep ledger accounts with non-*
10 *members of the business it transacts with such nonmem-*
11 *bers, but it shall only be required to keep such records*
12 *of its business with nonmembers as will show the actual*
13 *business done with such nonmembers: And provided*
14 *further, That the profits, if any, derived from its busi-*
15 *ness with nonmembers in any fiscal year of the associa-*
16 *tion shall be allowed to remain in the business of the*
17 *association, subject to the right of such nonmember to*
18 *use his share upon a patronage basis to qualify as a*
19 *member of the association: Provided further, That busi-*
20 *ness done for the Federal Government or any of its*
21 *agencies shall not be considered as nonmember business*
22 *within the meaning of this Act.*

23 (13) Corporations organized by an association
24 exempt under the provisions of paragraph (12), or
25 members thereof, for the purpose of financing the

1 ordinary crop operations of such members or other pro-
2 ducers, and operated in conjunction with such associa-
3 tion. Exemption shall not be denied any such corpora-
4 tion because it has capital stock, if the dividend rate
5 of such stock is fixed at not to exceed the legal rate
6 of interest in the State of incorporation or 8 per centum
7 per annum, whichever is greater, on the value of the
8 consideration for which the stock was issued, and if
9 substantially all such stock (other than nonvoting pre-
10 ferred stock, the owners of which are not entitled or
11 permitted to participate, directly or indirectly, in the
12 profits of the corporation, upon dissolution or other-
13 wise, beyond the fixed dividends) is owned by such
14 association, or members thereof; nor shall exemption
15 be denied any such corporation because there is accu-
16 mulated and maintained by it a reserve required by
17 State law or a reasonable reserve for any necessary
18 purpose;

19 (14) Corporations organized for the exclusive pur-
20 pose of holding title to property, collecting income
21 therefrom, and turning over the entire amount thereof,
22 less expenses, to an organization which itself is exempt
23 from the tax imposed by this title;

1 ~~(15) Federal land banks, national farm-loan asso-~~
2 ~~ciations, and Federal intermediate credit banks, as pro-~~
3 ~~vided in the Federal Farm Loan Act, as amended;~~

4 (15) Corporations organized under Act of Con-
5 gress, if such corporations are instrumentalities of the
6 United States and if, under such Act, as amended and
7 supplemented, such corporations are exempt from
8 Federal income taxes;

9 (16) Voluntary employees' beneficiary associa-
10 tions providing for the payment of life, sick, accident,
11 or other benefits to the members of such association or
12 their dependents, if (A) no part of their net earnings
13 inures (other than through such payments) to the bene-
14 fit of any private shareholder or individual, and (B)
15 85 per centum or more of the income consists of
16 amounts collected from members for the sole purpose
17 of making such payments and meeting expenses;

18 (17) Teachers' retirement fund associations of a
19 purely local character, if (A) no part of their net earn-
20 ings inures (other than through payment of retirement
21 benefits) to the benefit of any private shareholder or
22 individual, and (B) the income consists solely of
23 amounts received from public taxation, amounts
24 received from assessments upon the teaching salaries of
25 members, and income in respect of investments.

1 **SEC. 104. ACCUMULATION OF SURPLUS TO EVADE INTER-**
2 **NAL REVENUE TAXES.**

3 (a) If any corporation, however created or organized,
4 is formed or availed of for the purpose of preventing the
5 imposition of any internal-revenue tax upon its shareholders
6 through the medium of permitting its gains and profits to
7 accumulate instead of being divided or distributed, there shall
8 be levied, collected, and paid for each taxable year upon
9 the net income of such corporation a tax equal to 50 per
10 centum of the amount thereof, which shall be in addition
11 to the tax imposed by section 13 and shall be computed,
12 collected, and paid upon the same basis and in the same
13 manner and subject to the same provisions of law, including
14 penalties, as that tax.

15 **SEC. 102. SURTAX ON CORPORATIONS IMPROPERLY ACCUMU-**
16 **LATING SURPLUS.**

17 (a) *IMPOSITION OF TAX.*—There shall be levied, col-
18 lected, and paid for each taxable year upon the adjusted net
19 income of every corporation (other than a personal holding
20 company as defined in section 351) if such corporation,
21 however created or organized, is formed or availed of for
22 the purpose of preventing the imposition of the surtax upon
23 its shareholders or the shareholders of any other corporation,
24 through the medium of permitting gains and profits to accu-

1 *mulate instead of being divided or distributed, a surtax equal*
2 *to the sum of the following:*

3 (1) *25 per centum of the amount of the adjusted*
4 *net income not in excess of \$100,000, plus*

5 (2) *35 per centum of the amount of the adjusted*
6 *net income in excess of \$100,000.*

7 (b) *PRIMA FACIE EVIDENCE.*—The fact that any
8 corporation is a mere holding or investment company, or
9 that the gains or profits are permitted to accumulate beyond
10 the reasonable needs of the business, shall be prima facie evi-
11 dence of a purpose to escape any internal-revenue tax avoid
12 *surtax.*

13 (c) *As used in this section the term "net income"*
14 *means the net income as defined in section 21, increased by*
15 *the sum of the amount of the dividend deduction allowed*
16 *under section 23(p) and the amount of the interest on*
17 *obligations of the United States issued after September 1,*
18 *1917, which would be subject to tax in whole or in part*
19 *in the hands of an individual owner.*

20 (c) *DEFINITION OF "ADJUSTED NET INCOME".*—
21 *As used in this section, the term "adjusted net income"*
22 *means the net income increased by the amount of the dividend*
23 *deduction allowed under section 23(p), but diminished by*
24 *the amount of dividends paid during the taxable year.*

1 (d) *PAYMENT OF SURTAX ON PRO RATA SHARES.*—

2 The tax imposed by this section shall not apply if all the
3 shareholders of the corporation include (at the time of filing
4 their returns) in their gross income their entire ~~distributive~~
5 *pro rata* shares, whether distributed or not, of the ~~net income~~
6 “*adjusted net income*” of the corporation for such year.
7 Any amount so included in the gross income of a share-
8 holder shall be treated as a dividend received. Any subse-
9 quent distribution made by the corporation out of the earn-
10 ings or profits for such taxable year shall, if distributed to
11 any shareholder who has so included in his gross income his
12 ~~distributive~~ *pro rata* share, be exempt from tax in the
13 amount of the share so included.

14 (e) *TAX ON PERSONAL HOLDING COMPANIES.*—*For*
15 *surtax on personal holding companies, see section 351.*

16 **SEC. 103. RATES OF TAX ON CITIZENS AND CORPORATIONS OF**
17 **CERTAIN FOREIGN COUNTRIES.**

18 *Whenever the President finds that, under the laws of*
19 *any foreign country, citizens or corporations of the United*
20 *States are being subjected to discriminatory or extraterritorial*
21 *taxes, the President shall so proclaim and the rates of*
22 *tax imposed by sections 11, 12, 13, 201(b), and 204(a)*
23 *shall, for the taxable year during which such proclamation*
24 *is made and for each taxable year thereafter, be doubled in*

1 the case of each citizen and corporation of such foreign
2 country; but the tax at such doubled rate shall be considered
3 as imposed by section 11, 12, 13, 201(b), or 204(a), as
4 the case may be. In no case shall this section operate to
5 increase the taxes imposed by such sections (computed with-
6 out regard to this section) to an amount in excess of 80 per
7 centum of the net income of the taxpayer. Whenever the
8 President finds that the laws of any foreign country with
9 respect to which the President has made a proclamation
10 under the preceding provisions of this section have been
11 modified so that discriminatory and extraterritorial taxes
12 applicable to citizens and corporations of the United States
13 have been removed, he shall so proclaim, and the provisions
14 of this section providing for doubled rates of tax shall not
15 apply to any citizen or corporation of such foreign country
16 with respect to any taxable year beginning after such
17 proclamation is made.

18 **SEC. 105. TAXABLE PERIOD EMBRACING YEARS WITH**
19 **DIFFERENT LAWS.**

20 If it is necessary to compute the tax for a period begin-
21 ning in one calendar year (hereinafter in this section called
22 "first calendar year") and ending in the following calendar
23 year (hereinafter in this section called "second calendar
24 year") and the law applicable to the second calendar year
25 is different from the law applicable to the first calendar year,

1 then the tax under this title for the period ending during the
 2 second calendar year shall be in the sum of: (1) the same
 3 proportion of a tax for the entire period; determined under
 4 the law applicable to the first calendar year and at the rates
 5 for such year, which the portion of such period falling within
 6 the first calendar year is of the entire period; and (2) the
 7 same proportion of a tax for the entire period; determined
 8 under the law applicable to the second calendar year and at
 9 the rates for such year, which the portion of such period
 10 falling within the second calendar year is of the entire period.

11 Supplement B—Computation of Net Income

12 [Supplementary to Subtitle B, Part II]

13 SEC. 111. DETERMINATION OF AMOUNT OF, AND RECOG- 14 NITION OF, GAIN OR LOSS.

15 (a) COMPUTATION OF GAIN OR LOSS.—~~Except as~~
 16 ~~hereinafter provided in this section,~~ *The* gain from the
 17 sale or other disposition of property shall be the excess of the
 18 amount realized therefrom over the adjusted basis provided in
 19 section 113 (b) *for determining gain*, and the loss shall be
 20 the excess of ~~such~~ *the adjusted basis provided in such section*
 21 *for determining loss* over the amount realized.

22 (b) AMOUNT REALIZED.—The amount realized from
 23 the sale or other disposition of property shall be the sum of
 24 any money received plus the fair market value of the
 25 property (other than money) received.

1 (c) **RECOGNITION OF GAIN OR LOSS.**—In the case of
2 a sale or exchange, the extent to which the gain or loss
3 determined under this section shall be recognized for the
4 purposes of this title, shall be determined under the provi-
5 sions of section 112.

6 (d) **INSTALLMENT SALES.**—Nothing in this sec-
7 tion shall be construed to prevent (in the case of property
8 sold under contract providing for payment in installments)
9 the taxation of that portion of any installment payment
10 representing gain or profit in the year in which such pay-
11 ment is received.

12 **SEC. 112. RECOGNITION OF GAIN OR LOSS.**

13 (a) **GENERAL RULE.**—Upon the sale or exchange of
14 property the entire amount of the gain or loss, determined
15 under section 111, shall be recognized, except as hereinafter
16 provided in this section.

17 (b) **EXCHANGES SOLELY IN KIND.**—

18 (1) **PROPERTY HELD FOR PRODUCTIVE USE OR**
19 **INVESTMENT.**—No gain or loss shall be recognized if
20 property held for productive use in trade or business
21 or for investment (not including stock in trade or other
22 property held primarily for sale, nor stocks, bonds,
23 notes, choses in action, certificates of trust or beneficial
24 interest, or other securities or evidences of indebtedness
25 or interest) is exchanged solely for property of a like

1 kind to be held either for productive use in trade or
2 business or for investment.

3 (2) STOCK FOR STOCK OF SAME CORPORA-
4 TION.—No gain or loss shall be recognized if common
5 stock in a corporation is exchanged solely for common
6 stock in the same corporation, or if preferred stock in a
7 corporation is exchanged solely for preferred stock in
8 the same corporation.

9 (3) STOCK FOR STOCK ON REORGANIZATION.—
10 No gain or loss shall be recognized if stock or securi-
11 ties in a corporation a party to a reorganization are, in
12 pursuance of the plan of reorganization, exchanged
13 solely for stock or securities in such corporation or in
14 another corporation a party to the reorganization.

15 (4) SAME—GAIN OF CORPORATION.—No gain
16 or loss shall be recognized if a corporation a party to a
17 reorganization exchanges property, in pursuance of the
18 plan of reorganization, solely for stock or securities in
19 another corporation a party to the reorganization.

20 (5) TRANSFER TO CORPORATION CONTROLLED
21 BY TRANSFEROR.—No gain or loss shall be recognized
22 if property is transferred to a corporation by one or more
23 persons solely in exchange for stock or securities in such
24 corporation, and immediately after the exchange such
25 person or persons are in control of the corporation; but

1 in the case of an exchange by two or more persons this
2 paragraph shall apply only if the amount of the stock
3 and securities received by each is substantially in pro-
4 portion to his interest in the property prior to the
5 exchange.

6 (c) GAIN FROM EXCHANGES NOT SOLELY IN KIND.—

7 (1) If an exchange would be within the provi-
8 sions of subsection (b) (1), (2), (3), or (5) of this
9 section if it were not for the fact that the property
10 received in exchange consists not only of property per-
11 mitted by such paragraph to be received without the
12 recognition of gain, but also of other property or money,
13 then the gain, if any, to the recipient shall be recog-
14 nized, but in an amount not in excess of the sum of such
15 money and the fair market value of such other property.

16 (2) If a distribution made in pursuance of a plan
17 of reorganization is within the provisions of paragraph
18 (1) of this subsection but has the effect of the distri-
19 bution of a taxable dividend, then there shall be taxed
20 as a dividend to each distributee such an amount of
21 the gain recognized under paragraph (1) as is not in
22 excess of his ratable share of the undistributed earnings
23 and profits of the corporation accumulated after Feb-
24 ruary 28, 1913. The remainder, if any, of the gain

1 recognized under paragraph (1) shall be taxed as, a
2 gain from the exchange of property.

3 (d) SAME—GAIN OF CORPORATION.—If an ex-
4 change would be within the provisions of subsection (b)
5 (4) of this section if it were not for the fact that the property
6 received in exchange consists not only of stock or securities
7 permitted by such paragraph to be received without the
8 recognition of gain, but also of other property or money,
9 then—

10 (1) If the corporation receiving such other prop-
11 erty or money distributes it in pursuance of the plan
12 of reorganization, no gain to the corporation shall be
13 recognized from the exchange, but

14 (2) If the corporation receiving such other prop-
15 erty or money does not distribute it in pursuance of the
16 plan of reorganization, the gain, if any, to the corpora-
17 tion shall be recognized, but in an amount not in excess
18 of the sum of such money and the fair market value of
19 such other property so received, which is not so
20 distributed.

21 (e) LOSS FROM EXCHANGES NOT SOLELY IN
22 KIND.—If an exchange would be within the provisions of
23 subsection (b) (1) to (5), inclusive, of this section if it
24 were not for the fact that the property received in exchange

1 consists not only of property permitted by such paragraph
2 to be received without the recognition of gain or loss, but
3 also of other property or money, then no loss from the
4 exchange shall be recognized.

5 (f) INVOLUNTARY CONVERSIONS.—If property (as a
6 result of its destruction in whole or in part, theft or seizure,
7 or an exercise of the power of requisition or condemnation,
8 or the threat or imminence thereof) is compulsorily or
9 involuntarily converted into property similar or related in
10 service or use to the property so converted, or into money
11 which is forthwith in good faith, under regulations pre-
12 scribed by the Commissioner with the approval of the Sec-
13 retary, expended in the acquisition of other property similar
14 or related in service or use to the property so converted, or
15 in the acquisition of control of a corporation owning such
16 other property, or in the establishment of a replacement
17 fund, no gain or loss shall be recognized. If any part of the
18 money is not so expended, the gain, if any, shall be recog-
19 nized, but in an amount not in excess of the money which
20 is not so expended.

21 ~~(g) DISTRIBUTION OF STOCK ON REORGANIZA-~~
22 ~~TION.—If there is distributed, in pursuance of a plan of~~
23 ~~reorganization, to a shareholder in a corporation a party to~~
24 ~~the reorganization, stock or securities in such corporation~~
25 ~~or in another corporation a party to the reorganization,~~

1 without the surrender by such shareholder of stock or securi-
 2 ties in such a corporation, no gain to the distributee from
 3 the receipt of such stock or securities shall be recognized.

4 ~~(h) SAME—EFFECT ON FUTURE DISTRIBUTIONS.—~~

5 The distribution, in pursuance of a plan of reorganization,
 6 by or on behalf of a corporation a party to the reorganiza-
 7 tion, of its stock or securities or stock or securities in a cor-
 8 poration a party to the reorganization, if no gain to the
 9 distributee from the receipt of such stock or securities was
 10 recognized by law, shall not be considered a distribution
 11 of earnings or profits within the meaning of section 115(b)
 12 for the purpose of determining the taxability of subsequent
 13 distributions by the corporation.

14 ~~(i) (g) DEFINITION OF REORGANIZATION.—~~As used
 15 in this section and sections 113 and 115 section 113—

16 (1) The term "reorganization" means (A) a
 17 statutory merger or consolidation ~~(including, or (B)~~
 18 the acquisition by one corporation ~~of~~ *in exchange solely*
 19 *for all or a part of its voting stock: of at least a majority*
 20 *80 per centum* of the voting stock and at least a ~~ma-~~
 21 *majority 80 per centum* of the total number of shares
 22 of all other classes of stock of another corporation, ~~or~~
 23 corporation; ~~or of~~ substantially all the properties of
 24 another corporation), ~~or (B), or (C)~~ a transfer by
 25 a corporation of all or a part of its assets to another

1 corporation if immediately after the transfer the trans-
 2 feror or its stockholders or both are in control of the
 3 corporation to which the assets are transferred, or
 4 ~~(C)~~ (D) a recapitalization, or ~~(D)~~ (E) a mere
 5 change in identity, form, or place of organization,
 6 however effected.

7 (2) The term "a party to a reorganization"
 8 includes a corporation resulting from a reorganization
 9 and includes both corporations in the case of an acqui-
 10 sition by one corporation of at least a majority of the
 11 voting stock and at least a majority of the total num-
 12 ber of shares of all other classes of stock of another
 13 corporation *a reorganization resulting from the acqui-*
 14 *sition by one corporation of stock or properties of*
 15 *another.*

16 ~~(j)~~ (h) DEFINITION OF CONTROL.—As used in this
 17 section the term "control" means the ownership of at least
 18 80 per centum of the voting stock and at least 80 per centum
 19 of the total number of shares of all other classes of stock of
 20 the corporation.

21 ~~(k)~~ (i) FOREIGN CORPORATIONS.—In determining
 22 the extent to which gain shall be recognized in the case of
 23 any of the exchanges or distributions (made after the date of
 24 the enactment of this Act) described in subsection (b) (3),
 25 (4), or (5), or described in so much of subsection (c) as

1 refers to subsection (b) (3) or (5), or described in subsec-
 2 tion (d) ~~or (g)~~, a foreign corporation shall not be considered
 3 as a corporation unless, prior to such exchange ~~or distribu-~~
 4 ~~tion~~, it has been established to the satisfaction of the Com-
 5 missioner that such exchange ~~or distribution~~ is not in pursu-
 6 ance of a plan having as one of its principal purposes the
 7 avoidance of Federal income taxes.

8 **SEC. 113. ADJUSTED BASIS FOR DETERMINING GAIN OR**
 9 **LOSS.**

10 (a) **BASIS (UNADJUSTED) OF PROPERTY.**—The basis
 11 of property shall be the cost of such property; except that—

12 (1) **INVENTORY VALUE.**—If the property should
 13 have been included in the last inventory, the basis shall
 14 be the last inventory value thereof.

15 (2) **GIFTS AFTER DECEMBER 31, 1920.**—If the
 16 property was acquired by gift after December 31,
 17 1920, the basis shall be the same as it would be in
 18 the hands of the donor or the last preceding owner by
 19 whom it was not acquired by gift, *except that for the*
 20 *purpose of determining loss the basis shall be the basis*
 21 *so determined or the fair market value of the property*
 22 *at the time of the gift, whichever is lower.* If the facts
 23 necessary to determine ~~such~~ *basis the basis in the hands*
 24 *of the donor or the last preceding owner* are unknown
 25 to the donee, the Commissioner shall, if possible,

1 obtain such facts from such donor or last preceding
2 owner, or any other person cognizant thereof. If the
3 Commissioner finds it impossible to obtain such facts,
4 the basis *in the hands of such donor or last preceding*
5 *owner* shall be the fair market value of such property
6 as found by the Commissioner as of the date or approx-
7 imate date at which, according to the best information
8 that the Commissioner is able to obtain, such property
9 was acquired by such donor or last preceding owner.

10 (3) TRANSFER IN TRUST AFTER DECEMBER 31,
11 1920.—If the property was acquired after December
12 31, 1920, by a transfer in trust (other than by a
13 transfer in trust by a bequest or devise) the basis shall
14 be the same as it would be in the hands of the grantor,
15 increased in the amount of gain or decreased in the
16 amount of loss recognized to the grantor upon such
17 transfer under the law applicable to the year in which
18 the transfer was made.

19 (4) GIFT OR TRANSFER IN TRUST BEFORE
20 JANUARY 1, 1921.—If the property was acquired by
21 gift or transfer in trust on or before December 31, 1920,
22 the basis shall be the fair market value of such property
23 at the time of such acquisition. The provisions of this
24 paragraph shall apply to the acquisition of such
25 property interests as are specified in section 402(e) of

1 the Revenue Act of 1921, or in section 302(f) of
2 the Revenue Act of 1924 or the Revenue Act of 1926
3 (~~relating to property passing under power of appoint-~~
4 ~~ment~~) regardless of the time of acquisition.

5 (5) PROPERTY TRANSMITTED AT DEATH.—If
6 personal property was acquired by specific bequest, or
7 if real property was acquired by general or specific
8 devise or by intestacy, the basis shall be the fair market
9 value of the property at the time of the death of the
10 decedent. If the property was acquired by the
11 decedent's estate from the decedent, the basis in the
12 hands of the estate shall be the fair market value of
13 the property at the time of the death of the decedent.
14 In all other cases if the property was acquired either
15 by will or by intestacy, the basis shall be the fair market
16 value of the property at the time of the distribution to
17 the taxpayer. *If the property was acquired by be-*
18 *quest, devise, or inheritance, or by the decedent's*
19 *estate from the decedent, the basis shall be the fair*
20 *market value of such property at the time of such*
21 *acquisition.* In the case of property transferred in
22 trust to pay the income for life to or upon the order or
23 direction of the grantor, with the right reserved to the
24 grantor at all times prior to his death to revoke the
25 trust, the basis of such property in the hands of the

1 persons entitled under the terms of the trust instrument
2 to the property after the grantor's death shall, after
3 such death, be the same as if the trust instrument had
4 been a will executed on the day of the grantor's death.
5 *For the purpose of this paragraph property passing*
6 *without full and adequate consideration under a general*
7 *power of appointment exercised by will shall be deemed*
8 *to be property passing from the individual exercising*
9 *such power by bequest or devise.*

10 (6) TAX-FREE EXCHANGES GENERALLY.—If the
11 property was ~~acquired~~ *acquired, after February 28,*
12 *1913, upon an exchange described in section 112 (b)*
13 *to (e), inclusive, the basis shall be the same as in*
14 *the case of the property exchanged, decreased in the*
15 *amount of any money received by the taxpayer and*
16 *increased in the amount of gain or decreased in the*
17 *amount of loss to the taxpayer that was recognized*
18 *upon such exchange under the law applicable to the*
19 *year in which the exchange was made. If the property*
20 *so acquired consisted in part of the type of property*
21 *permitted by section 112 (b) to be received without*
22 *the recognition of gain or loss, and in part of other*
23 *property, the basis provided in this paragraph shall be*
24 *allocated between the properties (other than money)*

1 received, and for the purpose of the allocation there
2 shall be assigned to such other property an amount
3 equivalent to its fair market value at the date of the
4 exchange. This paragraph shall not apply to property
5 acquired by a corporation by the issuance of its stock
6 or securities as the consideration in whole or in part
7 for the transfer of the property to it.

8 (7) TRANSFERS TO CORPORATION WHERE CON-
9 TROL OF PROPERTY REMAINS IN SAME PERSONS.—If
10 the property was acquired after December 31, 1917,
11 by a corporation in connection with a reorganization,
12 and immediately after the transfer an interest or control
13 in such property of 50 per centum or more remained
14 in the same persons or any of them, then the basis shall
15 be the same as it would be in the hands of the trans-
16 feror, increased in the amount of gain or decreased in
17 the amount of loss recognized to the transferor upon
18 such transfer under the law applicable to the year in
19 which the transfer was made. This paragraph shall
20 not apply if the property acquired consists of stock or
21 securities in a corporation a party to the reorganization,
22 unless acquired by the issuance of stock or securities of
23 the transferee as the consideration in whole or in part
24 for the transfer.

1 (8) PROPERTY ACQUIRED BY ISSUANCE OF
2 STOCK OR AS PAID-IN SURPLUS.—If the property was
3 acquired after December 31, 1920, by a corporation—

4 (A) by the issuance of its stock or securities
5 in connection with a transaction described in sec-
6 tion 112 (b) (5) (including, also, cases where
7 part of the consideration for the transfer of such
8 property to the corporation was property or
9 money, in addition to such stock or securities), or

10 (B) as paid-in surplus or as a contribution
11 to capital,

12 then the basis shall be the same as it would be in the
13 hands of the transferor, increased in the amount of gain
14 or decreased in the amount of loss recognized to the
15 transferor upon such transfer under the law applicable
16 to the year in which the transfer was made.

17 ~~(9) TAX-FREE DISTRIBUTIONS.—If the property~~
18 ~~consists of stock or securities distributed after Decem-~~
19 ~~ber 31, 1923, to a taxpayer in connection with a~~
20 ~~transaction described in section 112 (g), the basis in~~
21 ~~the case of the stock in respect of which the distribu-~~
22 ~~tion was made shall be apportioned, under rules and~~
23 ~~regulations prescribed by the Commissioner with the~~
24 ~~approval of the Secretary, between such stock and the~~
25 ~~stock or securities distributed.~~

1 ~~(10)~~ (9) INVOLUNTARY CONVERSION.—If the
2 property was ~~acquired~~ *acquired, after February 28,*
3 *1913,* as the result of a compulsory or involuntary
4 conversion described in section 112 (f), the basis shall
5 be the same as in the case of the property so con-
6 verted, decreased in the amount of any money received
7 by the taxpayer which was not expended in accordance
8 with the provisions of law (applicable to the year in
9 which such conversion was made) determining the tax-
10 able status of the gain or loss upon such conversion,
11 and increased in the amount of gain or decreased in
12 the amount of loss to the taxpayer recognized upon
13 such conversion under the law applicable to the year
14 in which such conversion was made.

15 ~~(11)~~ (10) WASH SALES OF STOCK.—If the prop-
16 erty consists of stock or securities the acquisition of
17 which (or the contract or option to acquire which)
18 resulted in the nondeductibility (under section 118
19 of this Act or corresponding provisions of prior income
20 tax laws, relating to wash sales) of the loss from the
21 sale or other disposition of substantially identical stock
22 or securities, then the basis shall be the basis of the
23 stock or securities so sold or disposed of, increased or
24 decreased, as the case may be, by the difference, if any,

1 between the price at which the property was acquired
2 and the price at which such substantially identical
3 stock or securities were sold or otherwise disposed of.

4 ~~(12)~~ (11) PROPERTY ACQUIRED DURING AFFIL-
5 IATION.—In the case of property acquired by a corpo-
6 ration, during a period of affiliation, from a corporation
7 with which it was affiliated, the basis of such property,
8 after such period of affiliation, shall be determined, in
9 accordance with regulations prescribed by the Com-
10 missioner with the approval of the Secretary, without
11 regard to inter-company transactions in respect of
12 which gain or loss was not recognized. For the pur-
13 poses of this paragraph, the term “ period of affiliation ”
14 means the period during which such corporations were
15 affiliated (determined in accordance with the law ap-
16 plicable thereto) but does not include any taxable year
17 beginning on or after January 1, 1922, unless a con-
18 solidated return was made, nor any taxable year after
19 the taxable year 1928. The basis in case of property
20 acquired by a corporation during any period, in the
21 taxable year 1929 or any subsequent taxable year, in
22 respect of which a consolidated return is made by such
23 corporation under section 141 of ~~this Act~~ or the Rev-
24 enue Act of 1928 or the Revenue Act of 1932, shall be

1 determined in accordance with regulations prescribed
2 under section 141 (b) of ~~this Act~~ or the Revenue Act
3 of 1928 *or the Revenue Act of 1932*. The basis in
4 the case of property held by a corporation during any
5 period, in the taxable year 1929 or any subsequent
6 taxable year, in respect of which a consolidated return
7 is made by such corporation under section 141 of ~~this~~
8 ~~Act~~ or the Revenue Act of 1928 *or the Revenue Act of*
9 *1932*, shall be adjusted in respect of any items relating
10 to such period, in accordance with regulations pre-
11 scribed under section 141 (b) of ~~this Act~~ or the
12 Revenue Act of 1928 *or the Revenue Act of 1932*,
13 applicable to such period.

14 (12) *BASIS ESTABLISHED BY REVENUE ACT*
15 *OF 1932.*—*If the property was acquired, after Febru-*
16 *ary 28, 1913, in any taxable year beginning prior to*
17 *January 1, 1934, and the basis thereof, for the pur-*
18 *poses of the Revenue Act of 1932 was prescribed by*
19 *section 113(a) (6), (7), or (9) of such Act, then for*
20 *the purposes of this Act the basis shall be the same as the*
21 *basis therein prescribed in the Revenue Act of 1932.*

22 (13) *PARTNERSHIPS.*—*If the property was ac-*
23 *quired, after February 28, 1913, by a partnership and*
24 *the basis is not otherwise determined under any of the*
25 *paragraphs (1) to (12), inclusive, of this subsection,*

1 *then the basis shall be the same as it would be in the*
2 *hands of the transferor, increased in the amount of gain*
3 *or decreased in the amount of loss recognized to the*
4 *transferor upon such transfer under the law applicable*
5 *to the year in which the transfer was made. If the*
6 *property was distributed in kind by a partnership to*
7 *any partner, the basis of such property in the hands of*
8 *the partner shall be such part of the basis in his hands*
9 *of his partnership interest as is properly allocable to*
10 *such property.*

11 ~~(13)~~ (14) **PROPERTY ACQUIRED BEFORE MARCH**
12 **1, 1913.**—In the case of property acquired before
13 **March 1, 1913,** if the basis otherwise determined under
14 this subsection, adjusted (*for the period prior to*
15 *March 1, 1913*) as provided in subsection (b), is
16 less than the fair market value of the property as of
17 **March 1, 1913,** then the basis *for determining gain* shall
18 be such fair market value. In determining the fair
19 market value of stock in a corporation as of **March 1,**
20 **1913,** due regard shall be given to the fair market value
21 of the assets of the corporation as of that date.

22 (b) **ADJUSTED BASIS.**—The adjusted basis for deter-
23 mining the gain or loss from the sale or other disposition of
24 property, whenever acquired, shall be the basis determined
25 under subsection (a), adjusted as hereinafter provided.

1 (1) GENERAL RULE.—Proper adjustment in
2 respect of the property shall in all cases be made—

3 (A) for expenditures, receipts, losses, or
4 other items, properly chargeable to capital account,
5 including taxes and other carrying charges on unim-
6 proved and unproductive real property, but no
7 such adjustment shall be made for taxes or other
8 carrying charges for which deductions have been
9 taken by the taxpayer in determining net income
10 for the taxable year or prior taxable years;

11 (B) in respect of any period since February
12 28, 1913, for exhaustion, wear and tear, obso-
13 lescence, amortization, and depletion, to the extent
14 allowed (but not less than the amount allowable)
15 under this Act or prior income tax laws. Where
16 for any taxable year prior to the taxable year 1932
17 the depletion allowance was based on discovery
18 value or a percentage of income, then the adjust-
19 ment for depletion for such year shall be based on
20 the depletion which would have been allowable
21 for such year if computed without reference to
22 discovery value or a percentage of income;

23 (C) in respect of any period prior to March
24 1, 1913, for exhaustion, wear and tear, obsoles-

1 cence, amortization, and depletion, to the extent
2 sustained;

3 (D) in the case of stock (to the extent not
4 provided for in the foregoing subparagraphs) for
5 the amount of distributions previously made
6 which, under the law applicable to the year in
7 which the distribution was made, either were tax-
8 free or were applicable in reduction of basis (not
9 including distributions made by a corporation,
10 which was classified as a personal service cor-
11 poration under the provisions of the Revenue Act
12 of 1918 or 1921, out of its earnings or profits
13 which were taxable in accordance with the provi-
14 sions of section 218 of the Revenue Act of 1918
15 or 1921).

16 (2) **SUBSTITUTED BASIS.**—The term “substi-
17 tuted basis” as used in this subsection means a basis
18 determined under any provision of subsection (a) of
19 this section or under any corresponding provision of a
20 prior income tax law, providing that the basis shall be
21 determined—

22 (A) by reference to the basis in the hands of
23 a transferor, donor, or grantor, or

24 (B) by reference to other property held at
25 any time by the person for whom the basis is to
26 be determined.

1 Whenever it appears that the basis of property in the
2 hands of the taxpayer is a substituted basis, then the
3 adjustments provided in paragraph (1) of this sub-
4 section shall be made after first making in respect of
5 such substituted basis proper adjustments of a similar
6 nature in respect of the period during which the prop-
7 erty was held by the transferor, donor, or grantor, or
8 during which the other property was held by the person
9 for whom the basis is to be determined. A similar rule
10 shall be applied in the case of a series of substituted
11 bases.

12 **SEC. 114. BASIS FOR DEPRECIATION AND DEPLETION.**

13 **(a) BASIS FOR DEPRECIATION.**—The basis upon
14 which exhaustion, wear and tear, and obsolescence are to
15 be allowed in respect of any property shall be the adjusted
16 basis provided in section 113 (b) for the purpose of deter-
17 mining the gain or loss upon the sale or other disposition
18 of such property.

19 **(b) BASIS FOR DEPLETION.**—

20 **(1) GENERAL RULE.**—The basis upon which de-
21 pletion is to be allowed in respect of any property shall
22 be the adjusted basis provided in section 113 (b) for
23 the purpose of determining the gain or loss upon the sale
24 or other disposition of such property, except as provided
25 in paragraphs (2), (3), and (4) of this subsection.

1 (2) DISCOVERY VALUE IN CASE OF MINES.—

2 In the case of mines (other than metal, coal or sulphur
3 mines) discovered by the taxpayer after February 28,
4 1913, the basis for depletion shall be the fair market
5 value of the property at the date of discovery or within
6 thirty days thereafter, if such mines were not acquired
7 as the result of purchase of a proven tract or lease, and
8 if the fair market value of the property is materially
9 disproportionate to the cost. The depletion allowance
10 *under section 23(m)* based on discovery value pro-
11 vided in this paragraph shall not exceed 50 per centum
12 of the net income of the taxpayer (computed without
13 allowance for depletion) from the property upon which
14 the discovery was made, except that in no case shall
15 the depletion allowance *under section 23(m)* be less
16 than it would be if computed without reference to dis-
17 covery value. Discoveries shall include minerals in
18 commercial quantities contained within a vein or de-
19 posit discovered in an existing mine or mining tract
20 by the taxpayer after February 28, 1913, if the vein
21 or deposit thus discovered was not merely the un-
22 interrupted extension of a continuing commercial vein
23 or deposit already known to exist, and if the dis-
24 covered minerals are of sufficient value and quantity

1 that they could be separately mined and marketed at
2 a profit.

3 (3) PERCENTAGE DEPLETION FOR OIL AND GAS
4 WELLS.—In the case of oil and gas wells the allowance
5 for depletion *under section 23(m)* shall be $27\frac{1}{2}$ per
6 centum of the gross income from the property during
7 the taxable year, excluding from such gross income an
8 amount equal to any rents or royalties paid or incurred
9 by the taxpayer in respect of the property. Such
10 allowance shall not exceed 50 per centum of the net
11 income of the taxpayer (computed without allowance
12 for depletion) from the property, except that in no
13 case shall the depletion allowance *under section 23(m)*
14 be less than it would be if computed without reference
15 to this paragraph.

16 (4) PERCENTAGE DEPLETION FOR COAL AND
17 METAL MINES AND SULPHUR.—The allowance for
18 depletion *under section 23(m)* shall be, in the case of
19 coal mines, 5 per centum, in the case of metal mines,
20 15 per centum, and, in the case of sulphur mines or de-
21 posits, 23 per centum, of the gross income from the
22 property during the taxable year, excluding from such
23 gross income an amount equal to any rents or royalties
24 paid or incurred by the taxpayer in respect of the prop-

1 erty. Such allowance shall not exceed 50 per centum
2 of the net income of the taxpayer (computed without
3 allowance for depletion) from the property, except that
4 in no case shall the depletion allowance for the taxable
5 year 1982 or 1983 be less than it would be if computed
6 without reference to this paragraph. A taxpayer mak-
7 ing return for the taxable year 1983 shall state in
8 such return, as to each property (or, if he first
9 makes return in respect of a property for any tax-
10 able year after the taxable year 1983, then in such
11 first return), whether he elects to have the deple-
12 tion allowance for such property for succeeding tax-
13 able years computed with or without reference to
14 percentage depletion. The depletion allowance in
15 respect of such property for all succeeding taxable
16 years shall be computed according to the election thus
17 made. If the taxpayer fails to make such statement in
18 the return, the depletion allowance for such property
19 for succeeding taxable years shall be computed without
20 reference to percentage depletion. During the period
21 for which property acquired after December 31, 1983,
22 is held by the taxpayer—

23 (A) if the basis of the property in the hands
24 of the taxpayer is, under section 113(a), deter-
25 mined by reference to the basis in the hands of

1 the transferor, donor, or grantor, then the deple-
2 tion allowance in respect of the property shall be
3 computed with or without reference to percentage
4 depletion, according to the method of computation
5 which would have been applicable if the transferor,
6 donor, or grantor had continued to hold the prop-
7 erty, or

8 ~~(B)~~ if the basis of the property is, under sec-
9 tion 112(a), determined by reference to the basis
10 of other property previously held by the taxpayer,
11 then the depletion allowance in respect of the
12 property shall be computed with or without refer-
13 ence to percentage depletion, according to the
14 method of computation which would have been
15 applicable in respect of the property previously
16 held if the taxpayer had continued to hold such
17 property.

18 *A taxpayer making his first return under this title in*
19 *respect of a property shall state whether he elects to have*
20 *the depletion allowance for such property for the taxable*
21 *year for which the return is made computed with or*
22 *without regard to percentage depletion, and the depletion*
23 *allowance in respect of such property for such year*
24 *shall be computed according to the election thus made.*
25 *If the taxpayer fails to make such statement in the*

1 *return, the depletion allowance for such property for*
2 *such year shall be computed without reference to*
3 *percentage depletion. The method, determined as*
4 *above, of computing the depletion allowance shall be*
5 *applied in the case of the property for all taxable*
6 *years in which it is in the hands of such taxpayer,*
7 *or of any other person if the basis of the property*
8 *(for determining gain) in his hands is, under section*
9 *113, determined by reference to the basis in the hands*
10 *of such taxpayer, either directly or through one or*
11 *more substituted bases, as defined in that section.*

12 **SEC. 115. DISTRIBUTIONS BY CORPORATIONS.**

13 **(a) DEFINITION OF DIVIDEND.**—The term “dividend”
14 when used in this title (except in section 203 (a) (4)
15 and section ~~208(e)(1)~~ 207(c)(1), relating to insurance
16 companies) means any distribution made by a corporation
17 to its shareholders, whether in money or in other property,
18 out of its earnings or profits accumulated after February
19 28, 1913.

20 **(b) SOURCE OF DISTRIBUTIONS.**—For the purposes
21 of this Act every distribution is made out of earnings or
22 profits to the extent thereof, and from the most recently
23 accumulated earnings or profits. Any earnings or profits
24 accumulated, or increase in value of property accrued, before
25 March 1, 1913, may be distributed exempt from tax, after

1 the earnings and profits accumulated after February 28,
2 1913, have been distributed, but any such tax-free distribu-
3 tion shall be applied against and reduce the *adjusted* basis of
4 the stock provided in section 113.

5 (c) DISTRIBUTIONS IN LIQUIDATION.—Amounts dis-
6 tributed in complete liquidation of a corporation shall be
7 treated as in full payment in exchange for the stock, and
8 amounts distributed in partial liquidation of a corporation
9 shall be treated as in part or full payment in exchange for the
10 stock. The gain or loss to the distributee resulting from
11 such exchange shall be determined under section 111, but
12 shall be recognized only to the extent provided in section
13 112. *Despite the provisions of section 117(a), 100 per*
14 *centum of the gain so recognized shall be taken into account*
15 *in computing net income.* In the case of amounts distributed
16 *(whether before January 1, 1934, or on or after such date)*
17 *in partial liquidation (other than a distribution within the*
18 *provisions of section ~~112(h)~~ subsection (h) of this section*
19 *of stock or securities in connection with a reorganization)*
20 *the part of such distribution which is properly chargeable*
21 *to capital account shall not be considered a distribution of*
22 *earnings or profits within the meaning of subsection (b)*
23 *of this section for the purpose of determining the taxability*
24 *of subsequent distributions by the corporation.*

1 (d) OTHER DISTRIBUTIONS FROM CAPITAL.—If any
2 distribution (not in partial or complete liquidation) made by
3 a corporation to its shareholders is not out of increase in
4 value of property accrued before March 1, 1918, and is not
5 out of earnings or profits, then the amount of such distribu-
6 tion shall be applied against and reduce the *adjusted* basis of
7 the stock provided in section 113, and if in excess of such
8 basis, such excess shall be taxable in the same manner as a
9 gain from the sale or exchange of property.

10 (e) DISTRIBUTIONS BY PERSONAL SERVICE CORPORA-
11 TIONS.—Any distribution made by a corporation, which was
12 classified as a personal service corporation under the pro-
13 visions of the Revenue Act of 1918 or the Revenue Act
14 of 1921, out of its earnings or profits which were taxable
15 in accordance with the provisions of section 218 of the Reve-
16 nue Act of 1918 or section 218 of the Revenue Act of 1921,
17 shall be exempt from tax to the distributees.

18 (f) STOCK DIVIDENDS.—A stock dividend shall not be
19 subject to tax.

20 (g) REDEMPTION OF STOCK.—If a corporation cancels
21 or redeems its stock (whether or not such stock was issued
22 as a stock dividend) at such time and in such manner as
23 to make the distribution and cancellation or redemption in
24 whole or in part essentially equivalent to the distribution

1 of a taxable dividend, the amount so distributed in redemp-
2 tion or cancellation of the stock, to the extent that it repre-
3 sents a distribution of earnings or profits accumulated after
4 February 28, 1913, shall be treated as a taxable dividend.

5 (h) *DISTRIBUTION OF STOCK ON REORGANIZA-*
6 *TION—EFFECT ON FUTURE DISTRIBUTIONS.*—*The dis-*
7 *tribution before January 1, 1934, in pursuance of a plan*
8 *of reorganization, by or on behalf of a corporation a party*
9 *to the reorganization, of its stock or securities or stock or*
10 *securities in a corporation a party to the reorganization, if*
11 *no gain to the distributee from the receipt of such stock or*
12 *securities was recognized by law, shall not be considered a*
13 *distribution of earnings or profits within the meaning of this*
14 *section for the purpose of determining the taxability of sub-*
15 *sequent distributions by the corporation. As used in this*
16 *subsection, the terms "reorganization" and "party to the*
17 *reorganization" shall have the meanings assigned to such*
18 *terms in section 112 of the Revenue Act of 1932.*

19 (h) (i) *DEFINITION OF PARTIAL LIQUIDATION.*—*As*
20 *used in this section the term "amounts distributed in partial*
21 *liquidation" means a distribution by a corporation in com-*
22 *plete cancellation or redemption of a part of its stock, or one*
23 *of a series of distributions in complete cancellation or redemp-*
24 *tion of all or a portion of its stock.*

1 SEC. 116. EXCLUSIONS FROM GROSS INCOME.

2 In addition to the items specified in section 22 (b), the
3 following items shall not be included in gross income and
4 shall be exempt from taxation under this title:

5 (a) **EARNED INCOME FROM SOURCES WITHOUT**
6 UNITED STATES.—In the case of an individual citizen of
7 the United States, a bona fide nonresident of the United
8 States for more than six months during the taxable year,
9 amounts received from sources without the United States
10 (except amounts paid by the United States or any agency
11 thereof) if such amounts *would* constitute earned income
12 *as defined in section 25(a) if received from sources within the*
13 *United States*; but such individual shall not be allowed as
14 a deduction from his gross income any deductions properly
15 allocable to or chargeable against amounts excluded from
16 gross income under this subsection. *As used in this subsec-*
17 *tion the term "earned income" means wages, salaries,*
18 *professional fees, and other amounts received as compensa-*
19 *tion for personal services actually rendered, but does not*
20 *include that part of the compensation derived by the tax-*
21 *payer for personal services rendered by him to a corporation*
22 *which represents a distribution of earnings or profits rather*
23 *than a reasonable allowance as compensation for the personal*
24 *services actually rendered. In the case of a taxpayer en-*
25 *gaged in a trade or business in which both personal services*

1 and capital are material income producing factors, a reason-
2 able allowance as compensation for the personal services
3 actually rendered by the taxpayer, not in excess of 20 per
4 centum of his share of the net profits of such trade or busi-
5 ness, shall be considered as earned income.

6 (b) **TEACHERS IN ALASKA AND HAWAII.**—In the
7 case of an individual employed by Alaska or Hawaii or any
8 political subdivision thereof as a teacher in any educational
9 institution, the compensation received as such. This sub-
10 section shall not exempt compensation paid directly or
11 indirectly by the Government of the United States. Sub-
12 section (b) of section 5 of the Act entitled “An Act to pro-
13 vide a government for the Territory of Hawaii”, approved
14 April 30, 1900, as amended by the Act entitled “An Act to
15 amend section 5 of the Act entitled ‘An Act to provide a
16 government for the Territory of Hawaii’, approved April 30,
17 1900”, approved April 12, 1920 [U.S.C., Sup. V, title 48,
18 sec. 495 (b)], is repealed as of January 1, 1932.

19 (c) **INCOME OF FOREIGN GOVERNMENTS.**—The in-
20 come of foreign governments received from investments in
21 the United States in stocks, bonds, or other domestic securi-
22 ties, owned by such foreign governments, or from interest on
23 deposits in banks in the United States of moneys belonging
24 to such foreign governments, or from any other source
25 within the United States.

1 (d) INCOME OF STATES, MUNICIPALITIES, ETC.—

2 Income derived from any public utility or the exercise of any
3 essential governmental function and accruing to any State,
4 Territory, or the District of Columbia, or any political sub-
5 division of a State or Territory, or income accruing to the
6 government of any possession of the United States, or any
7 political subdivision thereof.

8 Whenever any State, Territory, or the District of
9 Columbia, or any political subdivision of a State or Terri-
10 tory, prior to September 8, 1916, entered in good faith
11 into a contract with any person, the object and purpose of
12 which is to acquire, construct, operate, or maintain a public
13 utility—

14 (1) If by the terms of such contract the tax
15 imposed by this title is to be paid out of the proceeds
16 from the operation of such public utility, prior to any
17 division of such proceeds between the person and
18 the State, Territory, political subdivision, or the
19 District of Columbia, and if, but for the imposition of
20 the tax imposed by this title, a part of such proceeds for
21 the taxable year would accrue directly to or for the
22 use of such State, Territory, political subdivision, or
23 the District of Columbia, then a tax upon the net income
24 from the operation of such public utility shall be
25 levied, assessed, collected, and paid in the manner

1 and at the rates prescribed in this title, but there
2 shall be refunded to such State, Territory, political
3 subdivision, or the District of Columbia (under rules
4 and regulations to be prescribed by the Commissioner
5 with the approval of the Secretary) an amount which
6 bears the same relation to the amount of the tax as the
7 amount which (but for the imposition of the tax
8 imposed by this title) would have accrued directly to
9 or for the use of such State, Territory, political sub-
10 division, or the District of Columbia, bears to the
11 amount of the net income from the operation of such
12 public utility for such taxable year.

13 (2) If by the terms of such contract no part of
14 the proceeds from the operation of the public utility
15 for the taxable year would, irrespective of the tax
16 imposed by this title, accrue directly to or for the use
17 of such State, Territory, political subdivision, or the
18 District of Columbia, then the tax upon the net income
19 of such person from the operation of such public utility
20 shall be levied, assessed, collected, and paid in the
21 manner and at the rates prescribed in this title.

22 (c) BRIDGES TO BE ACQUIRED BY STATE OR POLITI-
23 CAL SUBDIVISION.—Whenever any State or political sub-
24 division thereof, in pursuance of a contract to which it is not

1 a party entered into before the enactment of the Revenue
2 Act of 1928, is to acquire a bridge—

3 (1) If by the terms of such contract the tax im-
4 posed by this title is to be paid out of the proceeds from
5 the operation of such bridge prior to any division of
6 such proceeds, and if, but for the imposition of the
7 tax imposed by this title, a part of such proceeds for the
8 taxable year would accrue directly to or for the use of
9 or would be applied for the benefit of such State or
10 political subdivision, then a tax upon the net income
11 from the operation of such bridge shall be levied,
12 assessed, collected, and paid in the manner and at the
13 rates prescribed in this title, but there shall be refunded
14 to such State or political subdivision (under rules and
15 regulations to be prescribed by the Commissioner with
16 the approval of the Secretary) an amount which bears
17 the same relation to the amount of the tax as the amount
18 which (but for the imposition of the tax imposed by
19 this title) would have accrued directly to or for the use
20 of or would be applied for the benefit of such State or
21 political subdivision, bears to the amount of the net
22 income from the operation of such bridge for such tax-
23 able year. No such refund shall be made unless the
24 entire amount of the refund is to be applied in part
25 payment for the acquisition of such bridge.

1 (2) If by the terms of such contract no part of
2 the proceeds from the operation of the bridge for the
3 taxable year would, irrespective of the tax imposed by
4 this title, accrue directly to or for the use of or be
5 applied for the benefit of such State or political sub-
6 division, then the tax upon the net income from the
7 operation of such bridge shall be levied, assessed, col-
8 lected, and paid in the manner and at the rates pre-
9 scribed in this title.

10 (f) DIVIDEND FROM "CHINA TRADE ACT" COR-
11 PORATION.—In the case of a person, amounts distributed as
12 dividends to or for his benefit by a corporation organized
13 under the China Trade Act, 1922, if, at the time of such
14 distribution, he is a resident of China, and the equitable right
15 to the income of the shares of stock of the corporation is in
16 good faith vested in him.

17 (g) SHIPOWNERS' PROTECTION AND INDEMNITY
18 ASSOCIATIONS.—The receipts of shipowners' mutual protec-
19 tion and indemnity associations not organized for profit, and
20 no part of the net earnings of which inures to the benefit of
21 any private shareholder; but such corporations shall be sub-
22 ject as other persons to the tax upon their net income from
23 interest, dividends, and rents.

1 **SEC. 117. CAPITAL GAINS AND LOSSES.**

2 (a) **GENERAL RULE.**—*In the case of a taxpayer,*
3 *other than a corporation, only the following percentages of*
4 *the gain or loss recognized upon the sale or exchange of a*
5 *capital asset shall be taken into account in computing net*
6 *income:*

7 100 per centum if the capital asset has been held
8 for not more than 1 year;

9 80 per centum if the capital asset has been held
10 for more than 1 year but not for more than 2 years;

11 60 per centum if the capital asset has been held
12 for more than 2 years but not for more than 5 years;

13 40 per centum if the capital asset has been held for
14 more than 5 years but not for more than 10 years;

15 30 per centum if the capital asset has been held
16 for more than 10 years.

17 (b) **DEFINITION OF CAPITAL ASSETS.**—*For the pur-*
18 *poses of this title, "capital assets" means property held by*
19 *the taxpayer (whether or not connected with his trade or*
20 *business), but does not include stock in trade of the taxpayer*
21 *or other property of a kind which would properly be included*
22 *in the inventory of the taxpayer if on hand at the close of*
23 *the taxable year, or property held by the taxpayer primarily*
24 *for sale to customers in the ordinary course of his trade or*
25 *business.*

1 **(c) DETERMINATION OF PERIOD FOR WHICH HELD.—**

2 *For the purpose of subsection (a)—*

3 *(1) In determining the period for which the tax-*
4 *payer has held property received on an exchange there*
5 *shall be included the period for which he held the prop-*
6 *erty exchanged, if under the provisions of section 113,*
7 *the property received has, for the purpose of determining*
8 *gain or loss from a sale or exchange, the same basis in*
9 *whole or in part in his hands as the property exchanged.*

10 *(2) In determining the period for which the tax-*
11 *payer has held property however acquired there shall*
12 *be included the period for which such property was held*
13 *by any other person, if under the provisions of section*
14 *113, such property has, for the purpose of determining*
15 *gain or loss from a sale or exchange, the same basis in*
16 *whole or in part in his hands as it would have in the*
17 *hands of such other person.*

18 *(3) In determining the period for which the tax-*
19 *payer has held stock or securities received upon a dis-*
20 *tribution where no gain was recognized to the distributees*
21 *under the provisions of section 112(g) of the Revenue*
22 *Act of 1928 or the Revenue Act of 1932, there shall be*
23 *included the period for which he held the stock or securi-*
24 *ties in the distributing corporation prior to the receipt of*
25 *the stock or securities upon such distribution.*

1 (4) *In determining the period for which the tax-*
2 *payer has held stock or securities the acquisition of*
3 *which (or the contract or option to acquire which) re-*
4 *sulted in the nondeductibility (under section 118 of this*
5 *Act or section 118 of the Revenue Act of 1928 or the*
6 *Revenue Act of 1932, relating to wash sales) of the loss*
7 *from the sale or other disposition of substantially iden-*
8 *tical stock or securities, there shall be included the period*
9 *for which he held the stock or securities the loss from*
10 *the sale or other disposition of which was not deductible.*

11 (d) *LIMITATION ON CAPITAL LOSSES.—Losses from*
12 *sales or exchanges of capital assets shall be allowed only to*
13 *the extent of \$2,000 plus the gains from such sales or*
14 *exchanges. If a bank or trust company incorporated under*
15 *the laws of the United States or of any State or Territory,*
16 *a substantial part of whose business is the receipt of*
17 *deposits, sells any bond, debenture, note, or certificate or*
18 *other evidence of indebtedness issued by any corporation*
19 *(including one issued by a government or political sub-*
20 *division thereof), with interest coupons or in registered*
21 *form, any loss resulting from such sale (except such portion*
22 *of the loss as does not exceed the amount, if any, by which the*
23 *adjusted basis of such instrument exceeds the par or face*
24 *value thereof) shall not be subject to the foregoing limitation.*

1 *and shall not be included in determining the applicability of*
 2 *such limitation to other losses.*

3 *(e) GAINS AND LOSSES FROM SHORT SALES, ETC.—*

4 *For the purpose of this title—*

5 *(1) gains or losses from short sales of property*
 6 *shall be considered as gains or losses from sales or*
 7 *exchanges of capital assets; and*

8 *(2) gains or losses attributable to the failure to*
 9 *exercise privileges or options to buy or sell property*
 10 *shall be considered as gains or losses from sales or*
 11 *exchanges of capital assets held for one year or less.*

12 *(f) RETIREMENT OF BONDS, ETC.—For the purposes*
 13 *of this title, amounts received by the holder upon the retire-*
 14 *ment of bonds, debentures, notes, or certificates or other*
 15 *evidences of indebtedness issued by any corporation (includ-*
 16 *ing those issued by a government or political subdivision*
 17 *thereof), with interest coupons or in registered form, shall be*
 18 *considered as amounts received in exchange therefor.*

19 **SEC. 118. LOSS FROM WASH SALES OF STOCK OR SECURITIES.**
 20

21 *(a) In the case of any loss claimed to have been sus-*
 22 *tained from any sale or other disposition of shares of stock*
 23 *or securities where it appears that, within a period beginning*
 24 *30 days before the date of such sale or disposition and ending*

1 30 days after such date, the taxpayer has acquired (by pur-
2 chase or by an exchange upon which the entire amount of
3 gain or loss was recognized by law), or has entered into a
4 contract or option so to acquire, substantially identical
5 stock or securities, then no deduction for the loss shall be
6 allowed under section 23 (e) (2); nor shall such deduction
7 be allowed under section 23 (f) unless the claim is made by a
8 corporation, a dealer in stocks or securities, and with respect
9 to a transaction made in the ordinary course of its business.

10 (b) If the amount of stock or securities acquired (or
11 covered by the contract or option to acquire) is less than the
12 amount of stock or securities sold or otherwise disposed of,
13 then the particular shares of stock or securities the loss from
14 the sale or other disposition of which is not deductible shall
15 be determined under rules and regulations prescribed by the
16 Commissioner with the approval of the Secretary.

17 (c) If the amount of stock or securities acquired (or
18 covered by the contract or option to acquire) is not less
19 than the amount of stock or securities sold or otherwise dis-
20 posed of, then the particular shares of stock or securities the
21 acquisition of which (or the contract or option to acquire
22 which) resulted in the nondeductibility of the loss shall be
23 determined under rules and regulations prescribed by the
24 Commissioner with the approval of the Secretary.

1 **SEC. 119. INCOME FROM SOURCES WITHIN UNITED STATES.**

2 (a) **GROSS INCOME FROM SOURCES IN UNITED**
3 **STATES.**—The following items of gross income shall be
4 treated as income from sources within the United States:

5 (1) **INTEREST.**—*Interest from the United States,*
6 *any Territory, any political subdivision of a Territory,*
7 *or the District of Columbia, and interest on bonds, notes,*
8 *or other interest-bearing obligations of residents, corpo-*
9 *rate or otherwise, not including—*

10 (A) interest on deposits with persons carry-
11 ing on the banking business paid to persons not
12 engaged in business within the United States and
13 not having an office or place of business therein, or

14 (B) interest received from a resident alien
15 individual, a resident foreign corporation, or a
16 domestic corporation, when it is shown to the satis-
17 faction of the Commissioner that less than 20 per
18 centum of the gross income of such resident payor
19 or domestic corporation has been derived from
20 sources within the United States, as determined
21 under the provisions of this section, for the three-
22 year period ending with the close of the taxable
23 year of such payor preceding the payment of such
24 interest, or for such part of such period as may be
25 applicable, or

1 (C) income derived by a foreign central
2 bank of issue from bankers' acceptances;

3 (2) DIVIDENDS.—The amount received as divi-
4 dends—

5 (A) from a domestic corporation other
6 than a corporation entitled to the benefits of
7 section 251, and other than a corporation less than
8 20 per centum of whose gross income is shown to
9 the satisfaction of the Commissioner to have been
10 derived from sources within the United States, as
11 determined under the provisions of this section,
12 for the three-year period ending with the close
13 of the taxable year of such corporation preceding
14 the declaration of such dividends (or for such part
15 of such period as the corporation has been in
16 existence), or

17 (B) from a foreign corporation unless less
18 than 50 per centum of the gross income of such
19 foreign corporation for the three-year period end-
20 ing with the close of its taxable year preceding
21 the declaration of such dividends (or for such part
22 of such period as the corporation has been in
23 existence) was derived from sources within the
24 United States as determined under the provisions
25 of this section; *but dividends from a foreign cor-*

1 *poration shall, for the purposes of section 131*
2 *(relating to foreign tax credit), be treated as in-*
3 *come from sources without the United States;*

4 (3) **PERSONAL SERVICES.**—Compensation for
5 labor or personal services performed in the United
6 States;

7 (4) **RENTALS AND ROYALTIES.**—Rentals or
8 royalties from property located in the United States or
9 from any interest in such property, including rentals
10 or royalties for the use of or for the privilege of using
11 in the United States, patents, copyrights, secret
12 processes and formulas, good will, trade-marks, trade
13 brands, franchises, and other like property; and

14 (5) **SALE OF REAL PROPERTY.**—Gains, profits,
15 and income from the sale of real property located in
16 the United States.

17 (6) **SALE OF PERSONAL PROPERTY.**—*For gains,*
18 *profits, and income from the sale of personal property,*
19 *see subsection (e).*

20 (b) **NET INCOME FROM SOURCES IN UNITED**
21 **STATES.**—From the items of gross income specified in sub-
22 section (a) of this section there shall be deducted the
23 expenses, losses, and other deductions properly apportioned
24 or allocated thereto and a ratable part of any expenses, losses,
25 or other deductions which can not definitely be allocated

1 to some item or class of gross income. The remainder, if
2 any, shall be included in full as net income from sources
3 within the United States.

4 (c) GROSS INCOME FROM SOURCES WITHOUT
5 UNITED STATES.—The following items of gross income shall
6 be treated as income from sources without the United States:

7 (1) Interest other than that derived from sources
8 within the United States as provided in subsection
9 (a) (1) of this section;

10 (2) Dividends other than those derived from
11 sources within the United States as provided in sub-
12 section (a) (2) of this section;

13 (3) Compensation for labor or personal services
14 performed without the United States;

15 (4) Rentals or royalties from property located
16 without the United States or from any interest in such
17 property, including rentals or royalties for the use of
18 or for the privilege of using without the United States,
19 patents, copyrights, secret processes and formulas,
20 good will, trade-marks, trade brands, franchises, and
21 other like properties; and

22 (5) Gains, profits, and income from the sale of
23 real property located without the United States.

24 (d) NET INCOME FROM SOURCES WITHOUT UNITED
25 STATES.—From the items of gross income specified in sub-

1 section (c) of this section there shall be deducted the ex-
2 penses, losses, and other deductions properly apportioned
3 or allocated thereto, and a ratable part of any expenses,
4 losses, or other deductions which can not definitely be allo-
5 cated to some item or class of gross income. The remainder,
6 if any, shall be treated in full as net income from sources
7 without the United States.

8 (e) INCOME FROM SOURCES PARTLY WITHIN AND
9 PARTLY WITHOUT UNITED STATES.—Items of gross
10 income, expenses, losses and deductions, other than those
11 specified in subsections (a) and (c) of this section, shall
12 be allocated or apportioned to sources within or without
13 the United States, under rules and regulations prescribed
14 by the Commissioner with the approval of the Secretary.
15 Where items of gross income are separately allocated to
16 sources within the United States, there shall be deducted
17 (for the purpose of computing the net income therefrom)
18 the expenses, losses, and other deductions properly appor-
19 tioned or allocated thereto and a ratable part of other
20 expenses, losses or other deductions which can not definitely
21 be allocated to some item or class of gross income. The
22 remainder, if any, shall be included in full as net income
23 from sources within the United States. In the case of
24 gross income derived from sources partly within and partly

1 without the United States, the net income may first be
2 computed by deducting the expenses, losses, or other deduc-
3 tions apportioned or allocated thereto and a ratable part of
4 any expenses, losses, or other deductions which can not
5 definitely be allocated to some items or class of gross
6 income; and the portion of such net income attributable
7 to sources within the United States may be determined by
8 processes or formulas of general apportionment prescribed
9 by the Commissioner with the approval of the Secretary.
10 Gains, profits, and income from—

11 (1) transportation or other services rendered
12 partly within and partly without the United States, or
13 (2) from the sale of personal property produced
14 (in whole or in part) by the taxpayer within and sold
15 without the United States, or produced (in whole or in
16 part) by the taxpayer without and sold within the
17 United States,

18 shall be treated as derived partly from sources within and
19 partly from sources without the United States. Gains, profits
20 and income derived from the purchase of personal property
21 within and its sale without the United States or from the
22 purchase of personal property without and its sale within the
23 United States, shall be treated as derived entirely from
24 sources within the country in which sold, except that gains,

1 profits, and income derived from the purchase of personal
2 property within the United States and its sale within a
3 possession of the United States or from the purchase of per-
4 sonal property within a possession of the United States and
5 its sale within the United States shall be treated as derived
6 partly from sources within and partly from sources without
7 the United States.

8 (f) DEFINITIONS.—As used in this section the words
9 “sale” or “sold” include “exchange” or “exchanged”;
10 and the word “produced” includes “created”, “fabri-
11 cated”, “manufactured”, “extracted”, “processed”,
12 “cured”, or “aged”.

13 **SEC. 120. UNLIMITED DEDUCTION FOR CHARITABLE**
14 **AND OTHER CONTRIBUTIONS.**

15 In the case of an individual if in the taxable year and
16 in each of the ten preceding taxable years the amount of the
17 contributions or gifts described in section ~~23(n)~~ 23(o) plus
18 the amount of income, war-profits, or excess-profits taxes
19 paid during such year in respect of preceding taxable years,
20 exceeds 90 per centum of the taxpayer's net income for each
21 such year, as computed without the benefit of section ~~23(n)~~
22 23(o), then the 15 per centum limit imposed by such section
23 shall not be applicable.

Supplement C—Credits Against Tax

[Supplementary to Subtitle B, Part III]

SEC. 131. TAXES OF FOREIGN COUNTRIES AND POSSESSIONS OF UNITED STATES.

(a) **ALLOWANCE OF CREDIT.**—If the taxpayer signifies in his return his desire to have the benefits of this section, the tax imposed by this title shall be credited with:

(1) **CITIZEN AND DOMESTIC CORPORATION.**—In the case of a citizen of the United States and of a domestic corporation, the amount of any income, war-profits, and excess-profits taxes paid or accrued during the taxable year to any foreign country or to any possession of the United States; and

(2) **RESIDENT OF UNITED STATES.**—In the case of a resident of the United States, the amount of any such taxes paid or accrued during the taxable year to any possession of the United States; and

(3) **ALIEN RESIDENT OF UNITED STATES.**—In the case of an alien resident of the United States, the amount of any such taxes paid or accrued during the taxable year to any foreign country, if the foreign country of which such alien resident is a citizen or subject, in imposing such taxes, allows a similar credit to citizens of the United States residing in such country; and

1 (4) **PARTNERSHIPS AND ESTATES.**—In the case
2 of any such individual who is a member of a partner-
3 ship or a beneficiary of an estate or trust, his propor-
4 tionate share of such taxes of the partnership or the
5 estate or trust paid or accrued during the taxable year
6 to a foreign country or to any possession of the United
7 States, as the case may be.

8 (b) **LIMIT ON CREDIT.**—The amount of the credit
9 taken under this section shall be subject to each of the
10 following limitations:

11 (1) The amount of the credit in respect of the
12 tax paid or accrued to any country shall not exceed the
13 same proportion of the tax against which such credit
14 is taken, which the taxpayer's net income from sources
15 within such country bears to his entire net income for
16 the same taxable year; and

17 (2) The total amount of the credit shall not
18 exceed the same proportion of the tax against which
19 such credit is taken, which the taxpayer's net income
20 from sources without the United States bears to his
21 entire net income for the same taxable year.

22 (c) **ADJUSTMENTS ON PAYMENT OF ACCRUED**
23 **TAXES.**—If accrued taxes when paid differ from the
24 amounts claimed as credits by the taxpayer, or if any tax
25 paid is refunded in whole or in part, the taxpayer shall

1 notify the Commissioner, who shall redetermine the amount
2 of the tax for the year or years affected, and the amount of
3 tax due upon such redetermination, if any, shall be paid by
4 the taxpayer upon notice and demand by the collector, or
5 the amount of tax overpaid, if any, shall be credited or
6 refunded to the taxpayer in accordance with the provisions
7 of section 322. In the case of such a tax accrued but not
8 paid, the Commissioner as a condition precedent to the
9 allowance of this credit may require the taxpayer to give a
10 bond with sureties satisfactory to and to be approved by the
11 Commissioner in such sum as the Commissioner may require,
12 conditioned upon the payment by the taxpayer of any
13 amount of tax found due upon any such redetermination; and
14 the bond herein prescribed shall contain such further condi-
15 tions as the Commissioner may require.

16 (d) YEAR IN WHICH CREDIT TAKEN.—The credits
17 provided for in this section may, at the option of the tax-
18 payer and irrespective of the method of accounting employed
19 in keeping his books, be taken in the year in which the
20 taxes of the foreign country or the possession of the United
21 States accrued, subject, however, to the conditions prescribed
22 in subsection (c) of this section. If the taxpayer elects to
23 take such credits in the year in which the taxes of the foreign
24 country or the possession of the United States accrued, the
25 credits for all subsequent years shall be taken upon the

1 same basis, and no portion of any such taxes shall be allowed
2 as a deduction in the same or any succeeding year. "

3 (e) **PROOF OF CREDITS.**—The credits provided in this
4 section shall be allowed only if the taxpayer establishes
5 to the satisfaction of the Commissioner (1) the total amount
6 of income derived from sources without the United States,
7 determined as provided in section 119, (2) the amount
8 of income derived from each country, the tax paid or accrued
9 to which is claimed as a credit under this section, such
10 amount to be determined under rules and regulations
11 prescribed by the Commissioner with the approval of the
12 Secretary, and (3) all other information necessary for the
13 verification and computation of such credits.

14 (f) **TAXES OF FOREIGN SUBSIDIARY.**—For the pur-
15 poses of this section a domestic corporation which owns a
16 majority of the voting stock of a foreign corporation from
17 which it receives dividends ~~(not deductible under section~~
18 ~~23(p))~~ in any taxable year shall be deemed to have paid
19 the same proportion of any income, war-profits, or excess-
20 profits taxes paid by such foreign corporation to any foreign
21 country or to any possession of the United States, upon or
22 with respect to the accumulated profits of such foreign corpo-
23 ration from which such dividends were paid, which the
24 amount of such dividends bears to the amount of such accu-
25 mulated profits: *Provided*, That the amount of tax deemed to

1 have been paid under this subsection shall in no case exceed
2 the same proportion of the tax against which credit is taken
3 which the amount of such dividends bears to the amount of
4 the entire net income of the domestic corporation in which
5 such dividends are included. The term "accumulated
6 profits" when used in this subsection in reference to a
7 foreign corporation, means the amount of its gains, profits,
8 or income in excess of the income, war-profits, and excess-
9 profits taxes imposed upon or with respect to such profits or
10 income; and the Commissioner with the approval of the Sec-
11 retary shall have full power to determine from the accumu-
12 lated profits of what year or years such dividends were paid;
13 treating dividends paid in the first sixty days of any year as
14 having been paid from the accumulated profits of the pre-
15 ceding year or years (unless to his satisfaction shown other-
16 wise), and in other respects treating dividends as having
17 been paid from the most recently accumulated gains, profits,
18 or earnings. In the case of a foreign corporation, the income,
19 war-profits, and excess-profits taxes of which are determined
20 on the basis of an accounting period of less than one year, the
21 word "year" as used in this subsection shall be construed
22 to mean such accounting period.

23 (g) CORPORATIONS TREATED AS FOREIGN.—For the
24 purposes of this section the following corporations shall be
25 treated as foreign corporations:

1 (1) A corporation entitled to the benefits of sec-
 2 tion 251, by reason of receiving a large percentage of
 3 its gross income from sources within a possession of
 4 the United States;

5 (2) A corporation organized under the China
 6 Trade Act, 1922, and entitled to the credit provided for
 7 in section 261.

8 **SEC. 132. PAYMENTS UNDER 1928 ACT.**

9 Any amount paid before or after the enactment of this
 10 Act on account of the tax imposed for a fiscal year beginning
 11 in 1931 and ending in 1932 by Title II of the Revenue Act
 12 of 1928 shall be credited toward the payment of the tax
 13 imposed for such fiscal year by this Act, and if the amount
 14 so paid exceeds the amount of such tax imposed by this Act,
 15 the excess shall be credited or refunded in accordance with
 16 the provisions of section 822.

17 **Supplement D—Returns and Payment of Tax**

18 [Supplementary to Subtitle B, Part V]

19 **SEC. 141. CONSOLIDATED RETURNS OF CORPORATIONS.**

20 ~~(a) PRIVILEGE TO FILE CONSOLIDATED RETURNS.~~

21 An affiliated group of corporations shall, subject to the
 22 provisions of this section, have the privilege of making a
 23 consolidated return for the taxable year in lieu of separate
 24 returns. The making of a consolidated return shall be upon
 25 the condition that all the corporations which have been

1 members of the affiliated group at any time during the tax-
2 able year for which the return is made consent to all the
3 regulations under subsection (b) (or, in case such regulations
4 are not prescribed prior to the making of the return, then the
5 regulations prescribed under section 141(b) of the Revenue
6 Act of 1928 in so far as not inconsistent with this Act) pre-
7 scribed prior to the making of such return; and the making
8 of a consolidated return shall be considered as such consent.
9 In the case of a corporation which is a member of the affli-
10 ated group for a fractional part of the year the consolidated
11 return shall include the income of such corporation for such
12 part of the year as it is a member of the affiliated group.

13 (b) REGULATIONS.—The Commissioner, with the
14 approval of the Secretary, shall prescribe such regulations
15 as he may deem necessary in order that the tax liability of
16 an affiliated group of corporations making a consolidated
17 return and of each corporation in the group, both during
18 and after the period of affiliation, may be determined,
19 computed, assessed, collected, and adjusted in such manner
20 as clearly to reflect the income and to prevent avoidance of
21 tax liability.

22 (c) COMPUTATION AND PAYMENT OF TAX.—In any
23 case in which a consolidated return is made the tax shall be
24 determined, computed, assessed, collected, and adjusted in
25 accordance with the regulations under subsection (b) (or,

1 in case such regulations are not prescribed prior to the
 2 making of the return, then the regulations prescribed under
 3 section 141(b) of the Revenue Act of 1928 in so far as not
 4 inconsistent with this Act) prescribed prior to the date on
 5 which such return is made; except that for the taxable years
 6 1932 and 1933 there shall be added to the rate of tax
 7 prescribed by sections 13(a), 201(b), and 204(a) a rate
 8 of three fourths of 1 per centum and except that for the
 9 taxable years 1934 and 1935 there shall be added to the
 10 rate of tax prescribed by sections 13(a), 201(b), and
 11 204(a), a rate of 1 per centum.

12 (d) DEFINITION OF "AFFILIATED GROUP".—As
 13 used in this section an "affiliated group" means one or more
 14 chains of corporations connected through stock ownership
 15 with a common parent corporation if—

16 (1) At least 95 per centum of the stock of each
 17 of the corporations (except the common parent corpora-
 18 tion) is owned directly by one or more of the other
 19 corporations; and

20 (2) The common parent corporation owns di-
 21 rectly at least 95 per centum of the stock of at least one
 22 of the other corporations:

23 As used in this subsection the term "stock" does not include
 24 nonvoting stock which is limited and preferred as to
 25 dividends.

1 (c) A consolidated return shall be made only for the
2 domestic corporations within the affiliated group. An insur-
3 ance company subject to the tax imposed by section 201 or
4 204 shall not be included in the same consolidated return
5 with a corporation subject to the tax imposed by section 13,
6 and an insurance company subject to the tax imposed by
7 section 201 shall not be included in the same consolidated
8 return with an insurance company subject to the tax imposed
9 by section 204.

10 (f) CHINA TRADE ACT CORPORATIONS.—A corpora-
11 tion organized under the China Trade Act, 1922, shall not
12 be deemed to be affiliated with any other corporation within
13 the meaning of this section.

14 (g) CORPORATIONS DERIVING INCOME FROM POS-
15 SESSIONS OF UNITED STATES.—For the purposes of this
16 section a corporation entitled to the benefits of section 251,
17 by reason of receiving a large percentage of its income from
18 possessions of the United States, shall be treated as a foreign
19 corporation.

20 (h) SUBSIDIARY FORMED TO COMPLY WITH FOREIGN
21 LAW.—In the case of a domestic corporation owning or con-
22 trolling, directly or indirectly, 100 per centum of the capital
23 stock (exclusive of directors' qualifying shares) of a corpora-
24 tion organized under the laws of a contiguous foreign country
25 and maintained solely for the purpose of complying with the

1 laws of such country as to title and operation of property,
 2 such foreign corporation may, at the option of the domestic
 3 corporation, be treated for the purpose of this title as a
 4 domestic corporation.

5 (i) **SUSPENSION OF RUNNING OF STATUTE OF LIMIT-**
 6 **TATIONS.**—If a notice under section 272(a) in respect of
 7 a deficiency for any taxable year is mailed to a corporation,
 8 the suspension of the running of the statute of limitations,
 9 provided in section 277, shall apply in the case of corpora-
 10 tions with which such corporation made a consolidated
 11 return for such taxable year.

12 (j) **ALLOCATION OF INCOME AND DEDUCTIONS.**—
 13 For allocation of income and deductions of related trades or
 14 businesses, see section 45.

15 **SEC. 142 141. FIDUCIARY RETURNS.**

16 (a) **REQUIREMENT OF RETURN.**—Every fiduciary
 17 (except a receiver appointed by authority of law in posses-
 18 sion of part only of the property of an individual) shall
 19 make under oath a return for any of the following individuals,
 20 estates, or trusts for which he acts, stating specifically the
 21 items of gross income thereof and the deductions and credits
 22 allowed under this title—

23 (1) Every individual having a net income for the
 24 taxable year of \$1,000 or over, if single, or if married
 25 and not living with husband or wife;

1 (2) Every individual having a net income for the
2 taxable year of \$2,500 or over, if married and living
3 with husband or wife;

4 (3) Every individual having a gross income for
5 the taxable year of \$5,000 or over, regardless of the
6 amount of his net income;

7 (4) Every estate or trust the net income of which
8 for the taxable year is \$1,000 or over;

9 (5) Every estate or trust the gross income of
10 which for the taxable year is \$5,000 or over, regardless
11 of the amount of the net income; and

12 (6) Every estate or trust of which any beneficiary
13 is a nonresident alien.

14 (b) JOINT FIDUCIARIES.—Under such regulations as
15 the Commissioner with the approval of the Secretary may
16 prescribe a return made by one of two or more joint fidu-
17 ciaries and filed in the office of the collector of the district
18 where such fiduciary resides shall be sufficient compliance
19 with the above requirement. Such fiduciary shall make oath

20 (1) that he has sufficient knowledge of the affairs of the
21 individual, estate, or trust for which the return is made, to
22 enable him to make the return, and (2) that the return is,
23 to the best of his knowledge and belief, true and correct.

24 (c) LAW APPLICABLE TO FIDUCIARIES.—Any fidu-
25 ciary required to make a return under this title shall be
26 subject to all the provisions of law which apply to individuals.

1 SEC. 143 142. WITHHOLDING OF TAX AT SOURCE.

2 ~~(a) TAX-FREE COVENANT BONDS.—~~

3 (1) ~~REQUIREMENT OF WITHHOLDING.~~—In any
4 case where bonds, mortgages, or deeds of trust, or other
5 similar obligations of a corporation contain a contract or
6 provision by which the obligor agrees to pay any portion
7 of the tax imposed by this title upon the obligee, or
8 to reimburse the obligee for any portion of the tax, or
9 to pay the interest without deduction for any tax which
10 the obligor may be required or permitted to pay thereon,
11 or to retain therefrom under any law of the United
12 States, the obligor shall deduct and withhold a tax
13 equal to 2 per centum of the interest upon such bonds,
14 mortgages, deeds of trust, or other obligations, whether
15 such interest is payable annually or at shorter or longer
16 periods, if payable to an individual, a partnership,
17 or a foreign corporation not engaged in trade or
18 business within the United States and not having any
19 office or place of business therein: *Provided*, That if
20 the liability assumed by the obligor does not exceed
21 2 per centum of the interest, then the deduction and
22 withholding shall be at the following rates: (A) 8 per
23 centum in the case of a nonresident alien individual,
24 or of any partnership not engaged in trade or business
25 within the United States and not having any office

1 or place of business therein and composed in whole
2 or in part of nonresident aliens, ~~(B)~~ 18 $\frac{1}{2}$ per centum
3 in the case of such a foreign corporation, and ~~(C)~~
4 2 per centum in the case of other individuals and
5 partnerships: *Provided further*, That if the owners
6 of such obligations are not known to the withholding
7 agent the Commissioner may authorize such deduction
8 and withholding to be at the rate of 2 per centum,
9 or, if the liability assumed by the obligor does not
10 exceed 2 per centum of the interest, then at the rate
11 of 8 per centum.

12 ~~(2)~~ BENEFIT OF CREDITS AGAINST NET
13 INCOME.—Such deduction and withholding shall not be
14 required in the case of a citizen or resident entitled to
15 receive such interest, if he files with the withholding
16 agent on or before February 1 a signed notice in writ-
17 ing claiming the benefit of the credits provided in
18 section 25-(e) and ~~(d)~~; nor in the case of a nonresident
19 alien individual if so provided for in regulations pre-
20 scribed by the Commissioner under section 215.

21 ~~(3)~~ INCOME OF OBLIGOR AND OBLIGEE.—The
22 obligor shall not be allowed a deduction for the pay-
23 ment of the tax imposed by this title, or any other tax
24 paid pursuant to the tax-free covenant clause, nor shall
25 such tax be included in the gross income of the obligee.

1 ~~(b)~~ (a) NONRESIDENT ALIENS.—All persons, in what-
2 ever capacity acting, including lessees or mortgagors of real or
3 personal property, fiduciaries, employers, and all officers and
4 employees of the United States, having the control, receipt,
5 custody, disposal, or payment of interest (except interest on
6 deposits with persons carrying on the banking business paid
7 to persons not engaged in business in the United States and
8 not having an office or place of business therein), rent,
9 salaries, wages, premiums, annuities, compensations, remu-
10 nerations, emoluments, or other fixed or determinable annual
11 or periodical gains, profits, and income, of any nonresident
12 alien individual, or of any partnership not engaged in trade
13 or business within the United States and not having any
14 office or place of business therein and composed in whole or
15 in part of nonresident aliens, (other than income received
16 as dividends of the class allowed as a credit by section
17 25 (a)) shall (except in the cases provided for in subsection
18 ~~(a)~~ of this section and except as otherwise provided in regu-
19 lations prescribed by the Commissioner under section ~~215~~
20 ~~214~~) deduct and withhold from such annual or periodical
21 gains, profits, and income a tax equal to 8 per centum ~~4~~ per
22 centum thereof: *Provided*, That the Commissioner may
23 authorize such tax to be deducted and withheld from the
24 interest upon any securities the owners of which are not
25 known to the withholding agent.

1 ~~(e)~~ (b) RETURN AND PAYMENT.—Every person re-
2 quired to deduct and withhold any tax under this section shall
3 make return thereof on or before March 15 of each year and
4 shall on or before June 15, in lieu of the time prescribed in
5 section 56, pay the tax to the official of the United States
6 Government authorized to receive it. Every such person is
7 hereby made liable for such tax and is hereby indemnified
8 against the claims and demands of any person for the amount
9 of any payments made in accordance with the provisions
10 of this section.

11 ~~(d)~~ (c) INCOME OF RECIPIENT.—Income upon which
12 any tax is required to be withheld at the source under
13 this section shall be included in the return of the recipient of
14 such income, but any amount of tax so withheld shall be
15 credited against the amount of income tax as computed in
16 such return.

17 ~~(e)~~ (d) TAX PAID BY RECIPIENT.—If any tax required
18 under this section to be deducted and withheld is paid by
19 the recipient of the income, it shall not be re-collected from
20 the withholding agent; nor in cases in which the tax is so
21 paid shall any penalty be imposed upon or collected from
22 the recipient of the income or the withholding agent for
23 failure to return or pay the same, unless such failure was
24 fraudulent and for the purpose of evading payment.

1 ~~(f)~~ (e) REFUNDS AND CREDITS.—Where there has
 2 been an overpayment of tax under this section any refund or
 3 credit made under the provisions of section 322 shall be made
 4 to the withholding agent unless the amount of such tax was
 5 actually withheld by the withholding agent.

6 ~~(g)~~ Notwithstanding the provisions of subsections ~~(a)~~
 7 and ~~(b)~~, the deduction and withholding for any period
 8 prior to the date of the enactment of this Act shall be at the
 9 rates of 12 per centum and 5 per centum in lieu of the
 10 rates of 13 $\frac{1}{2}$ per centum and 8 per centum prescribed in
 11 such subsections.

12 SEC. 144 143. PAYMENT OF CORPORATION INCOME TAX AT
 13 SOURCE.

14 In the case of foreign corporations subject to taxation
 15 under this title not engaged in trade or business within the
 16 United States and not having any office or place of business
 17 therein, there shall be deducted and withheld at the source
 18 in the same manner and upon the same items of income as is
 19 provided in section 143 142 a tax equal to 12 per centum
 20 thereof in respect of all payments of income made before the
 21 enactment of this Act, and equal to 13 $\frac{1}{2}$ per centum thereof in
 22 respect of all payments of income made after the enactment
 23 of this Act 13 $\frac{1}{2}$ per centum, and such tax shall be returned
 24 and paid in the same manner and subject to the same condi-
 25 tions as provided in that section: ~~Provided, That in the case~~

1 of interest described in subsection (a) of that section (relat-
2 ing to tax-free covenant bonds) the deduction and withhold-
3 ing shall be at the rate specified in such subsection.

4 **SEC. 145 144. PENALTIES.**

5 (a) Any person required under this title to pay any
6 tax, or required by law or regulations made under authority
7 thereof to make a return, keep any records, or supply any
8 information, for the purposes of the computation, assessment,
9 or collection of any tax imposed by this title, who willfully
10 fails to pay such tax, make such return, keep such records,
11 or supply such information, at the time or times required by
12 law or regulations, shall, in addition to other penalties pro-
13 vided by law, be guilty of a misdemeanor and, upon convic-
14 tion thereof, be fined not more than \$10,000, or imprisoned
15 for not more than one year, or both, together with the costs
16 of prosecution.

17 (b) Any person required under this title to collect,
18 account for, and pay over any tax imposed by this title, who
19 willfully fails to collect or truthfully account for and pay over
20 such tax, and any person who willfully attempts in any man-
21 ner to evade or defeat any tax imposed by this title or the
22 payment thereof, shall, in addition to other penalties pro-
23 vided by law, be guilty of a felony and, upon conviction
24 thereof, be fined not more than \$10,000, or imprisoned for

1 not more than five years, or both, together with the costs of
2 prosecution.

3 (c) The term "person" as used in this section includes
4 an officer or employee of a corporation or a member or
5 employee of a partnership, who as such officer, employee, or
6 member is under a duty to perform the act in respect of
7 which the violation occurs.

8 **SEC. 146 145. CLOSING BY COMMISSIONER OF TAXABLE**
9 **YEAR.**

10 (a) **TAX IN JEOPARDY.**—If the Commissioner finds
11 that a taxpayer designs quickly to depart from the United
12 States or to remove his property therefrom, or to conceal
13 himself or his property therein, or to do any other act tend-
14 ing to prejudice or to render wholly or partly ineffectual
15 proceedings to collect the tax for the taxable year then last
16 past or the taxable year then current unless such proceedings
17 be brought without delay, the Commissioner shall declare
18 the taxable period for such taxpayer immediately terminated
19 and shall cause notice of such finding and declaration to be
20 given the taxpayer, together with a demand for immediate
21 payment of the tax for the taxable period so declared termi-
22 nated and of the tax for the preceding taxable year or so
23 much of such tax as is unpaid, whether or not the time
24 otherwise allowed by law for filing return and paying the

1 tax has expired; and such taxes shall thereupon become
2 immediately due and payable. In any proceeding in court
3 brought to enforce payment of taxes made due and payable
4 by virtue of the provisions of this section the finding of the
5 Commissioner, made as herein provided, whether made after
6 notice to the taxpayer or not, shall be for all purposes
7 presumptive evidence of the taxpayer's design.

8 (b) SECURITY FOR PAYMENT.—A taxpayer who is
9 not in default in making any return or paying income, war-
10 profits, or excess-profits tax under any Act of Congress may
11 furnish to the United States, under regulations to be pre-
12 scribed by the Commissioner, with the approval of the
13 Secretary, security approved by the Commissioner that he
14 will duly make the return next thereafter required to be
15 filed and pay the tax next thereafter required to be paid.
16 The Commissioner may approve and accept in like manner
17 security for return and payment of taxes made due and
18 payable by virtue of the provisions of this section, provided
19 the taxpayer has paid in full all other income, war-profits,
20 or excess-profits taxes due from him under any Act of
21 Congress.

22 (c) SAME—EXEMPTION FROM SECTION.—If secur-
23 ity is approved and accepted pursuant to the provisions
24 of this section and such further or other security with respect
25 to the tax or taxes covered thereby is given as the Com-

1 commissioner shall from time to time find necessary and require,
2 payment of such taxes shall not be enforced by any pro-
3 ceedings under the provisions of this section prior to the
4 expiration of the time otherwise allowed for paying such
5 respective taxes.

6 (d) **CITIZENS.**—In the case of a citizen of the United
7 States or of a possession of the United States about to depart
8 from the United States the Commissioner may, at his discre-
9 tion, waive any or all of the requirements placed on the
10 taxpayer by this section.

11 (e) **DEPARTURE OF ALIEN.**—No alien shall depart
12 from the United States unless he first procures from the col-
13 lector or agent in charge a certificate that he has complied
14 with all the obligations imposed upon him by the income,
15 war-profits, and excess-profits tax laws.

16 (f) **ADDITION TO TAX.**—If a taxpayer violates or
17 attempts to violate this section there shall, in addition to all
18 other penalties, be added as part of the tax 25 per centum
19 of the total amount of the tax or deficiency in the tax,
20 together with interest at the rate of 1 per centum a month
21 from the time the tax became due.

22 **SEC. 147 146. INFORMATION AT SOURCE.**

23 (a) **PAYMENTS OF \$1,000 OR MORE.**—All persons, in
24 whatever capacity acting, including lessees or mortgagors of
25 real or personal property, fiduciaries, and employers, making

1 payment to another person, of interest, rent, salaries, wages,
2 premiums, annuities, compensations, remunerations, emolu-
3 ments, or other fixed or determinable gains, profits, and
4 income (other than payments described in section ~~148(a)~~ or
5 ~~149 147(a)~~ or 148), of \$1,000 or more in any taxable year,
6 or, in the case of such payments made by the United
7 States, the officers or employees of the United States having
8 information as to such payments and required to make
9 returns in regard thereto by the regulations hereinafter
10 provided for, shall render a true and accurate return to the
11 Commissioner, under such regulations and in such form
12 and manner and to such extent as may be prescribed by
13 him with the approval of the Secretary, setting forth the
14 amount of such gains, profits, and income, and the name
15 and address of the recipient of such payment.

16 (b) RETURNS REGARDLESS OF AMOUNT OF PAY-
17 MENT.—Such returns may be required, regardless of
18 amounts, (1) in the case of payments of interest upon bonds,
19 mortgages, deeds of trust, or other similar obligations of cor-
20 porations, and (2) in the case of collections of items (not
21 payable in the United States) of interest upon the bonds of
22 foreign countries and interest upon the bonds of and divi-
23 dends from foreign corporations by persons undertaking as a
24 matter of business or for profit the collection of foreign pay-

1 ments of such interest or dividends by means of coupons,
2 checks, or bills of exchange.

3 (e) RECIPIENT TO FURNISH NAME AND ADDRESS.—

4 When necessary to make effective the provisions of this
5 section the name and address of the recipient of income
6 shall be furnished upon demand of the person paying the
7 income.

8 (d) OBLIGATIONS OF UNITED STATES.—The pro-
9 visions of this section shall not apply to the payment of
10 interest on obligations of the United States.

11 SEC. 148 147. INFORMATION BY CORPORATIONS.

12 (a) DIVIDEND PAYMENTS.—Every corporation sub-
13 ject to the tax imposed by this title shall, when required
14 by the Commissioner, render a correct return, duly verified
15 under oath, of its payments of dividends, stating the name
16 and address of each shareholder, the number of shares owned
17 by him, and the amount of dividends paid to him.

18 (b) PROFITS OF TAXABLE YEAR DECLARED AS
19 DIVIDENDS.—There shall be included in the return or
20 appended thereto a statement of such facts as will enable
21 the Commissioner to determine the portion of the earnings
22 or profits of the corporation (including gains, profits, and
23 income not taxed) accumulated during the taxable year for
24 which the return is made, which have been distributed or

1 ordered to be distributed, respectively, to its shareholders
2 during such year.

3 (b) PROFITS DECLARED AS DIVIDENDS.—Every
4 corporation shall, when required by the Commissioner,
5 furnish him a statement of such facts as will enable him to
6 determine the portion of the earnings or profits of the cor-
7 poration (including gains, profits, and income not taxed)
8 accumulated during such periods as the Commissioner may
9 specify, which have been distributed or ordered to be dis-
10 tributed, respectively, to its shareholders during such taxable
11 years as the Commissioner may specify.

12 (c) ACCUMULATED GAINS AND PROFITS.—When
13 requested by the Commissioner, or any collector, every cor-
14 poration shall forward to him a correct statement of accu-
15 mulated gains and profits and the names and addresses of the
16 individuals or shareholders who would be entitled to the
17 same if divided or distributed, and of the amounts that would
18 be payable to each.

19 (d) COMPENSATION OF OFFICERS AND EM-
20 PLOYEES.—Under regulations prescribed by the Commis-
21 sioner with the approval of the Secretary, every corporation
22 subject to taxation under this title shall, in its return, submit
23 a list of the names of all officers and employees of such
24 corporation and the respective amounts paid to them during
25 the taxable year of the corporation by the corporation as

1 salary, commission, bonus, or other compensation for per-
2 sonal services rendered, if the aggregate amount so paid to
3 the individual is in excess of \$15,000. The Secretary
4 of the Treasury shall submit an annual report to Congress
5 compiled from the returns made containing the names of,
6 and amounts paid to, each such officer and employee and
7 the name of the paying corporation.

8 **SEC. 149 148. RETURNS OF BROKERS.**

9 Every person doing business as a broker shall, when
10 required by the Commissioner, render a correct return duly
11 verified under oath, under such rules and regulations as the
12 Commissioner, with the approval of the Secretary, may
13 prescribe, showing the names of customers for whom such
14 person has transacted any business, with such details as to
15 the profits, losses, or other information which the Commis-
16 sioner may require, as to each of such customers, as will
17 enable the Commissioner to determine whether all income
18 tax due on profits or gains of such customers has been paid.

19 **SEC. 150 149. COLLECTION OF FOREIGN ITEMS.**

20 All persons undertaking as a matter of business or for
21 profit the collection of foreign payments of interest or divi-
22 dends by means of coupons, checks, or bills of exchange
23 shall obtain a license from the Commissioner and shall be
24 subject to such regulations enabling the Government to
25 obtain the information required under this title as the Com-

1 missioner, with the approval of the Secretary, shall prescribe;
2 and whoever knowingly undertakes to collect such payments
3 without having obtained a license therefor, or without com-
4 plying with such regulations, shall be guilty of a misde-
5 meanor and shall be fined not more than \$5,000 or
6 imprisoned for not more than one year, or both.

7 **Supplement E—Estates and Trusts**

8 **SEC. 161. IMPOSITION OF TAX.**

9 (a) **APPLICATION OF TAX.**—The taxes imposed by
10 this title upon individuals shall apply to the income of estates
11 or of any kind of property held in trust, including—

12 (1) Income accumulated in trust for the benefit
13 of unborn or unascertained persons or persons with
14 contingent interests, and income accumulated or held
15 for future distribution under the terms of the will or
16 trust;

17 (2) Income which is to be distributed currently
18 by the fiduciary to the beneficiaries, and income col-
19 lected by a guardian of an infant which is to be held
20 or distributed as the court may direct;

21 (3) Income received by estates of deceased per-
22 sons during the period of administration or settlement
23 of the estate; and

24 (4) Income which, in the discretion of the fidu-
25 ciary, may be either distributed to the beneficiaries or
26 accumulated.

1 (b) **COMPUTATION AND PAYMENT.**—The tax shall be
 2 computed upon the net income of the estate or trust, and
 3 shall be paid by the fiduciary, except as provided in section
 4 166 (relating to revocable trusts) and section 167 (relat-
 5 ing to income for benefit of the grantor). For return made
 6 by beneficiary, see section ~~142~~ 141.

7 **SEC. 162. NET INCOME.**

8 The net income of the estate or trust shall be computed
 9 in the same manner and on the same basis as in the case of
 10 an individual, except that—

11 (a) There shall be allowed as a deduction (in lieu of
 12 the deduction for charitable, etc., contributions authorized
 13 by section 23-~~(n)~~(o)) any part of the gross income, without
 14 limitation, which pursuant to the terms of the will or deed
 15 creating the trust, is during the taxable year paid or per-
 16 manently set aside for the purposes and in the manner speci-
 17 fied in section 23-~~(n)~~(o), or is to be used exclusively for
 18 religious, charitable, scientific, literary, or educational pur-
 19 poses, or for the prevention of cruelty to children or animals,
 20 or for the establishment, acquisition, maintenance or opera-
 21 tion of a public cemetery not operated for profit;

22 (b) There shall be allowed as an additional deduc-
 23 tion in computing the net income of the estate or trust the
 24 amount of the income of the estate or trust for its taxable
 25 year which is to be distributed currently by the fiduciary

1 to the beneficiaries, and the amount of the income collected
2 by a guardian of an infant which is to be held or distributed
3 as the court may direct, but the amount so allowed as a
4 deduction shall be included in computing the net income of
5 the beneficiaries whether distributed to them or not. Any
6 amount allowed as a deduction under this paragraph shall not
7 be allowed as a deduction under subsection (c) of this section
8 in the same or any succeeding taxable year;

9 (c) In the case of income received by estates of
10 deceased persons during the period of administration or
11 settlement of the estate, and in the case of income which,
12 in the discretion of the fiduciary, may be either distributed
13 to the beneficiary or accumulated, there shall be allowed
14 as an additional deduction in computing the net income
15 of the estate or trust the amount of the income of the estate
16 or trust for its taxable year, which is properly paid or
17 credited during such year to any legatee, heir, or beneficiary,
18 but the amount so allowed as a deduction shall be included
19 in computing the net income of the legatee, heir, or bene-
20 ficiary.

21 **SEC. 163. CREDITS AGAINST NET INCOME.**

22 (a) **CREDITS OF ESTATE OR TRUST.**—For the purpose
23 of the normal tax *and the surtax* the estate or trust shall be
24 allowed the same personal exemption as is allowed to a single
25 person under section ~~25(e)~~ 25(b)(1), and, if no part of the

1 income of the estate or trust is included in computing the net
2 income of any legatee, heir, or beneficiary, then in addition
3 the same credits against net income for dividends and interest
4 as are allowed by section 25 (a) and ~~(b)~~.

5 (b) CREDITS OF BENEFICIARY.—If any part of the
6 income of an estate or trust is included in computing the
7 net income of any legatee, heir, or beneficiary, such legatee,
8 heir, or beneficiary shall, for the purpose of the normal tax,
9 be allowed as credits against net income, in addition to
10 the credits allowed to him under section 25, his propor-
11 tionate share of such amounts of dividends and interest
12 specified in section 25 (a) and ~~(b)~~ as are, under this Sup-
13 plement, required to be included in computing his net
14 income. Any remaining portion of such amounts specified
15 in section 25 (a) and ~~(b)~~ shall, for the purpose of the
16 normal tax, be allowed as credits to the estate or trust.

17 **SEC. 164. DIFFERENT TAXABLE YEARS.**

18 If the taxable year of a beneficiary is different from
19 that of the estate or trust, the amount which he is required,
20 under section 162 (b), to include in computing his net
21 income, shall be based upon the income of the estate or
22 trust for any taxable year of the estate or trust (*whether*
23 *beginning on, before, or after January 1, 1934*) ending
24 within his taxable year.

1 SEC. 165. EMPLOYEES' TRUSTS.

2 A trust created by an employer as a part of a stock
3 bonus, pension, or profit-sharing plan for the exclusive
4 benefit of some or all of his employees, to which contribu-
5 tions are made by such employer, or employees, or both, for
6 the purpose of distributing to such employees the earnings
7 and principal of the fund accumulated by the trust in accord-
8 ance with such plan, shall not be taxable under section 161,
9 but the amount actually distributed or made available to
10 any distributee shall be taxable to him in the year in which
11 so distributed or made available to the extent that it exceeds
12 the amounts paid in by him. Such distributees shall for
13 the purpose of the normal tax be allowed as credits against
14 net income such part of the amount so distributed or made
15 available as represents the items of dividends and interest
16 specified in section 25 (a) and ~~(b)~~.

17 SEC. 166. REVOCABLE TRUSTS.

18 Where at any time during the taxable year the power
19 to revest in the grantor title to any part of the corpus of
20 the trust is vested—

21 (1) in the grantor, either alone or in conjunction
22 with any person not having a substantial adverse
23 interest in the disposition of such part of the corpus or
24 the income therefrom, or

1 (2) in any person not having a substantial
2 adverse interest in the disposition of such part of the
3 corpus or the income therefrom,
4 then the income of such part of the trust for such taxable
5 year shall be included in computing the net income of the
6 grantor.

7 **SEC. 167. INCOME FOR BENEFIT OF GRANTOR.**

8 (a) Where any part of the income of a trust—
9 (1) is, or in the discretion of the grantor or of
10 any person not having a substantial adverse interest in
11 the disposition of such part of the income may be, held
12 or accumulated for future distribution to the grantor; or
13 (2) may, in the discretion of the grantor or of
14 any person not having a substantial adverse interest in
15 the disposition of such part of the income, be distributed
16 to the grantor; or
17 (3) is, or in the discretion of the grantor or of
18 any person not having a substantial adverse interest in
19 the disposition of such part of the income may be,
20 applied to the payment of premiums upon policies of
21 insurance on the life of the grantor (except policies of
22 insurance irrevocably payable for the purposes and in
23 the manner specified in section 23 ~~(n)~~ (o), relating to
24 the so-called "charitable contribution" deduction);

1 then such part of the income of the trust shall be included
2 in computing the net income of the grantor.

3 (b) As used in this section, the term "in the discre-
4 tion of the grantor" means "in the discretion of the grantor,
5 either alone or in conjunction with any person not having
6 a substantial adverse interest in the disposition of the part
7 of the income in question".

8 **SEC. 168. CAPITAL NET GAINS AND LOSSES.**

9 In the case of an estate or trust, or of a beneficiary of
10 an estate or trust, the proper part of each share of the net
11 income which consists, respectively, of ordinary net income,
12 capital net gain, or capital net loss, shall be determined
13 under rules and regulations to be prescribed by the Com-
14 missioner with the approval of the Secretary, and shall be
15 separately shown in the return of the estate or trust, and
16 shall be taxed to the beneficiary or to the estate or trust as
17 provided in this Supplement, but at the rates and in the
18 manner provided in section 101(a) and (b), relating to
19 capital net gains and losses.

20 **SEC. 170 168. TAXES OF FOREIGN COUNTRIES AND POSSES-**
21 **SIONS OF UNITED STATES.**

22 The amount of income, war-profits, and excess-profits
23 taxes imposed by foreign countries or possessions of the
24 United States shall be allowed as credit against the tax of the
25 beneficiary of an estate or trust to the extent provided in
26 section 131.

1 **Supplement F—Partnerships**

2 **SEC. 181. PARTNERSHIP NOT TAXABLE.**

3 Individuals carrying on business in partnership shall be
4 liable for income tax only in their individual capacity.

5 **SEC. 182. TAX OF PARTNERS.**

6 ~~(a) GENERAL RULE.~~—There shall be included in com-
7 puting the net income of each partner his distributive share,
8 whether distributed or not, of the net income of the partner-
9 ship for the taxable year. If the taxable year of a partner
10 is different from that of the partnership, the amount so
11 included shall be based upon the income of the partnership
12 for any taxable year of the partnership ending within his
13 taxable year. No part of any loss disallowed to a partnership
14 as a deduction by section 23 ~~(r)~~ shall be allowed as a deduc-
15 tion to a member of such partnership in computing net
16 income.

17 ~~(b) PARTNERSHIP YEAR EMBRACING CALENDAR~~
18 ~~YEARS WITH DIFFERENT LAWS.~~—If a fiscal year of a part-
19 nership begins in one calendar year and ends in another
20 calendar year, and the law applicable to the second calendar
21 year is different from the law applicable to the first calendar
22 year, then

23 ~~(1)~~ the rates for the calendar year during which
24 such fiscal year begins shall apply to an amount of each
25 partner's share of such partnership net income ~~(deter-~~

1 mined under the law applicable to such calendar year)
2 equal to the proportion which the part of such fiscal
3 year falling within such calendar year bears to the full
4 fiscal year, and

5 ~~(2)~~ the rates for the calendar year during which
6 such fiscal year ends shall apply to an amount of each
7 partner's share of such partnership net income ~~(deter-~~
8 mined under the law applicable to such calendar year)
9 equal to the proportion which the part of such fiscal
10 year falling within such calendar year bears to the full
11 fiscal year.

12 In such cases the part of such income subject to the rates in
13 effect for the most recent calendar year shall be added to
14 the other income of the taxpayer subject to such rates and
15 the resulting amount shall be placed in the lower brackets
16 of the rate schedule applicable to such year, and the part
17 of such income subject to the rates in effect for the next
18 preceding calendar year shall be placed in the next higher
19 brackets of the rate schedule applicable to such year.

20 **SEC. 183. COMPUTATION OF PARTNERSHIP INCOME.**

21 The net income of the partnership shall be computed
22 in the same manner and on the same basis as in the case
23 of an individual, ~~except that the so-called "charitable con-~~
24 tribution" deduction provided in section 28~~(n)~~ shall not
25 be allowed.

1 **SEC. 184. CREDITS AGAINST NET INCOME.**

2 The partner shall, for the purpose of the normal tax,
3 be allowed as a credit against his net income, in addition
4 to the credits allowed to him under section 25, his propor-
5 tionate share of such amounts (*not in excess of the net in-*
6 *come of the partnership*) of dividends and interest specified
7 in section 25 (a) and ~~(b)~~ as are received by the partnership.

8 **SEC. 185. EARNED INCOME.**

9 In the case of the members of a partnership the proper
10 part of each share of the net income which consists of
11 earned income shall be determined under rules and regula-
12 tions to be prescribed by the Commissioner with the approval
13 of the Secretary and shall be separately shown in the return
14 of the partnership and shall be taxed to the member as
15 provided in this Supplement.

16 **SEC. 186. CAPITAL NET GAINS AND LOSSES.**

17 In the case of the members of a partnership the proper
18 part of each share of the net income which consists, respec-
19 tively, of ordinary net income, capital net gain, or capital
20 net loss, shall be determined under the rules and regulations
21 to be prescribed by the Commissioner with the approval
22 of the Secretary, and shall be separately shown in the
23 return of the partnership and shall be taxed to the member
24 as provided in this Supplement, but at the rates and in

1 the manner provided in section 101(a) and (b), relating
2 to capital net gains and losses.

3 **SEC. 188 186. TAXES OF FOREIGN COUNTRIES AND POSSES-**
4 **SIONS OF UNITED STATES.**

5 The amount of income, war-profits, and excess-profits
6 taxes imposed by foreign countries or possessions of the
7 United States shall be allowed as a credit against the tax
8 of the member of a partnership to the extent provided in
9 section 131.

10 **SEC. 189 187. PARTNERSHIP RETURNS. .**

11 Every partnership shall make a return for each taxable
12 year, stating specifically the items of its gross income and
13 the deductions allowed by this title, and shall include in the
14 return the names and addresses of the individuals who would
15 be entitled to share in the net income if distributed and the
16 amount of the distributive share of each individual. The
17 return shall be sworn to by any one of the partners.

18 **SEC. 188. DIFFERENT TAXABLE YEARS OF PARTNER AND**
19 **PARTNERSHIP.**

20 (a) *GENERAL RULE.*—If the taxable year of a
21 partner is different from that of the partnership, the distribu-
22 tive share of the net income of the partnership to be included
23 in computing the net income of the partner for his taxable
24 year shall be based upon the net income of the partnership
25 for any taxable year of the partnership (whether beginning

1 on, before, or after January 1, 1934) ending within the
2 taxable year of the partner.

3 (b) **PARTNERSHIP YEARS BEGINNING IN 1933.**—

4 For the purpose of computing the net income of a partner
5 for a taxable year beginning after December 31, 1933, the
6 partnership net income for any taxable year of the partner-
7 ship beginning before January 1, 1934, shall be computed
8 under the Revenue Act of 1932, without regard to sections
9 101 and 186 thereof (relating to capital net gain and capital
10 net loss) but as if section 117 of this Act (except subsection
11 (d) thereof) had formed a part of Title I of the Revenue
12 Act of 1932.

13 **Supplement G—Insurance Companies**

14 **SEC. 201. TAX ON LIFE INSURANCE COMPANIES.**

15 (a) **DEFINITION.**—When used in this title the term
16 “life insurance company” means an insurance company
17 engaged in the business of issuing life insurance and annuity
18 contracts (including contracts of combined life, health, and
19 accident insurance), the reserve funds of which held for the
20 fulfillment of such contracts comprise more than 50 per-
21 centum of its total reserve funds.

22 (b) **RATE OF TAX.**—In lieu of the tax imposed by
23 section 13, there shall be levied, collected, and paid for each
24 taxable year upon the net income of every life insurance
25 company a tax as follows:

1 (1) In the case of a domestic life insurance
2 company, $13\frac{1}{2}$ per centum of its net income the amount
3 of its net income in excess of the credit provided in
4 subsection (c) of this section;

5 (2) In the case of a foreign life insurance
6 company, $13\frac{1}{2}$ per centum of its net income from
7 sources within the United States the amount of its
8 net income from sources within the United States in
9 excess of the credit provided in subsection (c) of this
10 section.

11 (c) For the purpose only of the tax imposed by this
12 section there shall be allowed as a credit against net income
13 the amount received as interest upon obligations of the United
14 States or of corporations organized under Act of Congress
15 which is allowed to an individual as a credit for purposes
16 of normal tax by section 25 (a) (2) or (3).

17 **SEC. 202. GROSS INCOME OF LIFE INSURANCE COMPANIES.**

18 (a) In the case of a life insurance company the term
19 “gross income” means the gross amount of income received
20 during the taxable year from interest, dividends, and rents.

21 (b) The term “reserve funds required by law”
22 includes, in the case of assessment insurance, sums actually
23 deposited by any company or association with State or Ter-
24 ritorial officers pursuant to law as guaranty or reserve funds,
25 and any funds maintained under the charter or articles of

1 incorporation of the company or association exclusively for
2 the payment of claims arising under certificates of member-
3 ship or policies issued upon the assessment plan and not
4 subject to any other use.

5 **SEC. 203. NET INCOME OF LIFE INSURANCE COMPANIES.**

6 (a) **GENERAL RULE.**—In the case of a life insurance
7 company the term “net income” means the gross income
8 less—

9 (1) **TAX-FREE INTEREST.**—The amount of inter-
10 est received during the taxable year which under section
11 ~~22(b) is exempt 22(b)(4) from the taxes imposed by~~
12 *this title is excluded from gross income;*

13 (2) **RESERVE FUNDS.**—An amount equal to 4
14 per centum of the mean of the reserve funds required by
15 law and held at the beginning and end of the taxable
16 year, except that in the case of any such reserve fund
17 which is computed at a lower interest assumption rate,
18 the rate of $3\frac{1}{2}$ per centum shall be substituted for 4 per
19 centum. Life insurance companies issuing policies cov-
20 ering life, health, and accident insurance combined in
21 one policy issued on the weekly premium payment plan,
22 continuing for life and not subject to cancellation, shall
23 be allowed, in addition to the above, a deduction of $3\frac{1}{2}$
24 per centum of the mean of such reserve funds (not
25 required by law) held at the beginning and end of the

1 taxable year, as the Commissioner finds to be necessary
2 for the protection of the holders of such policies only;

3 (3) DIVIDENDS.—The amount received as divi-
4 dends ~~(A)~~ from a domestic corporation which is
5 subject to taxation under this title, other than a corpora-
6 tion entitled to the benefits of section 251, and other
7 than a corporation organized under the China Trade
8 Act, 1922, or ~~(B)~~ from any foreign corporation when
9 it is shown to the satisfaction of the Commissioner
10 that more than 50 per centum of the gross income of
11 such foreign corporation for the three-year period
12 ending with the close of its taxable year preceding the
13 declaration of such dividends (or for such part of such
14 period as the foreign corporation has been in existence)-
15 was derived from sources within the United States as
16 determined under section 110;

17 (4) RESERVE FOR DIVIDENDS.—An amount
18 equal to 2 per centum of any sums held at the end of
19 the taxable year as a reserve for dividends (other than
20 dividends payable during the year following the taxable
21 year) the payment of which is deferred for a period
22 of not less than five years from the date of the policy
23 contract;

24 (5) INVESTMENT EXPENSES.—Investment ex-
25 penses paid during the taxable year: *Provided, That*

1 if any general expenses are in part assigned to or
2 included in the investment expenses, the total deduc-
3 tion under this paragraph shall not exceed one-fourth
4 of 1 per centum of the book value of the mean of the
5 invested assets held at the beginning and end of the
6 taxable year;

7 (6) REAL ESTATE EXPENSES.—Taxes and other
8 expenses paid during the taxable year exclusively upon
9 or with respect to the real estate owned by the com-
10 pany, not including taxes assessed against local bene-
11 fits of a kind tending to increase the value of the prop-
12 erty assessed, and not including any amount paid out
13 for new buildings, or for permanent improvements or
14 betterments made to increase the value of any property.
15 The deduction allowed by this paragraph shall be
16 allowed in the case of taxes imposed upon a shareholder
17 of a company upon his interest as shareholder, which
18 are paid by the company without reimbursement from
19 the shareholder, but in such cases no deduction shall be
20 allowed the shareholder for the amount of such taxes;

21 (7) DEPRECIATION.—A reasonable allowance,
22 as provided in section 23(1), for the exhaustion, wear
23 and tear of property, including a reasonable allowance
24 for obsolescence; and

1 (8) INTEREST.—All interest paid or accrued
2 within the taxable year on its indebtedness, except on
3 indebtedness incurred or continued to purchase or carry
4 obligations or securities (other than obligations of the
5 United States issued after September 24, 1917, and
6 originally subscribed for by the taxpayer) the interest
7 upon which is wholly exempt from taxation under this
8 title.

9 (b) RENTAL VALUE OF REAL ESTATE.—The deduc-
10 tion under subsection (a) (6) or (7) of this section on
11 account of any real estate owned and occupied in whole or
12 in part by a life insurance company, shall be limited to an
13 amount which bears the same ratio to such deduction (com-
14 puted without regard to this subsection) as the rental value
15 of the space not so occupied bears to the rental value of the
16 entire property.

17 (c) FOREIGN LIFE INSURANCE COMPANIES.—In the
18 case of a foreign life insurance company the amount of its
19 net income for any taxable year from sources within the
20 United States shall be the same proportion of its net income
21 for the taxable year from sources within and without the
22 United States, which the reserve funds required by law and
23 held by it at the end of the taxable year upon business
24 transacted within the United States is of the reserve funds
25 held by it at the end of the taxable year upon all business
26 transacted.

1 **SEC. 204. INSURANCE COMPANIES OTHER THAN LIFE OR**
 2 **MUTUAL.**

3 (a) **IMPOSITION OF TAX.**—In lieu of the tax imposed
 4 by section 13 of this title, there shall be levied, collected,
 5 and paid for each taxable year upon the net income of every
 6 insurance company (other than a life or mutual insurance
 7 company) a tax as follows:

8 (1) In the case of such a domestic insurance com-
 9 pany, $13\frac{3}{4}$ per centum of ~~its net income~~ *the amount*
 10 *of its net income in excess of the credit provided in*
 11 *subsection (f) of this section;*

12 (2) In the case of such a foreign insurance com-
 13 pany, $13\frac{3}{4}$ per centum of ~~its net income from sources~~
 14 ~~within the United States~~ *the amount of its net income*
 15 *from sources within the United States in excess of the*
 16 *credit provided in subsection (f) of this section.*

17 (b) **DEFINITION OF INCOME, ETC.**—In the case of an
 18 insurance company subject to the tax imposed by this
 19 section—

20 (1) **GROSS INCOME.**—“Gross income” means
 21 the sum of (A) the combined gross amount earned
 22 during the taxable year, from investment income and
 23 from underwriting income as provided in this subsection,
 24 computed on the basis of the underwriting and invest-
 25 ment exhibit of the annual statement approved by the

1 National Convention of Insurance Commissioners, and
2 (B) gain during the taxable year from the sale or other
3 disposition of property, and (C) all other items
4 constituting gross income under section 22;

5 (2) NET INCOME.—“Net income” means the
6 gross income as defined in paragraph (1) of this sub-
7 section less the deductions allowed by subsection (c) of
8 this section;

9 (3) INVESTMENT INCOME.—“Investment in-
10 come” means the gross amount of income earned
11 during the taxable year from interest, dividends, and
12 rents, computed as follows:

13 To all interest, dividends and rents received dur-
14 ing the taxable year, add interest, dividends and rents
15 due and accrued at the end of the taxable year, and
16 deduct all interest, dividends and rents due and accrued
17 at the end of the preceding taxable year;

18 (4) UNDERWRITING INCOME.—“Underwriting
19 income” means the premiums earned on insurance con-
20 tracts during the taxable year less losses incurred and
21 expenses incurred;

22 (5) PREMIUMS EARNED.—“Premiums earned
23 on insurance contracts during the taxable year” means
24 an amount computed as follows:

1 From the amount of gross premiums written on
2 insurance contracts during the taxable year, deduct
3 return premiums and premiums paid for reinsurance.
4 To the result so obtained add unearned premiums on
5 outstanding business at the end of the preceding taxable
6 year and deduct unearned premiums on outstanding
7 business at the end of the taxable year;

8 (6) LOSSES INCURRED.—“Losses incurred”
9 means losses incurred during the taxable year on insur-
10 ance contracts, computed as follows:

11 To losses paid during the taxable year, add sal-
12 vage and reinsurance recoverable outstanding at the
13 end of the preceding taxable year, and deduct salvage
14 and reinsurance recoverable outstanding at the end
15 of the taxable year. To the result so obtained add
16 all unpaid losses outstanding at the end of the taxable
17 year and deduct unpaid losses outstanding at the end
18 of the preceding taxable year;

19 (7) EXPENSES INCURRED.—“Expenses incurred”
20 means all expenses shown on the annual statement
21 approved by the National Convention of Insurance
22 Commissioners, and shall be computed as follows:

23 To all expenses paid during the taxable year add
24 expenses unpaid at the end of the taxable year and
25 deduct expenses unpaid at the end of the preceding

1 taxable year. For the purpose of computing the net
2 income subject to the tax imposed by this section there
3 shall be deducted from expenses incurred as defined
4 in this paragraph all expenses incurred which are not
5 allowed as deductions by subsection (c) of this section.

6 (c) DEDUCTIONS ALLOWED.—In computing the net
7 income of an insurance company subject to the tax imposed
8 by this section there shall be allowed as deductions:

9 (1) All ordinary and necessary expenses
10 incurred, as provided in section 23 (a) ;

11 (2) All interest as provided in section 23 (b) ;

12 (3) Taxes as provided in section 23 (c) ;

13 (4) Losses incurred as defined in subsection
14 (b) (6) of this section;

15 (5) ~~Losses~~ *Subject to the limitation contained in*
16 *section 117(d), losses* sustained during the taxable year
17 from the sale or other disposition of property;

18 (6) Bad debts in the nature of agency balances
19 and bills receivable ascertained to be worthless and
20 charged off within the taxable year;

21 (7) The amount received as dividends from cor-
22 porations as provided in section 23 (p) ;

23 (8) The amount of interest earned during the
24 taxable year which under section 22 (b) (4) is exempt
25 from the taxes imposed by this title, and the amount of

1 **interest allowed as a credit under section 26 excluded**
2 *from gross income;*

3 (9) A reasonable allowance for the exhaustion,
4 wear and tear of property, as provided in section
5 ~~23(k)~~(l).

6 (d) DEDUCTIONS OF FOREIGN CORPORATIONS.—In
7 the case of a foreign corporation the deductions allowed in
8 this section shall be allowed to the extent provided in
9 Supplement I.

10 (e) DOUBLE DEDUCTIONS.—Nothing in this section
11 shall be construed to permit the same item to be twice
12 deducted.

13 (f) *For the purpose only of the tax imposed by this*
14 *section there shall be allowed as a credit against net income*
15 *the amount received as interest upon obligations of the United*
16 *States or of corporations organized under Act of Congress*
17 *which is allowed to an individual as a credit for purposes of*
18 *normal tax by section 25(a) (2) or (3).*

19 **SEC. 206 205. TAXES OF FOREIGN COUNTRIES AND POSSES-**
20 **SIONS OF UNITED STATES.**

21 The amount of income, war-profits, and excess-profits
22 taxes imposed by foreign countries or possessions of the
23 United States shall be allowed as a credit against the tax of
24 a domestic insurance company subject to the tax imposed by
25 section 201 or 204, to the extent provided in the case of a

1 domestic corporation in section 131, and in such cases "net
2 income" as used in that section means the net income as
3 defined in this Supplement.

4 **SEC. 207 206. COMPUTATION OF GROSS INCOME.**

5 The gross income of insurance companies subject to the
6 tax imposed by section 201 or 204 shall not be determined
7 in the manner provided in section 119.

8 **SEC. 208 207. MUTUAL INSURANCE COMPANIES OTHER**
9 **THAN LIFE.**

10 (a) **APPLICATION OF TITLE.**—Mutual insurance
11 companies, other than life insurance companies, shall be
12 taxable in the same manner as other corporations, except as
13 hereinafter provided in this section.

14 (b) **GROSS INCOME.**—Mutual marine-insurance com-
15 panies shall include in gross income the gross premiums
16 collected and received by them less amounts paid for
17 reinsurance.

18 (c) **DEDUCTIONS.**—In addition to the deductions
19 allowed to corporations by section 23 the following deduc-
20 tions to insurance companies shall also be allowed, unless
21 otherwise allowed—

22 (1) **MUTUAL INSURANCE COMPANIES OTHER**
23 **THAN LIFE INSURANCE.**—In the case of mutual insur-
24 ance companies other than life insurance companies—

1 (A) the net addition required by law to be
2 made within the taxable year to reserve funds
3 (including in the case of assessment insurance
4 companies the actual deposit of sums with State
5 or Territorial officers pursuant to law as additions
6 to guarantee or reserve funds) ; and

7 (B) the sums other than dividends paid
8 within the taxable year on policy and annuity
9 contracts.

10 (2) MUTUAL MARINE INSURANCE COM-
11 PANIES.—In the case of mutual marine insurance com-
12 panies, in addition to the deductions allowed in para-
13 graph (1) of this subsection, unless otherwise allowed,
14 amounts repaid to policyholders on account of pre-
15 miums previously paid by them, and interest paid upon
16 such amounts between the ascertainment and the
17 payment thereof;

18 (3) MUTUAL INSURANCE COMPANIES OTHER
19 THAN LIFE AND MARINE.—In the case of mutual insur-
20 ance companies (including interinsurers and reciprocal
21 underwriters, but not including mutual life or mutual
22 marine insurance companies) requiring their members
23 to make premium deposits to provide for losses and
24 expenses, the amount of premium deposits returned to

1 their policyholders and the amount of premium deposits
2 retained for the payment of losses, expenses, and
3 reinsurance reserves.

4 Supplement H—Nonresident Alien Individuals

5 **SEC. 211. NORMAL TAX.**

6 ~~(a)~~ **GENERAL RULE.**—In the case of a nonresident
7 alien individual who is not a resident of a contiguous country,
8 the normal tax shall be 8 per centum of the amount of the
9 net income in excess of the credits against net income
10 allowed to such individual.

11 ~~(b)~~ **ALIENS RESIDENT IN CONTIGUOUS COUN-**
12 **TRIES.**—In the case of an alien individual resident in a
13 contiguous country, the normal tax shall be an amount
14 equal to the sum of the following:

15 ~~(1)~~ 4 per centum of the amount by which the
16 part of the net income attributable to wages, salaries,
17 professional fees, or other amounts received as compen-
18 sation for personal services actually performed in the
19 United States, exceeds the personal exemption and
20 credit for dependents; but the amount taxable at such
21 4 per centum rate shall not exceed \$1,000; and

22 ~~(2)~~ 8 per centum of the amount of the net income
23 in excess of the sum of ~~(A)~~ the amount taxed under
24 paragraph ~~(1)~~ of this subsection plus ~~(B)~~ the total
25 credits against net income allowed to such individual.

1 ~~(c) IN LIEU OF NORMAL TAX UNDER SECTION 11.—~~

2 The tax imposed by this section shall be in lieu of the normal
3 tax imposed by section 11.

4 **SEC. 212 211. GROSS INCOME.**

5 (a) GENERAL RULE.—In the case of a nonresident
6 alien individual gross income includes only the gross income
7 from sources within the United States.

8 (b) SHIPS UNDER FOREIGN FLAG.—The income of a
9 nonresident alien individual which consists exclusively of
10 earnings derived from the operation of a ship or ships docu-
11 mented under the laws of a foreign country which grants an
12 equivalent exemption to citizens of the United States and to
13 corporations organized in the United States, shall not be
14 included in gross income and shall be exempt from taxation
15 under this title.

16 **SEC. 213 212. DEDUCTIONS.**

17 (a) GENERAL RULE.—In the case of a nonresident
18 alien individual the deductions shall be allowed only if and to
19 the extent that they are connected with income from sources
20 within the United States; and the proper apportionment and
21 allocation of the deductions with respect to sources of income
22 within and without the United States shall be determined as
23 provided in section 119, under rules and regulations pre-
24 scribed by the Commissioner with the approval of the
25 Secretary.

1 **(b) LOSSES.—**

2 (1) The deduction, for losses not connected with
3 the trade or business if incurred in transactions entered
4 into for profit, allowed by section 23 (e) (2) shall be
5 allowed whether or not connected with income from
6 sources within the United States, but only if the profit,
7 if such transaction had resulted in a profit, would be
8 taxable under this title.

9 (2) The deduction for losses of property not con-
10 nected with the trade or business if arising from certain
11 casualties or theft, allowed by section 23 (e) (3), shall
12 be allowed whether or not connected with income from
13 sources within the United States, but only if the loss
14 is of property within the United States.

15 **(c) CHARITABLE, ETC., CONTRIBUTIONS.—**The so-
16 called "charitable contribution" deduction allowed by
17 section 23-~~(n)~~(o) shall be allowed whether or not connected
18 with income from sources within the United States, but only
19 as to contributions or gifts made to domestic corporations,
20 or to community chests, funds, or foundations, created in the
21 United States, or to the vocational rehabilitation fund.

22 **SEC. ~~214~~ 213. CREDITS AGAINST NET INCOME.**

23 In the case of a nonresident alien individual the
24 personal exemption allowed by section 25-~~(e)~~ 25(b)(1) of
25 this title shall be only \$1,000. The credit for dependents

1 allowed by section ~~25(d)~~ 25(b)(2) shall not be allowed
2 in the case of a nonresident alien individual unless he is a
3 resident of a contiguous country.

4 **SEC. ~~215~~ 214. ALLOWANCE OF DEDUCTIONS AND CREDITS.**

5 (a) **RETURN TO CONTAIN INFORMATION.**—A non-
6 resident alien individual shall receive the benefit of the
7 deductions and credits allowed to him in this title only by
8 filing or causing to be filed with the collector a true and
9 accurate return of his total income received from all sources
10 in the United States, in the manner prescribed in this title;
11 including therein all the information which the Commis-
12 sioner may deem necessary for the calculation of such
13 deductions and credits.

14 (b) **TAX WITHHELD AT SOURCE.**—The benefit of the
15 personal exemption and credit for dependents, and of the
16 reduced rate of tax provided for in section 211(b), may, in
17 the discretion of the Commissioner and under regulations
18 prescribed by him with the approval of the Secretary, be
19 received by a nonresident alien individual entitled thereto,
20 by filing a claim therefor with the withholding agent.

21 **SEC. ~~216~~ 215. CREDITS AGAINST TAX.**

22 A nonresident alien individual shall not be allowed the
23 credits against the tax for taxes of foreign countries and
24 possessions of the United States allowed by section 131.

1 SEC. 217 216. RETURNS.

2 In the case of a nonresident alien individual the return,
3 in lieu of the time prescribed in section 53(a) (1), shall
4 be made on or before the fifteenth day of the sixth month
5 following the close of the fiscal year, or, if the return is
6 made on the basis of the calendar year, then on or before
7 the fifteenth day of June.

8 SEC. 218 217. PAYMENT OF TAX.

9 (a) TIME OF PAYMENT.—In the case of a nonresident
10 alien individual the total amount of tax imposed by this
11 title shall be paid, in lieu of the time prescribed in section
12 56(a), on the fifteenth day of June following the close of
13 the calendar year, or, if the return should be made on
14 the basis of a fiscal year, then on the fifteenth day of the
15 sixth month following the close of the fiscal year.

16 (b) WITHHOLDING AT SOURCE.—For withholding at
17 source of tax on income of nonresident aliens, see section
18 143 142.

19 Supplement I—Foreign Corporations**20 SEC. 231. GROSS INCOME.**

21 (a) GENERAL RULE.—In the case of a foreign cor-
22 poration gross income includes only the gross income from
23 sources within the United States.

24 (b) SHIPS UNDER FOREIGN FLAG.—The income of a
25 foreign corporation, which consists exclusively of earnings

1 derived from the operation of a ship or ships documented
2 under the laws of a foreign country which grants an equiva-
3 lent exemption to citizens of the United States and to cor-
4 porations organized in the United States, shall not be
5 included in gross income and shall be exempt from taxation
6 under this title.

7 **SEC. 232. DEDUCTIONS.**

8 In the case of a foreign corporation the deductions shall
9 be allowed only if and to the extent that they are connected
10 with income from sources within the United States; and the
11 proper apportionment and allocation of the deductions with
12 respect to sources within and without the United States shall
13 be determined as provided in section 119, under rules and
14 regulations prescribed by the Commissioner with the approval
15 of the Secretary.

16 **SEC. 233. ALLOWANCE OF DEDUCTIONS AND CREDITS.**

17 A foreign corporation shall receive the benefit of the
18 deductions and credits allowed to it in this title only by
19 filing or causing to be filed with the collector a true and
20 accurate return of its total income received from all sources
21 in the United States, in the manner prescribed in this title;
22 including therein all the information which the Commis-
23 sioner may deem necessary for the calculation of such deduc-
24 tions and credits.

1 **SEC. 234. CREDITS AGAINST TAX.**

2 Foreign corporations shall not be allowed the credits
3 against the tax for taxes of foreign countries and possessions
4 of the United States allowed by section 131.

5 **SEC. 235. RETURNS.**

6 In the case of a foreign corporation not having any
7 office or place of business in the United States the return,
8 in lieu of the time prescribed in section 53 (a) (1), shall be
9 made on or before the fifteenth day of the sixth month fol-
10 lowing the close of the fiscal year, or, if the return is made
11 on the basis of the calendar year then on or before the
12 fifteenth day of June. If any foreign corporation has no
13 office or place of business in the United States but has an
14 agent in the United States, the return shall be made by the
15 agent.

16 **SEC. 236. PAYMENT OF TAX.**

17 (a) **TIME OF PAYMENT.**—In the case of a foreign
18 corporation not having any office or place of business in the
19 United States the total amount of tax imposed by this title
20 shall be paid, in lieu of the time prescribed in section 56 (a),
21 on the fifteenth day of June following the close of the
22 calendar year, or, if the return should be made on the basis
23 of a fiscal year, then on the fifteenth day of the sixth month
24 following the close of the fiscal year.

1 (b) **WITHHOLDING AT SOURCE.**—For withholding at
2 source of tax on income of foreign corporations, see
3 section ~~143~~ 142.

4 **SEC. 237. FOREIGN INSURANCE COMPANIES.**

5 For special provisions relating to foreign insurance
6 companies, see Supplement G.

7 **SEC. 238. AFFILIATION.**

8 A foreign corporation shall not be deemed to be
9 affiliated with any other corporation within the meaning
10 of section 141.

11 **Supplement J—Possessions of the United States**

12 **SEC. 251. INCOME FROM SOURCES WITHIN POSSESSIONS**
13 **OF UNITED STATES.**

14 (a) **GENERAL RULE.**—In the case of citizens of the
15 United States or domestic corporations, satisfying the follow-
16 ing conditions, gross income means only gross income from
17 sources within the United States—

18 (1) If 80 per centum or more of the gross income
19 of such citizen or domestic corporation (computed with-
20 out the benefit of this section), for the three-year period
21 immediately preceding the close of the taxable year
22 (or for such part of such period immediately preceding
23 the close of such taxable year as may be applicable)
24 was derived from sources within a possession of the
25 United States; and

1 (2) If, in the case of such corporation, 50 per
2 centum or more of its gross income (computed without
3 the benefit of this section) for such period or such part
4 thereof was derived from the active conduct of a trade
5 or business within a possession of the United States; or

6 (3) If, in case of such citizen, 50 per centum or
7 more of his gross income (computed without the bene-
8 fit of this section) for such period or such part thereof
9 was derived from the active conduct of a trade or busi-
10 ness within a possession of the United States either on
11 his own account or as an employee or agent of another.

12 (b) AMOUNTS RECEIVED IN UNITED STATES.—Not-
13 withstanding the provisions of subsection (a) there shall be
14 included in gross income all amounts received by such citi-
15 zens or corporations within the United States, whether de-
16 rived from sources within or without the United States.

17 (c) DEFINITION.—As used in this section the term
18 “possession of the United States” does not include the
19 Virgin Islands of the United States.

20 (d) DEDUCTIONS.—

21 (1) Citizens of the United States entitled to the
22 benefits of this section shall have the same deductions
23 as are allowed by Supplement H in the case of a
24 nonresident alien individual.

1 (2) Domestic corporations entitled to the benefits
2 of this section shall have the same deductions as are
3 allowed by Supplement I in the case of a foreign
4 corporation.

5 (e) CREDITS AGAINST NET INCOME.—A citizen of
6 the United States entitled to the benefits of this section shall
7 be allowed a personal exemption of only \$1,000 and shall
8 not be allowed the credit for dependents provided in section
9 ~~25(d)~~ 25(b)(2).

10 (f) ALLOWANCE OF DEDUCTIONS AND CREDITS.—
11 Citizens of the United States and domestic corporations
12 entitled to the benefits of this section shall receive the benefit
13 of the deductions and credits allowed to them in this title
14 only by filing or causing to be filed with the collector a true
15 and accurate return of their total income received from all
16 sources in the United States, in the manner prescribed in
17 this title; including therein all the information which the
18 Commissioner may deem necessary for the calculation of
19 such deductions and credits.

20 (g) CREDITS AGAINST TAX.—Persons entitled to the
21 benefits of this section shall not be allowed the credits against
22 the tax for taxes of foreign countries and possessions of the
23 United States allowed by section 131.

24 (h) AFFILIATION.—A corporation entitled to the
25 benefits of this section shall not be deemed to be affiliated

1 with any other corporation within the meaning of sec-
2 tion 141.

3 **SEC. 252. CITIZENS OF POSSESSIONS OF UNITED STATES.**

4 (a) Any individual who is a citizen of any possession
5 of the United States (but not otherwise a citizen of the
6 United States) and who is not a resident of the United
7 States, shall be subject to taxation under this title only as to
8 income derived from sources within the United States, and
9 in such case the tax shall be computed and paid in the same
10 manner and subject to the same conditions as in the case of
11 other persons who are taxable only as to income derived
12 from such sources.

13 (b) Nothing in this section shall be construed to alter
14 or amend the provisions of the Act entitled "An Act making
15 appropriations for the naval service for the fiscal year ending
16 June 30, 1922, and for other purposes," approved July 12,
17 1921, relating to the imposition of income taxes in the
18 Virgin Islands of the United States.

19 **Supplement K—China Trade Act Corporations**

20 **SEC. 261. CREDIT AGAINST NET INCOME.**

21 (a) **ALLOWANCE OF CREDIT.**—For the purpose only
22 of the tax imposed by section 13 there shall be allowed, in
23 the case of a corporation organized under the China Trade
24 Act, 1922, in addition to the credit provided in section 26, a
25 credit against the net income of an amount equal to the

1 proportion of the net income derived from sources within
2 China (determined in a similar manner to that provided in
3 section 119) which the par value of the shares of stock of the
4 corporation owned on the last day of the taxable year by (1)
5 persons resident in China, the United States, or possessions
6 of the United States, and (2) individual citizens of the
7 United States or China wherever resident, bears to the par
8 value of the whole number of shares of stock of the corpora-
9 tion outstanding on such date: *Provided*, That in no case
10 shall the amount by which the tax imposed by section 13 is
11 diminished by reason of such credit exceed the amount of the
12 special dividend certified under subsection (b) of this section.

13 (b) SPECIAL DIVIDEND.—Such credit shall not be
14 allowed unless the Secretary of Commerce has certified to
15 the Commissioner—

16 (1) The amount which, during the year ending
17 on the date fixed by law for filing the return, the cor-
18 poration has distributed as a special dividend to or for
19 the benefit of such persons as on the last day of the
20 taxable year were resident in China, the United States,
21 or possessions of the United States, or were individual
22 citizens of the United States or China, and owned
23 shares of stock of the corporation;

24 (2) That such special dividend was in addition
25 to all other amounts, payable or to be payable to such

1 persons or for their benefit, by reason of their interest
2 in the corporation; and

3 (3) That such distribution has been made to or
4 for the benefit of such persons in proportion to the par
5 value of the shares of stock of the corporation owned
6 by each; except that if the corporation has more than
7 one class of stock, the certificates shall contain a state-
8 ment that the articles of incorporation provide a method
9 for the apportionment of such special dividend among
10 such persons, and that the amount certified has been
11 distributed in accordance with the method so provided.

12 (c) OWNERSHIP OF STOCK.—For the purposes of this
13 section shares of stock of a corporation shall be considered
14 to be owned by the person in whom the equitable right to
15 the income from such shares is in good faith vested.

16 (d) DEFINITION OF CHINA.—As used in this section
17 the term “China” shall have the same meaning as when
18 used in the China Trade Act, 1922.

19 **SEC. 262. CREDITS AGAINST THE TAX.**

20 A corporation organized under the China Trade Act,
21 1922, shall not be allowed the credits against the tax for
22 taxes of foreign countries and possessions of the United
23 States allowed by section 131.

1 **SEC. 262. AFFILIATION.**

2 A corporation organized under the China Trade Act,
3 1922, shall not be deemed to be affiliated with any other
4 corporation within the meaning of section 141.

5 **SEC. 264 263. INCOME OF SHAREHOLDERS.**

6 For exclusion of dividends from gross income, see
7 section 116.

8 **Supplement L—Assessment and Collection of Deficiencies**

9 **SEC. 271. DEFINITION OF DEFICIENCY.**

10 As used in this title in respect of a tax imposed by this
11 title "deficiency" means—

12 (a) The amount by which the tax imposed by this
13 title exceeds the amount shown as the tax by the tax-
14 payer upon his return; but the amount so shown on the
15 return shall first be increased by the amounts previously
16 assessed (or collected without assessment) as a deficiency,
17 and decreased by the amounts previously abated, credited,
18 refunded, or otherwise repaid in respect of such tax; or

19 (b) If no amount is shown as the tax by the tax-
20 payer upon his return, or if no return is made by the tax-
21 payer, then the amount by which the tax exceeds the
22 amounts previously assessed (or collected without assess-
23 ment) as a deficiency; but such amounts previously assessed,
24 or collected without assessment, shall first be decreased

1 by the amounts previously abated, credited, refunded, or
2 otherwise repaid in respect of such tax.

3 **SEC. 272. PROCEDURE IN GENERAL.**

4 (a) **PETITION TO BOARD OF TAX APPEALS.**—If in
5 the case of any taxpayer, the Commissioner determines that
6 there is a deficiency in respect of the tax imposed by this title,
7 the Commissioner is authorized to send notice of such defi-
8 ciency to the taxpayer by registered mail. Within ~~60~~ 90
9 days after such notice is mailed (not counting Sunday
10 or a legal holiday in the District of Columbia as the
11 ~~sixtieth~~ *ninetieth* day), the taxpayer may file a petition
12 with the Board of Tax Appeals for a redetermination of the
13 deficiency. No assessment of a deficiency in respect of the
14 tax imposed by this title and no distraint or proceeding in
15 court for its collection shall be made, begun, or prosecuted
16 until such notice has been mailed to the taxpayer, nor until
17 the expiration of such ~~60-day~~ 90-day period, nor, if a petition
18 has been filed with the Board, until the decision of the Board
19 has become final. Notwithstanding the provisions of section
20 3224 of the Revised Statutes the making of such assessment
21 or the beginning of such proceeding or distraint during
22 the time such prohibition is in force may be enjoined by a
23 proceeding in the proper court.

24 For exceptions to the restrictions imposed by this sub-
25 section, see—

1 (1) Subsection (d) of this section, relating to
2 waivers by the taxpayer;

3 (2) Subsection (f) of this section, relating to
4 notifications of mathematical errors appearing upon
5 the face of the return;

6 (3) Section 273, relating to jeopardy assessments;

7 (4) Section 274, relating to bankruptcy and
8 receiverships; and

9 (5) Section 1001 of the Revenue Act of 1926, as
10 amended, relating to assessment or collection of the
11 amount of the deficiency determined by the Board
12 pending court review.

13 (b) **COLLECTION OF DEFICIENCY FOUND BY**
14 **BOARD.**—If the taxpayer files a petition with the Board, the
15 entire amount redetermined as the deficiency by the decision
16 of the Board which has become final shall be assessed and
17 shall be paid upon notice and demand from the collector.
18 No part of the amount determined as a deficiency by the
19 Commissioner but disallowed as such by the decision of the
20 Board which has become final shall be assessed or be col-
21 lected by distraint or by proceeding in court with or without
22 assessment.

23 (c) **FAILURE TO FILE PETITION.**—If the taxpayer
24 does not file a petition with the Board within the time
25 prescribed in subsection (a) of this section, the deficiency,

1 notice of which has been mailed to the taxpayer, shall be
2 assessed, and shall be paid upon notice and demand from
3 the collector.

4 (d) WAIVER OF RESTRICTIONS.—The taxpayer shall
5 at any time have the right, by a signed notice in writing filed
6 with the Commissioner, to waive the restrictions provided
7 in subsection (a) of this section on the assessment and collec-
8 tion of the whole or any part of the deficiency.

9 (e) INCREASE OF DEFICIENCY AFTER NOTICE
10 MAILED.—The Board shall have jurisdiction to redetermine
11 the correct amount of the deficiency even if the amount so
12 redetermined is greater than the amount of the deficiency,
13 notice of which has been mailed to the taxpayer, and to
14 determine whether any penalty, additional amount or addi-
15 tion to the tax should be assessed—if claim therefor is
16 asserted by the Commissioner at or before the hearing or a
17 rehearing.

18 (f) FURTHER DEFICIENCY LETTERS RESTRICTED.—
19 If the Commissioner has mailed to the taxpayer notice of a
20 deficiency as provided in subsection (a) of this section, and
21 the taxpayer files a petition with the Board within the time
22 prescribed in such subsection, the Commissioner shall have
23 no right to determine any additional deficiency in respect of
24 the same taxable year, except in the case of fraud, and
25 except as provided in subsection (e) of this section, relating

1 to assertion of greater deficiencies before the Board, or in
2 section 273 (c), relating to the making of jeopardy assess-
3 ments. If the taxpayer is notified that, on account of a
4 mathematical error appearing upon the face of the return,
5 an amount of tax in excess of that shown upon the return
6 is due, and that an assessment of the tax has been or will be
7 made on the basis of what would have been the correct
8 amount of tax but for the mathematical error, such notice
9 shall not be considered (for the purposes of this subsection,
10 or of subsection (a) of this section, prohibiting assessment
11 and collection until notice of deficiency has been mailed, or
12 of section 322 (c), prohibiting credits or refunds after peti-
13 tion to the Board of Tax Appeals) as a notice of a deficiency,
14 and the taxpayer shall have no right to file a petition with
15 the Board based on such notice, nor shall such assessment or
16 collection be prohibited by the provisions of subsection (a)
17 of this section.

18 (g) JURISDICTION OVER OTHER TAXABLE YEARS.—

19 The Board in redetermining a deficiency in respect of any
20 taxable year shall consider such facts with relation to the
21 taxes for other taxable years as may be necessary correctly
22 to redetermine the amount of such deficiency, but in so doing
23 shall have no jurisdiction to determine whether or not the
24 tax for any other taxable year has been overpaid or
25 underpaid.

1 (h) FINAL DECISIONS OF BOARD.—For the purposes
2 of this title the date on which a decision of the Board becomes
3 final shall be determined according to the provisions of
4 section 1005 of the Revenue Act of 1926.

5 (i) PRORATING OF DEFICIENCY TO INSTALL-
6 MENTS.—If the taxpayer has elected to pay the tax in
7 installments and a deficiency has been assessed, the defi-
8 ciency shall be prorated to the four installments. Except
9 as provided in section 273 (relating to jeopardy assess-
10 ments), that part of the deficiency so prorated to any install-
11 ment the date for payment of which has not arrived, shall
12 be collected at the same time as and as part of such install-
13 ment. That part of the deficiency so prorated to any
14 installment the date for payment of which has arrived, shall
15 be paid upon notice and demand from the collector.

16 (j) EXTENSION OF TIME FOR PAYMENT OF DEFICI-
17 CIENCIES.—Where it is shown to the satisfaction of the
18 Commissioner that the payment of a deficiency upon the
19 date prescribed for the payment thereof will result in undue
20 hardship to the taxpayer the Commissioner, with the ap-
21 proval of the Secretary (except where the deficiency is
22 due to negligence, to intentional disregard of rules and
23 regulations, or to fraud with intent to evade tax), may
24 grant an extension for the payment of such deficiency or
25 any part thereof for a period not in excess of eighteen

1 months, and, in exceptional cases, for a further period not
2 in excess of twelve months. If an extension is granted, the
3 Commissioner may require the taxpayer to furnish a bond
4 in such amount, not exceeding double the amount of the
5 deficiency, and with such sureties, as the Commissioner
6 deems necessary, conditioned upon the payment of the
7 deficiency in accordance with the terms of the extension.

8 (k) ADDRESS FOR NOTICE OF DEFICIENCY.—In the
9 absence of notice to the Commissioner under section 312 (a)
10 of the existence of a fiduciary relationship, notice of a defi-
11 ciency in respect of a tax imposed by this title, if mailed to
12 the taxpayer at his last known address, shall be sufficient
13 for the purposes of this title even if such taxpayer is deceased,
14 or is under a legal disability, or, in the case of a corporation,
15 has terminated its existence.

16 **SEC. 273. JEOPARDY ASSESSMENTS.**

17 (a) AUTHORITY FOR MAKING.—If the Commissioner
18 believes that the assessment or collection of a deficiency will
19 be jeopardized by delay, he shall immediately assess such
20 deficiency (together with all interest, additional amounts, or
21 additions to the tax provided for by law) and notice and
22 demand shall be made by the collector for the payment
23 thereof.

24 (b) DEFICIENCY LETTERS.—If the jeopardy assess-
25 ment is made before any notice in respect of the tax to which

1 the jeopardy assessment relates has been mailed under sec-
2 ion 272 (a), then the Commissioner shall mail a notice
3 under such subsection within sixty days after the making of
4 the assessment.

5 (c) AMOUNT ASSESSABLE BEFORE DECISION OF
6 BOARD.—The jeopardy assessment may be made in respect
7 of a deficiency greater or less than that notice of which has
8 been mailed to the taxpayer, despite the provisions of section
9 272 (f) prohibiting the determination of additional deficien-
10 cies, and whether or not the taxpayer has theretofore filed
11 a petition with the Board of Tax Appeals. The Commis-
12 sioner shall notify the Board of the amount of such assess-
13 ment, if the petition is filed with the Board before the
14 making of the assessment or is subsequently filed, and the
15 Board shall have jurisdiction to redetermine the entire
16 amount of the deficiency and of all amounts assessed at the
17 same time in connection therewith.

18 (d) AMOUNT ASSESSABLE AFTER DECISION OF
19 BOARD.—If the jeopardy assessment is made after the deci-
20 sion of the Board is rendered such assessment may be made
21 only in respect of the deficiency determined by the Board
22 in its decision.

23 (e) EXPIRATION OF RIGHT TO ASSESS.—A jeopardy
24 assessment may not be made after the decision of the Board

1 has become final or after the taxpayer has filed a petition
2 for review of the decision of the Board.

3 (f) **BOND TO STAY COLLECTION.**—When a jeopardy
4 assessment has been made the taxpayer, within 10 days
5 after notice and demand from the collector for the pay-
6 ment of the amount of the assessment, may obtain a stay
7 of collection of the whole or any part of the amount of
8 the assessment by filing with the collector a bond in such
9 amount, not exceeding double the amount as to which the
10 stay is desired, and with such sureties, as the collector
11 deems necessary, conditioned upon the payment of so much
12 of the amount, the collection of which is stayed by the
13 bond, as is not abated by a decision of the Board which
14 has become final, together with interest thereon as provided
15 in section 297.

16 (g) **SAME—FURTHER CONDITIONS.**—If the bond is
17 given before the taxpayer has filed his petition with the
18 Board under section 272 (a), the bond shall contain a
19 further condition that if a petition is not filed within the
20 period provided in such subsection, then the amount the
21 collection of which is stayed by the bond will be paid
22 on notice and demand at any time after the expiration
23 of such period, together with interest thereon at the rate
24 of 6 per centum per annum from the date of the jeopardy

1 notice and demand to the date of notice and demand under
2 this subsection.

3 (h) **WAIVER OF STAY.**—Upon the filing of the bond
4 the collection of so much of the amount assessed as is cov-
5 ered by the bond shall be stayed. The taxpayer shall have
6 the right to waive such stay at any time in respect of the
7 whole or any part of the amount covered by the bond, and
8 if as a result of such waiver any part of the amount covered
9 by the bond is paid, then the bond shall, at the request of
10 the taxpayer, be proportionately reduced. If the Board
11 determines that the amount assessed is greater than the
12 amount which should have been assessed, then when the
13 decision of the Board is rendered the bond shall, at the
14 request of the taxpayer, be proportionately reduced.

15 (i) **COLLECTION OF UNPAID AMOUNTS.**—When the
16 petition has been filed with the Board and when the amount
17 which should have been assessed has been determined by a
18 decision of the Board which has become final, then any
19 unpaid portion, the collection of which has been stayed by
20 the bond, shall be collected as part of the tax upon notice
21 and demand from the collector, and any remaining portion
22 of the assessment shall be abated. If the amount already
23 collected exceeds the amount determined as the amount
24 which should have been assessed, such excess shall be
25 credited or refunded to the taxpayer as provided in section

1 322, without the filing of claim therefor. If the amount
2 determined as the amount which should have been assessed
3 is greater than the amount actually assessed, then the dif-
4 ference shall be assessed and shall be collected as part of the
5 tax upon notice and demand from the collector.

6 (j) CLAIMS IN ABATEMENT.—No claim in abatement
7 shall be filed in respect of any assessment in respect of any
8 tax imposed by this title.

9 **SEC. 274. BANKRUPTCY AND RECEIVERSHIPS.**

10 (a) IMMEDIATE ASSESSMENT.—Upon the adjudica-
11 tion of bankruptcy of any taxpayer in any bankruptcy pro-
12 ceeding or the appointment of a receiver for any taxpayer
13 in any receivership proceeding before any court of the
14 United States or of any State or Territory or of the District
15 of Columbia, any deficiency (together with all interest, addi-
16 tional amounts, or additions to the tax provided for by law)
17 determined by the Commissioner in respect of a tax imposed
18 by this title upon such taxpayer shall, despite the restrictions
19 imposed by section 272 (a) upon assessments be immediately
20 assessed if such deficiency has not theretofore been assessed
21 in accordance with law. *In such cases the trustee in bank-*
22 *ruptcy or receiver shall give notice in writing to the Com-*
23 *missioner of the adjudication of bankruptcy or the appoint-*
24 *ment of the receiver, and the running of the statute of limi-*
25 *tations on the making of assessments shall be suspended*

1 *for the period from the date of adjudication in bankruptcy*
2 *or the appointment of the receiver to a date 30 days after*
3 *the date upon which the notice from the trustee or receiver*
4 *is received by the Commissioner; but the suspension under*
5 *this sentence shall in no case be for a period in excess of*
6 *two years. Claims for the deficiency and such in-*
7 *terest, additional amounts and additions to the tax may be*
8 *presented, for adjudication in accordance with law, to the*
9 *court before which the bankruptcy or receivership proceeding*
10 *is pending, despite the pendency of proceedings for the rede-*
11 *termination of the deficiency in pursuance of a petition to the*
12 *Board; but no petition for any such redetermination shall be*
13 *filed with the Board after the adjudication of bankruptcy or*
14 *the appointment of the receiver.*

15 (b) **UNPAID CLAIMS.**—Any portion of the claim
16 allowed in such bankruptcy or receivership proceeding
17 which is unpaid shall be paid by the taxpayer upon notice
18 and demand from the collector after the termination of such
19 proceeding, and may be collected by distraint or proceeding
20 in court within six years after termination of such proceed-
21 ing. Extensions of time for such payment may be had in
22 the same manner and subject to the same provisions and
23 limitations as are provided in section 272 (j) and section
24 296 in the case of a deficiency in a tax imposed by this title.

1 **SEC. 276. PERIOD OF LIMITATION UPON ASSESSMENT**
2 **AND COLLECTION.**

3 **Except as provided in section 276—**

4 (a) **GENERAL RULE.**—The amount of income taxes
5 imposed by this title shall be assessed within ~~two~~ *three* years
6 after the return was filed, and no proceeding in court with-
7 out assessment for the collection of such taxes shall be begun
8 after the expiration of such period.

9 (b) **REQUEST FOR PROMPT ASSESSMENT.**—In the
10 case of income received during the lifetime of a decedent, or
11 by his estate during the period of administration, or by a
12 corporation, the tax shall be assessed, and any proceeding
13 in court without assessment for the collection of such tax
14 shall be begun, within ~~one year~~ *eighteen months* after writ-
15 ten request therefor (filed after the return is made) by
16 the executor, administrator, or other fiduciary representing
17 the estate of such decedent, or by the corporation, but not
18 after the expiration of ~~two~~ *three* years after the return was
19 filed. This subsection shall not apply in the case of a
20 corporation unless—

21 (1) Such written request notifies the Commis-
22 sioner that the corporation contemplates dissolution at
23 or before the expiration of such ~~year~~ *18 months' period*;
24 and

1 (2) The dissolution is in good faith begun before
2 the expiration of such year 18 months' period; and
3 (3) The dissolution is completed.

4 (c) *OMISSION FROM GROSS INCOME.*—If the tax-
5 payer omits from gross income an amount properly includible
6 therein which is in excess of 25 per centum of the amount of
7 gross income stated in the return, the tax may be assessed,
8 or a proceeding in court for the collection of such tax may
9 be begun without assessment, at any time within 5 years after
10 the return was filed.

11 (d) For the purposes of subsections (a), (b), and (c) a
12 return filed before the last day prescribed by law for the
13 filing thereof shall be considered as filed on such last day.

14 ~~(e)~~ (e) *CORPORATION AND SHAREHOLDER.*—If a
15 corporation makes no return of the tax imposed by this title,
16 but each of the shareholders includes in his return his dis-
17 tributive share of the net income of the corporation, then
18 the tax of the corporation shall be assessed within four years
19 after the last date on which any such shareholder's return
20 was filed.

21 **SEC. 276. SAME—EXCEPTIONS.**

22 (a) *FALSE RETURN OR NO RETURN.*—In the case of
23 a false or fraudulent return with intent to evade tax or of
24 a failure to file a return the tax may be assessed, or a pro-

1 ceeding in court for the collection of such tax may be begun
2 without assessment, at any time.

3 (b) **WAIVERS.**—Where before the expiration of the
4 time prescribed in section 275 for the assessment of the tax,
5 both the Commissioner and the taxpayer have consented in
6 writing to its assessment after such time, the tax may be
7 assessed at any time prior to the expiration of the period
8 agreed upon. The period so agreed upon may be extended
9 by subsequent agreements in writing made before the expira-
10 tion of the period previously agreed upon.

11 (c) **COLLECTION AFTER ASSESSMENT.**—Where the
12 assessment of any income tax imposed by this title has been
13 made within the period of limitation properly applicable
14 thereto, such tax may be collected by distraint or by a pro-
15 ceeding in court, but only if begun (1) within six years
16 after the assessment of the tax, or (2) prior to the expira-
17 tion of any period for collection agreed upon in writing by
18 the Commissioner and the taxpayer before the expiration of
19 such six-year period. The period so agreed upon may be
20 extended by subsequent agreements in writing made before
21 the expiration of the period previously agreed upon.

22 **SEC. 277. SUSPENSION OF RUNNING OF STATUTE.**

23 The running of the statute of limitations provided in
24 section 275 or 276 on the making of assessments and the

1 beginning of distraint or a proceeding in court for collection,
2 in respect of any deficiency, shall (after the mailing of a
3 notice under section 272 (a)) be suspended for the period
4 during which the Commissioner is prohibited from making
5 the assessment or beginning distraint or a proceeding in
6 court (and in any event, if a proceeding in respect of the
7 deficiency is placed on the docket of the Board, until the
8 decision of the Board becomes final), and for sixty days
9 thereafter.

10 Supplement M—Interest and Additions to the Tax

11 SEC. 291. FAILURE TO FILE RETURN.

12 In case of any failure to make and file a return required
13 by this title, within the time prescribed by law or prescribed
14 by the Commissioner in pursuance of law, 25 per centum of
15 the tax shall be added to the tax, except that when a return
16 is filed after such time and it is shown that the failure to
17 file it was due to reasonable cause and not due to willful
18 neglect no such addition shall be made to the tax. The
19 amount so added to any tax shall be collected at the same
20 time and in the same manner and as a part of the tax unless
21 the tax has been paid before the discovery of the neglect,
22 in which case the amount so added shall be collected in the
23 same manner as the tax. The amount added to the tax
24 under this section shall be in lieu of the 25 per centum addi-
25 tion to the tax provided in section 3176 of the Revised
26 Statutes, as amended.

1 SEC. 202. INTEREST ON DEFICIENCIES.

2 Interest upon the amount determined as a deficiency
3 shall be assessed at the same time as the deficiency, shall
4 be paid upon notice and demand from the collector, and
5 shall be collected as a part of the tax, at the rate of 6 per
6 centum per annum from the date prescribed for the payment
7 of the tax (or, if the tax is paid in installments, from the
8 date prescribed for the payment of the first installment) to
9 the date the deficiency is assessed, or, in the case of a waiver
10 under section 272 (d), to the thirtieth day after the filing of
11 such waiver or to the date the deficiency is assessed which-
12 ever is the earlier.

13 SEC. 203. ADDITIONS TO THE TAX IN CASE OF DEFICIENCY.

14 (a) **NEGLIGENCE.**—If any part of any deficiency is
15 due to negligence, or intentional disregard of rules and
16 regulations but without intent to defraud, 5 per centum of
17 the total amount of the deficiency (in addition to such
18 deficiency) shall be assessed, collected, and paid in the same
19 manner as if it were a deficiency, except that the provisions
20 of section 272 (i), relating to the prorating of a deficiency,
21 and of section 202, relating to interest on deficiencies, shall
22 not be applicable.

23 (b) **FRAUD.**—If any part of any deficiency is due to
24 fraud with intent to evade tax, then 50 per centum of the
25 total amount of the deficiency (in addition to such defi-

1 ciency) shall be so assessed, collected, and paid, in lieu of
2 the 50 per centum addition to the tax provided in section
3 8176 of the Revised Statutes, as amended.

4 **SEC. 294. ADDITIONS TO THE TAX IN CASE OF NON-**
5 **PAYMENT.**

6 **(a) TAX SHOWN ON RETURN.—**

7 **(1) GENERAL RULE.—**Where the amount deter-
8 mined by the taxpayer as the tax imposed by this title,
9 or any installment thereof, or any part of such amount
10 or installment, is not paid on or before the date pre-
11 scribed for its payment, there shall be collected as a
12 part of the tax, interest upon such unpaid amount at the
13 rate of 1 per centum a month from the date prescribed
14 for its payment until it is paid.

15 **(2) IF EXTENSION GRANTED.—**Where an ex-
16 tension of time for payment of the amount so deter-
17 mined as the tax by the taxpayer, or any installment
18 thereof, has been granted, and the amount the time for
19 payment of which has been extended, and the interest
20 thereon determined under section 295, is not paid in
21 full prior to the expiration of the period of the extension,
22 then, in lieu of the interest provided for in paragraph
23 (1) of this subsection, interest at the rate of 1 per
24 centum a month shall be collected on such unpaid

1 amount from the date of the expiration of the period of
2 the extension until it is paid.

3 (b) **DEFICIENCY.**—Where a deficiency, or any
4 interest or additional amounts assessed in connection there-
5 with under section 292, or under section 293, or any addi-
6 tion to the tax in case of delinquency provided for in section
7 291, is not paid in full within ten days from the date of
8 notice and demand from the collector, there shall be collected
9 as part of the tax, interest upon the unpaid amount at the
10 rate of 1 per centum a month from the date of such notice
11 and demand until it is paid. If any part of a deficiency
12 prorated to any unpaid installment under section 272 (i) is
13 not paid in full on or before the date prescribed for the pay-
14 ment of such installment, there shall be collected as part of
15 the tax interest upon the unpaid amount at the rate of 1 per
16 centum a month from such date until it is paid.

17 (c) **FIDUCIARIES.**—For any period an estate is held
18 by a fiduciary appointed by order of any court of competent
19 jurisdiction or by will, there shall be collected interest at the
20 rate of 6 per centum per annum in lieu of the interest
21 provided in subsections (a) and (b) of this section.

22 (d) **FILING OF JEOPARDY BOND.**—If a bond is filed,
23 as provided in section 273, the provisions of subsections
24 (b) and (c) of this section shall not apply to the amount
25 covered by the bond.

1 **SEC. 235. TIME EXTENDED FOR PAYMENT OF TAX SHOWN**
2 **ON RETURN.**

3 If the time for payment of the amount determined as
4 the tax by the taxpayer, or any installment thereof, is
5 extended under the authority of section 56 (c), there shall
6 be collected as a part of such amount, interest thereon at
7 the rate of 6 per centum per annum from the date when
8 such payment should have been made if no extension had
9 been granted, until the expiration of the period of the
10 extension.

11 **SEC. 236. TIME EXTENDED FOR PAYMENT OF DEFICIENCY.**

12 If the time for the payment of any part of a deficiency
13 is extended, there shall be collected, as a part of the tax,
14 interest on the part of the deficiency the time for payment
15 of which is so extended, at the rate of 6 per centum per
16 annum for the period of the extension, and no other interest
17 shall be collected on such part of the deficiency for such
18 period. If the part of the deficiency the time for payment
19 of which is so extended is not paid in accordance with the
20 terms of the extension, there shall be collected, as a part of
21 the tax, interest on such unpaid amount at the rate of 1
22 per centum a month for the period from the time fixed by
23 the terms of the extension for its payment until it is paid,
24 and no other interest shall be collected on such unpaid
25 amount for such period.

1 SEC. 297. INTEREST IN CASE OF JEOPARDY ASSESSMENTS.

2 In the case of the amount collected under section
3 273 (i) there shall be collected at the same time as such
4 amount, and as a part of the tax, interest at the rate of 6 per
5 centum per annum upon such amount from the date of the
6 jeopardy notice and demand to the date of notice and demand
7 under section 273 (i), or, in the case of the amount collected
8 in excess of the amount of the jeopardy assessment, interest
9 as provided in section 292. If the amount included in the
10 notice and demand from the collector under section 273 (i)
11 is not paid in full within ten days after such notice and
12 demand, then there shall be collected, as part of the tax,
13 interest upon the unpaid amount at the rate of 1 per centum
14 a month (or, for any period the estate of the taxpayer is held
15 by a fiduciary appointed by any court of competent jurisdic-
16 tion or by will, at the rate of 6 per centum per annum) from
17 the date of such notice and demand until it is paid.

18 SEC. 298. BANKRUPTCY AND RECEIVERSHIPS.

19 If the unpaid portion of the claim allowed in a bank-
20 ruptcy or receivership proceeding, as provided in section 274,
21 is not paid in full within ten days from the date of notice
22 and demand from the collector, then there shall be collected
23 as a part of such amount interest upon the unpaid portion
24 thereof at the rate of 1 per centum a month from the date
25 of such notice and demand until payment.

1 **SEC. 299. REMOVAL OF PROPERTY OR DEPARTURE FROM**
2 **UNITED STATES.**

3 For additions to tax in case of leaving the United States
4 or concealing property in such manner as to hinder collection
5 of the tax, see section 146 145.

6 **Supplement N—Claims against Transferees and**
7 **Fiduciaries**

8 **SEC. 311. TRANSFERRED ASSETS.**

9 (a) **METHOD OF COLLECTION.**—The amounts of the
10 following liabilities shall, except as hereinafter in this section
11 provided, be assessed, collected, and paid in the same man-
12 ner and subject to the same provisions and limitations as in
13 the case of a deficiency in a tax imposed by this title (includ-
14 ing the provisions in case of delinquency in payment after
15 notice and demand, the provisions authorizing distraint and
16 proceedings in court for collection, and the provisions
17 prohibiting claims and suits for refunds) :

18 (1) **TRANSFEREES.**—The liability, at law or in
19 equity, of a transferee of property of a taxpayer, in
20 respect of the tax (including interest, additional
21 amounts, and additions to the tax provided by law)
22 imposed upon the taxpayer by this title.

23 (2) **FIDUCIARIES.**—The liability of a fiduciary
24 under section 3467 of the Revised Statutes in respect

1 of the payment of any such tax from the estate of the
2 taxpayer.

3 Any such liability may be either as to the amount of tax
4 shown on the return or as to any deficiency in tax.

5 (b) PERIOD OF LIMITATION.—The period of limita-
6 tion for assessment of any such liability of a transferee or
7 fiduciary shall be as follows:

8 (1) In the case of the liability of an initial trans-
9 feree of the property of the taxpayer,—within one
10 year after the expiration of the period of limitation for
11 assessment against the taxpayer;

12 (2) In the case of the liability of a transferee of
13 a transferee of the property of the taxpayer,—within
14 one year after the expiration of the period of limitation
15 for assessment against the preceding transferee, but
16 only if within three years after the expiration of the
17 period of limitation for assessment against the tax-
18 payer;—

19 except that if before the expiration of the period of limitation
20 for the assessment of the liability of the transferee, a court
21 proceeding for the collection of the tax or liability in respect
22 thereof has been begun against the taxpayer or last preceding
23 transferee, respectively,—then the period of limitation for
24 assessment of the liability of the transferee shall expire on
25 year after the return of execution in the court proceeding.

1 (3) In the case of the liability of a fiduciary,—
2 not later than one year after the liability arises or not
3 later than the expiration of the period for collection
4 of the tax in respect of which such liability arises,
5 whichever is the later.

6 (c) PERIOD FOR ASSESSMENT AGAINST TAX-
7 PAYER.—For the purposes of this section, if the taxpayer is
8 deceased, or in the case of a corporation, has terminated its
9 existence, the period of limitation for assessment against the
10 taxpayer shall be the period that would be in effect had the
11 death or termination of existence not occurred.

12 (d) SUSPENSION OF RUNNING OF STATUTE OF
13 LIMITATIONS.—The running of the statute of limitations
14 upon the assessment of the liability of a transferee or
15 fiduciary shall, after the mailing to the transferee or fiduciary
16 of the notice provided for in section 272 (a), be suspended
17 for the period during which the Commissioner is prohibited
18 from making the assessment in respect of the liability of the
19 transferee or fiduciary (and in any event, if a proceeding in
20 respect of the liability is placed on the docket of the Board,
21 until the decision of the Board becomes final), and for sixty
22 days thereafter.

23 (e) ADDRESS FOR NOTICE OF LIABILITY.—In the
24 absence of notice to the Commissioner under section 312 (b)

1 of the existence of a fiduciary relationship, notice of liability
2 enforceable under this section in respect of a tax imposed
3 by this title, if mailed to the person subject to the liability at
4 his last known address, shall be sufficient for the purposes of
5 this title even if such person is deceased, or is under a legal
6 disability, or, in the case of a corporation, has terminated its
7 existence.

8 (f) DEFINITION OF "TRANSFeree".—As used in
9 this section, the term "transferee" includes heir, legatee,
10 devisee, and distributee.

11 SEC. 312. NOTICE OF FIDUCIARY RELATIONSHIP.

12 (a) FIDUCIARY OF TAXPAYER.—Upon notice to the
13 Commissioner that any person is acting in a fiduciary
14 capacity such fiduciary shall assume the powers, rights,
15 duties, and privileges of the taxpayer in respect of a tax
16 imposed by this title (except as otherwise specifically pro-
17 vided and except that the tax shall be collected from the
18 estate of the taxpayer), until notice is given that the
19 fiduciary capacity has terminated.

20 (b) FIDUCIARY OF TRANSFeree.—Upon notice to
21 the Commissioner that any person is acting in a fiduciary
22 capacity for a person subject to the liability specified in
23 section 311, the fiduciary shall assume, on behalf of such
24 person, the powers, rights, duties, and privileges of such

1 person under such section (except that the liability shall
2 be collected from the estate of such person), until notice
3 is given that the fiduciary capacity has terminated.

4 (c) **MANNER OF NOTICE.**—Notice under subsection
5 (a) or (b) shall be given in accordance with regulations
6 prescribed by the Commissioner with the approval of the
7 Secretary.

8 Supplement O—Overpayments

9 **SEC. 321. OVERPAYMENT OF INSTALLMENT.**

10 If the taxpayer has paid as an installment of the tax
11 more than the amount determined to be the correct amount
12 of such installment, the overpayment shall be credited against
13 the unpaid installments, if any. If the amount already paid,
14 whether or not on the basis of installments, exceeds the
15 amount determined to be the correct amount of the tax, the
16 overpayment shall be credited or refunded as provided in
17 section 322.

18 **SEC. 322. REFUNDS AND CREDITS.**

19 (a) **AUTHORIZATION.**—Where there has been an
20 overpayment of any tax imposed by this title, the amount
21 of such overpayment shall be credited against any income,
22 war-profits, or excess-profits tax or installment thereof then
23 due from the taxpayer, and any balance shall be refunded
24 immediately to the taxpayer.

1 (b) LIMITATION ON ALLOWANCE.—

2 ~~(1) PERIOD OF LIMITATION.~~—No such credit or
3 refund shall be allowed or made after two years from
4 the time the tax was paid, unless before the expiration
5 of such period a claim therefor is filed by the taxpayer.

6 (1) PERIOD OF LIMITATION.—Unless a claim
7 for credit or refund is filed by the taxpayer within three
8 years from the time the return was filed by the taxpayer
9 or within two years from the time the tax was paid, no
10 credit or refund shall be allowed or made after the
11 expiration of whichever of such periods expires the
12 later. If no return is filed by the taxpayer, then no
13 credit or refund shall be allowed or made after two
14 years from the time the tax was paid, unless before the
15 expiration of such period a claim therefor is filed by
16 the taxpayer.

17 (2) LIMIT ON AMOUNT OF CREDIT OR
18 REFUND.—The amount of the credit or refund shall not
19 exceed the portion of the tax paid during the ~~two~~ three
20 years immediately preceding the filing of the claim,
21 or or, if no claim was filed, then during the ~~two~~ three
22 years immediately preceding the allowance of the
23 credit or refund.

1 (c) EFFECT OF PETITION TO BOARD.—If the Com-
2 missioner has mailed to the taxpayer a notice of deficiency
3 under section 272 (a) and if the taxpayer files a petition
4 with the Board of Tax Appeals within the time prescribed
5 in such subsection, no credit or refund in respect of the tax
6 for the taxable year in respect of which the Commissioner
7 has determined the deficiency shall be allowed or made and
8 no suit by the taxpayer for the recovery of any part of such
9 tax shall be instituted in any court except—

10 (1) As to overpayments determined by a decision
11 of the Board which has become final; and

12 (2) As to any amount collected in excess of an
13 amount computed in accordance with the decision of
14 the Board which has become final; and

15 (3) As to any amount collected after the period
16 of limitation upon the beginning of distraint or a pro-
17 ceeding in court for collection has expired; but in any
18 such claim for credit or refund or in any such suit for
19 refund the decision of the Board which has become
20 final, as to whether such period has expired before the
21 notice of deficiency was mailed, shall be conclusive.

22 (d) OVERPAYMENT FOUND BY BOARD.—If the
23 Board finds that there is no deficiency and further finds
24 that the taxpayer has made an overpayment of tax in

1 respect of the taxable year in respect of which the Com-
 2 missioner determined the deficiency, the Board shall have
 3 jurisdiction to determine the amount of such overpayment,
 4 and such amount shall, when the decision of the Board has
 5 become final, be credited or refunded to the taxpayer. No
 6 such credit or refund shall be made of any portion of the tax
 7 *unless the Board determines as part of its decision that it*
 8 *was paid more than two within three years before the filing*
 9 *of the claim or the filing of the petition, whichever is earlier.*

10 (e) TAX WITHHELD AT SOURCE.—For refund or
 11 credit in case of excessive withholding at the source, see
 12 section ~~142(f)~~ 142(e).

13 TITLE IA—ADDITIONAL INCOME TAXES

14 SEC. 351. SURTAX ON PERSONAL HOLDING COMPANIES.

15 (a) IMPOSITION OF TAX.—There shall be levied, col-
 16 lected, and paid, for each taxable year, upon the undis-
 17 tributed adjusted net income of every personal holding com-
 18 pany a surtax equal to the sum of the following:

19 (1) 30 per centum of the amount thereof not in
 20 excess of \$100,000; plus

21 (2) 40 per centum of the amount thereof in excess
 22 of \$100,000.

23 (b) DEFINITIONS.—As used in this title—

24 (1) The term “personal holding company”
 25 means any corporation (other than a corporation

1 *exempt from taxation under section 101, and other than*
2 *a bank or trust company incorporated under the laws*
3 *of the United States or of any State or Territory, a*
4 *substantial part of whose business is the receipt of*
5 *deposits, and other than a life-insurance company)*
6 *if—(A) at least 80 per centum of its gross income for*
7 *the taxable year is derived from royalties, dividends,*
8 *interest, annuities, and (except in the case of regular*
9 *dealers in stock or securities) gains from the sale of*
10 *stock or securities, and (B) at any time during the*
11 *last half of the taxable year more than 50 per centum*
12 *in value of its outstanding stock is owned, directly or*
13 *indirectly, by or for not more than five individuals.*
14 *For the purpose of determining the ownership of stock*
15 *in a personal holding company—(C) stock owned,*
16 *directly or indirectly, by a corporation, partnership,*
17 *estate, or trust shall be considered as being owned pro-*
18 *portionately by its shareholders, partners, or benefici-*
19 *aries; (D) an individual shall be considered as own-*
20 *ing, to the exclusion of any other individual, the stock*
21 *owned, directly or indirectly, by his family, and this*
22 *rule shall be applied in such manner as to produce the*
23 *smallest possible number of individuals owning, directly*
24 *or indirectly, more than 50 per centum in value of the*
25 *outstanding stock; and (E) the family of an individual*
26 *shall include only his brothers and sisters (whether by*

1 *the whole or half blood), spouse, ancestors, and lineal*
2 *descendants.*

3 (2) *The term "undistributed adjusted net in-*
4 *come" means the adjusted net income minus the sum of:*

5 (A) *20 per centum of the excess of the ad-*
6 *justed net income over the amount of the dividend*
7 *deduction allowed under section 23(p);*

8 (B) *A reasonable amount used or set aside*
9 *to retire indebtedness incurred prior to January 1,*
10 *1934; and*

11 (C) *Dividends paid during the taxable year.*

12 (3) *The term "adjusted net income" means the*
13 *sum of:*

14 (A) *The net income; and*

15 (B) *The amount of the dividend deduction*
16 *allowed under section 23(p);*

17 *minus the sum of:*

18 (C) *Federal income, war-profits, and excess-*
19 *profits taxes paid or accrued, but not including the*
20 *tax imposed by this section; and*

21 (D) *Contributions or gifts, not otherwise*
22 *allowed as a deduction, to or for the use of donees*
23 *described in section 23(o) for the purposes therein*
24 *specified.*

25 (4) *The terms used in this section shall have the*
26 *same meaning as when used in Title I.*

1 (c) *ADMINISTRATIVE PROVISIONS.*—All provisions
2 of law (including penalties) applicable in respect of the taxes
3 imposed by Title I of this Act, shall insofar as not inconsistent
4 with this section, be applicable in respect of the tax imposed
5 by this section, except that the provisions of section 131 of
6 that title shall not be applicable.

7 (d) *PAYMENT OF SURTAX ON PRO RATA SHARES.*—
8 The tax imposed by this section shall not apply if all the
9 shareholders of the corporation include (at the time of filing
10 their returns) in their gross income their entire pro rata
11 shares, whether distributed or not, of the “adjusted net
12 income” of the corporation for such year. Any amount so
13 included in the gross income of a shareholder shall be treated
14 as a dividend received. Any subsequent distribution made
15 by the corporation out of earnings or profits for such taxable
16 year shall, if distributed to any shareholder who has so
17 included in his gross income his pro rata share, be exempt
18 from tax in the amount of the share so included.

19 (e) *IMPROPER ACCUMULATION OF SURPLUS.*—For
20 surtax on corporations which accumulate surplus to avoid
21 surtax on stockholders, see section 102.

22 **TITLE II—AMENDMENTS TO ESTATE TAX**

23 **SEC. 401. REVOCABLE TRUSTS.**

24 Section 302(d) of the Revenue Act of 1926 is amended
25 to read as follows:

1 “(d)(1) To the extent of any interest therein of which
2 the decedent has at any time made a transfer, by trust or
3 otherwise, where the enjoyment thereof was subject at the date
4 of his death to any change through the exercise of a power,
5 either by the decedent alone or in conjunction with any per-
6 son, to alter, amend, or revoke, or where the decedent relin-
7 quished any such power in contemplation of his death, except
8 in case of a bona fide sale for an adequate and full considera-
9 tion in money or money's worth.

10 “(2) For the purposes of this subdivision the power
11 to alter, amend, or revoke shall be considered to exist on the
12 date of the decedent's death even though the exercise of the
13 power is subject to a precedent giving of notice or even
14 though the alteration, amendment, or revocation takes effect
15 only on the expiration of a stated period after the exercise
16 of the power, whether or not on or before the date of the
17 decedent's death notice has been given or the power has been
18 exercised. In such cases proper adjustment shall be made
19 representing the interests which would have been excluded
20 from the power if the decedent had lived, and for such pur-
21 pose if the notice has not been given or the power has not
22 been exercised on or before the date of his death, such notice
23 shall be considered to have been given, or the power exercised,
24 on the date of his death.

1 “(3) The relinquishment of any such power, not admit-
 2 ted or shown to have been in contemplation of the decedent’s
 3 death, made within two years prior to his death without
 4 such a consideration and affecting the interest or interests
 5 (whether arising from one or more transfers or the creation
 6 of one or more trusts) of any one beneficiary of a value or
 7 aggregate value, at the time of such death, in excess of
 8 \$5,000, then, to the extent of such excess, such relinquis-
 9 ment or relinquishments shall, unless shown to the contrary,
 10 be deemed to have been made in contemplation of death
 11 within the meaning of this title;”

NOTE.—Section 302(d) of the Revenue Act of 1926 will, after the above amendment, read as follows:

SEC. 302. The value of the gross estate of the decedent shall be determined by including the value at the time of his death of all property, real or personal, tangible or intangible, wherever situated—

(d) (1) To the extent of any interest therein of which the decedent has at any time made a transfer, by trust or otherwise, where the enjoyment thereof was subject at the date of his death to any change through the exercise of a power, either by the decedent alone or in conjunction with any person, to alter, amend, or revoke, or where the decedent relinquished any such power in contemplation of his death, except in case of a bona fide sale for an adequate and full consideration in money or money’s worth.

(2) For the purposes of this subdivision the power to alter, amend, or revoke shall be considered to exist on the date of the decedent’s death even though the exercise of the power is subject to a precedent giving of notice or even though the alteration, amendment, or revocation takes effect only on the expiration of a stated period after the exercise of the power, whether or not on or before the date of the decedent’s death notice has been given or the power has been exercised. In such cases proper adjustment shall be made representing the interests which would have been excluded from the power if the decedent had lived, and for such purpose if the notice has not been given or the power has not been exercised on or before the date of his death, such notice shall be considered to have been given, or the power exercised on the date of his death.

(3) The relinquishment of any such power, not admitted or shown to have been in contemplation of the decedent’s death, made within two years prior to his death but after the enactment of this Act without such a consideration and affecting the interest or interests (whether arising from one or more transfers or the creation of one or more trusts) of any one beneficiary of a value or aggregate value, at the time of such death, in excess of \$5,000, then, to the extent of such excess, such relinquishment or relinquishments shall be deemed to have been made in contemplation of death within the meaning of this title;

1 **SEC. 402. PRIOR TAXED PROPERTY.**

2 *Paragraph (2) of subdivision (a) and paragraph*
 3 *(2) of subdivision (b) of section 303 of the Revenue Act*
 4 *of 1926, as amended, are amended by inserting before the*
 5 *period at the end of the second sentence of each such para-*
 6 *graph a comma and the following: "and only if in determin-*
 7 *ing the value of the net estate of the prior decedent no deduction*
 8 *was allowable under this paragraph in respect of the property*
 9 *or property given in exchange therefor".*

NOTE.—Section 303 (a) (2) and 303 (b) (2) of the Revenue Act of 1926 will, after the above insert, read as follows:

SEC. 303. For the purpose of the tax the value of the net estate shall be determined—

(a) in the case of a nonresident by deducting from the value of the gross estate—

* * * * *

(2) An amount equal to the value of any property (A) forming a part of the gross estate situated in the United States of any person who died within five years prior to the death of the decedent, or (B) transferred to the decedent by gift within five years prior to his death, where such property can be identified as having been received by the decedent from the donor by gift, or from such prior decedent by gift, bequest, devise, or inheritance, or which can be identified as having been acquired in exchange for property so received. This deduction shall be allowed only where a gift tax imposed under the Revenue Act of 1932, or an estate tax imposed under this or any prior Act of Congress, was finally determined and paid by or on behalf of such donor, or the estate of such prior decedent, as the case may be, and only in the amount finally determined as the value of such property in determining the value of the gift, or the gross estate of such prior decedent, and only to the extent that the value of such property is included in the decedent's gross estate, and only if in determining the value of the net estate of the prior decedent no deduction was allowable under this paragraph in respect of the property or property given in exchange therefor. Where a deduction was allowed of any mortgage or other lien in determining the gift tax, or the estate tax of the prior decedent, which was paid in whole or in part prior to the decedent's death, then the deduction allowable under this paragraph shall be reduced by the amount so paid. The deduction allowable under this paragraph shall be reduced by an amount which bears the same ratio to the amounts allowed as deductions under paragraphs (1), (3), and (4) of this subdivision as the amount otherwise deductible under this paragraph bears to the value of the decedent's gross estate. Where the property referred to in this paragraph consists of two or more items the aggregate value of such items shall be used for the purpose of computing the deduction.

* * * * *

(b) In the case of a nonresident, by deducting from the value of that part of his gross estate which at the time of his death is situated in the United States—

* * * * *

(2) An amount equal to the value of any property (A) forming a part of the gross estate situated in the United States of any person who died within five years prior to the death of the decedent, or (B) transferred to the decedent by gift within five years prior to his death, where such property can be identified as having been received by the decedent from the donor by gift, or from such prior decedent by gift, bequest, devise, or inheritance, or which can be identified as having been acquired in exchange for property so received. This deduction shall be allowed only where a gift tax imposed under the Revenue Act of 1932, or an estate tax imposed under this or any prior Act of Congress, was finally determined and paid by or on behalf of such donor, or the estate of such prior decedent, as the case may be, and only in the amount finally determined as the value of such property in determining the value of the gift, or the gross estate of such prior decedent, and only to the extent that the value of such property is included in that part of the decedent's gross estate which at the time of his death is situated in the United States States, and only if in determining the value of the net estate of the prior decedent no deduction was allowable under this paragraph in respect of the property or property given in exchange therefor. Where a deduction was allowed of any mortgage or other lien in determining the gift tax, or the estate tax of the prior decedent, which was paid in whole or in part prior to the decedent's death, then the deduction allowable under this paragraph shall be reduced by the amount so paid. The deduction allowable under this paragraph shall be reduced by an amount which bears the same ratio to the amounts allowed as deductions under paragraphs (1) and (3) of this subdivision as the amount otherwise deductible under this paragraph bears to the value of that part of the decedent's gross estate which at the time of his death is situated in the United States. Where the property referred to in this paragraph consists of two or more items the aggregate value of such items shall be used for the purpose of computing the deduction.

NOTE.—See also the amendments proposed to the above provisions by section 408 of this bill.

1 **SEC. 403. CITIZENSHIP AND RESIDENCE OF DECEDENTS.**

2 (a) *Section 303(a) of the Revenue Act of 1926, as*
 3 *amended, is amended by striking out "In the case of a*
 4 *resident" and inserting in lieu thereof "In the case of a*
 5 *citizen or resident of the United States".*

NOTE.—Section 303(a) of the Revenue Act of 1926 will, after the above amendment, read as follows:

SEC. 303. For the purpose of the tax the value of the net estate shall be determined—

(a) In the case of a *citizen or resident of the United States*, by deducting from the value of the gross estate—

(1) * * *

6 (b) *Section 303(b) of such Act, as amended, is*
 7 *amended by striking out "In the case of a nonresident"*
 8 *and inserting in lieu thereof "In the case of a nonresident*
 9 *not a citizen of the United States".*

NOTE.—Section 303(b) of the Revenue Act of 1926 will, after the above amendment, read as follows:

(b) In the case of a nonresident *not a citizen of the United States*, by deducting from the value of that part of his gross estate which at the time of his death is situated in the United States—

(1) * * *

- 1 (c) Section 303(c) of such Act, as amended, is
2 amended by striking out "in the case of a nonresident"
3 and inserting in lieu thereof "in the case of a nonresident
4 not a citizen of the United States".

NOTE.—Section 303(c) of the Revenue Act of 1926 will, after the above amendment, read as follows:

(c) No deduction shall be allowed in the case of a nonresident *not a citizen of the United States* unless the executor includes in the return required to be filed under section 304 the value at the time of his death of that part of the gross estate of the nonresident not situated in the United States.

- 5 (d) Section 303(d) and (e) of such Act, as
6 amended, are amended by striking out the phrase "non-
7 resident decedent" wherever such phrase appears in such
8 subdivisions and inserting in lieu thereof in each case "non-
9 resident not a citizen of the United States".

NOTE.—Section 303(d) and (e) of the Revenue Act of 1926 will, after the above amendment, read as follows:

(d) For the purpose of this title, stock in a domestic corporation owned and held by a nonresident ~~decedent~~ *not a citizen of the United States* shall be deemed property within the United States, and any property of which the decedent has made a transfer, by trust or otherwise, within the meaning of subdivision (c) or (d) of section 302, shall be deemed to be situated in the United States, if so situated either at the time of the transfer, or at the time of the decedent's death. For the purposes of this title, a relinquishment or promised relinquishment of dower, curtesy, or of a statutory estate created in lieu of dower or curtesy, or of other marital rights in the decedent's property or estate, shall not be considered to any extent a consideration "in money or money's worth."

(e) The amount receivable as insurance upon the life of a nonresident ~~decedent~~ *not a citizen of the United States*, and any moneys deposited with any person carrying on the banking business, by or for a nonresident ~~decedent~~ *not a citizen of the United States* who was not engaged in business in the United States at the time of his death, shall not, for the purpose of this title, be deemed property within the United States.

- 1 (e) Section 304(a) and (b) of such Act, as
 2 amended, are amended by striking out "nonresident"
 3 wherever such word appears and inserting in lieu thereof
 4 in each case "nonresident not a citizen of the United States".

NOTE.—Section 304(a) and (b) of the Revenue Act of 1926 will, after the above amendment, read as follows:

SEC. 304. (a) The executor, within two months after the decedent's death, or within a like period after qualifying as such, shall give written notice thereof to the collector. The executor shall also, at such times and in such manner as may be required by regulations made pursuant to law, file with the collector a return under oath in duplicate, setting forth (1) the value of the gross estate of the decedent at the time of his death, or, in case of a nonresident *not a citizen of the United States*, of that part of his gross estate situated in the United States; (2) the deductions allowed under section 303; (3) the value of the net estate of the decedent as defined in section 308; and (4) the tax paid or payable thereon; or such part of such information as may at the time be ascertainable and such supplemental data as may be necessary to establish the correct tax.

(b) Return shall be made in all cases where the gross estate at the death of the decedent exceeds \$100,000, and in the case of the estate of every nonresident *not a citizen of the United States* any part of whose gross estate is situated in the United States. If the executor is unable to make a complete return as to any part of the gross estate of the decedent, he shall include in his return a description of such part and the name of every person holding a legal or beneficial interest therein, and upon notice from the collector such person shall in like manner make a return as to such part of the gross estate.

- 5 (f) Section 403 of the Revenue Act of 1932 is amended
 6 by striking out "resident decedent" and inserting in lieu
 7 thereof "citizen or resident of the United States".

NOTE.—Section 403 of the Revenue Act of 1932 will, after the above amendment, read as follows:

SEC. 403. ASSESSMENT, COLLECTION, AND PAYMENT OF TAX.

Except as provided in section 402, the tax imposed by section 401 of this Act shall be assessed, collected, and paid, in the same manner, and shall be subject to the same provisions of law (including penalties), as the tax imposed by section 301 (a) of the Revenue Act of 1926, except that in the case of a ~~resident decedent~~ *citizen or resident of the United States* a return shall be required if the value of the gross estate at the time of the decedent's death exceeds \$50,000.

1 **SEC. 404. REAL ESTATE SITUATED OUTSIDE THE UNITED**
 2 **STATES.**

3 *So much of section 302 of the Revenue Act of 1926*
 4 *as reads as follows: "The value of the gross estate of the*
 5 *decedent shall be determined by including the value at the*
 6 *time of his death of all property, real or personal, tangible*
 7 *or intangible, wherever situated" is amended to read as*
 8 *follows: "The value of the gross estate of the decedent shall*
 9 *be determined by including the value at the time of his death*
 10 *of all property, real or personal, tangible or intangible,*
 11 *wherever situated, except real property situated outside the*
 12 *United States".*

NOTE.—The amendment to section 302 of the Revenue Act of 1926 made by this section consists of the addition of a comma and the words "except real property situated outside the United States".

13 **SEC. 405. ESTATE TAX RATES.**

14 *(a) Section 401 (b) of the Revenue Act of 1932 is*
 15 *amended to read as follows:*

16 " (b) The tentative tax referred to in subsection (a)
 17 (1) of this section shall equal the sum of the following
 18 percentages of the value of the net estate:

19 " Upon net estates not in excess of ~~\$10,000~~ \$20,000,
 20 1 per centum.

21 " ~~\$100~~ \$200 upon net estates of ~~\$10,000~~ \$20,000;
 22 and upon net estates in excess of ~~\$10,000~~ \$20,000 and not

1 in excess of ~~\$20,000~~ \$30,000, 2 per centum in addition of
2 such excess.

3 " ~~\$200~~ \$400 upon net estates of ~~\$20,000~~ \$30,000;
4 and upon net estates in excess of ~~\$20,000~~ \$30,000 and not
5 in excess of ~~\$30,000~~ \$40,000, 3 per centum in addition of
6 such excess.

7 " ~~\$600~~ \$700 upon net estates of ~~\$30,000~~ \$40,000;
8 and upon net estates in excess of ~~\$30,000~~ \$40,000 and not
9 in excess of ~~\$40,000~~ \$50,000, 4 per centum in addition of
10 such excess.

11 " ~~\$1,000~~ \$1,100 upon net estates of ~~\$40,000~~ \$50,000;
12 and upon net estates in excess of ~~\$40,000~~ \$50,000 and not
13 in excess of ~~\$50,000~~ \$60,000, 5 per centum in addition of
14 such excess.

15 " ~~\$1,500~~ \$1,600 upon net estates of ~~\$50,000~~ \$60,000;
16 and upon net estates in excess of ~~\$50,000~~ \$60,000 and not
17 in excess of ~~\$100,000~~ \$80,000, 7 per centum in addition of
18 such excess.

19 " ~~\$5,000~~ \$3,000 upon net estates of ~~\$100,000~~ \$80,-
20 000; and upon net estates in excess of ~~\$100,000~~ \$80,000
21 and not in excess of ~~\$200,000~~ \$100,000, 9 per centum in
22 addition of such excess.

23 " ~~\$14,000~~ \$4,800 upon net estates of ~~\$200,000~~ \$100,-
24 000; and upon net estates in excess of ~~\$200,000~~ \$100,000

1 and not in excess of ~~\$400,000~~ \$200,000, ~~11~~ 12 per centum
2 in addition of such excess.

3 " ~~\$36,000~~ \$16,800 upon net estates of ~~\$400,000~~ \$200,-
4 000; and upon net estates in excess of ~~\$400,000~~ \$200,000
5 and not in excess of ~~\$600,000~~ \$400,000, ~~13~~ 16 per centum
6 in addition of such excess.

7 " ~~\$62,000~~ \$48,800 upon net estates of ~~\$600,000~~
8 \$400,000; and upon net estates in excess of ~~\$600,000~~
9 \$400,000 and not in excess of ~~\$800,000~~ \$600,000, ~~15~~ 19
10 per centum in addition of such excess.

11 " ~~\$92,000~~ \$86,800 upon net estates of ~~\$800,000~~
12 \$600,000; and upon net estates in excess of ~~\$800,000~~
13 \$600,000 and not in excess of ~~\$1,000,000~~ \$800,000, ~~17~~ 22
14 per centum in addition of such excess.

15 " ~~\$126,000~~ \$130,800 upon net estates of ~~\$1,000,000~~
16 \$800,000; and upon net estates in excess of ~~\$1,000,000~~
17 \$800,000 and not in excess of ~~\$1,500,000~~ \$1,000,000, ~~19~~
18 25 per centum in addition of such excess.

19 " ~~\$221,000~~ \$180,800 upon net estates of ~~\$1,500,000~~
20 \$1,000,000; and upon net estates in excess of ~~\$1,500,000~~
21 \$1,000,000 and not in excess of ~~\$2,000,000~~ \$1,500,000,
22 ~~24~~ 28 per centum in addition of such excess.

23 " ~~\$326,000~~ \$320,800 upon net estates of ~~\$2,000,000~~
24 \$1,500,000; and upon net estates in excess of ~~\$2,000,000~~

1 \$1,500,000 and not in excess of ~~\$2,500,000~~ \$2,000,000,
 2 ~~22~~ 31 per centum in addition of such excess.

3 " ~~\$441,000~~ \$475,800 upon net estates of ~~\$2,500,000~~
 4 \$2,000,000; and upon net estates in excess of ~~\$2,500,000~~
 5 \$2,000,000 and not in excess of ~~\$2,000,000~~ \$2,500,000,
 6 ~~25~~ 34 per centum in addition of such excess.

7 " ~~\$566,000~~ \$645,800 upon net estates of ~~\$2,000,000~~
 8 \$2,500,000; and upon net estates in excess of ~~\$2,000,000~~
 9 \$2,500,000 and not in excess of ~~\$2,500,000~~ \$3,000,000,
 10 ~~27~~ 37 per centum in addition of such excess.

11 " ~~\$701,000~~ \$830,800 upon net estates of ~~\$2,500,000~~
 12 \$3,000,000; and upon net estates in excess of ~~\$2,500,000~~
 13 \$3,000,000 and not in excess of ~~\$4,000,000~~ \$3,500,000,
 14 ~~29~~ 40 per centum in addition of such excess.

15 " ~~\$846,000~~ \$1,030,800 upon net estates of ~~\$4,000,000~~
 16 \$3,500,000; and upon net estates in excess of ~~\$4,000,000~~
 17 \$3,500,000 and not in excess of ~~\$4,500,000~~ \$4,000,000,
 18 ~~31~~ 43 per centum in addition of such excess.

19 " ~~\$1,001,000~~ \$1,245,800 upon net estates of ~~\$4,500,-~~
 20 ~~000~~ \$4,000,000; and upon net estates in excess of ~~\$4,500,000~~
 21 \$4,000,000 and not in excess of ~~\$5,000,000~~ \$4,500,000,
 22 ~~33~~ 46 per centum in addition of such excess.

23 " ~~\$1,166,000~~ \$1,475,800 upon net estates of ~~\$5,000,-~~
 24 ~~000~~ \$4,500,000; and upon net estates in excess of
 25 ~~\$5,000,000~~ \$4,500,000 and not in excess of ~~\$6,000,000~~
 26 \$5,000,000, ~~35~~ 48 per centum in addition of such excess.

1 “ ~~\$1,516,000~~ \$1,715,800 upon net estates of ~~\$6,000,~~
 2 000 \$5,000,000; and upon net estates in excess of
 3 ~~\$6,000,000~~ \$5,000,000 and not in excess of ~~\$7,000,000~~
 4 \$6,000,000, ~~37~~ 50 per centum in addition of such excess.

5 “ ~~\$1,886,000~~ \$2,215,800 upon net estates of ~~\$7,000,~~
 6 000 \$6,000,000; and upon net estates in excess of
 7 ~~\$7,000,000~~ \$6,000,000 and not in excess of ~~\$8,000,000~~
 8 \$7,000,000, ~~39~~ 52 per centum in addition of such excess.

9 “ ~~\$2,276,000~~ \$2,735,800 upon net estates of ~~\$8,000,~~
 10 000 \$7,000,000; and upon net estates in excess of
 11 ~~\$8,000,000~~ \$7,000,000 and not in excess of ~~\$9,000,000~~
 12 \$8,000,000, ~~41~~ 54 per centum in addition of such excess.

13 “ ~~\$2,686,000~~ \$3,275,800 upon net estates of ~~\$9,000,~~
 14 000 \$8,000,000; and upon net estates in excess of
 15 ~~\$9,000,000~~ \$8,000,000 and not in excess of ~~\$10,000,000~~
 16 \$9,000,000, ~~43~~ 56 per centum in addition of such excess.

17 “ ~~\$3,116,000~~ \$3,835,800 upon net estates of ~~\$10,000,~~
 18 000 \$9,000,000; and upon net estates in excess of ~~\$10,000,~~
 19 000, ~~45~~ per centum in addition of such excess ~~\$9,000,000~~
 20 and not in excess of \$10,000,000, ~~58~~ per centum in addi-
 21 tion of such excess.

22 “ \$4,415,800 upon net estates of \$10,000,000; and
 23 upon net estates in excess of \$10,000,000, ~~60~~ per centum
 24 in addition of such excess.”

- 1 **(b) Section 401 (c) of the Revenue Act of 1932**
 2 *(relating to the exemption for the purposes of the additional*
 3 *estate tax) is amended by striking out “\$50,000” and*
 4 *inserting in lieu thereof “\$40,000”.*

NOTE.—Section 401(c) of the Revenue Act of 1932 will, after the above amendment, read as follows:

(c) For the purposes of this section the value of the net estate shall be determined as provided in Title III of the Revenue Act of 1926, as amended, except that in lieu of the exemption of \$100,000 provided in section 303(a)(4) of such Act, the exemption shall be ~~\$50,000~~ \$40,000.

- 5 **(c) Section 403 of the Revenue Act of 1932 (relating**
 6 *to the requirement for filing return under such additional*
 7 *estate tax) is amended by striking out “\$50,000” and*
 8 *inserting in lieu thereof “\$40,000”.*

NOTE.—Section 403 of the Revenue Act of 1932, will, after the above amendment, read as follows:

SEC. 403. ASSESSMENT, COLLECTION, AND PAYMENT OF TAX.

Except as provided in section 402, the tax imposed by section 401 of this Act shall be assessed, collected, and paid, in the same manner, and shall be subject to the same provisions of law (including penalties), as the tax imposed by section 301(a) of the Revenue Act of 1926, except that in the case of a resident decedent a return shall be required if the value of the gross estate at the time of the decedent's death exceeds ~~\$50,000~~ \$40,000.

- 9 **(d) The amendments made by this section shall be**
 10 *effective only with respect to transfers of estates of decedents*
 11 *dying after the date of the enactment of this Act.*

12 **SEC. 406. NONDEDUCTIBILITY OF CERTAIN TRANSFERS.**

- 13 Section 303(a)(3) and section 303(b)(3) of the
 14 Revenue Act of 1926, as amended, are amended by inserting
 15 after “individual”, wherever appearing therein, a comma
 16 and the following: “and no substantial part of the activities
 17 of which is participation in partisan politics or is carry-
 18 ing on propaganda, or otherwise attempting, to influence
 19 legislation”.

NOTE.—Section 303(a)(3) of the Revenue Act of 1926, as amended, will, after the above amendment, read as follows:

Sec. 303. For the purpose of the tax the value of the net estate shall be determined—

(a) In the case of a resident, by deducting from the value of the gross estate—

(3) The amount of all bequests, legacies, devises, or transfers, to or for the use of the United States, any State, Territory, any political subdivision thereof, or the District of Columbia, for exclusively public purposes, or to or for the use of any corporation organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual, *and no substantial part of the activities of which is participation in partisan politics or is carrying on propaganda, or otherwise attempting, to influence legislation*, or to a trustee or trustees, or a fraternal society, order, or association operating under the lodge system, but only if such contributions or gifts are to be used by such trustee or trustees, or by such fraternal society, order, or association, exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals. If the tax imposed by section 301, or any estate, succession, legacy, or inheritance taxes, are, either by the terms of the will, by the law of the jurisdiction under which the estate is administered, or by the law of the jurisdiction imposing the particular tax, payable in whole or in part out of the bequests, legacies, or devises otherwise deductible under this paragraph, then the amount deductible under this paragraph shall be the amount of such bequests, legacies, or devises reduced by the amount of such taxes. The amount of the deduction under this paragraph for any transfer shall not exceed the value of the transferred property required to be included in the gross estate; and

Section 303(b)(3) of the Revenue Act of 1926, as amended, will, after the above amendment, read as follows:

(b) In the case of a nonresident, by deducting from the value of that part of his gross estate which at the time of his death is situated in the United States—

(3) The amount of all bequests, legacies, devises, or transfers, to or for the use of the United States, any State, Territory, any political subdivision thereof, or the District of Columbia, for exclusively public purposes, or to or for the use of any domestic corporation organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual, *and no substantial part of the activities of which is participation in partisan politics or is carrying on propaganda, or otherwise attempting, to influence legislation*, or to a trustee or trustees, or a fraternal society, order, or association operating under the lodge system, but only if such contributions or gifts are to be used within the United States by such trustee or trustees, or by such fraternal society, order, or association, exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals. If the tax imposed by section 301, or any estate, succession, legacy, or inheritance taxes, are, either by the terms of the will, by the law of the jurisdiction under which the estate is administered, or by the law of the jurisdiction imposing the particular tax, payable in whole or in part out of the bequests, legacies, or devises otherwise deductible under this paragraph, then the amount deductible under this paragraph shall be the amount of such bequests, legacies, or devises reduced by the amount of such taxes. The amount of the deduction under this paragraph for any transfer shall not exceed the value of the transferred property required to be included in the gross estate.

1 **TITLE III—AMENDMENTS TO PRIOR ACTS AND**
 2 **MISCELLANEOUS**

3 **SEC. 501. PERIOD FOR PETITION TO BOARD UNDER PRIOR ACTS.**

4 *Section 274(a) of the Revenue Act of 1926, section*
 5 *308(a) of the Revenue Act of 1926, section 513(a) of the*
 6 *Revenue Act of 1932, and section 272(a) of the Revenue*
 7 *Act of 1928 and the Revenue Act of 1932 (relating to the*
 8 *period during which a taxpayer may petition the Board of*
 9 *Tax Appeals for redetermination of a deficiency), are*
 10 *amended by striking out "60 days" and inserting in lieu*
 11 *thereof "90 days"; by striking out "not counting Sunday*
 12 *as the sixtieth day" and inserting in lieu thereof "not count-*
 13 *ing Sunday or a legal holiday in the District of Columbia*
 14 *as the ninetieth day"; and by striking out "60-day" and*
 15 *inserting in lieu thereof "90-day". The amendments made*
 16 *by this section shall apply only in respect of notices mailed*
 17 *after 30 days after the date of the enactment of this Act.*

NOTE.—Section 274(a) of the Revenue Act of 1926, section 308(a) of the Revenue Act of 1926, section 513(a) of the Revenue Act of 1932, and section 272(a) of the Revenue Act of 1928 and the Revenue Act of 1932 will, after the above amendments, read as follows:

SEC. 274. (a) If in the case of any taxpayer, the Commissioner determines that there is a deficiency in respect of the tax imposed by this title, the Commissioner is authorized to send notice of such deficiency to the taxpayer by registered mail. Within ~~60 days~~ *90 days* after such notice is mailed (~~not counting Sunday as the sixtieth day not counting Sunday or a legal holiday in the District of Columbia as the ninetieth day~~), the taxpayer may file a petition with the Board of Tax Appeals for a redetermination of the deficiency. Except as otherwise provided in subdivision (d) or (f) of this section or in section 279, 282, or 1001, no assessment of a deficiency in respect of the tax imposed by this title and no distraint or proceeding in court for its collection shall be made, begun, or prosecuted until such notice has been mailed to the taxpayer, nor until the expiration of such ~~60-day~~ *90-day* period, nor, if a petition has been filed with the Board, until the decision of the Board

has become final. Notwithstanding the provisions of section 3224 of the Revised Statutes the making of such assessment or the beginning of such proceeding or distraint during the time such prohibition is in force may be enjoined by a proceeding in the proper court.

SEC. 308. (a) If the Commissioner determines that there is a deficiency in respect of the tax imposed by this title, the Commissioner is authorized to send notice of such deficiency to the executor by registered mail. Within ~~60 days~~ *90 days* after such notice is mailed (~~not counting Sunday as the sixtieth day~~ *not counting Sunday or a legal holiday in the District of Columbia as the ninetieth day*), the executor may file a petition with the Board of Tax Appeals for a redetermination of the deficiency. Except as otherwise provided in subdivision (d) or (f) of this section or in section 312 or 1001, no assessment of a deficiency in respect of the tax imposed by this title and no distraint or proceeding in court for its collection shall be made, begun, or prosecuted until such notice has been mailed to the executor, nor until the expiration of such ~~60-day~~ *90-day* period, nor, if a petition has been filed with the Board, until the decision of the Board has become final. Notwithstanding the provisions of section 3224 of the Revised Statutes the making of such assessment or the beginning of such proceeding or distraint during the time such prohibition is in force may be enjoined by a proceeding in the proper court.

SEC. 513. ASSESSMENT AND COLLECTION OF DEFICIENCIES.

(a) PETITION TO BOARD OF TAX APPEALS.—If the Commissioner determines that there is a deficiency in respect of the tax imposed by this title, the Commissioner is authorized to send notice of such deficiency to the donor by registered mail. Within ~~60 days~~ *90 days* after such notice is mailed (~~not counting Sunday as the sixtieth day~~ *not counting Sunday or a legal holiday in the District of Columbia as the ninetieth day*), the donor may file a petition with the Board of Tax Appeals for a redetermination of the deficiency. No assessment of a deficiency in respect of the tax imposed by this title and no distraint or proceeding in court for its collection shall be made, begun, or prosecuted until such notice has been mailed to the donor, nor until the expiration of such ~~60-day~~ *90-day* period, nor, if a petition has been filed with the Board, until the decision of the Board has become final. Notwithstanding the provisions of section 3224 of the Revised Statutes the making of such assessment or the beginning of such proceeding or distraint during the time such prohibition is in force may be enjoined by a proceeding in the proper court.

For exceptions to the restrictions imposed by this subsection see—

- (1) Subsection (d) of this section, relating to waivers by the donor;
- (2) Subsection (f) of this section, relating to notifications of mathematical errors appearing upon the face of the return;
- (3) Section 514, relating to jeopardy assessments;
- (4) Section 516, relating to bankruptcy and receiverships; and
- (5) Section 1001 of the Revenue Act of 1926, as amended, relating to assessment or collection of the amount of the deficiency determined by the Board pending court review.

(Revenue Act of 1928) SEC. 272. PROCEDURE IN GENERAL.

(a) Petition to Board of Tax Appeals.—If in the case of any taxpayer, the Commissioner determines that there is a deficiency in respect of the tax imposed by this title, the Commissioner is authorized to send notice of such deficiency to the taxpayer by registered mail. Within ~~60 days~~ *90 days* after such notice is mailed (~~not counting Sunday as the sixtieth day~~ *not counting Sunday or a legal holiday in the District of Columbia as the ninetieth day*), the taxpayer may file a petition with the Board of Tax Appeals for a redetermination of the deficiency. No assessment of a deficiency in respect of the tax imposed by this title and no distraint or proceeding in court for its collection shall be made, begun, or prosecuted until such notice has been mailed to the taxpayer, nor

until the expiration of such ~~60-day~~ *90-day* period; nor, if a petition has been filed with the Board, until the decision of the Board has become final. Notwithstanding the provisions of section 3224 of the Revised Statutes the making of such assessment or the beginning of such proceeding or distraint during the time such prohibition is in force may be enjoined by a proceeding in the proper court.

For exceptions to the restrictions imposed by this subsection, see—

- (1) Subsection (d) of this section, relating to waivers by the taxpayer;
- (2) Subsection (f) of this section, relating to notifications of mathematical errors appearing upon the face of the return;
- (3) Section 273, relating to jeopardy assessments;
- (4) Section 274, relating to bankruptcy and receiverships; and
- (5) Section 1001 of the Revenue Act of 1926, as amended, relating to assessment or collection of the amount of the deficiency determined by the Board pending court review.

(Revenue Act of 1932) SEC. 272. PROCEDURE IN GENERAL.

(a) **PETITION TO BOARD OF TAX APPEALS.**—If in the case of any taxpayer, the Commissioner determines that there is a deficiency in respect of the tax imposed by this title, the Commissioner is authorized to send notice of such deficiency to the taxpayer by registered mail. Within ~~60 days~~ *90 days* after such notice is mailed (~~not counting Sunday as the sixtieth day not counting Sunday or a legal holiday in the District of Columbia as the ninetieth day~~), the taxpayer may file a petition with the Board of Tax Appeals for a redetermination of the deficiency. No assessment of a deficiency in respect of the tax imposed by this title and no distraint or proceeding in court for its collection shall be made, begun, or prosecuted until such notice has been mailed to the taxpayer, nor until the expiration of such ~~60-day~~ *90-day* period, nor, if a petition has been filed with the Board, until the decision of the Board has become final. Notwithstanding the provisions of section 3224 of the Revised Statutes the making of such assessment or the beginning of such proceeding or distraint during the time such prohibition is in force may be enjoined by a proceeding in the proper court.

For exceptions to the restrictions imposed by this subsection, see—

- (1) Subsection (d) of this section, relating to waivers by the taxpayer;
- (2) Subsection (f) of this section, relating to notifications of mathematical errors appearing upon the face of the return;
- (3) Section 273, relating to jeopardy assessments;
- (4) Section 274, relating to bankruptcy and receiverships; and
- (5) Section 1001 of the Revenue Act of 1926, as amended, relating to assessment or collection of the amount of the deficiency determined by the Board pending court review.

1 SEC. 502. RECOVERY OF AMOUNTS ERRONEOUSLY REFUNDED.

2 *(a) Section 610 of the Revenue Act of 1928 is amended*
3 *by adding at the end thereof a new subsection to read as*
4 *follows:*

5 *“(c) Despite the provisions of subsections (a) and*
6 *(b) such suit may be brought at any time within five years*
7 *from the making of the refund if it appears that any part*

1 of the refund was induced by fraud or the misrepresentation
2 of a material fact."

3 (b) The amendment made by subsection (a) of this
4 section shall not apply to any suit which was barred on the
5 date of the enactment of this Act.

NOTE.—Section 610 of the Revenue Act of 1928 will, after the addition of the new subsection, read as follows:

SEC. 610. RECOVERY OF AMOUNTS ERRONEOUSLY REFUNDED.

(a) Any portion of an internal-revenue tax (or any interest, penalty, additional amount, or addition to such tax) refund of which is erroneously made, within the meaning of section 608, after the enactment of this Act, may be recovered by suit brought in the name of the United States, but only if such suit is begun within two years after the making of such refund.

(b) Any portion of an internal-revenue tax (or any interest, penalty, additional amount, or addition to such tax) which has been erroneously refunded (if such refund would not be considered as erroneous under section 608) may be recovered by suit brought in the name of the United States, but only if such suit is begun before the expiration of two years after the making of such refund or before May 1, 1928, whichever date is later.

(c) Despite the provisions of subsections (a) and (b) such suit may be brought at any time within five years from the making of the refund if it appears that any part of the refund was induced by fraud or the misrepresentation of a material fact.

6 **SEC. 503. STATUTE OF LIMITATIONS ON SUITS FOR REFUND.**

7 Section 608(b)(2) of the Revenue Act of 1928 is
8 amended by adding at the end thereof a new sentence to read
9 as follows: "If such agreement has been entered into, the
10 running of such statute of limitations shall be suspended in
11 accordance with the terms of the agreement."

NOTE.—Section 608 of the Revenue Act of 1928 will, after the addition of the new sentence, read as follows:

SEC. 608. EFFECT OF EXPIRATION OF PERIOD OF LIMITATION AGAINST TAXPAYER.

A refund of any portion of an internal-revenue tax (or any interest, penalty, additional amount, or addition to such tax) made after the enactment of this Act, shall be considered erroneous—

(a) if made after the expiration of the period of limitation for filing claim therefor, unless within such period claim was filed; or

(b) in the case of a claim filed within the proper time and disallowed by the Commissioner after the enactment of this Act, if the refund was

made after the expiration of the period of limitation for filing suit, unless—

- (1) within such period suit was begun by the taxpayer, or
- (2) within such period, the taxpayer and the Commissioner agreed in writing to suspend the running of the statute of limitations for filing suit from the date of the agreement to the date of final decision in one or more named cases then pending before the United States Board of Tax Appeals or the courts. *If such agreement has been entered into the running of such statute of limitations shall be suspended in accordance with the terms of the agreement.*

1 **SEC. 504. OVERPAYMENTS FOUND BY THE BOARD OF TAX**
 2 **APPEALS.**

3 (a) *The last sentence of section 322(d) of the Revenue*
 4 *Act of 1932 and of the Revenue Act of 1928 are amended to*
 5 *read as follows: "No such credit or refund shall be made of*
 6 *any portion of the tax unless the Board determines as part*
 7 *of its decision that it was paid within two years before*
 8 *the filing of the claim or the filing of the petition, whichever*
 9 *is earlier."*

NOTE.—Section 322 (d) of the Revenue Act of 1932 and of the Revenue Act of 1928 will, after the above amendment, read as follows:

(d) OVERPAYMENT FOUND BY BOARD.—If the Board finds that there is no deficiency and further finds that the taxpayer has made an overpayment of tax in respect of the taxable year in respect of which the Commissioner determined the deficiency, the Board shall have jurisdiction to determine the amount of such overpayment, and such amount shall, when the decision of the Board has become final, be credited or refunded to the taxpayer. No such credit or refund shall be made of any portion of the tax *unless the Board determines as part of its decision that it was paid more than within two years before the filing of the claim or the filing of the petition, whichever is earlier.*

10 (b) *The last sentence of section 528(d) of the Revenue*
 11 *Act of 1932 is amended to read as follows: "No such credit*
 12 *or refund shall be made of any portion of the tax unless the*
 13 *Board determines as part of its decision that it was paid*
 14 *within three years before the filing of the claim or the filing*
 15 *of the petition, whichever is earlier."*

NOTE.—Section 528(d) of the Revenue Act of 1932 will, after the above amendment, read as follows:

(d) OVERPAYMENT FOUND BY BOARD.—If the Board finds that there is no deficiency and further finds that the taxpayer has made an overpayment of tax in respect of the taxable year in respect of which the Commissioner determined the deficiency, the Board shall have jurisdiction to determine the amount of such overpayment, and such amount shall, when the decision of the Board has become final, be credited or refunded to the taxpayer. No such credit or refund shall be made of any portion of the tax *unless the Board determines as part of its decision that it was paid more than within three years before the filing of the claim or the filing of the petition, whichever is earlier.*

1 (c) *The last sentence of section 284(e) of the Revenue*
 2 *Act of 1926, as amended, is amended to read as follows:*
 3 *“Unless the Board determines as part of its decision that*
 4 *the claim for credit or refund, or the petition, was filed*
 5 *within the time prescribed in subdivision (g) for filing*
 6 *claims, no such credit or refund shall be made of any por-*
 7 *tion of the tax unless the Board determines as part of its*
 8 *decision that it was paid within four years (or, in the case*
 9 *of a tax imposed by this title, within three years) before the*
 10 *filing of the claim or the filing of the petition, whichever*
 11 *is earlier.”*

NOTE.—Section 284 (e) of the Revenue Act of 1926 will, after the above amendment, read as follows:

(e) If the Board finds that there is no deficiency and further finds that the taxpayer has made an overpayment of tax in respect of the taxable year in respect of which the Commissioner determined the deficiency, the Board shall have jurisdiction to determine the amount of such overpayment, and such amount shall, when the decision of the Board has become final, be credited or refunded to the taxpayer as provided in subdivision (a). *Unless claim for credit or refund, or the petition, was filed within the time prescribed in subdivision (g) for filing claims, no such credit or refund shall be made of any portion of the tax paid more than four years (or, in the case of a tax imposed by this title, more than three years) before the filing of the claim or the filing of the petition, whichever is earlier. Unless the Board determines as part of its decision that the claim for credit or refund, or the petition, was filed within the time prescribed in subdivision (g) for filing claims, no such credit or refund shall be made of any portion of the tax unless the Board determines as part of its decision that it was paid within four years (or, in the case of a tax imposed by this title, within three years) before the filing of the claim or the filing of the petition, whichever is earlier.*

1 (d) *The last sentence of section 319(c) of the Revenue*
 2 *Act of 1926, as amended, is amended to read as follows:*
 3 *“No such refund shall be made of any portion of the tax*
 4 *unless the Board determines as part of its decision that it*
 5 *was paid within four years (or in the case of a tax imposed*
 6 *by this title, within three years) before the filing of the claim*
 7 *or the filing of the petition, whichever is earlier.”*

NOTE.—Section 319 (c) of the Revenue Act of 1926, as amended, will, after the above amendment, read as follows:

(c) If the Board finds that there is no deficiency and further finds that the executor has made an overpayment of tax, the Board shall have jurisdiction to determine the amount of such overpayment, and such amount shall, when the decision of the Board has become final, be credited or refunded to the executor as provided in section 3220 of the Revised Statutes, as amended. No such refund shall be made of any portion of the tax ~~paid more than~~ *unless the Board determines as part of its decision that it was paid within four years (or, in the case of a tax imposed by this title, more than within three years) before the filing of the claim or the filing of the petition, whichever is earlier.*

8 (e) *The amendments made by subsections (a), (b),*
 9 *(c), and (d) of this section shall have no effect in the case*
 10 *of any proceeding before the Board on a petition if any*
 11 *hearing by the Board thereon has been held prior to 30*
 12 *days after the date of the enactment of this Act.*

13 **SEC. 505. BANKRUPTCY AND RECEIVERSHIPS.**

14 (a) *Section 274(a) of the Revenue Act of 1932 and*
 15 *the Revenue Act of 1928 and section 282(a) of the Revenue*
 16 *Act of 1926 are amended by inserting after the first sentence*
 17 *thereof the following:*

18 *“In such cases the trustee in bankruptcy or receiver shall*
 19 *give notice in writing to the Commissioner of the adjudi-*
 20 *cation of bankruptcy or the appointment of the receiver, and*

1 *the running of the statute of limitations on the making of*
 2 *assessments shall be suspended for the period from the date*
 3 *of adjudication in bankruptcy or the appointment of the*
 4 *receiver to a date 30 days after the date upon which the*
 5 *notice from the trustee or receiver is received by the Com-*
 6 *missioner; but the suspension under this sentence shall in no*
 7 *case be for a period in excess of two years."*

NOTE.—Section 274(a) of the Revenue Act of 1932 and the Revenue Act of 1928 will, after the above insertion, read as follows:

(a) IMMEDIATE ASSESSMENT.—Upon the adjudication of bankruptcy of any taxpayer in any bankruptcy proceeding or the appointment of a receiver for any taxpayer in any receivership proceeding before any court of the United States or of any State or Territory or of the District of Columbia, any deficiency (together with all interest, additional amounts, or additions to the tax provided for by law) determined by the Commissioner in respect of a tax imposed by this title upon such taxpayer shall, despite the restrictions imposed by section 272(a) upon assessments be immediately assessed if such deficiency has not theretofore been assessed in accordance with law. *In such cases the trustee in bankruptcy or receiver shall give notice in writing to the Commissioner of the adjudication of bankruptcy or the appointment of the receiver, and the running of the statute of limitations on the making of assessments shall be suspended for the period from the date of adjudication in bankruptcy or the appointment of the receiver to a date 30 days after the date upon which the notice from the trustee or receiver is received by the Commissioner; but the suspension under this sentence shall in no case be for a period in excess of two years.* Claims for the deficiency and such interest, additional amounts and additions to the tax may be presented, for adjudication in accordance with law, to the court before which the bankruptcy or receivership proceeding is pending, despite the pendency of proceedings for the redetermination of the deficiency in pursuance of a petition to the Board; but no petition for any such redetermination shall be filed with the Board after the adjudication of bankruptcy or the appointment of the receiver.

Section 282(a) of the Revenue Act of 1926 will, after the above insertion, read as follows:

SEC. 282. (a) Upon the adjudication of bankruptcy of any taxpayer in any bankruptcy proceeding or the appointment of a receiver for any taxpayer in any receivership proceeding before any court of the United States or of any State or Territory or of the District of Columbia, any deficiency (together with all interest, additional amounts, or additions to the tax provided for by law) determined by the Commissioner in respect of a tax imposed by this title upon such taxpayer shall, despite the provisions of subdivision (a) of section 274, be immediately assessed if such deficiency has not theretofore been assessed in accordance with law. *In such cases the trustee in bankruptcy or receiver shall give notice in writing to the Commissioner of the adjudication of bankruptcy or the appointment of the receiver, and the running of the statute of limitations on the making of assessments shall be suspended for the period from the date of adjudication in bankruptcy*

or the appointment of the receiver to a date 30 days after the date upon which the notice from the trustee or receiver is received by the Commissioner; but the suspension under this sentence shall in no case be for a period in excess of two years. Claim for the deficiency and such interest, additional amounts and additions to the tax may be presented, for adjudication in accordance with law, to the court before which the bankruptcy or receivership proceeding is pending, despite the pendency of proceedings for the redetermination of the deficiency in pursuance of a petition to the Board; but no petition for any such redetermination shall be filed with the Board after the adjudication of bankruptcy or the appointment of the receiver.

1 *(b) The amendments made by subsection (a) shall not*
 2 *apply in any case in which the adjudication has occurred,*
 3 *or the receiver has been appointed, prior to the date of the*
 4 *enactment of this Act.*

5 **SEC. 506. RETROACTIVITY OF REGULATIONS, RULINGS, ETC.**

6 *Section 1108 (a) of the Revenue Act of 1926, as*
 7 *amended, is amended to read as follows:*

8 *“(a) The Secretary, or the Commissioner with the*
 9 *approval of the Secretary, may prescribe the extent, if any,*
 10 *to which any ruling, regulation, or Treasury Decision,*
 11 *relating to the internal revenue laws, shall be applied without*
 12 *retroactive effect.”*

NOTE.—Section 1108(a) of the Revenue Act of 1926, as amended, which is amended by this section, reads as follows:

SEC. 1108. (a) In case a regulation or Treasury decision relating to the internal-revenue laws is amended by a subsequent regulation or Treasury decision, made by the Secretary or by the Commissioner with the approval of the Secretary, such subsequent regulation or Treasury decision may, with the approval of the Secretary, be applied without retroactive effect.

13 **SEC. 507. EXAMINATION OF BOOKS AND WITNESSES.**

14 *The Commissioner, for the purpose of determining the*
 15 *liability at law or in equity of a transferee of the property*
 16 *of any person with respect to any Federal taxes imposed*
 17 *upon such person, is hereby authorized, by any officer or*

1 *employee of the Bureau of Internal Revenue, including the*
2 *field service, designated by him for that purpose, to examine*
3 *any books, papers, records, or memoranda bearing upon*
4 *such liability, and may require the attendance of the trans-*
5 *feror or transferee, or of any officer or employee of such*
6 *person, or the attendance of any other person having knowl-*
7 *edge in the premises, and may take his testimony with*
8 *reference to the matter, with power to administer oaths to*
9 *such person or persons.*

10 **SEC. 508. SALE OF PERSONAL PROPERTY UNDER DISTRRAINT.**

11 *Section 3192 of the Revised Statutes is amended to*
12 *read as follows:*

13 "SEC. 3192. When any property advertised for sale
14 under distraint, as aforesaid, is of a kind subject to tax, and
15 the tax has not been paid, and the amount bid for such
16 property is not equal to the amount of the tax, the collector
17 may purchase the same in behalf of the United States for an
18 amount not exceeding the said tax. All property so pur-
19 chased may be sold by the collector, under such regulations
20 as may be prescribed by the Commissioner of Internal
21 Revenue. The collector shall render to the Commissioner a
22 distinct account of all charges incurred in such sales, and,
23 in case of sale, shall pay into the Treasury the surplus,
24 if any there be, after defraying all lawful charges and
25 fees. When any personal property is advertised for sale

1 under distraint as aforesaid, the officer making the seizure
2 shall proceed to sell such property at a public auction,
3 offering the same at a minimum price, including the expenses
4 of making the levy and of advertising the sale, and if the
5 amount bid for such property at the sale is not equal to the
6 minimum price so fixed, the officer conducting the sale may
7 declare the same to be purchased by him for the United States.
8 The property so purchased may be sold by the collector within
9 whose district the sale was made under such regulations as
10 may be prescribed by the Commissioner of Internal Revenue,
11 with the approval of the Secretary of the Treasury. The
12 collector shall render to the Commissioner a distinct account
13 of all charges incurred in such sales, and, in case of resale,
14 shall pay into the Treasury the proceeds as provided in
15 section 3210 of the Revised Statutes, as amended."

16 **SEC. 509. DISCHARGE OF LIENS.**

17 Section 3186(c) of the Revised Statutes, as amended,
18 is amended by adding at the end thereof the following new
19 paragraph:

20 "(4) May issue a certificate of discharge of any part
21 of the property subject to the lien if there is paid over to
22 the collector in part satisfaction of the liability in respect of
23 such tax an amount determined by the Commissioner, which
24 shall not be less than the value, as determined by him, of the
25 interest of the United States in the part to be so discharged.

1 *In determining such value the Commissioner shall give con-*
 2 *sideration to the fair market value of the part to be so dis-*
 3 *charged and to such liens thereon as have priority to the lien*
 4 *of the United States."*

NOTE.—Section 3186(c) of the Revised Statutes will, after the above amendment, read as follows:

(c) Subject to such regulations as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, may prescribe, the collector of internal revenue charged with an assessment in respect of any tax—

(1) May issue a certificate of release of the lien if the collector finds that the liability for the amount assessed, together with all interest in respect thereof, has been satisfied or has become unenforceable;

(2) May issue a certificate of release of the lien if there is furnished to the collector and accepted by him a bond that is conditioned upon the payment of the amount assessed, together with all interest in respect thereof, within the time prescribed by law (including any extension of such time), and that is in accordance with such requirements relating to terms, conditions, and form of the bond and sureties thereon, as may be specified in the regulations;

(3) May issue a certificate of partial discharge of any part of the property subject to the lien if the collector finds that the fair market value of that part of such property remaining subject to the lien is at least double the amount of the liability remaining unsatisfied in respect of such tax and the amount of all prior liens upon such property.

(4) *May issue a certificate of discharge of any part of the property subject to the lien if there is paid over to the collector in part satisfaction of the liability in respect of such tax an amount determined by the Commissioner, which shall not be less than the value, as determined by him, of the interest of the United States in the part to be so discharged. In determining such value the Commissioner shall give consideration to the fair market value of the part to be so discharged and to such liens thereon as have priority to the lien of the United States.*

5 **SEC. 510. JEOPARDY ASSESSMENTS.**

6 *Section 1105 of the Revenue Act of 1932 is amended*
 7 *to read as follows:*

8 **"SEC. 1105. JEOPARDY ASSESSMENT.**

9 **"(a) If the Commissioner finds that a person liable for**
 10 **tax (other than income tax) under any provision of the in-**
 11 **ternal-revenue laws designs quickly to depart from the United**
 12 **States or to remove his property therefrom, or to conceal**
 13 **himself or his property therein, or to do any other act tend-**

1 ing to prejudice or to render wholly or partly ineffectual
2 proceedings to collect such tax unless such proceedings be
3 brought without delay, the Commissioner shall cause notice
4 of such finding to be given such person, together with a de-
5 mand for an immediate return and immediate payment of
6 such tax, and such tax shall thereupon become immediately
7 due and payable.

8 “(b) If such person (1) is not in default in making
9 any return or paying any tax under the internal-revenue
10 laws, and (2) furnishes to the United States, under regula-
11 tions to be prescribed by the Commissioner with the ap-
12 proval of the Secretary, security approved by the Commis-
13 sioner that he will duly return and pay the tax to which the
14 Commissioner's finding relates, then such tax shall not be
15 payable prior to the time otherwise fixed for payment.

16 “(a) If the Commissioner believes that the collection
17 of any tax (other than income tax, estate tax, and gift
18 tax) under any provision of the internal-revenue laws will
19 be jeopardized by delay, he shall, whether or not the time
20 otherwise prescribed by law for making return and paying
21 such tax has expired, immediately assess such tax (together
22 with all interest and penalties the assessment of which is
23 provided for by law). Such tax, penalties, and interest shall
24 thereupon become immediately due and payable, and im-
25 mediate notice and demand shall be made by the collector for

1 *the payment thereof. Upon failure or refusal to pay such*
 2 *tax, penalty, and interest, collection thereof by distraint shall*
 3 *be lawful without regard to the period prescribed in section*
 4 *3187 of the Revised Statutes, as amended.*

5 *“(b) The collection of the whole or any part of the*
 6 *amount of such assessment may be stayed by filing with the*
 7 *collector a bond in such amount, not exceeding double the*
 8 *amount as to which the stay is desired, and with such sureties,*
 9 *as the collector deems necessary, conditioned upon the pay-*
 10 *ment of the amount collection of which is stayed, at the*
 11 *time at which, but for this section, such amount would be*
 12 *due.”*

13 **SEC. 511. GIFTS OF PROPERTY SUBJECT TO POWER.**

14 *Subsection (c) of section 501 of the Revenue Act of*
 15 *1932 (relating to the inapplicability of gift tax in the case*
 16 *of the transfer of property in trust subject to the power of*
 17 *the donor to revest title in himself) is repealed.*

NOTE.—Section 501 (c) of the Revenue Act of 1932, repealed by the above provision, reads as follows:

(c) The tax shall not apply to a transfer of property in trust where the power to revest in the donor title to such property is vested in the donor, either alone or in conjunction with any person not having a substantial adverse interest in the disposition of such property or the income therefrom, but the relinquishment or termination of such power (other than by the donor's death) shall be considered to be a transfer by the donor by gift of the property subject to such power, and any payment of the income therefrom to a beneficiary other than the donor shall be considered to be a transfer by the donor of such income by gift.

18 **SEC. 512. GENERAL COUNSEL FOR THE TREASURY.**

19 *(a) There is hereby created in the Department of the*
 20 *Treasury the office of General Counsel for the Department*

1 of the Treasury (hereinafter in this section referred to as
2 the "General Counsel"). The General Counsel shall be
3 appointed by the President, by and with the advice and
4 consent of the Senate, and shall receive compensation at
5 the rate of \$10,000 per annum. The General Counsel shall
6 be the chief law officer of the Department, and shall perform
7 such duties in respect of the legal activities thereof as may
8 be prescribed by the Secretary or required by law. The
9 Secretary may appoint and fix the duties of such officers
10 and employees as he may deem necessary to assist the Gen-
11 eral Counsel in the performance of his duties. The Presi-
12 dent is authorized to appoint, by and with the advice and
13 consent of the Senate, not to exceed six Assistant General
14 Counsel and to fix their compensation at rates not in excess
15 of \$10,000 per annum. The Secretary may designate one
16 of such Assistant General Counsel to act as the General
17 Counsel during the absence of the General Counsel. The
18 General Counsel, with the approval of the Secretary, is
19 authorized to delegate to any Assistant General Counsel
20 any authority, duty, or function which the General Counsel
21 is authorized or required to exercise or perform. The rate
22 of compensation of any person appointed under the pro-
23 visions of this subsection shall be subject to the reduction
24 applicable to officers and employees of the Federal Govern-
25 ment generally.

1 ***(b) The offices of General Counsel for the Bureau***
2 ***of Internal Revenue, Assistant General Counsel for the***
3 ***Bureau of Internal Revenue, Solicitor of the Treasury,***
4 ***and Assistant Solicitor of the Treasury are hereby abolished.***
5 ***The powers, duties, and functions of such offices are hereby***
6 ***transferred to the General Counsel. This subsection shall***
7 ***take effect when the General Counsel first appointed under***
8 ***subsection (a) qualifies and takes office.***

9 ***(c) Nothing in this section shall be construed to affect***
10 ***the duties, powers, or functions imposed upon, or vested in,***
11 ***the Department of Justice, or any officer thereof, by existing***
12 ***law.***

13 **SEC. 513. ASSISTANTS IN THE TREASURY.**

14 ***The President is authorized to appoint, by and with***
15 ***the advice and consent of the Senate, five assistants to the***
16 ***Secretary of the Treasury and to fix their compensation***
17 ***at rates not to exceed \$10,000 per annum, but the rates so***
18 ***fixed shall be subject to the reduction applicable to officers***
19 ***and employees of the Federal Government generally. The***
20 ***Secretary is authorized to delegate to such assistants any***
21 ***authority, duty, or function which he is authorized or required***
22 ***to exercise or perform. Whenever the President declares***
23 ***by Executive order that the emergency requiring the appoint-***
24 ***ments under this section has ceased to exist, the persons ap-***

1 pointed under this section shall cease to hold office under
 2 this section, and the power of the President under this section
 3 shall terminate.

4 **SEC. 514. POSTAL RATES.**

5 Section 1001(a), as amended, of the Revenue Act
 6 of 1932, and section 2 of the Act entitled "An Act to extend
 7 the gasoline tax for one year, to modify postage rates on
 8 mail matter, and for other purposes", approved June 16,
 9 1933, are amended by striking out "1934" wherever such
 10 date appears and inserting in lieu thereof "1935".

NOTE.—Section 1001(a), as amended, of the Revenue Act of 1932 will, after the above amendment, read as follows:

SEC. 1001. POSTAL RATES.

(a) On and after the thirtieth day after the date of the enactment of this Act and until July 1, ~~1934~~ 1935, the rate of postage on all mail matter of the first class (except postal cards and private mailing or post cards, and except other first class matter on which the rate of postage under existing law is 1 cent for each ounce or fraction thereof) shall be 1 cent for each ounce or fraction thereof in addition to the rate provided by existing law: *Provided*, That such additional rate shall not apply on or after July 1, 1933, to first-class matter mailed for local delivery.

Section 2 of the Act entitled "An Act to extend the gasoline tax for one year, to modify postage rates on mail matter, and for other purposes", approved June 16, 1933, will, after the above amendment, read as follows:

SEC. 2. The President is authorized during the period ending June 30, ~~1934~~ 1935, to proclaim such modifications of postage rates on mail matter (except that in the case of first-class matter the rate shall not be reduced to less than 2 cents an ounce or fraction thereof) as, after a survey by him, he may deem advisable by reason of increase in business, the interests of the public, or the needs of the Postal Service, and such modifications shall be in effect on and after such date as he shall proclaim and until July 1, ~~1934~~ 1935. In case a modification of the rate of postage on first-class matter is proclaimed, the President shall also make a corresponding modification in the percentages of gross postal receipts specified in section 1001(c) of the Revenue Act of 1932 as amended by this Act, which percentages shall be in effect during the period such modification of the rate of postage on first-class matter is in effect. Nothing in this section shall be construed as giving the President authority to change the rate fixed by law on first-class matter mailed for local delivery, postal cards, and private mailing or post cards.

1 **SEC. 515. COMMISSIONER AS PARTY TO SUIT.**

2 *Section 907 of the Revenue Act of 1924, as amended,*
 3 *is amended by adding at the end thereof a new subdivision*
 4 *to read as follows:*

5 *“(g) Petitions filed after the enactment of the Revenue*
 6 *Act of 1934 with the Board shall be entitled ‘In re’, fol-*
 7 *lowed by the name of the petitioner, and the proceedings*
 8 *shall thereafter be so entitled in any appellate court review-*
 9 *ing the action of the Board. When the incumbent of the*
 10 *office of Commissioner of Internal Revenue changes, no sub-*
 11 *stitution of the name of his successor shall be required in*
 12 *proceedings pending before any such court.”*

NOTE.—Section 907 of the Revenue Act of 1924, as amended, will, after the above amendment, read as follows:

SEC. 907. (a) Notice and opportunity to be heard upon any proceeding instituted before the Board shall be given to the taxpayer and the Commissioner, and a report upon the proceeding and a decision thereon shall be made as quickly as practicable. The decision shall be made by a member in accordance with the report of the Board, and such decision so made shall, when entered, be the decision of the Board. If an opportunity to be heard upon the proceeding is given before a division of the Board, neither the taxpayer nor the Commissioner shall be entitled to notice and opportunity to be heard before the Board upon review, except upon a specific order of the chairman. Hearings before the Board and its divisions shall be open to the public, and the testimony, and, if the Board so requires, the argument shall be stenographically reported. The Board is authorized to contract (by renewal of contract or otherwise) for the reporting of such hearings, and in such contract to fix the terms and conditions under which transcripts will be supplied by the contractor to the Board and to other persons and agencies. The proceedings of the Board and its divisions shall be conducted in accordance with such rules of practice and procedure (other than rules of evidence) as the Board may prescribe and in accordance with the rules of evidence applicable in courts of equity of the District of Columbia. In any proceeding involving the issue whether the petitioner has been guilty of fraud with intent to evade tax, where no hearing has been held before the enactment of the Revenue Act of 1928, the burden of proof in respect of such issue shall be upon the Commissioner. The mailing by registered mail of any pleading, decision, order, notice, or process in respect of proceedings before the Board shall be held sufficient service of such pleading, decision, order, notice, or process.

(b) It shall be the duty of the Board and of each division to include in its report upon any proceeding its findings of fact or opinion or memorandum opinion. The Board shall report in writing all its findings of fact, opinions and memorandum opinions.

(c) All reports of the Board and all evidence received by the Board and its divisions, including a transcript of the stenographic report of the hearings, shall be public records open to the inspection of the public; except that after the decision of the Board in any proceeding has become final the Board may, upon motion of the taxpayer or the Commissioner, permit the withdrawal by the party entitled thereto of originals of books, documents, and records, and of models, diagrams, and other exhibits, introduced in evidence before the Board or any division; or the Board may, on its own motion, make such other disposition thereof as it deems advisable.

(d) The Board shall provide for the publication of its reports at the Government Printing Office in such form and manner as may be best adapted for public information and use, and such authorized publication shall be competent evidence of the reports of the Board therein contained in all courts of the United States and of the several States without any further proof or authentication thereof. Such reports shall be subject to sale in the same manner and upon the same terms as other public documents.

(e) The principal office of the Board shall be in the District of Columbia, but the Board or any of its divisions may sit at any place within the United States. The times and places of the meetings of the Board and of its divisions shall be prescribed by the chairman with a view to securing reasonable opportunity to taxpayers to appear before the Board or any of its divisions, with as little inconvenience and expense to taxpayers as is practicable.

(f) The Secretary of the Treasury shall provide the Board with suitable rooms in courthouses or other buildings when necessary for hearings by the Board, or any division thereof, outside the District of Columbia.

(g) *Petitions filed after the enactment of the Revenue Act of 1934 with the Board shall be entitled "In re", followed by the name of the petitioner, and the proceedings shall thereafter be so entitled in any appellate court reviewing the action of the Board. When the incumbent of the office of Commissioner of Internal Revenue changes, no substitution of the name of his successor shall be required in proceedings pending before any such court.*

1 **SEC. 516. NONDEDUCTIBILITY OF CERTAIN GIFTS.**

2 (a) *Section 505(a)(2)(B) and section 505(b)(2)*
 3 *of the Revenue Act of 1932 are amended by inserting after*
 4 *"individual" a comma and the following: "and no sub-*
 5 *stantial part of the activities of which is participation in*
 6 *partisan politics or is carrying on propaganda, or otherwise*
 7 *attempting, to influence legislation".*

NOTE.—Section 505(a)(2)(B) of the Revenue Act of 1932 will, after the above amendment, read as follows:

SEC. 505. DEDUCTIONS.

In computing net gifts for any calendar year there shall be allowed as deductions:

(a) **RESIDENTS.**—In the case of a citizen or resident—

* * * * *

(2) CHARITABLE, ETC., GIFTS.—The amount of all gifts made during such year to or for the use of—

* * * * *

(B) a corporation, or trust, or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and 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 participation in partisan politics or is carrying on propaganda, or otherwise attempting, to influence legislation;*

Section 505 (b) (2) of the Revenue Act of 1932 will, after the above amendment, read as follows:

(b) NONRESIDENTS.—In the case of a nonresident not a citizen of the United States, the amount of all gifts made during such year to or for the use of—

* * * * *

(2) a domestic corporation organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and 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 participation in partisan politics or is carrying on propaganda, or otherwise attempting, to influence legislation;*

- 1 **(b) Section 505(b)(3) of the Revenue Act of 1932**
 2 **is amended by inserting after “ animals ” a comma and the**
 3 **following: “ no substantial part of the activities of which**
 4 **is participation in partisan politics or is carrying on propa-**
 5 **ganda, or otherwise attempting, to influence legislation ”.**

NOTE.—Section 505(b)(3) of the Revenue Act of 1932 will, after the above amendment, read as follows:

(3) a trust, or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals, *no substantial part of the activities of which is participation in partisan politics or is carrying on propaganda, or otherwise attempting, to influence legislation;* but only if such gifts are to be used within the United States exclusively for such purposes;

6 **SEC. 517. LIABILITY OF FIDUCIARY.**

- 7 **(a) Section 3467 of the Revised Statutes (U.S.C.,**
 8 **title 31, ch. 6, sec. 192) is amended to read as follows:**
 9 **“ SEC. 3467. Every executor, administrator, or as-**
 10 **signee, or other person, who pays, in whole or in part, any**
 11 **debt due by the person or estate for whom or for which he**

1 acts before he satisfies and pays the debts due to the United
 2 States from such person or estate, shall become answerable
 3 in his own person and estate to the extent of such payments
 4 for the debts so due to the United States, or for so much
 5 thereof as may remain due and unpaid."

NOTE.—Section 3467 of the Revised Statutes will, after the above amendment, read as follows:

SEC. 3467. Every executor, administrator, or assignee, or other person, who ~~pays any~~ pays, in whole or in part, any debt due by the person or estate ~~from for~~ whom or for which he acts, before he satisfies and pays the debts due to the United States from such person or estate, shall become answerable in his own person and estate to the extent of such payments for the debts so due to the United States, or for so much thereof as may remain due and unpaid.

6 (b) The amendment made by subsection (a) shall be
 7 applicable in the case of payments made after June 6, 1932.

8 SEC. 518. VENUE FOR APPEALS FROM BOARD OF TAX APPEALS.

9 (a) Section 1002 of the Revenue Act of 1926 is
 10 amended to read as follows:

11 "VENUE

12 "SEC. 1002. (a) Except as provided in subdivision
 13 (b), such decision may be reviewed by the Circuit Court of
 14 Appeals for the circuit in which is located the collector's office
 15 to which was made the return of the tax in respect of which
 16 the liability arises or, if no return was made, then by the
 17 Court of Appeals of the District of Columbia.

18 "(b) Notwithstanding the provisions of subsection (a),
 19 such decision may be reviewed by any Circuit Court of
 20 Appeals, or the Court of Appeals of the District of Columbia,

1 *which may be designated by the Commissioner and the tax-*
 2 *payer by stipulation in writing."*

NOTE.—Section 1002 of the Revenue Act of 1926 now reads as follows:

SEC. 1002. Such decision may be reviewed—

(a) In the case of an individual, by the Circuit Court of Appeals for the circuit whereof he is an inhabitant, or if not an inhabitant of any circuit, then by the Court of Appeals of the District of Columbia.

(b) In the case of a person (other than an individual), except as provided in subdivision (c), by the Circuit Court of Appeals for the circuit in which is located the office of the collector to whom such person made the return, or in case such person made no return, then by the Court of Appeals of the District of Columbia.

(c) In the case of a corporation which had no principal place of business or principal office or agency in the United States, then by the Court of Appeals of the District of Columbia.

(d) In the case of an agreement between the Commissioner and the taxpayer, then by the Circuit Court of Appeals for the circuit, or the Court of Appeals of the District of Columbia, as stipulated in such agreement.

3 *(b) Section 1002 of the Revenue Act of 1926, as*
 4 *amended by this section, shall be applicable to all decisions*
 5 *of the Board rendered on or after the date of the enactment*
 6 *of this Act, and such section, as in force prior to its amend-*
 7 *ment by this section, shall be applicable to such decisions*
 8 *rendered prior thereto, except that subdivision (b) thereof*
 9 *may be applied to any such decision rendered prior thereto.*

10 **SEC. 519. GIFT TAX RATES.**

11 *(a) The gift-tax schedule set forth in section 502 of the*
 12 *Revenue Act of 1932 is amended to read as follows:*

13 *"Upon net gifts not in excess of ~~\$10,000~~ \$20,000,*
 14 *three fourths of 1 per centum.*

15 *"~~\$75~~ \$150 upon net gifts of ~~\$10,000~~ \$20,000; and*
 16 *upon net gifts in excess of ~~\$10,000~~ \$20,000 and not in*
 17 *excess of ~~\$20,000~~ \$30,000, 1½ per centum in addition of*
 18 *such excess.*

1 “ ~~\$225~~ \$300 upon net gifts of ~~\$20,000~~ \$30,000; and
 2 upon net gifts in excess of ~~\$20,000~~ \$30,000 and not in
 3 excess of ~~\$30,000~~ \$40,000, 2½ per centum in addition of
 4 such excess.

5 “ ~~\$450~~ \$525 upon net gifts of ~~\$30,000~~ \$40,000; and
 6 upon net gifts in excess of ~~\$30,000~~ \$40,000 and not in
 7 excess of ~~\$40,000~~ \$50,000, 3 per centum in addition of
 8 such excess.

9 “ ~~\$750~~ \$825 upon net gifts of ~~\$40,000~~ \$50,000; and
 10 upon net gifts in excess of ~~\$40,000~~ \$50,000 and not in
 11 excess of ~~\$50,000~~ \$60,000, 3½ per centum in addition of
 12 such excess.

13 “ ~~\$1,125~~ \$1,200 upon net gifts of ~~\$50,000~~ \$60,000;
 14 and upon net gifts in excess of ~~\$50,000~~ \$60,000 and not
 15 in excess of ~~\$100,000~~ \$80,000, 5 5½ per centum in addition
 16 of such excess.

17 “ ~~\$3,625~~ \$2,250 upon net gifts of ~~\$100,000~~ \$80,000;
 18 and upon net gifts in excess of ~~\$100,000~~ \$80,000 and not
 19 in excess of ~~\$200,000~~ \$100,000, ~~\$6½~~ 6½ per centum in addi-
 20 tion of such excess.

21 “ ~~\$10,125~~ \$3,600 upon net gifts of ~~\$200,000~~ \$100,-
 22 000; and upon net gifts in excess of ~~\$200,000~~ \$100,000
 23 and not in excess of ~~\$400,000~~ \$200,000, 8 9 per centum
 24 in addition of such excess.

1 " ~~\$26,125~~ \$12,600 upon net gifts of ~~\$400,000~~ \$200,-
 2 000; and upon net gifts in excess of ~~\$400,000~~ \$200,000
 3 and not in excess of ~~\$600,000~~ \$400,000, $9\frac{1}{2}$ 12 per centum
 4 in addition of such excess.

5 " ~~\$45,125~~ \$36,600 upon net gifts of ~~\$600,000~~ \$400,-
 6 000; and upon net gifts in excess of ~~\$600,000~~ \$400,000
 7 and not in excess of ~~\$800,000~~ \$600,000, $11\frac{1}{2}$ 14 $\frac{1}{2}$ per cen-
 8 tum in addition of such excess.

9 " ~~\$67,125~~ \$65,100 upon net gifts of ~~\$800,000~~ \$600,-
 10 000; and upon net gifts in excess of ~~\$800,000~~ \$600,000
 11 and not in excess of ~~\$1,000,000~~ \$800,000, $12\frac{1}{2}$ 16 $\frac{1}{2}$ per
 12 centum in addition of such excess.

13 " ~~\$92,125~~ \$98,100 upon net gifts of ~~\$1,000,000~~ \$800,-
 14 000; and upon net gifts in excess of ~~\$1,000,000~~ \$800,000
 15 and not in excess of ~~\$1,500,000~~ \$1,000,000, $14\frac{1}{2}$ 18 $\frac{1}{2}$ per
 16 centum in addition of such excess.

17 " ~~\$162,125~~ \$135,600 upon net gifts of ~~\$1,500,000~~
 18 \$1,000,000; and upon net gifts in excess of ~~\$1,500,000~~
 19 \$1,000,000 and not in excess of ~~\$2,000,000~~ \$1,500,000,
 20 $15\frac{1}{2}$ 21 per centum in addition of such excess.

21 " ~~\$280,625~~ \$240,600 upon net gifts of ~~\$2,000,000~~
 22 \$1,500,000; and upon net gifts in excess of ~~\$2,000,000~~

- 1 ~~\$1,500,000~~ and not in excess of ~~\$2,500,000~~ ~~\$2,000,000~~, 17
 2 ~~23~~ $\frac{1}{4}$ per centum in addition of such excess.
- 3 " ~~\$324,625~~ ~~\$356,850~~ upon net gifts of ~~\$2,500,000~~
 4 ~~\$2,000,000~~; and upon net gifts in excess of ~~\$2,500,000~~
 5 ~~\$2,000,000~~ and not in excess of ~~\$3,000,000~~ ~~\$2,500,000~~,
 6 ~~18~~ $\frac{1}{4}$ ~~25~~ $\frac{1}{4}$ per centum in addition of such excess.
- 7 " ~~\$417,125~~ ~~\$484,350~~ upon net gifts of ~~\$3,000,000~~
 8 ~~\$2,500,000~~; and upon net gifts in excess of ~~\$3,000,000~~
 9 ~~\$2,500,000~~ and not in excess of ~~\$3,500,000~~ ~~\$3,000,000~~,
 10 ~~20~~ ~~27~~ $\frac{1}{4}$ per centum in addition of such excess.
- 11 " ~~\$517,125~~ ~~\$623,100~~ upon net gifts of ~~\$3,500,000~~
 12 ~~\$3,000,000~~; and upon net gifts in excess of ~~\$3,500,000~~
 13 ~~\$3,000,000~~ and not in excess of ~~\$4,000,000~~ ~~\$3,500,000~~,
 14 ~~21~~ $\frac{1}{4}$ ~~30~~ per centum in addition of such excess.
- 15 " ~~\$624,625~~ ~~\$773,100~~ upon net gifts of ~~\$4,000,000~~
 16 ~~\$3,500,000~~; and upon net gifts in excess of ~~\$4,000,000~~
 17 ~~\$3,500,000~~, and not in excess of ~~\$4,500,000~~ ~~\$4,000,000~~,
 18 ~~22~~ ~~32~~ $\frac{1}{4}$ per centum in addition of such excess.
- 19 " ~~\$730,625~~ ~~\$934,350~~ upon net gifts of ~~\$4,500,000~~
 20 ~~\$4,000,000~~; and upon net gifts in excess of ~~\$4,500,000~~
 21 ~~\$4,000,000~~ and not in excess of ~~\$5,000,000~~ ~~\$4,500,000~~,
 22 ~~24~~ $\frac{1}{4}$ ~~34~~ $\frac{1}{4}$ per centum in addition of such excess.
- 23 " ~~\$862,125~~ ~~\$1,106,850~~ upon net gifts of ~~\$5,000,000~~
 24 ~~\$4,500,000~~; and upon net gifts in excess of ~~\$5,000,000~~

1 ~~\$4,500,000~~ and not in excess of ~~\$6,000,000~~ ~~\$5,000,000~~,
 2 ~~26 36~~ per centum in addition of such excess.

3 " ~~\$1,122,125~~ ~~\$1,286,850~~ upon net gifts of ~~\$6,000,000~~
 4 ~~\$5,000,000~~; and upon net gifts in excess of ~~\$6,000,000~~
 5 ~~\$5,000,000~~ and not in excess of ~~\$7,000,000~~ ~~\$6,000,000~~,
 6 ~~27½ 37½~~ per centum in addition of such excess.

7 " ~~\$1,307,125~~ ~~\$1,661,850~~ upon net gifts of ~~\$7,000,000~~
 8 ~~\$6,000,000~~; and upon net gifts in excess of ~~\$7,000,000~~
 9 ~~\$6,000,000~~ and not in excess of ~~\$8,000,000~~ ~~\$7,000,000~~,
 10 ~~29 39~~ per centum in addition of such excess.

11 " ~~\$1,687,125~~ ~~\$2,051,850~~ upon net gifts of ~~\$8,000,000~~
 12 ~~\$7,000,000~~; and upon net gifts in excess of ~~\$8,000,000~~
 13 ~~\$7,000,000~~ and not in excess of ~~\$9,000,000~~ ~~\$8,000,000~~,
 14 ~~30½ 40½~~ per centum in addition of such excess.

15 " ~~\$1,992,125~~ ~~\$2,456,850~~ upon net gifts of ~~\$9,000,000~~
 16 ~~\$8,000,000~~; and upon net gifts in excess of ~~\$9,000,000~~
 17 ~~\$8,000,000~~ and not in excess of ~~\$10,000,000~~ ~~\$9,000,000~~,
 18 ~~32 42~~ per centum in addition of such excess.

19 " ~~\$2,312,125~~ ~~\$2,876,850~~ upon net gifts of ~~\$10,000,000~~
 20 ~~\$9,000,000~~; and upon net gifts of ~~\$10,000,000~~, ~~33½~~ per
 21 centum in addition of such excess ~~\$9,000,000~~ and not in
 22 excess of ~~\$10,000,000~~, ~~43½~~ per centum in addition of such
 23 excess.

1 “\$3,311,850 upon net gifts of \$10,000,000; and upon
2 net gifts in excess of \$10,000,000, 45 per centum in addition
3 of such excess.”

4 (b) Section 505(a) (1) of the Revenue Act of 1932
5 (relating to the specific exemption for gift-tax purposes) is
6 amended by striking out “\$50,000” and inserting in lieu
7 thereof “\$40,000”.

NOTE.—Section 505(a)(1) of the Revenue Act of 1932 will, after the above amendment, read as follows:

SEC. 505. DEDUCTIONS.

In computing net gifts for any calendar year there shall be allowed as deductions:

(a) RESIDENTS.—In the case of a citizen or resident—

(1) SPECIFIC EXEMPTION.—An exemption of ~~\$50,000~~ \$40,000, less the aggregate of the amounts claimed and allowed as specific exemption for preceding calendar years.

8 (c) The amendments made by subsections (a) and
9 (b) of this section shall be applied in computing the tax
10 for the calendar year 1935 and each calendar year there-
11 after (but not the tax for the calendar year 1934 or a
12 previous calendar year), and such amendments shall be
13 applied in all computations in respect of the calendar year
14 1934 and previous calendar years for the purpose of
15 computing the tax for the calendar year 1935 or any
16 calendar year thereafter.

17 **TITLE IV—EXCISE TAXES**

18 **SEC. 601. TERMINATION OF SOFT DRINK TAX.**

19 No tax shall be imposed under section 615 of the
20 Revenue Act of 1932 on the sale or use of any article if

- 1 such sale or use takes place after the date of the enactment
- 2 of this Act.

NOTE.—Section 615 of the Revenue Act of 1932 reads as follows:

SEC. 615. TAX ON SOFT DRINKS.

(a) There is hereby imposed—

(1) Upon all beverages derived wholly or in part from cereals or substitutes therefor, containing less than one-half of 1 per centum of alcohol by volume, sold by the manufacturer, producer, or importer, a tax of $1\frac{1}{4}$ cents per gallon.

(2) Upon unfermented grape juice, in natural or concentrated form (whether or not sugar has been added), containing 35 per centum or less of sugars by weight, sold by the manufacturer, producer, or importer, a tax of 5 cents per gallon.

(3) Upon all unfermented fruit juices (except grape juice), in natural or slightly concentrated form, or such fruit juices to which sugar has been added (as distinguished from finished or fountain syrups), intended for consumption as beverages with the addition of water or water and sugar, and upon all imitations of any such fruit juices, and upon all carbonated beverages, commonly known as soft drinks (except those described in paragraph (1)), manufactured, compounded, or mixed by the use of concentrate, essence, or extract, instead of a finished or fountain syrup, sold by the manufacturer, producer, or importer, a tax of 2 cents per gallon.

(4) Upon all still drinks (except grape juice), containing less than one-half of 1 per centum of alcohol by volume, intended for consumption as beverages in the form in which sold (except natural or artificial mineral and table waters and imitations thereof, and pure apple cider), sold by the manufacturer, producer, or importer, a tax of 2 cents per gallon.

(5) Upon all natural or artificial mineral waters or table waters, whether carbonated or not, and all imitations thereof, sold by the producer, bottler, or importer thereof, in bottles or other closed containers, at over 12½ cents per gallon, a tax of 2 cents per gallon.

(6) Upon all finished or fountain syrups of the kinds used in manufacturing, compounding, or mixing drinks commonly known as soft drinks, sold by the manufacturer, producer, or importer, a tax of 6 cents per gallon; except that in the case of any such syrups intended to be used in the manufacture of carbonated beverages sold in bottles or other closed containers the rate shall be 5 cents per gallon. Where any person conducting a soda fountain, ice cream parlor, or other similar place of business manufactures any syrups of the kinds described in this paragraph, there shall be levied, assessed, collected, and paid on each gallon manufactured and used in the preparation of soft drinks a tax of 6 cents per gallon; and where any person manufacturing carbonated beverages manufactures and uses any such syrups in the manufacture of carbonated beverages sold in bottles or other closed containers there shall be levied, assessed, collected, and paid on each gallon of such syrups a tax of 5 cents per gallon. The taxes imposed by this paragraph shall not apply to finished or fountain syrups sold for use in the manufacture of a beverage subject to tax under paragraph (1) or (4), nor to any article enumerated in section 601 (c) (3).

(7) Upon all carbonic acid gas sold by the manufacturer, producer, or importer, or by a dealer in such gas, to a manufacturer of any carbonated beverages, or to any person conducting a soda fountain, ice cream parlor, or other similar place of business, and upon all carbonic acid gas used by the manufacturer, producer, or importer thereof in the preparation of soft drinks, a tax of 4 cents per pound.

(b) Each manufacturer, producer, or importer of any of the articles enumerated in subsection (a) and each person who sells carbonic acid gas to a manufacturer of carbonated beverages or to a person conducting a soda fountain, ice cream parlor, or other similar place of business, shall make monthly returns under oath in duplicate and pay the tax imposed in respect of the articles enumerated in subsection (a) to the collector for the district in which is located his principal place of business, or, if he has no principal place of business in the United States, then to the collector at Baltimore, Maryland. Such returns shall contain such information and be made at such times and in such manner as the Commissioner, with the approval of the Secretary, may by regulations prescribe. The tax shall, without assessment by the Commissioner or notice from the collector, be due and payable to the collector at the time so fixed for filing the return. If the tax is not paid when due, there shall be added as part of the tax interest at the rate of 1 per centum a month from the time the tax became due until paid.

(c) Each person required to pay any tax imposed by subsection (a) shall procure and keep posted a certificate of registry in accordance with regulations to be prescribed by the Commissioner, with the approval of the Secretary. Any person who fails to register or keep posted any certificate of registry in accordance with such regulations shall be subject to a penalty of not more than \$1,000 for each such offense.

1 SEC. 602. TAX ON CERTAIN OILS.

2 (a) There is hereby imposed upon the first domestic
 3 processing of coconut oil, or sesame oil, or palm oil, or palm
 4 kernel oil, or sunflower oil, or imported whale oil, or im-
 5 ported fish oil (excepting cod and cod-liver oil), perilla oil
 6 or imported marine-animal oil, or of combinations of such
 7 oils or of mixtures containing substantial quantities of any
 8 one or more of such oils, a tax of 3 cents per each pound
 9 thereof processed, which shall be paid by the processor. For
 10 the purposes of this section, the term "first domestic process-
 11 ing" means the first use in the United States, in the manu-
 12 facture or production of an article intended for sale, of the
 13 article with respect to which the tax is imposed, but does
 14 not include the use of palm oil in the manufacture of tin
 15 plate: Provided, That all taxes collected under this sub-
 16 section upon the products of the Philippine Islands shall

1 not be covered into the general fund of the Treasury of the
2 United States, but shall be held as a separate fund and paid
3 into the Treasury of the Philippine Islands. If the Philip-
4 pine Government, by any law, provides for any subsidy to
5 be paid to the producers of copra, coconut oil, or allied
6 products, then this proviso shall at once become null and
7 void.

8 (b) Each processor required to pay the tax imposed by
9 his section shall make monthly returns under oath in dupli-
10 cate and pay the tax to the collector of internal revenue for
11 the district in which is located his principal place of business,
12 or if he has no principal place of business in the United
13 States, then to the collector of internal revenue at Balti-
14 more, Maryland. Such returns shall contain such infor-
15 mation and be made at such times and in such manner as the
16 Commissioner of Internal Revenue, with the approval of the
17 Secretary of the Treasury, may by regulations prescribe.
18 The tax shall, without assessment by the Commissioner or
19 notice from the collector, be due and payable to the collector
20 at the time so fixed for filing the return. If the tax is not
21 paid when due, there shall be added as part of the tax interest
22 at the rate of 1 per centum per month from the time the
23 tax became due until paid.

24 (c) Subject to such rules and regulations as the Com-
25 missioner, with the approval of the Secretary, may prescribe,

1 any person who has sold to a State, or political subdivision
2 thereof, for use in the exercise of an essential governmental
3 function any article containing any such oil, combination,
4 or mixture, upon the processing of which a tax has been
5 paid under this section shall be entitled to a credit or refund
6 of the tax paid with respect to the quantity of such oil, com-
7 bination, or mixture contained in such article.

8 (d) Upon the exportation to any foreign country or
9 to a possession of the United States of any article wholly
10 or in chief value of an article with respect to the processing
11 of which a tax has been paid under this section, the ex-
12 porter thereof shall be entitled to a refund of the amount
13 of such tax. Upon the giving of bond satisfactory to the
14 Secretary for faithful observance of the provisions of this
15 section requiring the payment of taxes, any person shall
16 be entitled, without payment of the tax, to process for such
17 exportation any article with respect to which a tax is im-
18 posed by this section.

19 (e) If (1) any person has, prior to January 26,
20 1934, made a bona fide contract for the sale on or after
21 the effective date of this section of any article wholly or
22 in chief value of an article with respect to which a tax is im-
23 posed by this section or of any article with respect to which a
24 tax is imposed by this subsection, and if (2) such contract
25 does not permit the addition to the amount to be paid

1 thereunder of the whole of such tax, then (unless the
2 contract expressly prohibits such addition) the vendee
3 shall pay so much of the tax as is not permitted to be
4 added to the contract price. Taxes payable by the vendee
5 shall be paid to the vendor at the time the sale is con-
6 summated and shall be returned and paid to the United
7 States by the vendor in the same manner as other taxes
8 under this section. In case of failure or refusal by the
9 vendee to pay such taxes to the vendor, the vendor shall
10 report the facts to the Commissioner, who shall cause col-
11 lection of such taxes to be made from the vendee.

12 (f) All provisions of law (including penalties) appli-
13 cable in respect of taxes imposed by section 600 of the Revenue
14 Act of 1926 shall, insofar as applicable and not inconsistent
15 with this section, be applicable in respect of the taxes imposed
16 by this section.

17 (g) All collections except as provided in subsection (a)
18 under this section shall, notwithstanding any other provisions
19 of law, be covered into the general fund of the Treasury
20 of the United States.

21 **SEC. 603. TAXES ON LUBRICATING OIL AND GASOLINE.**

22 (a) Section 601(c)(1) of the Revenue Act of 1932,
23 as amended, is amended by adding after the first sentence
24 thereof the following: "Every person liable for tax under

1 *this paragraph shall register and file bond as provided in*
 2 *section 617, as amended."*

NOTE.—Section 601(c)(1) of the Revenue Act of 1932, as amended, will, after the above amendment, read as follows:

(c) There is hereby imposed upon the following articles sold in the United States by the manufacturer or producer, or imported into the United States, a tax at the rates hereinafter set forth, to be paid by the manufacturer, producer, or importer:

(1) Lubricating oils, 4 cents a gallon; but the tax on the articles described in this paragraph shall not apply with respect to the importation of such articles. *Every person liable for tax under this paragraph shall register and file bond as provided in section 617, as amended.*

Under regulations prescribed by the Commissioner with the approval of the Secretary, no tax shall be imposed under this section upon lubricating oils sold to a manufacturer or producer of lubricating oils for resale by him, but for the purposes of this title such vendee shall be considered the manufacturer or producer of such lubricating oils.

3 *(b) Sections 617(a) and (b) of the Revenue Act of*
 4 *1932, as amended, are amended to read as follows:*

5 *"(a) There is hereby imposed on gasoline sold*
 6 *by the producer or importer thereof, or by any producer*
 7 *of gasoline, a tax of 1 cent a gallon, except that under*
 8 *regulations prescribed by the Commissioner with the*
 9 *approval of the Secretary the tax shall not apply in the*
 10 *case of sales to a producer of gasoline.*

11 *"(b) If a producer or importer uses (otherwise*
 12 *than in the production of gasoline) gasoline sold to him*
 13 *free of tax, or produced or imported by him, such use*
 14 *shall for the purposes of this title be considered a sale.*
 15 *Any person to whom gasoline is sold tax-free under this*
 16 *section on or after the effective date of the Revenue Act*

1 *of 1932 shall be considered the producer of such*
 2 *gasoline."*

NOTE.—Section 617(a) and (b) of the Revenue Act of 1932, as amended, will, after the above amendment, read as follows:

(a) There is hereby imposed on gasoline sold by the *producer or importer thereof thereof*, or by *any* producer of gasoline, a tax of 1 cent a gallon, except that under regulations prescribed by the Commissioner with the approval of the Secretary the tax shall not apply in the case of sales to a producer of gasoline.

(b) If a producer or importer uses (otherwise than in the production of gasoline) gasoline sold to him free of tax, or produced or imported by him, such use shall for the purposes of this title be considered a sale. *Any person to whom gasoline is sold tax-free under this section on or after the effective date of the Revenue Act of 1932 shall be considered the producer of such gasoline.*

3 (c) *Effective on the first day of the first calendar month*
 4 *after the enactment of this Act, section 617(c)(2) of the*
 5 *Revenue Act of 1932, as amended, is further amended to*
 6 *read as follows:*

7 *"(2) the term gasoline means (A) all products*
 8 *commonly or commercially known or sold as gaso-*
 9 *line (including casinghead and natural gasoline),*
 10 *benzol, benzene, or naphtha, regardless of their classi-*
 11 *fications or uses; and (B) any other liquid of a kind*
 12 *prepared, advertised, offered for sale or sold for use as,*
 13 *or used as, a fuel for the propulsion of motor vehicles,*
 14 *motor boats, or airplanes; except that it does not include*
 15 *any of the foregoing (other than products commonly or*
 16 *commercially known or sold as gasoline) sold for use*
 17 *otherwise than as a fuel for the propulsion of motor*
 18 *vehicles, motor boats, or airplanes, and otherwise than*

- 1 *in the manufacture or production of such fuel, and*
 2 *does not include kerosene, gas oil, or fuel oil."*

NOTE.—Section 617(c) (2) of the Revenue Act of 1932, as amended, will after the above amendment, read as follows:

(c) As used in this section:

• • • • • • •
 (a) the term "gasoline" means gasoline, benzol, and any other liquid the chief use of which is as a fuel for the propulsion of motor vehicles, motor boats, or aeroplanes. As used in this paragraph the term "benzol" does not include benzol sold for use otherwise than as a fuel for the propulsion of motor vehicles, motor boats, or aeroplanes, and otherwise than in the manufacture or production of such fuel.

(B) the term gasoline means (A) all products commonly or commercially known or sold as gasoline (including casinghead and natural gasoline), benzol, benzene, or naphtha, regardless of their classifications or uses; and (B) any other liquid of a kind prepared, advertised, offered for sale or sold for use as, or used as, a fuel for the propulsion of motor vehicles, motor boats, or airplanes; except that it does not include any of the foregoing (other than products commonly or commercially known or sold as gasoline) sold for use otherwise than as a fuel for the propulsion of motor vehicles, motor boats, or airplanes, and otherwise than in the manufacture or production of such fuel, and does not include kerosene, gas oil, or fuel oil.

- 3 (d) Section 617 of the Revenue Act of 1932, as
 4 amended, is amended by adding at the end thereof the
 5 following subsections:

6 "(d) Every person subject to tax under this section
 7 or section 601(c) (1) shall, before the first day of the
 8 first calendar month after the date of the enactment of
 9 the Revenue Act of 1934 (or in the case of a person
 10 commencing business after such day before incurring
 11 any liability for tax under such sections) register with
 12 the collector for the district in which is located his prin-
 13 cipal place of business (or, if he has no principal place
 14 of business in the United States, with the collector at
 15 Baltimore, Maryland) and shall give a bond, to be
 16 approved by such collector, conditioned that he shall not

1 *engage in any attempt, by himself or by collusion with*
2 *others, to defraud the United States of any tax under*
3 *such sections; that he shall render truly and completely*
4 *all returns, statements, and inventories required by law*
5 *or regulations in pursuance thereof and shall pay all*
6 *taxes due under such sections; and that he shall comply*
7 *with all requirements of law and regulations in pursu-*
8 *ance thereof with respect to tax under such sections. Such*
9 *bond shall be in such sum as the collector may require*
10 *in accordance with regulations prescribed by the Com-*
11 *missioner with the approval of the Secretary, but not*
12 *less than \$2,000. The collector may from time to time*
13 *require new or additional bond in accordance with this*
14 *subsection. Every person who fails to register or give*
15 *bond as required by this subsection, or who in connec-*
16 *tion with any purchase of gasoline or lubricating oil*
17 *falsely represents himself to be registered and bonded as*
18 *provided by this subsection, or who willfully makes any*
19 *false statement in an application for registration under this*
20 *subsection, shall upon conviction thereof be fined not more*
21 *than \$5,000 or imprisoned not more than five years, or*
22 *both, together with the costs of prosecution. If the Com-*
23 *missioner finds that any manufacturer or producer has*
24 *at any time evaded any Federal tax on gasoline or*
25 *lubricating oil, he may revoke the registration of such*

1 *manufacturer or producer, and no sale to, or for*
2 *resale to, such manufacturer or producer thereafter*
3 *shall be tax-free under section 601(c)(1), this section,*
4 *or section 620, as amended, but such manufacturer or*
5 *producer shall not be relieved of the requirement of*
6 *giving bond under this subsection.*

7 *“(e) Under regulations prescribed by the Com-*
8 *missioner with the approval of the Secretary, records*
9 *required to be kept with respect to taxes under section*
10 *601(c)(1), as amended, or this section, and returns,*
11 *reports, and statements with respect to such taxes filed*
12 *with the Commissioner or a collector, shall be open to*
13 *inspection by such officers of any State or Territory or*
14 *political subdivision thereof or the District of Columbia*
15 *as shall be charged with the enforcement or collection of*
16 *any tax on gasoline or lubricating oils. The Commis-*
17 *sioner and each collector shall furnish to any of such*
18 *officers, upon written request, certified copies of any such*
19 *statements, reports, or returns filed in his office upon the*
20 *payment of a fee of \$1 for each 100 words or fraction*
21 *thereof in the copy or copies requested.”*

NOTE.—Section 617 of the Revenue Act of 1932, as amended, to which the above subsections are added, reads as follows:

SEC. 617. TAX ON GASOLINE.

(a) There is hereby imposed on gasoline sold by the importer thereof or by a producer of gasoline, a tax of 1 cent a gallon, except that under regulations prescribed by the Commissioner with the approval of the Secretary the tax shall not apply in the case of sales to a producer of gasoline.

(b) If a producer or importer uses (otherwise than in the production of gasoline) gasoline sold to him free of tax, or produced or imported by him, such use shall for the purposes of this title be considered a sale.

(c) As used in this section—

(1) the term "producer" includes a refiner, compounder, or blender, and a dealer selling gasoline exclusively to producers of gasoline, as well as a producer.

(2) the term "gasoline" means gasoline, benzol, and any other liquid the chief use of which is as a fuel for the propulsion of motor vehicles, motor boats, or aeroplanes. As used in this paragraph the term "benzol" does not include benzol sold for use otherwise than as a fuel for the propulsion of motor vehicles, motor boats, or airplanes, and otherwise than in the manufacture or production of such fuel.

1 **SEC. 604. PRODUCERS TAX ON CRUDE PETROLEUM.**

2 (a) *There is hereby imposed on crude petroleum sold*
 3 *by the producer thereof, a tax of one-tenth of 1 cent per*
 4 *barrel of 42 gallons, to be paid by the producer. Under*
 5 *regulations prescribed by the Commissioner, with the ap-*
 6 *proval of the Secretary, such tax shall not apply to crude*
 7 *petroleum produced from any well which is not capable of*
 8 *producing more than 5 barrels per day.*

9 (b) *Every person purchasing crude petroleum from*
 10 *the producer thereof, and taking delivery thereof at the*
 11 *premises where produced, shall collect the tax imposed by*
 12 *subsection (a) from the producer. Every such purchaser,*
 13 *and every producer liable for any tax under this section not*
 14 *so collected from him, shall make monthly returns under*
 15 *oath and pay such taxes to the collector for the district in*
 16 *which are located the premises where such crude petroleum*
 17 *was produced. Such returns shall contain such information*
 18 *and be made at such times and in such manner as the Com-*

1 *missioner, with the approval of the Secretary, may by*
2 *regulations prescribe.*

3 (c) *Every purchaser required to collect any tax under*
4 *this section shall make such collection by deducting and with-*
5 *holding the amount of such tax from any payments made by*
6 *such purchaser to the producer. Every such purchaser is*
7 *hereby indemnified against the claims and demands of such*
8 *producer for the amount of any payments made in accord-*
9 *ance with the provisions of this section.*

10 (d) *The Commissioner, with the approval of the Secre-*
11 *tary, may require such bond or other security from any*
12 *person subject to any provision of this section as he deems*
13 *necessary for the protection of the revenue and to assure*
14 *compliance with this section and other provisions of law*
15 *applicable with respect to the tax imposed by this section,*
16 *and may prescribe the form and conditions thereof, provide*
17 *for the approval of the sureties thereon (without regard to*
18 *any general provision of law), fix the amount and penalty*
19 *thereof (whether for the payment of liquidated damages or*
20 *of a penal sum), and authorize the cancellation of any such*
21 *bond, in the event of a breach of any condition thereof, upon*
22 *the payment of such lesser amount as he may deem sufficient.*
23 *Any person willfully failing to comply with any such require-*
24 *ment shall, upon conviction, be fined not more than \$1,000,*
25 *or imprisoned not more than six months, or both.*

1 (e) In addition to records and reports otherwise re-
2 quired by law or regulation, every working interest operator
3 of a well producing crude petroleum or otherwise taking
4 crude petroleum from the earth or waters thereof (whether
5 or not the producer as defined in this section) shall keep such
6 records and make such reports with respect to production
7 and disposition of crude petroleum, at such time and in such
8 manner, as the regulations shall prescribe. Records, reports,
9 and returns required under this section or any provision
10 of law applicable with respect to tax under this section shall,
11 wherever held, be open to inspection at all reasonable hours
12 by any duly authorized representative of the Commissioner
13 or any agency of the United States or any State having
14 supervisory or regulatory powers over the production of
15 crude petroleum.

16 (f) For the purposes of this section—

17 (1) the refining of crude petroleum on the premises
18 where produced, the removal of crude petroleum there-
19 from, or any transfer or other disposition of crude
20 petroleum shall be considered a sale.

21 (2) the term "producer" means the person owning
22 crude petroleum or having any interest in or title to
23 crude petroleum at the time of its production.

1 (3) the term "working interest operator" means
2 the person having the management and operation of a
3 well.

4 (4) the amount of crude petroleum produced shall
5 be determined with allowance for any reasonable and
6 bona fide deduction for basic sediment and water agreed
7 upon by the producer and the purchaser for the purpose
8 of determining the amount sold.

9 (g) The provisions of section 623 and sections 771
10 to 774, inclusive, of the Revenue Act of 1932 shall be ap-
11 plicable with respect to the tax imposed by this section.

12 (h) This section shall take effect on the thirtieth day
13 after the date of its enactment.

14 SEC. 605. TAX ON REFINING OF CRUDE PETROLEUM.

15 (a) There is hereby imposed (1) on crude petroleum
16 refined or processed in the United States, a tax of one-
17 tenth of one cent per barrel of forty-two gallons, to be
18 paid by the refiner or processor, and (2) on gasoline pro-
19 duced or recovered in the United States from natural gas
20 a tax of one-tenth of one cent per barrel of forty-two gal-
21 lons, to be paid by the person producing or recovering such
22 gasoline.

23 (b) Every person liable for tax under this section
24 shall make monthly returns under oath in triplicate for
25 each plant or refinery, and pay such taxes to the collector
26 for the district in which such plant or refinery is located.

1 *Such returns shall contain such information and be made*
2 *at such times and in such manner as the Commissioner with*
3 *the approval of the Secretary may by regulations prescribe.*
4 *The tax shall, without assessment by the Commissioner or*
5 *notice from the collector, be due and payable to the collector*
6 *at the time fixed for filing the return. If the tax is not paid*
7 *when due there shall be added as part of the tax interest at*
8 *the rate of one per centum a month from the time when the*
9 *tax becomes due until paid. Every refiner or processor*
10 *shall (in addition to records otherwise required by law*
11 *or regulation) keep such records as shall be prescribed by*
12 *regulations under this section showing daily receipts, stocks,*
13 *and disposals of crude petroleum and the names and ad-*
14 *dresses of the persons from whom received. Every person*
15 *handling, transporting, storing, or dealing in any manner*
16 *in crude petroleum shall keep such records and make such*
17 *returns with respect to transactions in crude petroleum as shall*
18 *be required by regulations under this section. Returns and*
19 *records required under this section shall be open to inspection*
20 *at all reasonable hours by any duly authorized representative*
21 *of the Commissioner or any agency of the United States or*
22 *any State having supervisory or regulatory powers over the*
23 *production of crude petroleum.*

24 (c) *As used in this section, the term "gasoline" means*
25 *gasoline as defined in section 617 of the Revenue Act of*
26 *1932, as amended.*

1 (d) *The Commissioner, with the approval of the Secre-*
2 *tary, shall prescribe such regulations as he deems necessary*
3 *for the enforcement of this section.*

4 (e) *All provisions of law (including penalties) appli-*
5 *cable with respect to the taxes imposed by section 600 of the*
6 *Revenue Act of 1926, shall, in so far as applicable and not*
7 *inconsistent with this section, be applicable with respect to*
8 *the taxes imposed by this section.*

9 (f) *This section shall take effect on the thirtieth day*
10 *after the date of the enactment of this Act.*

11 **SEC. 606. ENFORCEMENT OF LIABILITY FOR TAXES COLLECTED.**

12 *Whenever any person is required to collect or withhold*
13 *any internal-revenue tax from any other person and to pay*
14 *such tax over to the United States, the amount of tax so*
15 *collected or withheld shall be held to be a special fund in*
16 *trust for the United States. The amount of such fund shall*
17 *be assessed, collected, and paid in the same manner and sub-*
18 *ject to the same provisions and limitations (including penal-*
19 *ties) as are applicable with respect to the taxes from which*
20 *such fund arose.*

21 **SEC. 607. TAX ON FURS.**

22 *The tax imposed by section 604 of the Revenue Act of*
23 *1932 shall not apply to articles sold by the manufacturer,*
24 *producer, or importer, after the date of the enactment of*
25 *this Act, for less than \$75.*

NOTE.—Section 604 of the Revenue Act of 1932 reads as follows:

SEC. 604. TAX ON FURS.

There is hereby imposed upon the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to 10 per centum of the price for which so sold: Articles made of fur on the hide or pelt or of which any such fur is the component material of chief value.

1 **SEC. 608. TAX ON JEWELRY, ETC.**

2 *The tax imposed by section 605 of the Revenue Act*
 3 *of 1932 shall not apply to articles sold by the manufacturer,*
 4 *producer, or importer, after the date of the enactment of*
 5 *this Act, for less than \$25.*

NOTE.—Section 605 of the Revenue Act of 1932 reads as follows:

SEC. 605. TAX ON JEWELRY, ETC.

There is hereby imposed upon the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to 10 per centum of the price for which so sold: All articles commonly or commercially known as jewelry, whether real or imitation; pearls, precious and semi-precious stones, and imitations thereof; articles made of, or ornamented, mounted or fitted with, precious metals or imitations thereof or ivory (not including surgical instruments or silverplated ware, or frames or mountings for spectacles or eyeglasses); watches; clocks; parts for watches or clocks sold for more than 9 cents each; opera glasses, lorgnettes; marine glasses; field glasses; and binoculars. No tax shall be imposed under this section on any article used for religious purposes, or any articles (other than watch parts or clock parts) sold for less than \$3.

6 **SEC. 609. TAX ON CIGARETTES.**

7 *Effective on the day following the date of the enactment*
 8 *of this Act, the last two paragraphs of section 400(a) of*
 9 *the Revenue Act of 1926 are amended to read as follows:*
 10 *“On cigarettes made of tobacco, or any substitute*
 11 *therefor, and weighing not more than three pounds per*
 12 *thousand, \$3 per thousand;*
 13 *“Weighing more than three pounds per thousand,*
 14 *\$7.20 per thousand; except that if more than 6½ inches in*
 15 *length they shall be taxable at the rate provided in the pre-*

- 1 *ceding paragraph, counting each $2\frac{1}{4}$ inches (or fraction*
 2 *thereof) of the length of each as one cigarette."*

NOTE.—Section 400(a) of the Revenue Act of 1926, will, after the above amendment, read as follows:

SEC. 400. (a) Upon cigars and cigarettes manufactured in or imported into the United States, which on or after the expiration of 30 days after the enactment of this Act are sold by the manufacturer or imported, or removed for consumption or sale, there shall be levied, collected, and paid under the provisions of existing law, in lieu of the internal-revenue taxes now imposed thereon by section 400 of the Revenue Act of 1924, the following taxes, to be paid by the manufacturer or importer thereof—

On cigars of all descriptions made of tobacco, or any substitute therefor, and weighing not more than three pounds per thousand, 75 cents per thousand;

On cigars made of tobacco, or any substitute therefor, and weighing more than three pounds per thousand, if manufactured or imported to retail at not more than 5 cents each, \$2 per thousand;

If manufactured or imported to retail at more than 5 cents each and not more than 8 cents each, 3 per thousand;

If manufactured or imported to retail at more than 8 cents each and not more than 15 cents each, \$5 per thousand;

If manufactured or imported to retail at more than 15 cents each and not more than 20 cents each, \$10.50 per thousand;

If manufactured or imported to retail at more than 20 cents each, \$13.50 per thousand;

On cigarettes made of tobacco, or any substitute therefor, and weighing not more than three pounds per thousand, \$3 per thousand;

Weighting more than three pounds per thousand, \$7.20 per thousand; *except that if more than $6\frac{1}{4}$ inches in length they shall be taxable at the rate provided in the preceding paragraph, counting each $2\frac{1}{4}$ inches (or fraction thereof) of the length of each as one cigarette.*

3 **SEC. 610. TAX ON MATCHES.**

- 4 *Effective on the day following the date of enactment*
 5 *of this Act, section 612 of the Revenue Act of 1932 (relating*
 6 *to the tax on matches), is amended by adding before the*
 7 *period at the end thereof a comma and the following: "and*
 8 *except that in the case of fancy wooden matches and wooden*
 9 *matches having a stained, dyed, or colored stick or stem,*
 10 *packed in boxes or in bulk, the tax shall be 5 cents per one*
 11 *thousand matches."*

NOTE.—Section 612 of the Revenue Act of 1932 will, after the above amendment, read as follows:

SECTION 612. TAX ON MATCHES.

There is hereby imposed upon matches, sold by the manufacturer, producer, or importer, a tax of 2 cents per 1,000 matches, except that in the case of paper matches in books the tax shall be $\frac{1}{2}$ of 1 cent per 1,000 matches, matches, and except that in the case of fancy wooden matches and wooden matches having a stained, dyed, or colored stick or stem, packed in boxes or in bulk, the tax shall be 5 cents per one thousand matches.

1 **SEC. 611. STAMP TAX ON SALES OF PRODUCE FOR FUTURE**
 2 **DELIVERY.**

3 (a) *Effective on the day following the enactment of this*
 4 *Act subdivision 4 of Schedule A of Title VIII of the Revenue*
 5 *Act of 1926, as amended, is amended by striking out " 5*
 6 *cents" wherever appearing in such subdivision, and insert-*
 7 *ing in lieu thereof " 1 cent".*

NOTE.—Subdivision 4 of Schedule A of Title VIII of the Revenue Act of 1926, as amended, will after the above amendment, read as follows:

4. Produce, sales of, on exchange: Upon each sale, agreement of sale, or agreement to sell (not including so-called transferred or scratch sales), any products or merchandise at, or under the rules or usages of, any exchange, or board of trade, or other similar place, for future delivery, for each \$100 in value of the merchandise covered by said sale or agreement of sale or agreement to sell, ~~5 cents 1 cent~~, and for each additional \$100 or fractional part thereof in excess of \$100, ~~5 cents 1 cent~~: *Provided*, That on every sale or agreement of sale or agreement to sell as aforesaid there shall be made and delivered by the seller to the buyer a bill, memorandum, agreement, or other evidence of such sale, agreement of sale, or agreement to sell, to which there shall be affixed a lawful stamp or stamps in value equal to the amount of the tax on such sale: *Provided further*, That sellers of commodities described herein, having paid the tax provided by this subdivision, may transfer such contracts to a clearing-house corporation or association, and such transfer shall not be deemed to be a sale, or agreement of sale, or an agreement to sell within the provisions of this Act, provided that such transfer shall not vest any beneficial interest in such clearing-house association but shall be made for the sole purpose of enabling such clearing-house association to adjust and balance the accounts of the members of such clearing-house association on their several contracts. Every such bill, memorandum, or other evidence of sale or agreement to sell shall show the date thereof, the name of the seller, the amount of the sale, and the matter or thing to which it refers; and any person liable to pay the tax as herein provided, or anyone who acts in the matter as agent or broker for such person, who makes any such sale or agreement of sale, or agreement to sell, or who, in pursuance of any such sale, agreement of sale, or agreement to sell, delivers any such products or merchandise without a bill, memorandum, or other evidence thereof as herein required, or who delivers such bill, memorandum, or other evidence of sale, or agreement to sell, without having the proper stamps affixed thereto, with intent to evade

the foregoing provisions, shall be deemed guilty of a misdemeanor, and upon conviction thereof shall pay a fine of not exceeding \$1,000 or be imprisoned not more than six months, or both.

No bill, memorandum, agreement, or other evidence of such sale, or agreement of sale, or agreement to sell, in case of cash sales of products or merchandise for immediate or prompt delivery which in good faith are actually intended to be delivered shall be subject to this tax.

This subdivision shall not affect but shall be in addition to the provisions of the "United States cotton futures Act," approved August 11, 1916, as amended, and "The Future Trading Act," approved August 24, 1921.

- 1 *(b) Section 726(c) of the Revenue Act of 1932 is*
2 *repealed.*

NOTE.—Section 726 of the Revenue Act of 1932, subsection (c) of which is repealed by the above amendment, reads as follows:

SEC. 726. STAMP TAX ON SALES OF PRODUCE FOR FUTURE DELIVERY.

(a) Subdivision 4 of Schedule A of Title VIII of the Revenue Act of 1926 is amended by striking out "1 cent" wherever appearing in such subdivision, and inserting in lieu thereof "5 cents".

(b) Subsection (a) shall take effect on the fifteenth day after the date of the enactment of this Act.

~~(c) Effective July 1, 1934, such subdivision 4, as amended by subsection (a) of this section, is amended by striking out "5 cents" wherever appearing in such subdivision and inserting in lieu thereof "1 cent".~~

3 **SEC. 612. TERMINATION OF TAX ON USE OF BOATS.**

- 4 *Section 761 of the Revenue Act of 1932, as amended,*
5 *shall not apply to the use of any boat after June 30, 1934.*

NOTE.—Section 761 of the Revenue Act of 1932, as amended, repealed by the above section, reads as follows:

SEC. 761. TAX ON USE OF BOATS.

(a) On and after July 1, 1932, and on July 1, 1933, and on July 1, 1934, and also at the time of the original purchase of a new yacht or other boat by a user, if on any other date than July 1 and before July 1, 1935, there is hereby imposed upon the use of yachts, pleasure boats, power boats, sailing boats, and motor boats with fixed or outboard engines, not used exclusively for trade, fishing, or national defense, a tax at the following rates:

- (1) Length over 28 feet and not over 50 feet, \$10.
- (2) Length over 50 feet and not over 100 feet, \$40.
- (3) Length over 100 feet and not over 150 feet, \$100.
- (4) Length over 150 feet and not over 200 feet, \$150.
- (5) Length over 200 feet, \$200.

(b) In the case of any of the foregoing if foreign built and not owned on January 1, 1926, by a citizen of the United States or by a domestic partnership or corporation, the tax under this section shall be twice the amount of the tax provided in subsection (a):

(c) In determining the length of any of the foregoing, the measurement of over-all length shall govern.

(d) In the case of a tax imposed at the time of the original purchase of a new yacht or boat on any other date than July 1, the amount to be paid shall be the same number of twelfths of the amount of the tax as the number of calendar months (including the month of sale) remaining prior to the following July 1.

(e) This section shall not apply to any yacht or other boat which is used without profit by any benevolent, charitable, or religious organization, exclusively for furnishing aid, comfort, or relief to seamen.

(f) The taxes imposed by this section shall be collected and paid in such manner as the Commissioner, with the approval of the Secretary, shall by regulations prescribe.

(g) All provisions of law (including penalties) applicable in respect of the taxes imposed by section 702 of the Revenue Act of 1926 shall, in so far as applicable and not inconsistent with this Act, be applicable in respect of the taxes imposed by this section.

1 **SEC. 613. TAX ON DISTILLED SPIRITS.**

2 *Section 2 of the Liquor Tax Act of 1934 is amended*
3 *to read as follows:*

4 “SEC. 2. Paragraphs (3) and (4) of subdivision (a)
5 of section 600 of the Revenue Act of 1918, as amended
6 (relating to the tax on distilled spirits generally and the
7 tax on distilled spirits diverted for beverage purposes)
8 (U.S.C., Supp. VI, title 26, sec. 1150 (a) (1) and (2)),
9 are amended to read as follows:

10 “(3) On and after January 1, 1928, and until the
11 effective date of title I of the Liquor Taxing Act of 1934,
12 \$1.10 on each proof-gallon or wine-gallon when below proof
13 and a proportionate tax at a like rate on all fractional parts
14 of such proof- or wine-gallon; and

15 “(4) On and after the effective date of title I of the
16 Liquor Taxing Act of 1934, \$2 on each proof-gallon or
17 wine-gallon when below proof and a proportionate tax at a
18 like rate on all fractional parts of such proof- or wine-gallon.

1 “ ‘Provided, however, That on and after the effective
2 date of the Revenue Act of 1934 any manufacturer finding it
3 necessary to use alcohol (other than denatured or specially
4 denatured alcohol) in the arts and sciences or in the manu-
5 facture, extraction, solution, or preservation of any article
6 of commerce which when manufactured and prepared for the
7 market is unfit for use for intoxicating beverage purposes,
8 may use the same under regulations which shall be prescribed
9 by the Secretary of the Treasury, and upon satisfying the
10 collector of internal revenue for the district wherein he resides
11 or carries on business that he has complied with such regula-
12 tions and that such alcohol has been used therein for no other
13 purposes than hereinabove stated, and exhibiting and deliver-
14 ing up the stamps which show that a tax has been paid
15 thereon, shall be entitled to receive from the Treasury of
16 the United States a rebate or repayment of 90 cents on
17 each proof-gallon or wine-gallon of alcohol when below
18 proof and a proportionate amount at a like rate on all frac-
19 tional parts of such proof- or wine-gallon: Provided, how-
20 ever, That such rebate or repayment shall not be made in
21 the case of any alcohol withdrawn from bonded warehouses
22 prior to the effective date of the Revenue Act of 1934.

22 “ ‘The Secretary of the Treasury shall forthwith pre-
24 scribe the regulations provided for herein for the supervision
25 and enforcement of this Act.’ ”

1 **SEC. 614. TERMINATION OF TAX ON CANDY.**

2 *The tax imposed by section 613 of the Revenue Act of*
 3 *1932 shall not apply to candy sold by the manufacturer, pro-*
 4 *ducer, or importer after the date of the enactment of this Act.*

NOTE.—Section 613 of the Revenue Act of 1932, repealed by the above section, reads as follows:

SEC. 613. TAX ON CANDY.

There is hereby imposed upon candy, sold by the manufacturer, producer, or importer, a tax equivalent to 2 per centum of the price for which so sold.

5 **TITLE V—CAPITAL STOCK AND EXCESS-PROFITS**6 **TAXES**7 **SEC. 701. CAPITAL STOCK TAX.**

8 *(a) For each year ending June 30, beginning with*
 9 *the year ending June 30, 1934, there is hereby imposed upon*
 10 *every domestic corporation with respect to carrying on or*
 11 *doing business for any part of such year an excise tax of*
 12 *\$1 for each \$1,000 of the adjusted declared value of its*
 13 *capital stock.*

14 *(b) For each year ending June 30, beginning with*
 15 *the year ending June 30, 1934, there is hereby imposed upon*
 16 *every foreign corporation with respect to carrying on or*
 17 *doing business in the United States for any part of such year*
 18 *an excise tax equivalent of \$1 for each \$1,000 of the adjusted*
 19 *declared value of capital employed in the transaction of its*
 20 *business in the United States.*

1 (c) *The taxes imposed by this section shall not apply—*

2 (1) *to any corporation enumerated in section*
3 101;

4 (2) *to any insurance company subject to the tax*
5 *imposed by section 201, 204, or 207;*

6 (3) *to any domestic corporation in respect of the*
7 *year ending June 30, 1934, if it did not carry on or*
8 *do business during a part of the period from the date*
9 *of the enactment of this Act to June 30, 1934, both*
10 *dates inclusive; or*

11 (4) *to any foreign corporation in respect of the*
12 *year ending June 30, 1934, if it did not carry on or*
13 *do business in the United States during a part of the*
14 *period from the date of the enactment of this Act to*
15 *June 30, 1934, both dates inclusive.*

16 (d) *Every corporation liable for tax under this sec-*
17 *tion shall make a return under oath within one month after*
18 *the close of the year with respect to which such tax is imposed*
19 *to the collector for the district in which is located its principal*
20 *place of business or, if it has no principal place of business*
21 *in the United States, then to the collector at Baltimore,*
22 *Maryland. Such return shall contain such information and*
23 *be made in such manner as the Commissioner with the ap-*
24 *proval of the Secretary may by regulations prescribe. The*
25 *tax shall, without assessment by the Commissioner or notice*

1 from the collector, be due and payable to the collector before
2 the expiration of the period for filing the return. If the
3 tax is not paid when due, there shall be added as part of the
4 tax interest at the rate of 1 per centum a month from the
5 time when the tax became due until paid. All provisions
6 of law (including penalties) applicable in respect of the taxes
7 imposed by section 600 of the Revenue Act of 1926 shall,
8 in so far as not inconsistent with this section, be applicable
9 in respect of the taxes imposed by this section. The Com-
10 missioner may extend the time for making the returns and
11 paying the taxes imposed by this section, under such rules
12 and regulations as he may prescribe with the approval of
13 the Secretary, but no such extension shall be for more than
14 sixty days.

15 (e) Returns required to be filed for the purpose of the
16 tax imposed by this section shall be open to inspection in the
17 same manner, to the same extent, and subject to the same
18 provisions of law, including penalties, as returns made under
19 title II of the Revenue Act of 1926.

20 (f) For the first year ending June 30 in respect of
21 which a tax is imposed by this section upon any corporation,
22 the adjusted declared value shall be the value, as declared by
23 the corporation in its first return under this section (which

1 declaration of value cannot be amended), as of the close of its
2 last income-tax taxable year ending at or prior to the close
3 of the year for which the tax is imposed by this section (or as
4 of the date of organization in the case of a corporation having
5 no income-tax taxable year ending at or prior to the close of
6 the year for which the tax is imposed by this section). For
7 any subsequent year ending June 30, the adjusted declared
8 value in the case of a domestic corporation shall be the origi-
9 nal declared value plus (1) the cash and fair market value
10 of property paid in for stock or shares, (2) paid in surplus
11 and contributions to capital, (3) its net income, and (4) the
12 amount of the dividend deduction allowable for income tax
13 purposes, and minus (A) the value of property distributed
14 in liquidation to shareholders, (B) distributions of earnings
15 or profits, and (C) the excess of the deductions allowable for
16 income tax purposes over its gross income; adjustment being
17 made for each income-tax taxable year included in the period
18 from the date as of which the original declared value was
19 declared to the close of its last income-tax taxable year ending
20 at or prior to the close of the year for which the tax is imposed
21 by this section. The amount of such adjustment for each
22 such year shall be computed (on the basis of a separate
23 return) according to the income tax law applicable to such

1 year. For any subsequent year ending June 30, the adjusted
2 declared value in the case of a foreign corporation shall be the
3 original declared value adjusted (for the same income-tax
4 taxable years as in the case of a domestic corporation), in
5 accordance with regulations prescribed by the Commissioner
6 with the approval of the Secretary, to reflect increases or
7 decreases in the capital employed in the transaction of its
8 business in the United States.

9 **SEC. 702. EXCESS-PROFITS TAX.**

10 (a) There is hereby imposed upon the net income of
11 every corporation, for each income-tax taxable year ending
12 after the close of the first year in respect of which it is tax-
13 able under section 701, an excess-profits tax equivalent to
14 5 per centum of such portion of its net income for such
15 income-tax taxable year as is in excess of $12\frac{1}{2}$ per centum
16 of the adjusted declared value of its capital stock (or in
17 the case of a foreign corporation the adjusted declared value
18 of capital employed in the transaction of its business in the
19 United States) as of the close of the preceding income-tax
20 taxable year (or as of the date of organization if it had no
21 preceding income-tax taxable year) determined as provided
22 in section 701. If the income-tax taxable year in respect of
23 which the tax under this section is imposed is a period of
24 less than 12 months, such adjusted declared value shall
25 be reduced to an amount which bears the same ratio thereto

1 as the number of months in the period bears to 12 months.
 2 For the purposes of this section the net income shall be the
 3 same as the net income for income tax purposes for the year
 4 in respect of which the tax under this section is imposed.

5 (b) All provisions of law (including penalties) appli-
 6 cable in respect of the taxes imposed by title I of this Act,
 7 shall insofar as not inconsistent with this section, be appli-
 8 cable in respect of the taxes imposed by this section, except
 9 that the provisions of section 131 of that title shall not be
 10 applicable.

11 **SEC. 703. CAPITAL STOCK TAX AND EXCESS-PROFITS TAX IM-**
 12 **POSED BY NATIONAL INDUSTRIAL RECOVERY ACT.**

13 Sections 217(d) and (e) of the National Industrial
 14 Recovery Act are amended to read as follows:

15 “(d) The capital-stock tax imposed by section 215 shall
 16 not apply to any taxpayer in respect of any year except the
 17 year ending June 30, 1933.

18 “(e) The excess-profits tax imposed by section 216 shall
 19 not apply to any taxpayer in respect of any taxable year
 20 ending after June 30, 1934.”

NOTE.—Section 217 of the National Industrial Recovery Act will
 after the above amendment, read as follows:

SEC. 217. (a) The President shall proclaim the date of—

(1) the close of the first fiscal year ending June 30 of any
 year after the year 1933, during which the total receipts of the
 United States (excluding public-debt receipts) exceed its total
 expenditures (excluding public-debt expenditures other than those
 chargeable against such receipts), or

(2) the repeal of the eighteenth amendment to the Constitution, whichever is the earlier.

(b) Effective as of the 1st day of the calendar year following the date so proclaimed section 617(a) of the Revenue Act of 1932, as amended, is amended by striking out "1½ cents" and inserting in lieu thereof "1 cent".

(c) The tax on dividends imposed by section 213 shall not apply to any dividends declared on or after the 1st day of the calendar year following the date so proclaimed.

(d) The capital-stock tax imposed by section 215 shall not apply to any taxpayer in respect of any year beginning on or after the 1st day of July following the date so proclaimed except the year ending June 30, 1933.

(e) The excess-profits tax imposed by section 216 shall not apply to any taxpayer in respect of any taxable year after its taxable year during which the date so proclaimed occurs ending after June 30, 1934.

1 **TITLE VI—GENERAL PROVISIONS**

2 **SEC. ~~1114~~ 801. DEFINITIONS.**

3 (a) When used in this Act—

4 (1) The term "person" means an individual,
5 a trust or estate, a partnership, or a corporation.

6 (2) The term "corporation" includes associa-
7 tions, joint-stock companies, and insurance companies.

8 (3) The term "partnership" includes a syndi-
9 cate, group, pool, joint venture, or other unincorpo-
10 rated organization, through or by means of which any
11 business, financial operation, or venture is carried on,
12 and which is not, within the meaning of this Act, a
13 trust or estate or a corporation; and the term "part-
14 ner" includes a member in such a syndicate, group,
15 pool, joint venture, or organization.

16 (4) The term "domestic" when applied to a
17 corporation or partnership means created or organized

1 in the United States or under the law of the United
2 States or of any State or Territory.

3 (5) The term "foreign" when applied to a cor-
4 poration or partnership means a corporation or part-
5 nership which is not domestic.

6 (6) The term "fiduciary" means a guardian,
7 trustee, executor, administrator, receiver, conservator,
8 or any person acting in any fiduciary capacity for any
9 person.

10 (7) The term "withholding agent" means any
11 person required to deduct and withhold any tax under
12 the provisions of section ~~143 or 144~~ 142 or 143.

13 (8) The term "stock" includes the share in an
14 association, joint-stock company, or insurance com-
15 pany.

16 (9) The term "shareholder" includes a member
17 in an association, joint-stock company, or insurance
18 company.

19 (10) The term "United States" when used in a
20 geographical sense includes only the States, the Terri-
21 tories of Alaska and Hawaii, and the District of
22 Columbia.

23 (11) The term "Secretary" means the Secretary
24 of the Treasury.

1 (12) The term "Commissioner" means the Com-
2 missioner of Internal Revenue.

3 (13) The term "collector" means collector of
4 internal revenue.

5 (14) The term "taxpayer" means any person
6 subject to a tax imposed by this Act.

7 (b) The terms "includes" and "including" when
8 used in a definition contained in this Act shall not be deemed
9 to exclude other things otherwise within the meaning of
10 the term defined.

11 **SEC. ~~412~~ 802. SEPARABILITY CLAUSE.**

12 If any provision of this Act, or the application thereof
13 to any person or circumstances, is held invalid, the remainder
14 of the Act, and the application of such provisions to other
15 persons or circumstances, shall not be affected thereby.

16 **SEC. ~~413~~ 803. EFFECTIVE DATE OF ACT.**

17 Except as otherwise provided, this Act shall take effect
18 upon its enactment.

[CONFERENCE COMMITTEE PRINT]

REVENUE ACT OF 1934

COMPARATIVE PRINT

Showing Changes from Existing Law Made by the
Bill as Passed by the Senate

73^d CONGRESS }
2^d Session

H. R. 7835

AN ACT

To provide revenue, equalize taxation, and for
other purposes.
