April 1958

Taxes Imposed by the Federal Government - Their Nature, Rates, and Methods of Reporting and Payment

Thomas J. Middleton Jr.

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TAXES IMPOSED BY THE FEDERAL GOVERNMENT—THEIR NATURE, RATES, AND METHODS OF REPORTING AND PAYMENT

THOMAS J. MIDDLETON, JR.

Editor's Note—the Internal Revenue Code of 1954, as amended to December 31, 1957, imposes taxes upon a wide variety of objects with varying methods of reporting and payment. Absence of a summary of each taxed object following the arrangement of the Code and correlated with compliance requirements frequently impedes the initial research incident to liability for a specific tax and the mechanism for making compliance.

The following compilation is intended as an aid in initiating the necessary research. It includes a general description of each taxed object, encompassed by subtitles A (Income taxes), B (Estate and Gift Taxes), and C (Employment Taxes); the rates of tax imposed; the time and method of reporting the tax; and, the time and method of payment. The information has been compiled from the Internal Revenue Code, the regulations, official report forms and procedural instructions.

The material was assembled as part of an assignment in the "Survey of Tax Literature" course.

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Sec. 1(a). Individuals—Other Than Head of Household.

A tax is imposed for each taxable year on the taxable income
of every individual other than a head of a household to whom subsection (b) applies.

Taxable Income—is the sum of all wages, bonuses, commissions, tips, and other compensation received before payroll deductions (less travel and reimbursement expenses, and excludable

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sick pay); profit (or loss) from business, dividends; interest; rents; pensions, etc.; minus the sum of all deductions for charitable contributions; interest, taxes, medical and dental expenses and other allowable deductions, such as child care expenses and personal exemptions of $600 for the taxpayer’s wife or husband and $600 for each dependent. Additional exemptions of $600 are allowed for the taxpayer (or husband and wife) if aged 65 or over, or if blind. (See Individual Income Tax Return, Form 1040)

In lieu of the sum of all deductions for charitable contributions; interest; taxes; medical and dental expenses and other allowable deductions, such as child care expenses—but not personal exemptions—set forth above, the taxpayer may elect a standard deduction in which case his taxable income is the sum of all the income items listed above minus the sum of his standard deduction and personal exemptions.

The Standard Deduction—is 10% of the sum of all income items with a maximum allowance of $1000 for joint returns and unmarried persons, and a maximum allowance of $500 for married persons filing separate returns.

For the tax imposed by Sec. 1, the standard deduction can be used only by those taxpayers with an adjusted gross income of $5000 and over. Adjusted gross income means the sum of all the income items set forth above. Taxpayers whose adjusted gross income is less than $5000 are subject to the tax imposed by Sec. 3, as described on page 380.

Rates of Tax—imposed upon the taxable income are as follows: 20% on the first $2000; for each successive $2000 up to $22000, the rates are 22, 26, 30, 34, 38, 43, 50, 53, and 56% respectively; from $22000 to $26000, 59%; for each successive $6000 up to $50000, the rates are 62, 65, 69, and 72% respectively; for each successive $10000 from $50000 to $100000, the rates are 75, 78, 81, 84, and 87% respectively; from $100,000 to $150,000, 89%; from $150,000 to $200,000, 90%; and for $200,000 and over 91%, with an overall maximum ceiling rate of 87% of taxable income.

Method and Time of Reporting—individual income tax return, Form 1040 is required to be filed by every citizen or resident of the United States who had $600 ($1200 if 65 years of age or over) or more of gross income with the District Director of In-
ternal Revenue for the district in which the taxpayer lives on or before April 15, if on a calendar year basis; or, three and one-half months after the close of the taxable year, if on a fiscal year basis.

**Form 1040**—must be used for reporting the taxes imposed by Sec. 1(a). The following forms are supplementary to the basic return, Form 1040, and are to be used by taxpayers in preparing the Form 1040 in the case of income, deductions, and credits of the types covered by them: (1) Sched. C, Profit (or loss) from business or profession; (2) Sched. D, Gains and losses from sales or exchanges of property; (3) Sched. F, Farm income and expenses; (4) Form 2106, Worksheet for use of taxpayer claiming local transportation travel, or outside salesmen expenses, incurred as an employee; (5) Form 2440, Statement to support exclusion of sick pay; (6) Form 2119, Statement concerning sale and exchange of taxpayer's residence; (7) Form 2441, Statement of expenses for care of children and certain other dependents; (8) Form 2120, Multiple Support Agreement; (9) Form 2439 (Copy B) Notice to shareholder of undistributed long-term gains (Regulated Investment Company); (10) Form W-2 (Copy B) Withholding Tax Statement; (11) Form 1116, Statement in support of credit for taxes paid or accrued to a foreign country or a possession of the United States.

**Method and Time of Payment**—all or part of the tax attributable to wages is collected at the source by employers and paid to the District Director in the taxpayer's behalf (See Sec. 3402, p. 426). If the tax withheld is not large enough to equal the rates above the first bracket, or the taxpayer has income not subject to withholding, the taxpayer is generally required to estimate his tax and make quarterly payments in advance. The estimate is required to be made on Form 1040 ES if: (a) taxpayer's gross income can reasonably be expected to consist of wages subject to withholding and of not more than $100 from other sources, and to exceed: (1) $10,000 for a head of household or a widow or widower entitled to the special tax rates; (2) $5000 for other single individuals; (3) $5000 for a married individual not entitled to file a joint declaration; (4) $5000 for a married individual entitled to file a joint declaration, and the combined income of both husband and wife can reasonably be expected to exceed $10,000; or (b) his gross income can reasonably be expected to include
more than $100 from sources other than wages subject to withholding and to exceed the sum of (1) $600 for each of his exemptions, and (2) $400.

The declaration must be filed on or before April 15, of the tax year for which the tax is being estimated, and payments may be made in full with the declaration, or in equal installments on or before April 15, June 15, September 15, and January 15, following the taxable year. Substantial increases or decreases during the taxable year in income or exemptions should be reflected in amended declarations filed on or before the next following payment date. No amendment is required in respect to the January 15 payment date, if the final return, Form 1040, is filed by January 31, instead of April 15.

The balance of the tax for the taxable year, if any, over and above that paid by the tax withheld from wages plus that paid as a result of the Declaration of Estimated Tax, Form 1040 ES, must be paid at the time of filing the final return, Form 1040. Any overpayment of tax on account of wage withholding and estimated payments as determined by the final return will be refunded or credited against tax for the following tax year according to the taxpayer's election as made on Form 1040.

Sec. 1(b). Heads of Households.

A tax is imposed for each taxable year on the taxable income of every individual who is the head of a household.

Taxable income—is the same as that defined for purposes of sec. 1(a) shown on page 375.

Head of Household—an individual shall be considered a head of household if, and only if, such individual is not married at the close of his taxable year, is not a surviving spouse (See Sec. 2(b) page 379), and maintains as his home a household which constitutes for each taxable year the principal place of abode, as a member of such household, of a son, stepson, daughter, or stepdaughter, of the taxpayer, or a descendant of a son or daughter of the taxpayer; or any other person who is a dependent of the taxpayer for whom he is entitled to claim a deduction as a dependent. An individual shall be considered as maintaining a household only if over half of the cost of maintaining the household during the taxable year is furnished by the taxpayer.
Rates of Tax—imposed upon the taxable income of a head of household are as follows: 20% on the first $2000, for each successive $2000 up to $24,000, the rates are 21, 24, 26, 30, 32, 36, 39, 42, 43, 47, and 49% respectively; from $24,000 to $28,000, 52%; from $28,000 to $32,000, 54%; from $32,000 to $38,000, 58%; from $38,000 to $44,000, 62%; from $44,000 to $50,000, 66%; for each successive $10,000 up to $100,000, the rates are 68, 71, 74, 76, and 80% respectively; from $100,000 to $150,000, 83%; from $150,000 to $200,000, 87%; from $200,000 to $300,000, 90%; and, for $300,000 and over 91%, with an overall maximum ceiling rate of 87% of taxable income.

Method and Time of Reporting—the requirements are the same as those for Sec. 1(a) shown on page 375.

Method and Time of Payment—the requirements are the same as those for Sec. 1(a) shown on page 375.

Sec. 2. Joint Return or Surviving Spouse.

In the case of a joint return of a husband and wife, and of a surviving spouse, the tax imposed by Sec. 1, shall be twice the tax which would be imposed if the taxable income were cut in half.

Joint Return—a husband and wife may make a single return jointly, even though one of the spouses has neither gross income nor deductions, provided neither spouse is a non-resident alien and husband and wife have the same taxable year. In the case of death of one spouse the joint return may be made by the surviving spouse with respect to both himself and the decedent if no return for the taxable year has been made by the decedent and no executor or administrator has been appointed before the last day prescribed for filing the return by the surviving spouse. If an executor or administrator of the decedent is appointed after the making of the joint return by the surviving spouse, the executor or administrator may disaffirm such joint return by making, within one year after the last day for filing the return of the surviving spouse, a separate return for the taxable year of the decedent.

Surviving Spouse—is a taxpayer (a) whose spouse died during either of his two taxable years immediately preceding the taxable year, and (b) who maintains as his home a household which constitutes for the taxable year the principal abode (as a member of such household) of a son, stepson, daughter, or stepdaughter.
of the taxpayer with respect to whom the taxpayer is entitled to
the dependency deduction.

*Taxable Income*—of each spouse jointly reported on the same
return is the same as that defined for purposes of Sec. 1(a) shown
on page 375.

*Rates of Tax*—as prescribed by Sec. 2, are required to be twice
the tax which would be imposed by Sec. 1 if the combined tax-
able income of husband and wife were cut in half. The rate
schedule developed under this rule is as follows: 20% on the first
$4,000; for each successive $4,000 up to $44,000, the rates are 22,
26, 30, 34, 38, 43, 47, 50, 53, and 56%; from $44,000 to $52,000,
59%; for each successive $12,000 up to $100,000, the rates are 62,
65, 69, and 72% respectively; for each successive $20,000 up to
$200,000, the rates are 75, 78, 81, 84, and 87% respectively; from
$200,000 to $300,000, 89%; from $300,000 to $400,000, 90% and,
for $400,000 and over, 91%, with an overall maximum ceiling rate
of 87% of the combined taxable income.

*Method and Time of Reporting*—the requirements are the
same as those for Sec. 1(a) shown on page 375.

*Method of Time of Payment*—the requirements are the same
as for Sec. 1(a) shown on page 375.

Sec. 3. *Optional Tax—Adjusted Gross Income Under $5,000.*

In lieu of the tax imposed by Sec. 1, there is *imposed*
for each taxable year, on the *taxable income* of each individual
whose *adjusted gross income* for such year is less than $5,000,
and who has *elected* for such year to pay the tax imposed by this
section, the tax shown in the tax table in Sec. 3.

*Taxable Income*—for purposes of Sec. 3, means the sum of all
wages, commissions, tips, and other compensation received before
payroll deduction (less travel and reimbursement expenses, and
excludable sick pay; profit (or loss) from business; dividends;
interest; rents; pensions; etc; minus the sum of the *standard de-
duction* and personal exemptions.) (See Individual Income Tax
Return, Form 1040)

*Rates of Tax*—are set forth in the tax table in Sec. 3 (which
must be used by all taxpayers with *adjusted gross* income of less
than $5,000 who elect to use the *standard deduction*). The table
is arranged by *adjusted gross income* brackets, number of exemptions, and classifications as to marital status. The tax for each cell of the table has been computed on the basis of the rates *imposed* by Secs. 1 and 2 on the midpoint of each $25 bracket with due allowance for the standard deduction, number of exemptions, and marital status of the taxpayer.

*Method and Time of Reporting*—the individual income tax return, Form 1040, must be used for reporting the tax imposed by Sec. 3, unless the individual's gross income is less than $5,000 and he has no income other than remuneration for services performed by him as an employee, dividends, or interest, and whose gross income other than wages subject to withholding does not exceed $100. Where the return, Form 1040, is used the method and time of reporting is the same as for Sec. 1(a) described on page 375.

If the taxpayer has a gross income of less than $5,000 and no income other than remuneration for services performed by him as an employee, dividends, or interest, and whose gross income other than wages subject to withholding does not exceed $100, he may elect to use the return, Form 1040A, instead of Form 1040. In this case the tax imposed by Sec. 3, need not be computed by the taxpayer—but will be computed for him by the Director of Internal Revenue. The time and place of filing of the Form 1040A is the same as for Form 1040. However, Form 1040A, is applicable only to calendar year taxpayers and the filing date is always April 15, following the calendar year.

*Method and Time of Payment*—for taxpayers using Form 1040, for reporting the tax *imposed* by Sec. 3, the method and time of payment is the same as for Sec. 1(a) as described on page 375.

Taxpayers qualified to, and electing to, use Form 1040A, may either (1) compute their own tax, or (2) file the return without the tax computation. If the taxpayer computes his tax, the balance, if any, should be paid at the time of filing the return. If the tax is not computed by the taxpayer, the Director of Internal Revenue will compute the tax and mail a bill to the taxpayer for any unpaid balance. The bill must be paid within 30 days from its date.
A tax is imposed for each taxable year on the taxable income of every corporation. The tax shall consist of a normal tax computed under subsection (b) and a surtax computed under subsection (c).

**Taxable Income**—means the sum of the gross profit from sales and services; dividends; interest; rents; royalties; gains and losses from the sale of assets; and other related income items, minus the sum of officers' compensation; salaries and wages; rents; repairs; bad debts; interest; taxes; contributions; losses by fire, or other casualty; amortization; depreciation; depletion; advertising; contributions under employee benefit plans; and related deductions—with a further reduction for any net operating loss deductions carried over or back from another tax year; and a percentage deduction for certain types of dividends received which have been included in full in income. (See Corporation Income Tax Return, Form 1120)

**Rates of Tax**—the normal tax is equal to 30% of the taxable income. The surtax is equal to 22% of the amount of the taxable income in excess of $25,000. For purposes of the normal tax, taxable income does not include interest on partially tax-exempt bonds, but does include this income for surtax purposes.

**Method and Time of Reporting**—Corporation Income Tax Return, Form 1120, is required to be filed by every domestic and every resident foreign corporation, not expressly exempt from taxation, whether or not having any taxable income, on or before the 15th day of the third month following the close of the taxable year with the Director of Internal Revenue for the district in which the corporation's principal place of business or principal office or agency is located.

An automatic extension of 3 months for filing is generally available if a request for such is made on Form 7004.

**Form 1120**—must be used for reporting the taxes imposed by Sec. 11. The following forms are supplementary to the basic return, Form 1120, and are to be used by taxpayers in preparing Form 1120, to the extent applicable: (1) Form M, Depletion and depreciation data for mines and other natural deposits; (2) Form O, Oil and gas depletion data; (3) Form T, (Timber)
Forest industries schedule; (4) Form 1118, Statement in support of credit claimed by domestic corporation for taxes paid or accrued to a foreign country or a possession of the United States; (5) Schedule D, Schedule of gains and losses from sales or exchanges of property; (6) Form 1122, Return of information and authorization and consent of subsidiary corporation included in a consolidated income tax return; (7) Form 1138, Statement for the purpose of extending time for payment of taxes by corporations expecting carrybacks; (8) Form 1139, Application for tentative carryback adjustment.

Method and Time of Payment—the balance of the tax due as shown on Form 1120 must be paid in full when the return is filed or in two installments, 50% on or before the 15th day of the third month and 50% on or before the 15th day of the sixth month following the close of the taxable year. If any installment is not paid on or before the date fixed for its payment, the whole amount of the tax unpaid shall be paid upon notice and demand by the Director of Internal Revenue.

A declaration of estimated tax on Form 1120ES must be made by every corporation which is required to file a Form 1120 if its income tax for the taxable year can reasonably be expected to exceed $100,000 plus the amount of any estimated credits against tax. A corporation using the calendar year basis must pay one half of the estimated tax on September 15, and the other half on December 15. If the requirement for the estimate is not met until after September 15, and before December 15, then the full amount of the estimate must be paid on December 15. For corporations on a fiscal year basis the time of payments are the 15th day of the 9th and 12th months respectively, instead of September 15, and December 15. The amount to be paid on the estimate for 1958 is 40% of the estimated tax in excess of $100,000 plus credits; and, for 1959, 50%.

Sec. 511. Unrelated Business Income of Charitable, Etc., Organizations.

(a) There is imposed for each taxable year on the unrelated business taxable income of every organization described below a normal tax and surtax.

Unrelated Business—means any trade or business which is not substantially related to the exercise or performance by the organ-
ization of its charitable, educational, or other purpose or function on which it based its claim for exemption from income tax, except when such unrelated trade or business is carried on for the organization by persons without compensation; or attributable to sales of merchandise which has been contributed to the organization, or in the case of certain charitable and educational organizations, carried on primarily for the convenience of its members, students, patients, officers, or employees. (See Sec. 513).

**Unrelated Business Taxable Income**—is the sum of the gross profit from sale of goods and services; net capital gain from cutting timber; net ordinary (loss) from cutting timber; income from partnerships; and, business lease rents minus the sum of the following deductions to the extent directly connected with the unrelated business income; compensation of officers or trustees; other salaries and wages; rent; repairs; bad debts; interest; taxes; losses by fire and other casualty; depreciation; amortization; depletion; advertising; amounts contributed under pension and profit sharing plans; certain contributions and gifts; and other related deductions, including the net operating loss deduction. A specific exemption of $1000 is allowed against the taxable income. (See Exempt Organization Business Income Tax Return, Form 990-T, and Sec. 512)

**Organizations Subject To The Tax**—are any organizations (other than a church, or convention of churches) which are exempt from the income tax by virtue of (1) being a corporation organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the proceeds to an exempt organization; (2) being a corporation, community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, or educational purposes; (3) being a labor, agricultural, or horticultural organization; (4) being a business league, chamber of commerce, real estate board, or board of trade, not organized for profit; or (5) being a state college or university.

**Rates of Tax**—are the same as imposed by Sec. 11 described on page 382.

**Method and Time of Reporting**—the Exempt Organization Business Income Tax Return, Form 990-T, is required to be filed by every organization subject to the tax on or before the 15th
day of the third month following the close of the taxable year with the Director of Internal Revenue for the district in which the organization's principal place of business or principal office is located. In the case of a foreign organization the time for filing is the 15th day of the sixth month and the place is Baltimore, Maryland.

**Method and Time of Payment**—the tax must be paid in full when the return is filed or in two installments, 50 percent on or before the 15th day of the third month and 50 percent on or before the 15th day of the sixth month following the close of the taxable year. In the case of a foreign organization the time for payment is when the return is filed, or in two installments, 50 percent on or before the 15th day of the sixth month and 50 percent on or before the 15th day of the ninth month.

(b) There is imposed for each taxable year on the unrelated business taxable income of every trust described below a tax equal to that imposed upon individuals.

**Unrelated Business**—is the same as that described under Sec. 511(a) on page 384.

**Unrelated Business Taxable Income** is the same as that described under Sec. 511(a) on page 384.

**Trusts Subject to the Tax**—are domestic and foreign trusts which are exempt from the income tax on trusts by virtue of (1) being a trust; community chest, fund, or foundation organized and operated exclusively for religious, charitable, scientific, or educational purposes; or (2) by being a trust that qualifies for exemption as forming part of a stock bonus, pension, or profit-sharing plan of an employer for the exclusive benefit of his employees or their beneficiaries. (See secs. 501(c) and 401(a)).

**Rates of Tax**—are the same as imposed by sec. 1(a) described on page 376.

**Method and Time of Reporting**—the Exempt Organization Business Income Tax Return, Form 990-T, is required to be filed by every trust subject to the tax on or before the 15th day of the fourth month following the close of the taxable year of the trust with the Director of Internal Revenue for the district in which the fiduciary resides or has his principal place of business.
Method and Time of Payment—the tax must be paid in full when the return is filed.

Sec. 522. Farmer Cooperatives.

An organization qualifying as a "Farmer's cooperative" is considered as exempt from income taxes for purposes of any law which refers to "organizations exempt from income taxes." However, such organizations are subject to the regular rates imposed upon corporations by Sec. 11 (normal tax and surtax on corporate taxable incomes, see page 382) and Sec. 1201 (alternative tax in the case of long term capital gain, see page 405). The tax of such farmer cooperatives is imposed upon the specially defined taxable income of such cooperatives.

Farmer Cooperatives Subject to the Tax—are farmers', fruit growers', or like associations organized and operated on a cooperative basis (A) for the purpose of marketing the products of members or other producers, and turning back to them the proceeds of sales, less the necessary marketing expenses, on the basis of either the quantity or the value of the products furnished by them; or (B) for the purpose of purchasing supplies and equipment for the use of members or other persons, and turning over such supplies and equipment to them at actual cost, plus necessary expenses.

Taxable Income—means gross income less the allowable deductions described under the tax imposed by Sec. 11 (see page 382) plus additional deductions as follows: (a) amounts paid as dividends during the taxable year on its capital stock; and, (b) amounts allocated during the taxable year to patrons with respect to its income not derived from patronage (whether or not such income was derived during the taxable year) whether paid in cash, merchandise, capital stock, revolving fund certificates, or in some other manner that discloses to each patron the dollar amount allocated to him. Allocations made after the close of the 9th month following the close of such year shall be considered as made on the last day of such taxable year to the extent the allocations are attributable to income derived before the close of such year.

Patronage dividends, refunds, and rebates to patrons with respect to their patronage in the same or preceding years shall
be taken into account in computing taxable income in the same manner as in the case of a cooperative organization not subject to this tax.

Method and Time of Reporting—an Exempt Cooperative Association Income Tax Return, Form 990-C, must be filed by every exempt cooperative association described above whether or not it has any taxable income. The return must be filed with the Director of Internal Revenue for the district in which the association's principal place of business or principal office or agency is located on or before the 15th day of the 9th month following the close of the taxable year.

Method and Time of Reporting—the tax must be paid in full when the return is filed or in two installments, 50% on or before the 15th day of the 9th month and 50% on or before the 15th day of the twelfth month following the close of the taxable year, to the Director's office in which the return is filed.

Sec. 531. Accumulated Earnings Tax.

In addition to other taxes on income there is imposed for each taxable year on the accumulated taxable income of every corporation formed or availed of for the purpose of avoiding the income tax with respect to its shareholders by permitting earnings and profits to accumulate instead of being distributed an accumulated earnings tax.

Accumulated Taxable Income—is the corporate taxable income described under sec. 11 on page 382, with the adjustments described below minus the sum of the dividends paid deduction and the accumulated earnings credit. Adjustments: the taxable income will be decreased by (1) Federal income and excess profits taxes; (2) charitable contributions in excess of the 5% limitations; (3) losses from the sale or exchange of capital assets; (4) the excess of the net long term capital gain for the taxable year over the net short-term capital loss minus the taxes attributable to such excess; and, the taxable income will be increased by (1) the net operating loss; and (2) the capital loss carryover. (See sec. 535).

The dividends paid deduction is the sum of the dividends paid during the taxable year and the consent dividends, that is, where a stockholder agrees in a consent filed with the return
of the corporation to treat as a dividend the amount specified in the consent. (see sec. 561).

Accumulated Earnings Credit—means the amount equal to such part of the earnings and profits for the taxable year in excess of the dividends paid deduction as are retained for the reasonable needs of the business. This credit shall in no case be less than the amount by which $60,000 exceeds the accumulated earnings and profits of the corporation at the close of the preceding year. (See sec. 535(c)).

Rates of Tax—are 27 1/2 percent of the accumulated taxable income not in excess of $100,000, plus 38 1/2 percent of the accumulated taxable income in excess of $100,000.

Method and Time of Reporting—the regulations do not prescribe any returns or methods for reporting this tax. Generally, alleged liability for the tax is asserted by the Commissioner as a result of audit, at which time the tax is proposed to be assessed and the usual appellate procedures in respect to proposed deficiencies will govern. The primary burden for establishing liability for the tax rests upon the Commissioner.

Method and Time of Payment—if the Commissioner is successful in establishing liability for the tax through the deficiency procedure, the tax will be assessed and will become payable in full upon notice and demand.

Sec. 541. Personal Holding Company Tax.

In addition to other taxes on income there is imposed for each taxable year on the undistributed personal holding company income a personal holding company tax.

Undistributed Personal Holding Company Income—is the personal holding company income as described below with certain adjustments minus the dividends paid deduction (See Sec. 545).

Personal Holding Company Income—is that portion of the gross income which consists of (1) dividends, interest, royalties (other than mineral, oil, or gas royalties) and annuities; (2) gains from the sale or exchange of stock (other than regular security dealers); (3) gains from future transactions in any commodity on or subject to the rules of a board of trade or commodity exchange (other than bona fide hedging transactions reasonably
necessary to the conduct of business); (4) amounts includible in taxable income of the corporation received through estates and trusts, and gains from the sale or other disposition of any interest in an estate or trust; (5) amounts received under a contract under which the corporation is to furnish personal services if some person other than the corporation has the right to designate the individual who is to perform the contract, and amounts received from the sale of such contracts; (6) amounts received as compensation for the use of, or right to use, property of the corporation by individuals owning 25 per cent or more of the outstanding stock; (7) rents, unless constituting 50 percent or more of gross income; (8) mineral, oil, or gas royalties, unless such royalties constitute 50 percent or more of the gross income and the trade and business deductions (other than shareholders compensation) constitute 15 percent or more of gross income. (See U. S. Computation of Personal Holding Company Tax, Schedule PH, Form 1120, and sec. 543).

**Personal Holding Company**—means any corporation, other than those listed in the exceptions below, if at least 80 percent of its gross income for the taxable year is personal holding company income and if at any time during the last half of the taxable year more than 50 percent in value of its outstanding stock is owned, directly or indirectly, by or for not more than 5 individuals.

The term “personal holding company” as referred to above, does not include any of the following:

(1) a corporation exempt from the income tax; (2) a bank; (3) a life insurance company; (4) a surety company; (5) a foreign personal holding company; (6) a licensed personal finance company; (7) a lending company; (8) a loan or investment corporation; (9) a finance company.

**Rates of Tax**—are 75 percent of the undistributed personal holding company income not in excess of $2000 and 85 percent of the amount in excess of $2000.

**Method and Time of Reporting**—every corporation which comes within the classification of a “personal holding company” must file a Schedule PH. Schedule PH is filed with the Corporation Income Tax Return, Form 1120 (see page 382).

**Method and Time of Payment**—the tax is included as a part of the tax reported on the Corporation Income Tax return, Form 389.
1120, and payable in full with the filing of the return, or in two equal installments on March 15, and June 15, in the case of calendar year returns and corresponding dates following the close of fiscal year.


In the case of a mutual savings bank not having capital stock represented by shares, authorized under State law to engage in the business of issuing life insurance contracts, and which conducts a life insurance business in a separate department the accounts of which are maintained separately from the other accounts of the mutual savings bank, there shall be imposed in lieu of the taxes imposed by Sec. 11 (see page 382) or Sec. 1201(a) (see page 405), a tax consisting of the sum of the partial taxes determined as follows:

(1) A partial tax computed on the taxable income determined without regard to any items of gross income or deductions properly allocable to the business of the life insurance department, at the rates and in the manner as if this section had not been enacted; and (2) a partial tax computed on the income of the life insurance department determined without regard to any items of gross income or deductions not properly allocable to such department at the rates and in the manner applicable to life insurance companies (see page 392).

Limitations As To Use of The Alternative Tax—(1) the conduct of the life insurance business must be authorized under State law; (2) the life insurance business must be carried on in a separate department of the bank; (3) the books of account of the life insurance business must be maintained separately from other departments of the bank; (4) the life insurance department of the bank would, if it were treated as a separate corporation, qualify for taxation as a life insurance company.

Method and Time of Reporting—mutual savings banks eligible for tax under this provision shall make Corporation Income Tax Return, Form 1120, accompanied by the annual statement approved by the National Convention of Insurance Commissioners which contains the underwriting and investment exhibit. The return should be made on or before the 15th day of the third
month following the close of the taxable year with the Director of Internal Revenue for the district in which the bank's principal place of business or principal office is located.

For the purpose of computing the first partial tax, a mutual savings bank should use Form 1120, filling in all applicable items and schedules. For the purpose of computing the second partial tax Form 1120L should be used. The first partial tax should be added to the second partial tax and the sum shown as the total income tax. Form 1120L properly filled in should be attached to and made a part of Form 1120 and properly identified as an accompanying schedule. However, any form so used need not be separately executed under the penalty for perjury.

Method and Time of Payment—the requirements as to payment are the same as those described for Sec. 11, shown on page 383.

Sec. 641. Taxation of Estates and Trusts.

The taxes imposed on individuals shall apply to taxable income of estates or of any kind of property held in trust, including (1) income accumulated in trust for the benefit of unborn or unascertained persons or persons with contingent interests, and income accumulated or held for future distribution under the terms of the will or trust; (2) income which is to be distributed currently by the fiduciary to the beneficiaries, and income collected by a guardian of an infant which is to be held or distributed as the court may direct; (3) income received by estates of deceased persons during the period of administration or settlement of the estate; and, (4) income which, in the discretion of the fiduciary, may be either distributed to the beneficiaries or accumulated. The tax imposed shall be paid by the fiduciary.

Taxable Income—of an estate or trust is computed in the same manner as in the case of an individual, namely, by subtracting from gross income the allowable ordinary deductions plus the added deductions represented by the distributions to the beneficiaries and the personal exemption allowed the estate or trust. The personal exemption for estates is $600; for trusts which are required to distribute all of its income currently, the exemption is $300; and for all other trusts, the exemption is $100.
Rates of Tax—are the same as imposed by Sec. 1(a) shown on page 375.

Method and Time of Reporting—a Fiduciary Income Tax Return, Form 1041, is required from every estate if the gross income for the taxable year is $600 or more; from every trust having for the taxable year any taxable income, or having gross income of $600 or over, regardless of the amount of taxable income; and, from every estate and trust if any beneficiary is unknown. The returns are required to be filed with the Director of Internal Revenue for the district in which the fiduciary resides or has his principal business on or before the 15th day of the fourth month following the close of the taxable year. Supplementary forms include (1) written notice by person acting for another in a fiduciary capacity; (2) Schedule J, Form 1041, for complex trusts which distribute in a taxable year income accumulated in prior years; and, (3) Form 1041a, Information Return on Trust Accumulations.

Method and Time of Payment—the tax shown to be due on Form 1041 for an estate may be paid in full at the time the return is filed, or in quarterly installments on April 15, July 15, October 15, and January 15, or corresponding dates for fiscal year returns. In the case of trusts the tax must be paid in full at the time the return is filed. All payments must be made to the Director of Internal Revenue for the district in which the return is filed.

Sec. 811. Life Insurance Companies.

A tax is imposed on the life insurance company taxable income of every life insurance company, for each taxable year beginning after December 31, 1956, a normal tax and a surtax equal to that applicable to corporations in general under Sec. 11 shown on page 382. (This description does not apply to tax years prior to 1957).

Life Insurance Company Taxable Income—means the net investment income minus the reserve and other policy liability deductions; and, minus the special interest deduction; and, plus the amount of the adjustment for certain reserves. For purposes of the normal tax the income will be reduced by the amount of
partially tax exempt interest in the same manner as for corporations in general.

**Net Investment Income**—the sum of all taxable and tax-exempt interest; all dividends on stock; gross rents and royalties; income from trade or business other than insurance business; and gross amount of income received from any lease, mortgage, or other instrument from which the life insurance company derives interest, dividends, rents, or royalties, represents the *gross investment income*. Deductions are allowed against the gross investment income of (1) interest wholly exempt from tax; (2) expenses which are properly chargeable to investment expenses; (3) taxes upon real estate owned by the company; (4) ordinary and necessary real estate expenses, such as heat, light, labor, incidental repairs, etc.; (5) depreciation; (6) depletion in the case of mines, oil and gas wells, timber, etc.; (7) trade or business deductions attributable to any trade or business income included in the life insurance company's gross investment income—but not losses from the sale or exchange of capital assets, business property or involuntary conversions nor expenses attributable to carrying on the life insurance business. The total of these deductions subtracted from gross investment income equals *net investment income*.

**Reserve and Other Policy Liability Deductions**—where the *net investment income* exceeds the net investment income allocable to non-life insurance reserves the deduction equals 87½ percent of such excess up to $1,000,000 and 85 percent of the excess over this amount, subject to certain limitations as to maximum deductions.

**Special Interest Deductions**—this deduction is allowed in instances in which the relationship between adjusted net investment income and required interest is such that the net investment income is less than 105 percent of the required interest. The term "adjusted net investment income" is the net investment income computed without any deduction for wholly tax exempt interest minus 50 percent of the net investment income allocable to non-life insurance reserves. The term "required interest" means the total of (1) the sum of amounts obtained by multiplying (a) each rate of interest assumed in computing the life insurance reserves by (b) the means of the amounts of the adjusted reserves com-
puted at that rate at the beginning and end of the taxable year; (2) the reserve for deferred dividends multiplied by each rate of interest assumed in computing such reserve; and, (3) interest paid or accrued.

**Tax Computation**—the tax is based on the total of the life insurance taxable income in the same manner as applicable to corporations in general.

**Method and Time of Reporting**—every domestic life insurance company and every foreign life insurance company carrying on an insurance business within the United States must file a Life Insurance Company Income Tax Return, Form 1120L. In addition to Form 1120L every new insurance company where the maximum limitations on reserve and other policy liability deduction applies must file Schedule NC. The tax on such new companies is the tax computed on Schedule NC or on the regular tax computation schedule on Form 1120L, whichever is less. The return must be sent to the Director of Internal Revenue for the district in which the company's principal place of business or principal office is located, on or before March 15, following the close of the taxable year.

**Method and Time of Payment**—the requirements are the same as described for corporations in general under Sec. 11 on page 383.

**Sec. 821. Mutual Insurance Companies (Other than Life or Marine or Fire Insurance Companies Issuing Perpetual Policies)**

A tax is imposed on the income of every mutual insurance company as follows:

(1) If the mutual insurance taxable income (without partially tax-exempt interest) is over $3,000 and the taxable year begins before July 1, 1958, a normal tax of 30 percent of the mutual insurance taxable income, or 60 percent of the amount by which such taxable income exceeds $3,000, whichever is the lesser; if the taxable year begins after June 30, 1958, the 30 and 60 percent rates above become 25 and 50, respectively. In addition there is a surtax of 22 percent on the mutual insurance taxable income (without partially tax-exempt interest) in excess of $25,000. This is applicable to all taxable years.
(2) If for the taxable year the *gross investment income* (other than gains from sale or exchange of capital assets) and net premiums, minus dividends to policy holders and minus tax-exempt interest, exceeds $75,000 then there shall be a tax equal to 1 percent of such amount, or 2 percent of the excess of this amount over $75,000, whichever is the lesser.

The tax is the greater of the taxes computed under (1) or (2) above.

*Imposition of Tax on Interinsurers*—if the *mutual insurance taxable income* (without partially tax-exempt interest) is over $50,000, and the taxable year begins before July 1, 1958, there is normal tax of 30 percent of the mutual insurance taxable income, or 60 percent of the amount by which such taxable income exceeds $50,000, whichever is the lesser; if the taxable year begins after June 30, 1958, the 30 percent and 60 percent rates above become 25 and 50 respectively. In addition there is a surtax of 22 percent of the mutual insurance company taxable income (without partially tax-exempt interest) in excess of $25,000, or 33 percent of the amount by which such taxable income exceeds $50,000, whichever is lesser.

*Gross Amount Received, Over $75,000 but less than $125,000*—if the gross investment income (other than gains from sales and exchanges) and premiums (including deposits and assessments) is over $75,000 but less than $125,000, the tax computed above shall be reduced to an amount which bears the same proportion to the amount of tax determined above as the excess over $75,000 of the gross investment income, as adjusted in this paragraph, bears to $50,000.

*Gross Investment Income*—consists of interest received on tax-exempt and taxable obligations; dividends on domestic and foreign corporations; gross rents and royalties; gross income from any trade or business (other than on insurance business) carried on by the mutual insurance company; gross income from the entering into of any lease, mortgage or other instrument or agreement from which is derived interest, dividends, rents, or royalties; and, gains from the sale or exchange of capital assets.

*Deductions From Gross Investment Income*—the deductions allowable in arriving at *net investment* income are: interest
wholly exempt from tax; investment expenses that are properly chargeable against investment income, the total amount of which, if there be any allocation of general expenses to investment expenses should not exceed one-fourth of 1 percent of the mean of the investment assets, plus, in cases where the taxable income computed without any deduction for investment expenses and tax-free interest exceeds 3⅜ percent of the book value of such mean of the investment assets, one fourth of such excess; taxes exclusively upon real estate owned by the company; real estate expenses, such as fire insurance, heat, light, etc.; depreciation; depletion of mines, oil and gas wells, timber, etc.; trade or business deductions attributable to any trade or business income included in gross investment income; interest paid or accrued, other than an indebtedness incurred to carry tax-exempt obligations; losses from capital assets sold to provide funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policy holders.

**Net Investment Income**—is gross investment income described above minus the deductions described above.

**Mutual Insurance Company Taxable Income**—equals net investment income minus partially tax-exempt interest and the dividends received deduction of 85% in the case of regular corporation dividends and 62.115% in the case of dividends on preferred stock of public utilities.

**Method and Time of Reporting**—every mutual insurance company other than a life or marine insurance company and other than a fire insurance company subject to the tax imposed by Sec. 831 described on page 396 with a gross investment income (other than gains from sales of capital assets) and premiums in excess of $75,000 shall file a Mutual Insurance Company Income Tax Return, Form 1120M. The return must be filed with the Director of Internal Revenue for the district in which the company's principal office is located, on or before March 15, of the year following the tax year.

**Method and Time of Payment**—the requirements are the same as described for Sec. 11, shown on page 383.

Sec. 831. **Other Insurance Companies.**

A tax computed under Sec. 11 (see page 382) is imposed on the taxable income of every insurance company (other than a
life or mutual insurance company), every mutual marine insurance company, and every mutual fire insurance company exclusively issuing either perpetual policies or policies for which the sole premium charged is a single deposit which is refundable on cancellation or expiration of the policy.

**Gross Income**—is the sum of (A) the combined gross amount earned during the taxable year from investment income and from underwriting income computed on the basis of the underwriting and investment exhibit of the annual statement approved by the National Convention of Insurance Commissioners; (B) gain from the sale or other disposition of property; and (C) all other items constituting gross income as described under Sec. 11 on page 382, except that in the case of a mutual fire insurance company, the amount of single deposit premiums paid to such company shall not be included in gross income.

**Deductions Allowed**—the following deductions are allowed against gross income in determining taxable income: all ordinary and necessary expenses incurred relating to trade or business; interest; taxes; losses incurred (losses paid plus salvage and reinsurance recoverable outstanding at the end of the preceding taxable year minus salvage and reinsurance recoverable outstanding at the end of the taxable year, plus all unpaid losses outstanding at the end of the taxable year minus unpaid losses outstanding at the end of the preceding taxable year); capital losses plus losses from capital assets sold or exchanged in order to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policy holders; debts in the nature of agency balances and bills receivable which become worthless within the taxable year; tax exempt interest; depreciation; charitable contributions; deductions other than those mentioned above applicable to the tax imposed under sec. 11 shown on page 382; dividends and similar distributions paid or declared to policy holders in their capacity as such, except in the case of the mutual fire insurance company; and, the special deductions relating to partially tax exempt interest and dividends received.

**Method and Time of Reporting**—the requirements are the same as described under sec. 11 shown on page 382. However, there should be filed with the return on Form 1120 a copy of the annual statement approved by the National Convention of In-
surance Commissioners which contains the underwriting and investment exhibit.

*Method and Time of Payment*—the requirements are the same as described under sec. 11, shown on page 382.

Sec. 852. *Regulated Investment Companies.*

There is imposed for each taxable year upon the investment company taxable income of every regulated investment company a normal tax and surtax computed as provided in Sec. 11 (see page 382), as though the investment company taxable income were the taxable income referred to in Sec. 11. For purposes of the normal tax the taxable income and the dividends paid deduction (computed without regard to capital gains dividends) shall be reduced by the deduction relating to partially tax exempt interest.

*Regulated Investment Company*—means any domestic corporation (other than a personal holding) which at all times during the taxable year is registered under the Investment Company Act of 1940 as amended, either as a management company or as a unit investment trust; or, which is a common trust fund or similar fund excluded by Sec. 3(c)(3) of the Investment Company Act from the definition of "investment company" and is not included in the definition of "common trust fund" by Sec. 584(a).

*Limitations*—a corporation shall not be considered a regulated investment company for any taxable year unless (1) it files with its return for the taxable year an election to be a regulated investment company, or has made such an election for a previous taxable year which began after December 31, 1941; (2) at least 90% of its gross income is derived from dividends, interest, and gains from the sale or other disposition of stock or securities; (3) less than 30% of its gross income is derived from the sale or other disposition of stock or securities held for less than 3 months; and (4) at the close of each quarter of the taxable year—(A) at least 50% of the value of its total assets is represented by (1) cash and cash items, Government securities and securities of other regulated investment companies and (2) other securities for purposes of this calculation limited, except and to the extent provided in Sec. 851(e), in respect of any one issuer to an amount not greater in value than 50% of the value of the total assets of

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the taxpayer and to not more than 10% of the outstanding voting securities of such issuer, and (B) not more than 25% of the value of its total assets if invested in the securities (other than Government securities or the securities of other regulated investment companies) of any one issuer, or of two or more issuers which the taxpayer controls and which are determined to be engaged in the same or similar trades or businesses.

*Investment Company Taxable Income*—shall be adjusted as follows: (A) the excess, if any, of the net long-term capital gain over the net short-term capital loss shall be excluded; (B) the net operating loss deduction shall not be allowed; (C) the special deductions allowed corporations, relating to the deductions for dividends, and partially tax exempt interest shall not be allowed; and, (D) the deduction for dividends paid (without regard to capital gains dividends) shall be allowed.

*Capital Gains*—in addition to the tax imposed upon the investment company taxable income there is imposed for each taxable year in the case of every regulated investment company a tax of 25% of the excess, if any, of the net long term capital gain over the sum of the net short-term capital loss, and the deduction for dividends paid determined with reference to capital gains dividends only.

*Capital Gains Dividends*—a capital gains dividend means any dividend which is designated by the company as a capital gain dividend in a written notice mailed to its shareholders not later than 30 days after the close of its taxable year. If the aggregate amount so designated with respect to a taxable year is greater than the excess of the net long-term capital gain over the net short-term capital loss of the taxable year, the portion of each distribution which shall be a capital gain dividend shall be only that proportion of the amount so designated which such excess of the net long-term capital gain over the net short-term capital loss bears to the aggregate amount so designated.

*Treatment By Shareholder of Capital Gains Dividends*—the shareholder will include in his tax return the amount of the capital gains dividends as long-term capital gains. To the extent the 25% tax has been paid by the regulated investment company, the tax will be deemed to have been paid by the shareholder and
he will be allowed a credit therefor in computing his own tax. Because the dividends on which the tax has been paid by the company will not in fact be actually distributed to the shareholder, the basis of his shares will be increased by 75% of the amount required to be included in his return as a capital gains dividend in computing his capital gains.

Method and Time of Reporting—every regulated investment company shall maintain in the internal revenue district in which it is required to file its income tax return permanent records showing the information relative to the actual owner of its stock contained in the written statements required by Sec. 852 to be demanded from the shareholders. Such records shall be kept at all times available for inspection by any internal revenue officer or employee so long as the contents thereof may become material in the administration of any internal revenue law. An annual Corporation Income Tax Return, Form 1120 must be filed. The requirements are the same as for Sec. 11, see page 382. Notwithstanding the provisions relating to record requirements, annual information returns, Form 1096 and 1099 are required to be filed in the case of dividend payments of $10 or more to any shareholder. These forms are required to be filed by February 28, following the year of the dividend distribution. In addition, Notice to Shareholder of Undistributed Long-Term Capital Gains, Form 2439 must be prepared for every shareholder for whom tax has been paid on undistributed capital gains.

Method and Time of Payment—the requirements are the same as for Sec. 11, shown on page 382.

Sec. 871. Tax on Nonresident Alien Individuals.

(A) Nonresident alien individuals not engaged in trade or business within the United States at any time within the taxable year and deriving in the taxable year not more than $15,400 gross amount from sources within the United States consisting of fixed or determinable annual or periodical income, plus certain amounts considered to be capital gains, and the net amount of capital gains is subject to a tax of 30% (except on specific items of income at reduced rates under a tax convention).

Not Engaged in Trade or Business—extends to personal services performed for an office or place of business maintained
by a domestic corporation in a foreign country or in a possession of the United States which requires that a non-resident alien individual be temporarily present in the United States for a period or periods not exceeding a total of 90 days during the taxable year and whose compensation for such services does not exceed in the aggregate $3,000. It also extends to brokerage and commodity exchange transactions conducted for aliens not physically present in the United States and not having an office or place of business in the United States.

**Amounts Considered To Be Capital Gains**—include certain distributions under employees' trusts, timber and coal disposals with retained economic interest, and sales and exchanges of patents.

**Capital Gains**—are the same in nature as defined for citizens or residents of the United States. However, such are not taxable to a non-resident alien who has not been physically present in the United States at any time during the taxable year. For those who have been physically present for a period of less than 90 days capital gains are taxable to the extent that they are derived from sources within the United States from sales and exchanges effected while such alien is present in the United States. For those present for more than 90 days the gains are taxable on all sales and exchanges effected during the taxable year even though such individual is not present in the United States at the time of such sale or exchange.

To the extent that such gains are taxable they are taken into account on the same basis that they would be recognized as if engaged in trade or business within the United States. However, the 50% deduction for long-term gains and the capital loss and capital loss carry-over will not be allowed.

**Method and Time of Reporting**—every non-resident alien individual not engaged in trade or business within the United States and not having more than $15,400 gross income from sources within the United States must file a Non-resident Alien Income Tax Return, Form 1040 NB, on or before the 15th day of the sixth month following the close of the taxable year with the Director of International Operations, Internal Revenue Service, Washington 25, D. C.
Method and Time of Payment—the tax must be paid in full when the return is filed, with the check or money order payable to "Internal Revenue Service". Proper credit will, of course, be taken for tax paid at source (See Sec. 1441, page 409).

(B) Non-resident alien individuals not engaged in trade or business within the United States and having more than $15,400 gross amount from sources within the United States as described in (A) above are subject to the rates of tax imposed by Sec. 1 (See page 385) on Sec. 1201 (See page 405) with a minimum of 30% of the specified amounts derived from sources within the United States. These rates apply to all cases not limited by convention (the countries with which conventions are in effect are listed in the official instructions accompanying Form 1040 NB).

Method and Time of Reporting—non-resident alien individuals having more than $15,400 gross amounts from sources within the United States whose tax is limited by convention are required to file Form 1040 NB. Those not limited by convention are required to file Form 1040 NB-a. The time and place of filing is the same as described under (A) above.

Method and Time of Payment—the payment requirements are the same as described under (A) above.

(C) Non-resident alien individuals engaged in trade or business within the United States are taxable on their income from sources within the United States at the rates prescribed for Sec. 1 (see page 385) and Sec. 1201 (see page 405).

Method and Time of Reporting—a Non-resident Alien Income Tax Return, Form 1040 B, must be filed on or before the 15th day of the sixth month following the close of the taxable year with the Director of Internal Revenue in which is located the principal place of business in the United States.

Method and Time of Payment—the payment requirements are the same as described under (A) above.

Special Rules—The official instructions set forth the rules relating to residents of Canada and Mexico and provide the citations in respect to conventions in effect with Australia, Belgium, Canada, Denmark, Federal Republic of Germany, Finland, France, Greece, Honduras, Ireland, Italy, Japan, the Netherlands,
Netherlands Antilles, New Zealand, Norway, Sweden, Switzerland, Union of South Africa, and the United Kingdom.

Sec. 881. **Foreign Corporations Not Engaged in Business in the United States.**

In the case of every foreign corporation *not engaged in business* within the United States, there is imposed for each taxable year, in lieu of the taxes imposed by Sec. 11 (page 382), a tax of 30% of the amount received from sources within the United States as interest (except interest on deposits with persons carrying on banking business) dividends, rents, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable annual or periodical gains, profits, and income (including amounts considered to be gains from the sale or exchange of capital assets).

*Not Engaged in Trade or Business*—the effecting, through a resident broker, commissioner, agent, or custodian, of transactions in the United States in stocks and securities, or in commodities (if of a kind customarily dealt in on an organized commodity exchange, if the transaction is of the kind customarily consummated at such place, and if the foreign corporation has no office or place of business in the United States at any time during the taxable year through which or by the direction of which such transaction in commodities are effected) is not considered as engaged in trade or business in the United States.

*Method and Time of Reporting*—if the tax has not been fully collected at source (Sec. 1441, page 409), an Income Tax Return of Nonresident Foreign Corporation, Form 1120 NB, should be filed. If the tax has been fully satisfied, no return is necessary. If a return is filed it should include only the income on which the tax has not been fully collected at the source. If Form 1120NB is used to support a claim for refund on account of excessive withholding or other reasons, then all income from sources within the United States should be included even though the tax thereon has been fully satisfied at the source.

If a return on Form 1120 NB is required it must be filed with the Director of International Operations, Internal Revenue Service, Washington 25, D. C. on or before the 15th day of the sixth month following the close of the taxable year.
Method and Time of Payment—The tax must be paid in full when the return is filed, or in two installments, as follows: 50% on or before the 15th day of the sixth and ninth months, respectively following the close of the taxable year.

Special Rules—if the corporation is created under the laws of any of the countries with which a tax convention is in effect reference should be made to those conventions. Citations in respect to them are shown on the official instructions accompanying Form 1120 NB.

Sec. 882. Resident Foreign Corporations.

A foreign corporation engaged in trade or business within the United States shall be taxable as provided by Sec. 11, relating to domestic corporations.

The gross income to be included is limited to that from sources within the United States. Deductions from gross income shall be allowed only if and to the extent they are connected with income from sources within the United States, with the exception of charitable contributions which, subject to the limitations for domestic corporations, shall be allowed whether or not connected with income from the United States. The credit for foreign taxes shall not be allowed.

Method and Time of Reporting—if the foreign corporation has no office or place of business within the United States, but has an agent in the United States, the return shall be made by the agent. Every resident foreign corporation, whether or not having any taxable income, must file a Corporation Income Tax Return, Form 1120. The time and place of filing are the same as for domestic corporations described under Sec. 11, shown on page 382.

Method and Time of Payment—the requirements are the same as for Sec. 11, shown on page 383.

Sec. 891. Doubling of Rates of Tax on Citizens and Corporations of Certain Foreign Countries.

Whenever the President finds, that under the laws of any foreign country, citizens or corporations of the United States
are being subjected to discriminatory or extra-territorial taxes the President shall so proclaim and the rates of tax imposed by

Sec. 1. Rates of Tax on Individuals (See page 375)
Sec. 3. Optional Tax If Adjusted Gross Income is Less than $5,000 (See page 380)
Sec. 11. Corporations in General (See page 382)
Sec. 802. Life Insurance beginning in 1955 and 1956
Sec. 811. Life Insurance beginning after Dec. 31, 1956, (See page 392)
Sec. 821. Mutual Insurance Companies (Other than Life) (See page 394)
Sec. 831. Insurance Companies (Other than Life or Mutual (See page 396)
Sec. 852. Regulated Investment Companies (See page 398)
Sec. 871. Non-resident Alien Individuals (See page 400)
Sec. 881. Foreign Corporations Not Engaged in Business in United States (See page 403)

shall, for the taxable year during which such proclamation is made and for each taxable year thereafter, be doubled in the case of each citizen and corporation of such foreign country. In no case will the increase result in a tax of more than 80% of the taxable income computed without regard to personal exemptions and dependents' credits. When the discriminatory provisions have been modified the President will, by proclamation, remove the increased tax.

Methods of reporting and payment are the same as for each of the sections affected as listed above.

Sec. 1201. Alternative Capital Gains Tax.

Corporations—if for any taxable year the net long-term capital gain of any corporation exceeds the net short-term capital loss, then, in lieu of the normal tax and surtax rates, there is imposed upon such excess a tax of 25%, if such tax is less than would be due under the normal tax and surtax rates.

Other Taxpayers—if for any taxable year the long-term capital gain of any taxpayer (other than a corporation) exceeds the net short-term capital loss, then, in lieu of the normal tax and
surtax rates, there is imposed upon one-half of such excess a tax of 25%, if such tax is less than would be due on one-half of such excess under the normal tax and surtax rates.

**Long-term Capital Gain**—means the gain from the sale or exchange of a capital asset held for more than 6 months.

**Short-term Capital Loss**—means loss from the sale or exchange of a capital asset held for not more than 6 months.

**Capital Asset**—means property held by the taxpayer (whether or not connected with his trade or business) but does not include (1) stock in trade of the taxpayer or other 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, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business; (2) property, used in his trade or business, of a character which is subject to the allowance for depreciation, or real property used in his trade or business; (3) a copyright, a literary, musical, or artistic composition, or similar property, held by (A) a taxpayer whose personal efforts created such property, or (B) a taxpayer in whose hands the basis of such property is determined, for the purpose of determining gain from a sale or exchange, in whole or in part by reference to the basis of such property in the hands of the person whose personal efforts created such property; (4) accounts or notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of property for sale to customers; or (5) an obligation of the United States or any of its possessions, or of a State or Territory, or any political subdivision thereof, or of the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding one year from the date of issue.

**Method and Time of Reporting**—the tax is required to be reported on Schedule of Gain and Losses from Sales or Exchanges of Property—Schedule D, Form 1120, for corporations; and, on Schedule D, Form 1040, for individuals. Similar schedules are provided for estates and trusts to accompany Form 1041, and for partnerships to accompany Form 1065.

**Method and Time of Payment**—the requirements for payments are the same as for the tax return forms of which the
schedules are a part. (See Sec. 1(a) page 375; Sec. 11, page 382; and Sec. 641, page 391.)

Sec. 1361. **Unincorporated Business Enterprise Electing to be Taxed as a Domestic Corporation.**

The unincorporated business enterprise, subject to and making the *election* to be taxed as a corporation shall be liable for the normal tax and surtax imposed by Sec. 11 (see page 382); the accumulated earnings tax imposed by Sec. 531 (see page 387); and, the alternative tax for capital gains imposed by Sec. 1201 (see page 405).

**Election**—the election may not be made unless at all times during the period after the first taxable year to which the election applies (1) such enterprise is owned by an individual, or by a partnership consisting of not more than 50 individual members; (2) no proprietor or partner having more than a 10 percent interest in profits or capital of such enterprise is a proprietor or a partner having more than a 10 percent interest in profits or capital of any other unincorporated business enterprise taxable as a domestic corporation; (3) no proprietor or partner of such enterprise is a nonresident alien or a foreign partnership; and (4) such enterprise is one in which capital is a material income producing factor, or 50% or more of the gross income of such enterprise consists of gains, profits, or income derived from trading as a principal or from buying and selling real property, stock, securities, or commodities for the account of others.

**Time of Election**—not later than 60 days after the close of the taxable year by the proprietor or all the partners having an interest in the enterprise at any time on and after the first day of the first taxable year to which the election applies.

**Duration of the Election**—the election is irrevocable with respect to an enterprise as to which such election has been made and the proprietor or partners of such enterprise; and any unincorporated successor to the business of such enterprise and the proprietor or partners of such successor, except in any year in which the electing proprietor or partners have an interest of 80 percent or less in profits and capital of an enterprise such enterprise shall not be considered a domestic corporation for such
year or for subsequent years unless the proprietor or partners of such enterprise made a new election.

*Method and Time of Reporting*—proprietorships and partnerships properly electing to be taxed as corporations are required to file Corporation Income Tax Returns, Form 1120, on or before the 15th day of the third month following the close of the taxable year.

*Method and Time of Payment*—the requirements are the same as for Sec. 11 as shown on page 383.


In addition to other taxes, there is imposed for each taxable year, on self-employment income of every individual, a tax as follows:

*Rates of Tax*—3½ percent for taxable years beginning after December 31, 1956, and before January 1, 1960; 4½ percent after December 31, 1959 and before January 1, 1965; 4% percent after December 31, 1964 and before January 1, 1970; 5% percent after December 31, 1969 and before January 1, 1975; and, 6% percent after December 31, 1974.

*Self-Employment Income*—is generally the net income derived from the operation of a business or profession as a sole proprietor, independent contractor, or partnership, exclusive of:

1. capital gains and losses from the sale of investment property;
2. gain or loss from the sale of depreciable property or other fixed assets used in business;
3. gain or loss from cutting timber, if elected to treat the cutting as a sale or exchange;
4. gain or loss on sale, trade, or involuntary conversion (including casualty losses), or other disposition of property which is neither stock in trade nor held primarily for sale to customers;
5. rental income (unless received in the course of business as a real estate dealer, or unless services are also rendered to the tenant or occupant);
6. interest income (unless received in connection with a trade or business, such as interest on accounts receivable); and,
7. dividends (except by security dealers). Neither are items such as wages received as an employee; net operating loss deduction; non-business deductions; the standard deduction; and, personal exemptions to be taken into account.
If the net self-employment income is under $400, the tax does not apply. If $400 or over it applies to all the income up to $4,200.

Method and Time of Reporting—all individuals covered for self-employment purposes by the Federal Insurance Contributions Act whose self-employment income is $400 or more must file a return on Schedule SE of the Individual Income Tax Return, Form 1040, on or before April 15 of the year following the close of the taxable year, if on a calendar year basis. If on a fiscal year basis the return should be filed on or before the 15th day of the fourth month following the close of the taxable year. (See Sec. 1(a) page 375). The return must be filed with the Director of Internal Revenue in the district in which he lives. The return is required even though the self-employed person may not have sufficient income to require the filing of an income tax return or is already receiving social security benefits.

Method and Time of Payment—the tax must be paid in full at the time the return on Schedule SE, of Form 1040 is filed. If desired, the taxpayer may include this tax in his declaration of estimated tax on Form 1040 ES, but is not required to do so. For the estimated tax procedure, see Sec. 1(a) page 375.

Sec. 1441. Withholding of Tax on Nonresident Aliens.

All persons, in whatever capacity acting, having the control, receipt, custody, disposal, or payment of the items of income described below, of any non-resident alien individual, or partnership not engaged in trade or business within the United States, shall deduct and withhold from such items a tax equal to 30% thereof.

Every person required to deduct any tax is made liable for such tax and is indemnified against the claims and demands of any person for the amount of any payment which he is required to make.

Items of Income—interest, dividends, rents, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable annual or periodical gains and profits, including gain from the sale of capital assets involving patents and distributions by an employee's trust, subject to certain limitations and exemptions described below.
Limitations and Exemptions—(1) In order to be subject to the tax, the items must constitute gross income from sources within the United States; (2) interest or deposits with persons carrying on the banking business paid to persons not engaged in business in the United States is not subject to withholding; (3) interest on tax-free covenant bonds issued before Jan. 1, 1934 in which the obligor agrees to pay any and all income taxes are subject to a withholding rate of only 20% as contrasted with the 30% rule; (4) no withholding is required in the case of dividends paid by a foreign corporation unless (A) such corporation is engaged in trade or business within the United States, and (B) more than 85% of the gross income of such corporation for the 3 year period ending with the close of its taxable year preceding the declaration of such dividends was derived from sources within the United States; (5) no deduction is required in the case of amounts of per diem for subsistence paid by the United States Government to any non-resident alien individual who is engaged in any program of training in the United States under the Mutual Security Act of 1954 as amended; and, (6) rates, other than 30%, are applicable to dividends and interest when paid to citizens of various foreign countries with which tax treaties or conventions are in effect. These rates are shown in the instruction portion of the United States Annual Return of Income Tax to be Paid at Source, Forms 1042 and 1013.

Method and Time of Reporting—United States Annual Return of Income Tax to be Paid at Source, Form 1042, is required to be forwarded to the Director of International Operations, Internal Revenue Service, Washington 25, D. C., on or before March 15, following the calendar year during which the payments reported thereon are made. It is required of all individuals, corporations, and partnerships making payments as described above (except bond interest and compensation for personal services of residents of Canada and Mexico who enter and leave the United States at frequent intervals which payments should be reported on Form 941.

Payments of bond interest are required to be reported on United States Quarterly Return of Ownership Certificate and Income Tax, Form 1012, and on an annual return, Form 1013. The quarterly return, Form 1012, is to be accompanied by the ownership certificates made out by the bond owner, or his agent,
at the time of presenting the interest item for collection. The ownership certificates are Forms 1000, 1001, 1001-B, 1001-C, 1001-D, 1001-FIN, 1001-G, 1001-GER, 1001-IR, 1001-J, 1001-N, 1001-NO, 1001-3, and 1001-UR. The quarterly return, Form 1012, accompanied by the ownership certificates, must be filed with the Director of Internal Revenue, Baltimore 2, Md., on or before the last day of the month following the close of the quarter.

The annual return, Form 1013, must be filed with the Director of International Operations, Internal Revenue Service, Washington 25, D. C., on or before March 15, following the year in which the interest payments were made.

Method and Time of Payment—in the case of both annual returns, Form 1013 and 1042, the tax shown to be due thereon must be paid at the time the returns are filed.

Sec. 1442. Withholding of Tax on Foreign Corporations.

In the case of foreign corporations subject to taxation which are not engaged in business within the United States, there shall be deducted and withheld at the source a tax equal to 30% of the items of income described under Sec. 1441 on page 409.

Method and Time of Reporting—the requirements are the same as described under Sec. 1441 shown on page 409.

Method and Time of Reporting—the requirements are the same as described under Sec. 1441 shown on page 409.

Sec. 2001. Estates of Citizens or Residents.

A tax is imposed on the transfer of the taxable estate of every decedent, citizen, or resident of the United States dying after August 16, 1954.

Taxable Estate—is determined by deducting from the value of the gross estate the amount of the authorized exemption and deductions.

Gross Estate—includes the total value of all property whether real or personal, tangible, or intangible, the beneficial ownership of which was in the decedent at the time of his death, except real property situated outside the United States. Included are certain
transfers made during the decedent’s life without an adequate and full consideration in money or money’s worth, annuities, joint estates with right of survivorship and tenancies by the entirety proportionate to the decedent’s contribution in the acquisition of the properties, life insurance owned by the decedent even though payable to beneficiaries other than the estate, property over which the decedent possessed a general power of appointment, dower or curtesy (or statutory estate in lieu thereof) of the surviving spouse. The value of every item of property includible in the gross estate is the fair market value thereof either at the time of the decedent’s death, or at the election of the executor, one year after the decedent’s death.

**Exemption**—the allowed exemption from the gross estate is $60,000.

**Deductions Allowed**—deductions are allowed from the gross estate for (A) debts, expenses and certain types of losses authorized by the laws of the jurisdiction in which the estate is administered and restricted to funeral expenses, administration expenses, claims against the estate, indebtedness (including unpaid mortgages in respect to property or in interest in property of the decedent included in full in the gross estate); (B) the net amount of all bequests, legacies, devises or transfers (1) to or for the use of the United States, any State, Territory, and political subdivision thereof, or the District of Columbia, for exclusively public purposes; (2) transfers 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 carrying on propaganda, or otherwise attempting to influence legislation; (3) to a trustee or trustees, or a fraternal society, order, or association operating under the lodge system if the contributions or gifts are to be used as indicated in (2) above; and (4) to or for the use of any veterans’ organization incorporated by Act of Congress, or of its departments or local chapters or posts, no part of the net earnings of which inures to the benefit of any private shareholder or individual; and (C) for the value of any property included in the estate which passes in fee from the decedent to his surviving spouse. The
amount of the marital deduction is limited to 50% of the adjusted gross estate (gross estate less the sum of deductible expenses, claims and unpaid mortgages, unless the community property rule applies). The amount is determined by the value at the date of the decedent’s death, or at the optional date, of the interest passing to the surviving spouse. This deduction is allowed irrespective of the surviving spouse’s status as a non-resident alien. Liability for payment of the tax is imposed upon the executor.

Rates of Tax—imposed on the transfer of the taxable estate are as follows: 3% on the first $5,000; 7% on the second $5,000; for each successive $10,000 up to $60,000, the rates are 14, 18, 22, and 25% respectively; from $60,000 to $100,000, 28%; from $100,000 to $250,000, 30%; for each successive $250,000 up to $1,500,000 the rates are 32, 35, 37, 39 and 42%, respectively; for each successive $500,000 up to $4,000,000 the rates are 45, 49, 53, 56 and 59% respectively; for each successive $1,000,000 up to $8,000,000 the rates are 63, 67, 70, and 73% respectively; from $8,000,000 to $10,000,000, 76%; and over $10,000,000, 77%.

Credits to Tax Computed on Taxable Estate—four credits are allowed against the tax. Sec. 2011 provides a credit for estate, inheritance, legacy, or succession taxes paid as the result of the decedent’s death to any State, Territory, the District of Columbia, or possession of the United States, with respect to property included in the gross estate. The credit cannot exceed an amount which is computed by means of the table incorporated into Sec. 2011 (b), based on the value of the taxable estate. The anticipated amount of the credit may be entered on the return and the Federal estate tax shown on the return computed in accordance therewith before the State death taxes have been paid, but the credit cannot finally be allowed unless the State death taxes are actually paid and the credit therefor is claimed within 4 years after the return is filed and evidence that the taxes have been paid is submitted. Sec. 2012 provides a credit for Federal Gift taxes imposed by Chapter 12 of the Code on the transfer from the decedent of property which is included in the gross estate. The credit cannot exceed that portion of the gross estate less the credit for State death taxes that the value of the included gift bears to the entire gross estate, reduced by the total deduction allowed for charitable, public and similar gifts and bequests and

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as a marital deduction. Under Sec. 2013 if the decedent received property from a transferor who died within 10 years before, or 2 years after, the decedent, a credit is allowed for all or a part of the Federal estate tax paid by the transferor's estate with respect to the transfer. The maximum amount of credit is the smaller of: (a) the amount of the estate tax of the transferor's estate pertaining to the transfer, or (b) the amount by which (A) an estate tax on the decedent's estate, determined without regard to the credit provided for in Sec. 2013 exceeds (B) an estate tax on the decedent's estate determined by excluding from the gross estate the net value of the transfer. Where credit for a particular foreign death tax may be taken under either the statute or a death duty convention and the credit actually is taken under the convention, then no credit for that foreign death tax may be taken into consideration in computing the tax under (A) or (B) above. Sec. 2014 provides a credit for (a) death taxes paid to a foreign country under the provisions of a treaty applicable to the estate of a citizen or resident of the United States or (b) estate, inheritance, legacy, or succession taxes paid to a foreign country or its possession or political subdivision in respect to property situated in that country and included in the gross estate of a citizen or resident of the United States. The total amount of the credit allowed in respect to any property, whether subjected to tax by one or more than one foreign country, is limited to the amount of the estate tax attributable to such property. Sec 2015 provides a credit for death taxes on remainders where an election is made under Sec. 6163(a) to postpone payment of the tax imposed by Sec. 2001 or 2101.

Special Computation of "Basic" and "Additional" Taxes—has been retained from the 1939 Code to permit the computation of taxes for estates of servicemen which are exempt from what was formerly described as the "additional estate tax".

Method and Time of Reporting—the Estate Tax Return, Form 706 must be filed by the executor or administrator for the estate of every citizen or resident of the United States whose gross estate exceeded $60,000 in value at the date of death. The return is due 15 months after the date of the decedent's death. It must be filed with the District Director of Internal Revenue in whose district the decedent had his domicile at the time of death.
If the executor or administrator is unable to make a complete return with respect to any part of the decedent's gross estate, he must include in his return a description of such part and of every person holding a legal or beneficial interest in such part. Such legal or beneficial owners must then make returns as to that part of the estate upon notice from the District Director. If there is no executor or administrator, the duty to file is imposed on every person actually or constructively in possession of any property of the decedent.

A Preliminary Notice must be filed by a person in actual or constructive possession of property included in the gross estate within two months after decedent's death, except that, if an executor or administrator qualifies within such period, the notice may be filed within two months after his qualification. For this purpose, Form 704 is filed in duplicate with the District Director for the district in which the decedent had his last domicile.

Method and Time of Payment—The tax must be paid in full when the return is filed, unless an extension of time for payment has been granted by the District Director.

Sec. 2101. Estates of Nonresidents Not Citizens.

A tax is imposed on the transfer of the taxable estate of every decedent nonresident not a citizen of the United States dying after August 16, 1954.

Taxable Estate—is determined by deducting from the value of that part of the gross estate which at the time of the decedent's death is situated in the United States the amount of the authorized exemption and deductions.

Gross Estate—is established in the same manner as for a citizen or resident as shown in Sec. 2001 on page 411, except that there is included therein only property which at the time of death is situated in the United States. To be includible, property must have a definitely established location in the United States. Specifically excluded from the definition of property situated within the United States are (1) proceeds of insurance on the life of a nonresident alien; (2) bank deposits by or for a nonresident alien decedent who was not engaged in business in the United States at the time of his death; (3) works of art, owned
by a nonresident alien, which were imported into the United States solely for exhibition purposes or on loan to any public gallery or museum in the United States; and obligations of the Federal government issued before March 1, 1941.

**Exemption**—a specific exemption of $2,000 is allowed from the gross estate.

**Deductions Allowed**—all deductions allowed to a resident or citizen under Sec. 2001, except the marital deduction, are permitted provided the return includes (apparently for information only) the value of that part of the gross estate which is not situated in the United States. However, treaty provisions between the United States and Canada, France, and the United Kingdom allow the marital deduction for citizens of these countries. The deductions for funeral expenses, administration expenses, claims against the estate, unpaid mortgages, liens and other charges against the estate are limited to that portion of such charges which the part of the gross estate situated in the United States bears to the value of the entire gross estate wherever situated. The deduction for charitable transfers does not include transfers made to a corporation for charitable, etc., purposes unless the corporation is a domestic one; nor does it include those made to trustees for similar purposes unless the property transferred is to be used within the United States. Liability for payment of the tax is imposed upon the executor.

**Rates of Tax**—are imposed at the same rate as for Sec. 2001 as shown on page 413.

**Credits to Tax Computed on Taxable Estate**—are the same as those shown for Sec. 2001 relating to state death taxes, gift tax, and the tax on prior transfers (Secs. 2011 to 2013 inclusive).

**Method and Time of Reporting**—the Nonresident Alien Estate Tax Return, Form 706NA, or the Estate Tax Return, Form 706, must be filed by the executor or administrator for the estate of a nonresident alien if the part of his gross estate situated in the United States exceeded a value of $2,000 at the date of death. The return is due 15 months after the date of the decedent's death. It must be filed with the Director of International Operations, Internal Revenue Service, Washington 25, D. C., U. S. A.
Form 706NA does not provide space for information required for deductions for charitable transfers, or for gift tax credit or credit for tax on prior transfers, and does not contain instructions as to powers of appointment and intervivos transfers reached by statute. Form 706 should be used in such cases.

Incomplete or partial returns of executors or administrators and filing requirements for legal or beneficial owners are governed by the same conditions as for Sec. 2001 shown on page 415.

A Preliminary Notice as described in Sec. 2001, page 415, must be filed on Form 705 with the District Director in whose district any part of the gross estate is located. Where assets are in more than one district, the notice should be filed with the District Director for the Second District of New York.

Method and Time of Payment—the tax must be paid in full when the return is filed, unless an extension of time for payment has been granted by the District Director.

Sec. 2501. Transfer By Gift.

A tax is imposed on the transfer of property by gift during the calendar year by any individual, resident or nonresident, except transfers of intangible property by a nonresident who is not a citizen of the United States and who was not engaged in business in the United States during the calendar year.

Taxable Gift—means the total amount of gifts made during the calendar year less the authorized deductions and exemptions.

Total Amount of Gifts Made—includes every transfer of money or property, whether made as a sale or otherwise, from one person to another without adequate and full consideration in money or money's worth. If the gift is made in property, its value at the date of the gift is considered the amount of the gift. Where property is transferred for less than an adequate and full consideration in money or money's worth, then the amount by which the value of the property exceeded the value of the consideration is deemed a gift, unless the transaction was conducted at "arms length" in the regular course of business.
Deductions and Exemptions Allowed—to the donor from the gross value of the gifts are as follows: (1) an annual exclusion up to $3,000 for each donee for all gifts except future interests in property (Sec. 2503(B)); (2) one specific lifetime exemption of $30,000 which may be used in whole or in part in any year (Sec. 2521); (3) the amount of gifts to charitable, etc. organizations (Sec. 2522); and (4) a marital deduction for gifts made to spouse after April 2, 1948 (Sec. 2523).

Rates of Tax—are imposed as follows: 2% on the first $5,000; 5 1/2% on the second $5,000; for each successive $10,000 up to $60,000 the rates are 8 1/4, 10 1/2, 13 1/2, 16 1/2 and 18 3/4% respectively; from $60,000 to $100,000, 21%; from $100,000 to $250,000 22 1/2%; for each successive $250,000 up to $1,500,000 the rates are 24, 26 1/4, 27 3/4, 29 1/2 and 31 1/2% respectively; for each successive $500,000 up to $4,000,000 the rates are 33 1/3, 36 2/3, 39 4/12, 42 and 44 1/4%, respectively; for each successive $1,000,000 up to $8,000,000 the rates are 47 1/4, 50, 52 1/2 and 54 3/4% respectively; from $8,000,000 to $10,000,000, 57%, and over $10,000,000, 57 1/2%.

Split Gifts—if the donor was married at the time of a gift made to a third person, the spouse may elect to consider the gift as having been made one-half by each spouse. This permits each to claim an annual exclusion and use the specific exemption, as applicable, with respect to each half, as well as the splitting of the gift tax brackets similar in effect to that of a joint income tax return. This election is available only if both spouses are citizens or residents of the United States and signify their consent on the returns to be filed by each. Liability with respect to the entire gift tax of each spouse is joint and several.

Liability for Tax—is on the donor, but the gift tax is a lien on the property transferred for 10 years after the gift is made, and if the tax is not paid the donee may be personally liable to the extent of the value of the gift.

Method and Time of Reporting—The Gift Tax Return, Form 709, must be filed on or before the 15th day of April following the close of the calendar year in which the gifts were made. The required return cannot be filed prior to the close of the calendar year in which the gifts were made unless the return is for a deceased donor. The return should be filed with the Dis-
trict Director of Internal Revenue for the district in which is located the legal residence or principal place of business of the donor, or, if he has neither, with the Director of International Operations, Internal Revenue Service, Washington 25, D. C.

The return must be filed by (1) any individual citizen or resident of the United States who within the calendar year made gifts to any one donee of more than $3,000, if not of a future interest in property, or of any amount if the gift is of a future interest; (2) a nonresident, not a citizen of the United States, but engaged in business in the United States, if the subject of the gift consisted of property situated in the United States; and (3) a nonresident, not a citizen of the United States, and not engaged in business in the United States, if the subject of the gift consisted of tangible property situated in the United States. However, where gifts are made by trusts, estates, partnerships, or corporations, the individual trust beneficiaries, partners, or stockholders may in fact be the donors and may incur liability under the Federal Gift Tax law.

Where the donor dies before filing his return, the executor of his will or the administrator of his estate must file the return.

Donees or trustees receiving during the calendar year gifts in excess of $3,000, or gifts of future interests in property regardless of value (except for charitable, public and similar gifts as to which notice is not required) must file information return Form 710, Gift Tax, Donee’s or Trustee’s Information Return of Gifts.

Method and Time of Payment—the tax must be paid to the District Director on or before the 15th day of April following the close of the calendar year in which the gifts were made, unless an extension of time for payment is granted by the District Director.

Sec. 3101. Tax on Employees.

In addition to other taxes, there is imposed on the income of every individual a tax equal to the following percentages of the wages received by him with respect to employment: 1957 through 1959, 2% percent; 1960 through 1964, 2¾ percent; 1965 through 1969, 3¼ percent; and 1970 through 1974, 3¾ percent.

Wages—means all remuneration for employment, including
the cash value of all remuneration paid in any medium other than cash which is not in excess of $4,200 during a calendar year.

**Employment**—means all occupations covered under the Federal Insurance Contributions Act.

The **Tax Imposed**—shall be collected by the employer of the taxpayer, by deducting the amount of the tax from the wages as and when paid.

**Method and Time of Reporting**—every employer (except those noted below) who pays wages taxable under the Federal Insurance Contributions Act must make a quarterly return on Form 941 with the Director of Internal Revenue for his district. After the first return is filed, the Director of Internal Revenue will mail a Form 941 to the employer every three months. The return for each calendar quarter is due on or before the last day of the month following the close of the quarter. However, if the return is accompanied by depositary receipts, Form 450, showing timely deposits in full payment of the taxes due for the entire calendar quarter, the return may be filed on or before the tenth day of the second month following the quarter. Forms related to the quarterly returns, Form 941, are as follows: Form SS-4, Application for Employer's Identification Number; Form SS-5, Employers Application for Social Security Account Number; Form W-2, Withholding Tax Statement—Federal Taxes Withheld From Wages; Form SS-14, Receipt for Employee (for Social Security) where Form W-2 is not required; Form 941 c, Statement to Correct Information; and, 941 a, Continuation Sheets.

In lieu of Employer's Quarterly Tax Return, Form 941, employers of agricultural labor should use Employer's Annual Tax Return for Agricultural Employees, Form 943, if $100 or more cash wages are paid within the year to an agricultural employee. This return is due to be filed by January 31, of the year following that for which the return is made.

In lieu of Employer's Quarterly Tax Return, Form 941, employers of household workers may use Employer's Quarterly Tax Return of Household Employees, Form 942, if cash wages of $50 or more are paid within a calendar quarter.

**Method and time of payment**—the tax is due and payable with the filing of Form 941, namely, on or before the last day of
the month following the close of the quarter, except, when the return is accompanied by depositary receipts Form 450, showing timely deposits in full payment for the entire calendar quarter in which case the payments as evidenced by the depositary receipts may be made on or before the tenth day of the second month following the close of the quarter.

Payments by Depositary Receipts—each month the employer must add together the amount of employer tax and the employee tax under the Federal Insurance Contributions Act for such month and the amount of income tax withheld in such month. If the total for any month (except the third month of the quarter) exceeds $100, exclusive of taxes on household employees and agricultural employees, the amount of such taxes for such month must be deposited. A separate computation should be made of the taxes with respect to agricultural employees and if they exceed $100 a separate deposit should be made. To make the deposit, the employer should fill in a Federal Depositary Receipt, Form 450. Each Form 450 and a single remittance covering the amount of the taxes to be deposited should be sent to the Federal Reserve bank for the employer's district. If the employer prefers, he may send Form 450, with remittance, to a commercial bank authorized to accept such deposits for transmittal to the Federal Reserve bank. Checks or money orders covering deposits should be made payable to the Federal Reserve bank or authorized commercial bank.

Deposits for the first two months of any calendar quarter should be made within 15 days after the close of each such month. An employer may make a deposit for the last month of a quarter, but should do so in sufficient time for the Federal Reserve bank to return the validated receipt for filing with the quarterly return on Form 941.

If the taxpayer makes timely deposits sufficient to pay his full tax liability on his quarterly return on Form 941, he is allowed 10 additional days for filing his return beyond the due date for employers generally.

The employer's depositary receipt on Form 450 will be validated by the Federal Reserve bank and mailed back to him, together with a receipt form for use in making his next deposit. The validated receipts should be forwarded with the return to
which they relate and with other remittances, if any, to the Director of Internal Revenue for the employer's district.

Sec. 3111. _Tax on Employers._

In addition to other taxes, there is imposed on every employer an excise tax, with respect to having individuals in his employ, equal to the following percentages of the wages paid by him with respect to employment: 1957 through 1959, 2½ percent; 1960 through 1964, 2¾ percent; 1965 through 1969, 3¼ percent; and, 1970 through 1974, 3½ percent.

_METHOD AND TIME OF REPORTING_—The requirements are described under sec. 3101 shown on page 419.

_METHOD AND TIME OF PAYMENT_—The requirements are described under sec. 3101 shown on page 419.

Sec. 3201. _Railroad Retirement—Tax on Employees._

In addition to other taxes there is imposed on the income of every employee a tax equal to 6¼ percent of so much of the compensation paid to such employee after December 31, 1954, for services rendered by him after such date as is not in excess of $350 for any calendar month.

The tax imposed shall be collected by the employer of the taxpayer by deducting the amount of the tax from the compensation of the employee as and when paid. The employer is made liable for the payment of such tax and shall not be liable to any person for the amount of such payment.

_Employer_—means any carrier, such as, express company, sleeping car company, or carrier by railroad, subject to Part I of the Interstate Commerce Act; and, any company which is directly or indirectly owned or controlled by one or more such carriers which operates any equipment or facility or performs any service (except trucking service, casual service, and the casual operation of equipment or facilities) in connection with the transportation of passengers or property by railroad or the receipt, delivery, elevation, transfer in transit, refrigeration, or icing, storage, or handling of property transported by railroad; except that the term "employer" shall not include any street, interurban, or suburban electric railway, unless such railway is operating as a part
of a general steam-railroad system of transportation now or hereafter operated by any other motive power.

Method and Time of Reporting—employers are required to report the taxes deducted, plus the taxes imposed upon them (Sec. 3221, page 424), on the Employer's Railroad Retirement Tax Return, Form CT-1, on or before the last day of the second calendar month following the close of each quarter. The return is due even though no tax is payable. The return must be filed with the Director of Internal Revenue in which the principal office of the employer is located.

Method and Time of Payment—every employer who is liable for more than $100 in tax during a month should deposit such tax in a Federal Reserve Bank or an authorized local bank (See also Sec. 3101, page 419). Each deposit should be accompanied by a Receipt Form 515 which will be validated by the Federal Reserve Bank and returned to the employer. The validated receipts should be listed in Schedule A of Form CT-1 and forwarded with the return together with any remittance not covered by Form 515. All other employers should remit payments for the entire quarter with the return.

Sec. 3211. Tax on Employee Representatives.

In addition to other taxes there is imposed on the income of each employee representative a tax equal to 12½ percent of so much of the compensation, paid to such employee representative after December 31, 1954, for services rendered by him after such date as is not in excess of $350 for any calendar month.

The compensation of an employee representative for the purpose of ascertaining the tax shall be determined in the same manner as if the employee organization by which such employee representative is employed were an employer for purposes of the tax under Sec. 3201, see page 422.

Employee Representative—means any officer or official representative of a railway labor organization who is duly authorized and designated to represent employees in accordance with the Railway Labor Act, as amended, and any individual who is regularly assigned to or regularly employed by such officer or official representative in connection with the duties of such office.
Method and Time of Reporting—every employee representative must file a return for the first calendar quarter in which he is paid taxable compensation for services rendered as an employee representative, and for each subsequent quarter (whether or not he is paid taxable compensation therein) until he files a final return. The return must be filed with the Director of Internal Revenue for the district in which is located the legal residence or principal place of business of the employee representative. The return is due on or before the last day of the second month following the close of the quarter.

Method and Time of Payment—the tax shown to be due on the return must accompany the return when filed.

Sec. 3221. Tax on Employers.

In addition to other taxes, there is imposed on every employer an excise tax, with respect to having individuals in his employ, equal to 6⅔ percent of the compensation paid by such employer after December 31, 1954, as is, with respect to any employee for any calendar month, not in excess of $350; except that if an employee is paid compensation after December 31, 1954, by more than one employer for services rendered during any calendar month after 1954, the tax shall apply to not more than $350 of the aggregate compensation paid to such employee by all such employers after December 31, 1954, for services rendered during such month, and each employer other than a subordinate unit of a national railway labor organization employer shall be liable for that proportion of the tax with respect to such compensation paid by all such employers which the compensation paid by him after December 31, 1954, to the employee for services rendered during such month bears to the total compensation paid by all such employers after December 31, 1954, to such employee for services rendered during such month.

Employer—means the same as defined for Sec. 3201 shown on page 422.

Method and Time of Reporting—the requirements are the same as under Sec. 3201, shown on page 423.

Method and Time of Payment—the requirements are the same as under Sec. 3201 shown on page 423.
There is imposed on every employer who on each of some 20 days during the taxable year, each day being in a different calendar week, employed by him in employment for some portion of the day 4 or more persons, an excise tax, with respect to having individuals in his employ, equal to 3 percent of the total wages paid during the year.

Credit for Contributions Paid into State Funds—in general an employer may credit against the tax the amount of required contributions paid by him with respect to the calendar year under all State laws which have been duly approved: Provided, that no credit will be allowable for contributions under a State law if such State is not duly certified for the calendar year. The term “contributions” means payments required by a State law to be made into an unemployment fund by any person on account of having individuals in his employ, to the extent that such payments are made by him without being deducted or deductible from the remuneration of individuals in his employ. Contributions may be credited against the tax whether or not they are paid with respect to “employment.”

To be allowable as credit against the tax, contributions must have actually been paid into a State unemployment fund on or before the due date of the return or the due date as extended; except that contributions paid after the due date or the due date as extended, may be credited in an amount not to exceed 90 percent of the amount which would have been allowable as credit on account of such contributions had they been paid on or before such due date.

An employer who has been granted an “experience” rate lower than 2.7 percent by a State for the whole, or part, of the year may be entitled to an additional credit against the tax under Section 3302 (b) of the Federal Unemployment Tax Act. If the provisions of the State law under which a taxpayer has been granted a reduced rate are not certified, or are only partially certified, the amount of additional credit claimed on the return may be disallowed in whole or in part.

Method and Time of Reporting—every employer who had 4 or more employees on at least 1 day of each of 20 calendar
weeks in a calendar year must file an Annual Federal Tax Return of Employers, Form 940, with the Director of Internal Revenue for his district. Once a return has been filed the Director of Internal Revenue will thereafter mail to the employer a pre-addressed form near the close of the year.

Form 940 is due to be filed on or before January 31, with respect to the preceding calendar year, unless the employer obtains from the Director of Internal Revenue an extension of time within which to file the return.

Method and Time of Payment—The total tax due, as indicated by the return, must be paid in full with the return.

Sec. 3402. Collection of Income Tax at Source on Wages.

Every employer making payment of wages shall deduct and withhold upon such wages a tax equal to 18 percent of the amount by which the wages exceed the amount of withholding exemptions claimed in respect to each payroll period.

At the election of the employer with respect to any employee, the employer may use the wage bracket withholding tables to determine the amount to be withheld in lieu of the 18% rate. The wage bracket withholding tables as prescribed by Sec. 3402 (c) (1) closely approximate the 18% rate.

The employer shall be liable for the payment of the tax required to be withheld, and shall not be liable to any person for the amount of any such payment.

Method and Time of Reporting—the requirements are the same as described for Sec. 3101 shown on page 420. One additional form supplementary to the Employer's Quarterly Federal Tax Return, Form 941, is required in connection with income tax withholding that is not required for wage deductions under the Federal Insurance Contributions Act, namely, Reconciliation of Income Tax Withheld from Wages, Form W-3. Moreover, for purposes of advising the employer as to the number of exemptions for income tax withholding each employee is required to furnish the employer with an Employee's Withholding Exemption Certificate, Form W-4.

Method and Time of Payment—the requirements are the same as described for Sec. 3101 shown on page 420.