RETURN FORM MARKED "DUPLICATE" MUST BE FILED WITH THIS ORIGINAL RETURN

Form 1120 H
TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

(Auditor's Stamp)

RETURN OF PERSONAL HOLDING COMPANY

SUBJECT TO SURTAX UNDER SECTION 351 OF THE REVENUE ACT OF 1934

For Calendar Year 1935

or Fiscal Year begun _____, 1935, and ended _____, 1936

PRINT PLAINLY CORPORATION'S NAME AND BUSINESS ADDRESS

_____
(Name)

_____
(Street and number)

_____
(Post office and State)

It is Essential That This Form be Completely Filled in Irrespective of Any Statements, Schedules, or Reports Submitted Herewith

Do not write in these spaces

File Code _____

Serial Number _____

District _____

(Cashier's Stamp)

Cash Check M. O. Cert. of Ind.

First Payment

$_____

NOTE.—A return on this form must be made even though under section 351(d) of the Revenue Act of 1934 the surtax does not apply. In such event only Items 1 to 9 and Schedule D need be filled in. (See Instruction 12.)

Did any person or persons advise the corporation in respect of any question or matter affecting any item or schedule of this return, or assist or advise the corporation in the preparation of this return, or actually prepare this return for the corporation? _____ (Answer "yes" or "no") If so, give the name and address of such person or persons and state the nature and extent of the assistance or advice received and the items and schedules in respect of which the assistance or advice was received; if this return was actually prepared by any person or persons other than the corporation, state the source of the information reported in this return and the manner in which it was furnished to or obtained by such person or persons _____

The question above should be answered fully, and where the return is actually prepared by some person or persons other than the corporation, such person or persons must execute the affidavit at the foot of this page.

ADJUSTED NET INCOME (See Instruction 5)

1. Net income (as defined in Title I of the Revenue Act of 1934)			$
2. Dividends on stock of domestic corporations subject to taxation under Title I of the Revenue Act of 1934 (from Schedule A)			
3. TOTAL OF ITEMS 1 AND 2			$
4. Less: Federal income, war-profits, and excess-profits taxes (from Schedule B)	$		
5. Contributions or gifts (not deducted in computing Item 1) (from Schedule C)			
6. Losses from sale or exchange of capital assets (disallowed by section 117(d) of the Revenue Act of 1934)			
7. Income tax paid to a foreign country or U. S. possession (not deducted in computing Item 1)			
8. TOTAL OF ITEMS 4 TO 7			
9. ADJUSTED NET INCOME (Item 3 minus Item 8)			$

UNDISTRIBUTED ADJUSTED NET INCOME (See Instruction 5)

10. Adjusted net income (Item 9 above) (Enter in both columns)	$		$
11. Less: Dividends from personal holding companies (from Schedule A, column 2)			
12. Balance (Item 10, column 1, minus Item 11)	$		
13. 20% of Item 12	$		
14. Amount used or set aside to retire indebtedness (from Schedule E) (see Instruction 6)			
15. Dividends paid during year			
16. TOTAL OF ITEMS 13 TO 15			
17. UNDISTRIBUTED ADJUSTED NET INCOME (Item 10, column 2, minus Item 16)			$

COMPUTATION OF TAX (See Instruction 7)

18. Undistributed adjusted net income (Item 17 above)		$
19. Amount taxable at rate of 30% (not in excess of $100,000.00)		
20. Amount taxable at rate of 40% (Item 18 minus Item 19)		$
21. Surtax on Item 19 (30% of Item 19)		$
22. Surtax on Item 20 (40% of Item 20)		
23. TOTAL SURTAX (Item 21 plus Item 22)		$

AFFIDAVIT (See Instruction 8)

We, the undersigned, president (or vice president, or other principal officer) and treasurer (or assistant treasurer, or chief accounting officer) of the corporation for which this return is made, being severally duly sworn, each for himself deposes and says that this return (including its accompanying schedules and statements, if any) has been examined by him and is, to the best of his knowledge and belief, a true, correct, and complete return, made in good faith, for the taxable year stated, pursuant to the Revenue Act of 1934 and the Regulations issued thereunder.

Sworn to and subscribed before me this

[NOTARIAL SEAL] _____ day of _____, 193 .

_____
(Signature of officer administering oath)

_____
(Title)

[CORPORATE SEAL]

_____
(President or other principal officer) (State title)

_____
(Treasurer, Assistant Treasurer, or Chief Accounting Officer) (State title)

AFFIDAVIT

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

Sworn to and subscribed before me this _____ day of

[NOTARIAL SEAL] _____, 193 .

_____, _____
(Signature of officer administering oath) (Title)

_____
(Signature of person preparing the return)

_____
(Signature of person preparing the return)

_____
(Name of firm or employer, if any)

2—17006

SCHEDULE A—Dividends (From Domestic Corporations Subject to Taxation Under Title I of the Revenue Act of 1934)

1. Name and Address of Domestic Corporation	2. Dividends from Personal Holding Companies	3. Dividends from Companies Other Than Personal Holding Companies
	$	$
Totals	$	$
Total of Columns 2 and 3 (enter as Item 2)		$

SCHEDULE B—Federal Income, War-profits, and Excess-profits Taxes

Itemize below all Federal income, war-profits, and excess-profits taxes paid or accrued during the year, stating the amount and year for which paid or accrued:

SCHEDULE C—Statement of Contributions (See Instruction 5)

Name of Organization	Amount Paid	Name of Organization	Amount Paid
	$		$
Total Contributions (enter as item 5)			$

SCHEDULE D—Payment of Surtax on Pro Rata Shares (See Instruction 12)

(Fill in only if section 351(d) of the Revenue Act of 1934 applies)

Name and Address of Each Shareholder	Class of Stock and Number of Shares Held	Amount Reported by Each Shareholder
		$
Total		$

SCHEDULE E—Deductions Claimed for Amounts Used or Set Aside to Retire Indebtedness Incurred Prior to January 1, 1934

1. Indebtedness	2. Date incurred or assumed	3. Due Date (or approximate due date)	4. Amount of Indebtedness on Jan. 1, 1934	5. Amount set aside or retired prior to Jan. 1, 1934	6. Amount retired during Taxable Year	7. Balance	8. Amount allowable for Taxable Year	9. Total fund or reserve to date
	Mo. Day Year	*Mo. Day Year*						
			$	$	$	$	$	$

A complete statement setting forth the information required by Instruction 6 must be given below. (Attach additional sheets, if necessary.)

SEC. 351. SURTAX ON PERSONAL HOLDING COMPANIES.

(a) IMPOSITION OF TAX.—There shall be levied, collected, and paid, for each taxable year, upon the undistributed adjusted net income of every personal holding company a surtax equal to the sum of the following:

(1) 30 per centum of the amount thereof not in excess of $100,000; plus

(2) 40 per centum of the amount thereof in excess of $100,000.

(b) DEFINITIONS.—As used in this title—

(1) The term "personal holding company" means any corporation (other than a corporation exempt from taxation under section 101, and other than a bank or trust company incorporated under the laws of the United States or of any State or Territory, a substantial part of whose business is the receipt of deposits, and other than a life-insurance company or surety company) if—(A) at least 80 per centum of its gross income for the taxable year is derived from royalties, dividends, interest, annuities, and (except in the case of regular dealers in stock or securities) gains from the sale of stock or securities, and (B) at any time during the last half of the taxable year more than 50 per centum in value of its outstanding stock is owned, directly or indirectly, by or for not more than five individuals. For the purpose of determining the ownership of stock in a personal holding company—(C) stock owned, directly or indirectly, by a corporation, partnership, estate, or trust shall be considered as being owned proportionately by its shareholders, partners, or beneficiaries; (D) an individual shall be considered as owning, to the exclusion of any other individual, the stock owned, directly or indirectly, by his family, and this rule shall be applied in such manner as to produce the smallest possible number of individuals owning, directly or indirectly, more than 50 per centum in value of the outstanding stock; and (E) the family of an individual shall include only his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants.

(2) The term "undistributed adjusted net income" means the adjusted net income minus the sum of:

(A) 20 per centum of the excess of the adjusted net income over the amount of dividends received from personal holding companies which are allowable as a deduction for the purposes of the tax imposed by section 13 or 204;

(B) Amounts used or set aside to retire indebtedness incurred prior to January 1, 1934, if such amounts are reasonable with reference to the size and terms of such indebtedness; and

(C) Dividends paid during the taxable year.

(3) The term "adjusted net income" means the net income computed without the allowance of the dividend deduction otherwise allowable, but minus the sum of:

(A) Federal income, war-profits, and excess-profits taxes paid or accrued, but not including the tax imposed by this section;

(B) Contributions or gifts, not otherwise allowed as a deduction, to or for the use of donees described in section 23 (o) for the purposes therein specified; and

(C) Losses from sales or exchanges of capital assets which are disallowed as a deduction by section 117 (d).

(4) The terms used in this section shall have the same meaning as when used in Title I.

(c) ADMINISTRATIVE PROVISIONS.—All provisions of law (including penalties) applicable in respect of the taxes imposed by Title I of this Act, shall insofar as not inconsistent with this section, be applicable in respect of the tax imposed by this section, except that the provisions of section 131 of that title shall not be applicable.

(d) PAYMENT OF SURTAX ON PRO RATA SHARES.—The tax imposed by this section shall not apply if all the shareholders of the corporation include (at the time of filing their returns) in their gross income their entire pro rata shares, whether distributed or not, of the "adjusted net income" of the corporation for such year. Any amount so included in the gross income of a shareholder shall be treated as a dividend received. Any subsequent distribution made by the corporation out of earnings or profits for such taxable year shall, if distributed to any shareholder who has so included in his gross income his pro rata share, be exempt from tax in the amount of the share so included.

(e) IMPROPER ACCUMULATION OF SURPLUS.—For surtax on corporations which accumulate surplus to avoid surtax on stockholders, see section 102.

INSTRUCTIONS

Titles and sections of the law referred to in these instructions have reference to titles and sections of the Revenue Act of 1934

1. SURTAX ON PERSONAL HOLDING COMPANIES

Section 351 of Title IA of the Revenue Act of 1934 imposes an additional graduated income tax or surtax upon corporations classified as personal holding companies. Corporations so classified are exempt from the surtax on corporations improperly accumulating surplus imposed by section 102 of Title I of the Revenue Act of 1934, but are not exempt from the other taxes imposed by that title. Unlike the surtax imposed by section 102, the surtax imposed by section 351 applies to all personal holding companies defined as such in Instruction 2 regardless of whether or not they were formed or availed of to accumulate gains and profits for the purpose of avoiding surtax upon shareholders.

2. CLASSIFICATION OF A PERSONAL HOLDING COMPANY

A personal holding company is defined as any corporation (other than a corporation specifically exempt), first, 80 percent or more of whose gross income for the taxable year was derived from royalties, dividends, interest, annuities, and gains from the sale of stock or securities; and, second, more than 50 percent in value of whose outstanding stock was owned, directly or indirectly, at any time during the last half of the taxable year by or for not more than five individuals. The only corporations specifically exempt from this tax are as follows: (1) Corporations exempt from taxation under section 101 of Title I; (2) banks and trust companies (incorporated under the laws of the United States, or of any State or Territory), a substantial part of whose business is the receipt of deposits; (3) life insurance companies; and (4) surety companies.

It is the nature of the gross income and the ownership of the outstanding stock which determine the classification as a personal holding company, and the several conditions with respect to both must be satisfied to bring a corporation within the classification. Gross income must be determined for the entire taxable year and the ownership of the stock outstanding must be determined according to its ownership at any time during the last half of the taxable year. Inasmuch as such circumstances can vary from year to year, a corporation may constitute a personal holding company for some years and not for other years. In that case, the surtax liability shall be determined under section 351 only for the years in which the corporation comes within the classification as a personal holding company, while the liability for surtax as to the other years will depend upon whether the corporation comes within the provisions of section 102 with respect to such years.

The gross income for purposes of section 351 means the gross income as computed under sections 22, 204, and 231 and the regulations thereunder, for purposes of the taxes imposed by Title I. Accordingly, items excluded from the gross income under Title I are not to be included in determining gross income under section 351. Gross income is not synonymous with gross receipts. For example, in the case of a sale or exchange of property, it includes only the excess of the amount realized therefrom over the adjusted basis provided for in section 113 (b). It does not include gains which are not recognized under section 112 (b). In the case of a corporation reporting on the installment basis, it includes only that portion of the gain returnable as income under section 44. In the case of a manufacturing, merchandising, or mining business, "gross income" means the total sales, less the cost of goods sold, plus any income from investments and from incidental or outside operations or sources. In determining gross income, subtractions should not be made for depreciation, depletion, selling expenses, or losses, or for items not ordinarily used in computing the cost of goods sold. Sales of capital assets as defined in section 117 must be treated as separate transactions and only those sales which individually resulted in profits shall be considered in determining the gains derived from such source. Gains from all transactions involving stock in trade, etc., are determined for the taxable year as a whole instead of separately.

3. NATURE OF GROSS INCOME

From the standpoint of the nature of the gross income, a corporation comes within the definition of a personal holding company for any taxable year when 80 percent or more of its gross income for such taxable year was derived from the following sources:

(*a*) *Royalties.*—The term "royalties" includes amounts received for the use of or for the privilege of using patents, copyrights, secret processes and formulas, good will, trade marks, trade brands, franchises, and other like property. It does not include rents, nor overriding royalties received by an operating company. As used in this paragraph the term "overriding royalties" means amounts received from a sublessee by the operating company which originally leased and developed the natural resource property in respect of which such overriding royalties are paid.

(*b*) *Dividends.*—The term "dividends" means dividends as defined in section 115 (a). It does not include stock dividends, liquidating dividends, or other capital distributions referred to in section 115 (c), (d), and (f).

(*c*) *Interest.*—The term "interest" means any amounts received for the use of borrowed money which are includible in gross income under Title I.

(*d*) *Annuities.*—The term "annuities" refers only to annuities to the extent includible in the computation of gross income under Title I.

(*e*) *Gains from the sale of stock or securities.*—The term "gains from the sale of stock or securities" applies to all gains (including gains from liquidating dividends and other distributions from capital) from the sale or exchange of stock or securities includible in gross income under Title I. The term "stock or securities" includes shares or certificates of stock or interest in any corporation (including any joint-stock company, insurance company, association, or other organization classified as a corporation by the Act), certificates of interest or participation in any profit sharing agreement or in any oil, gas, or other mineral royalty or lease, collateral trust certificates, voting trust certificates, stock rights or warrants, bonds, debentures, certificates of indebtedness, notes, car trust certificates, bills of exchange, obligations issued by or on behalf of a Government, State, Territory, or a political subdivision thereof, etc.

In the case of "regular dealers in stock or securities" the term does not include gains derived from the sale or exchange of stock or securities made in the normal course of business. The term "regular dealers in stock or securities" means corporations with an established place of business regularly engaged in the purchase of stock or securities and their resale to customers. A corporation which is a regular dealer in stock or securities but which buys or sells or holds stock or securities for investment or speculation is not a dealer with respect to such stock or securities.

4. STOCK OWNERSHIP

From the standpoint of the ownership of the outstanding stock, a corporation comes within the definition of a personal holding company for any taxable year if at any time during the last half of the taxable year more than 50 percent in value of the stock outstanding was owned, directly or indirectly, by or for not more than five individuals. The ownership of the stock shall be determined in accordance with the following rules:

(*a*) All forms and classes of stock, however denominated, which represent the interests of the shareholders, members, or beneficiaries in the corporation shall be taken into consideration. For the purpose of determining such ownership, the Act provides that stock owned, directly or indirectly, by a corporation, partnership, estate or trust shall be considered as being owned proportionately by its shareholders, partners, or beneficiaries.

(*b*) The stock outstanding only during the last half of the taxable year shall be taken into consideration. However, and in the event of any change in the stock outstanding during such period, whether in the number of shares or classes of stock or whether in the ownership thereof, the conditions existing immediately prior and subsequent to each change must be taken into consideration, since a corporation comes within the classification if the statutory conditions with respect to stock ownership are present *at any time* during the period specified.

(*c*) The stock owned by an individual shall include all stock in the same corporation owned, directly or indirectly, by the members of his family. For this purpose the family of an individual shall include only his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal de-

scendants. The Act further provides that this rule shall be applied in such manner as to produce the smallest possible number of individuals owning, directly or indirectly, more than 50 percent in value of the outstanding stock.

For example, the M corporation at some time during the last half of the taxable year had 1,800 shares of outstanding stock, 450 of which were held by various individuals having no relationship to one another and the remaining 1,350 were held by 50 shareholders having the relationships and individual shareholdings as follows:

Relationships	Shares		Shares		Shares		Shares		Shares	
An individual	A	110	B	20	C	20	D	20	E	20
His father	AF	10	BF	10	CF	10	DF	10	EF	10
His wife	AW	10	BW	40	CW	40	DW	40	EW	40
His brother	AB	10	BB	10	CB	10	DB	10	EB	10
His son	AS	10	BS	40	CS	40	DS	40	ES	40
His daughter by former marriage (son's half-sister)	ASHS	10	BSHS	40	CSHS	40	DSHS	40	ESHS	40
His brother's wife	ABW	10	BBW	10	CBW	10	DBW	160	EBW	10
His wife's father	AWF	10	BWF	10	CWF	110	DWF	10	EWF	10
His wife's brother	AWB	10	BWB	10	CWB	10	DWB	10	EWB	10
His wife's brother's wife	AWBW	10	BWBW	10	CWBW	10	DWBW	10	EWBW	110

In the above example by applying the statutory rule, five individuals owned more than 50 percent of the outstanding stock as follows:

A (including AF, AW, AB, AS, ASHS)	160
B (including BF, BW, BB, BS, BSHS)	160
CW (including C, CS, CWF, CWB)	220
DB (including D, DF, DBW)	200
EWB (including EW, EWF, EWBW)	170
Total or more than 50 percent	910

It will be noted that individual A represents the obvious case where the head of the family owns the bulk of the family stock and naturally is the head of the group. Individual B represents the case where he is still head of the group because of the ownership of stock by his immediate family. Individuals C and D represent cases where the individuals fall in groups headed in C's case by his wife and in D's case by his brother because of the preponderance of holdings on the part of relatives by marriage. Individual E represents the case where the preponderant holdings of others eliminate that individual from the group.

(*d*) In determining whether the statutory conditions with respect to stock ownership are present at any time during the period specified, the phrase "in value" shall, in the light of all the circumstances, be deemed the value of the corporate stock outstanding at such time (not including treasury stock). This value may be determined upon the basis of the company's net worth, earning and dividend paying capacity, appreciation of assets, and any other factor having a bearing upon the value of the stock. If a value of stock is used which is greatly at variance with that reflected by the corporate books, the evidence upon which such valuation is based should be filed with the return. In any case where there are two or more classes of stock outstanding, the total value of all the stock should be allocated among the different classes according to the relative value of each class therein.

5. COMPUTATION OF UNDISTRIBUTED ADJUSTED NET INCOME

In ascertaining the tax basis for personal holding companies, the "adjusted net income" is first computed. This is accomplished by adding to the corporate net income, as defined in Title I, the amount of dividends received from domestic

ment must be made out of earnings for the taxable year before distribution of such earnings may be made. The reasonableness of the deduction shall be determined upon existing conditions known at the close of the taxable year. The fact that amounts have not been used or set aside in prior years will not entitle the taxpayer to deduct in any taxable year a greater amount than would otherwise be allowable. Amounts paid or set aside to discharge current liabilities for expenses, salaries, wages, taxes, interest, the purchase of any property for resale, dividends, balances due brokers, bank or other commercial loans, or any other current liability (whether represented by negotiable instruments, balances on account, or otherwise) do not constitute allowable deductions. This is true as respects liabilities which are payable at the convenience of either the debtor or the creditor, or on the demand of either.

No deduction will be permitted with respect to any item for which a deduction is otherwise allowable under Title IA or Title I of the Revenue Act of 1934 or under any applicable prior income tax act.

A resolution, specifying the particular indebtedness to be retired, the plan of retirement, and the specific assets to be used for that purpose, passed by the board of directors or corresponding authority during the taxable period or prior thereto, will be considered sufficient to meet the statutory requirement that the amounts must be "set aside." A certified copy of such resolution must accompany this return.

The burden of proof will rest upon the taxpayer to sustain the deduction claimed. Therefore, the taxpayer must furnish the information required by Schedule E of this return and such other information as the Commissioner may require in substantiation of the deduction claimed.

7. RATE OF SURTAX

The surtax is to be computed at the rate of 30 percent upon the amount of the undistributed adjusted net income not in excess of $100,000, and at the rate of 40 percent upon the amount of the undistributed adjusted net income in excess of $100,000.

8. SIGNATURES AND VERIFICATION

The return shall be sworn to by the president, vice president, or other principal officer, and by the treasurer, assistant treasurer, or chief accounting officer. The return of a foreign corporation having no office or place of business in the United States but having an agent in the United States shall be sworn to by such agent.

9. TIME AND PLACE FOR FILING

The return must be filed on or before the fifteenth day of the third month following the close of the taxable year with the collector of internal revenue for the district in which the corporation's principal office is located. In the case of a foreign corporation not having any office or place of business in the United States the return shall be filed on or before the fifteenth day of the sixth month following the close of the taxable year, with the Collector of Internal Revenue, Baltimore, Maryland.

The collector of internal revenue may grant a reasonable extension of time for filing a return, not to exceed 6 months, if application therefor is made before the date prescribed by law for filing such return, whenever in his judgment good cause exists.

10. PAYMENT OF TAXES

The tax should be paid by sending or bringing with the return a check or