

1937

UNITED STATES
FIDUCIARY INCOME TAX RETURN
(FOR ESTATES AND TRUSTS)

1937

(Auditor's Stamp)

Treasury Department (FORM 1041) Internal Revenue Service
For Calendar Year 1937 or Fiscal Year
beginning ..., 1937, and ended ..., 1938
File this return not later than the 15th day of the third month following the close of the taxable year
(PRINT NAMES AND ADDRESS PLAINLY BELOW)
Name of Estate or Trust
Name and Address of Fiduciary

Do Not Use These Spaces
File Code
Serial No.
District
(Cashier's Stamp)
Cash Check M. O.
FIRST PAYMENT
\$

Table with columns for Item and Instruction No., INCOME, and DEDUCTIONS. Rows include Dividends, interest, rents, capital gain, net profit, total income, interest, taxes, other deductions, total deductions, balance, and net income.

COMPUTATION OF TAX
Table with columns for item number, amount, and tax calculation. Rows include Net income, less personal exemption, balance, less interest on government obligations, balance subject to normal tax, normal tax, surtax, total tax, less income tax paid at source, income tax of a foreign country, and balance of tax.

Schedule A—SHARES OF INCOME AND CREDITS (See Instruction 16)
(Including amounts paid or set aside for religious, charitable, etc., purposes)
Table with columns for Name and Address, Taxable Income, Interest on Government Obligations, Federal Income Tax Paid at Source, and Income and Profits Taxes of a Foreign Country or U. S. Possession.

Schedule B—INTEREST ON GOVERNMENT OBLIGATIONS, ETC. (See Instruction 4)
Table with columns for Obligations or Securities, Amount Owned at End of Year, Interest Received or Accrued During the Year, Interest Exempt From Taxation, and Interest on Amount in Excess of Exemption.

NOTE.—One form marked "DUPLICATE COPY" must be filed with this original return (\$10 will be assessed if duplicate copy is not filed).

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Name of Estate or Trust
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DUPLICATE COPY
IMPORTANT
One duplicate copy must be filed with original return.
(\$10 will be assessed if duplicate is not filed.)

Table with columns for Item and Instruction No., INCOME, and DEDUCTIONS. Rows include Dividends, interest, rents, capital gain, and total income/loss calculations.

Table for COMPUTATION OF TAX. Rows include Net income, less personal exemption, total tax, and balance of tax after credits.

Schedule A—SHARES OF INCOME AND CREDITS (See Instruction 16)
(Including amounts paid or set aside for religious, charitable, etc., purposes)

Table for Schedule A with columns: 1. Name and Address, 2. Taxable Income, 3. Interest on Government Obligations, 4. Federal Income Tax Paid, 5. Income and Profits Taxes.

Schedule B—INTEREST ON GOVERNMENT OBLIGATIONS, ETC. (See Instruction 4)

Table for Schedule B with columns: 1. Obligations or Securities, 2. Amount Owned at End of Year, 3. Interest Received, 4. Interest Exempt, 5. Interest on Amount in Excess of Exemption.

(References are to the Revenue Act of 1936, as amended by the Revenue Act of 1937, unless otherwise noted)

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

GENERAL INSTRUCTIONS

(A) Who must use Form 1041.—Every fiduciary, or at least one of joint fiduciaries (except a receiver appointed by authority of law in possession of only part of the property of an individual), must make an income tax return on Form 1041 for:

(1) Every estate for which he acts, if (a) the net income of such estate for the taxable year is \$1,000 or over, or (b) the gross income is \$5,000 or over, or (c) any beneficiary is a nonresident alien.

(2) Every trust for which he acts, if (a) the net income for such trust for the taxable year is \$1,000 or over, or (b) the gross income is \$5,000 or over, or (c) any beneficiary is a nonresident alien.

Returns are also required in the following cases: (a) in the case of a trust not entitled to a personal exemption allowed by section 163(a)(1) of the Revenue Act of 1936, as amended by section 401 of the Revenue Act of 1937 (see Specific Instruction 19), if it has any net income for the taxable year, or (b) in the case of a trust the distribution of any portion of the income of which is in the discretion of the trustee or conditioned upon a contingency, if the trust has no net income, but would have a net income of \$1,000 or over except for a deduction for distributions to beneficiaries.

(B) Fiduciary returns on Form 1040 and Form 1040A.—(1) An executor or administrator must make a return of the net income of the decedent to the date of his death on Form 1040 or 1040A if such net income was \$1,000 or over, if the decedent was unmarried, or equal to or in excess of the credit allowed him by section 25(b)(1) and (3) (computed without regard to his status as the head of a family), if married and living with spouse, or if his gross income for the period was \$5,000 or over.

(2) A fiduciary, including the guardian of a minor and the guardian or committee of an insane person, who has charge of the income of an individual, must make a return of income on Form 1040 or 1040A if a return is required for such individual.

(C) Returns for nonresident alien beneficiaries.—(a) *United States business or office.*—If a citizen or resident fiduciary has the distribution of the income of an estate or trust any beneficiary of which is a nonresident alien engaged in trade or business within the United States or having an office or place of business therein at any time within the taxable year, the fiduciary shall make a return on Form 1040B for such nonresident alien and pay any tax shown thereon to be due. Unless such return is a true and accurate return of the nonresident alien beneficiary's income from all sources within the United States, the benefits of the credits and deductions to which the beneficiary is entitled cannot be obtained in the return filed by the fiduciary. If the beneficiary appoints a person in the United States to act as his agent for the purpose of rendering income tax returns, the fiduciary shall be relieved from the necessity of filing Form 1040B in behalf of the beneficiary and from paying the tax. In such a case the fiduciary shall make a return on Form 1041 and attach thereto a copy of the notice of appointment of such agent.

(b) *No United States business or office.*—A citizen or resident fiduciary having the distribution of the income of an estate or trust will not be required to make a return on Form 1040NB for any beneficiary of the estate or trust who is a nonresident alien not engaged in trade or business within the United States and not having an office or place of business therein at any time within the taxable year if the entire amount of the tax on the income payable to such beneficiary has been withheld at the source, but such fiduciary is required to make a return on Form 1040NB for such beneficiary, other than a resident of Canada, who has gross income for the taxable year of more than \$21,600, and pay any tax shown thereon to be due. Unless such return is a true and accurate return of the nonresident alien beneficiary's income from all sources within the United States, the benefits of the credits and deductions to which the beneficiary is entitled cannot be obtained in the return filed by the fiduciary. If the beneficiary appoints a person in the United States to act as his agent for the purpose of rendering income tax returns, the fiduciary shall be relieved from the necessity of filing Form 1040NB. In such a case the fiduciary shall make a return on Form 1041 and attach thereto a copy of the notice of appointment of such agent. The fiduciary shall make a return on Form 1042 of the tax at 10 percent on the entire amount of the income payable to the beneficiary, except that in the case of a beneficiary, resident of Canada, the rate shall be 5 percent.

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

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

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

(F) Affidavits.—The affidavit must be executed by the individual fiduciary, or by the authorized officer of the organization receiving or having custody or control and management of the income of the estate or trust. If two or more individuals act jointly as fiduciaries, the affidavit may be executed by any one of them.

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

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

(G) When and to whom the tax must be paid.—The tax must be paid in full when the return is filed, or in four equal installments, as follows: On or before the 15th day of the third month, on or before the 15th day of the sixth month, on or before the 15th day of the ninth month, and on or before the 15th day of the twelfth month, from the close of the taxable year. If any installment is not paid on the date fixed for payment, the whole amount of tax unpaid shall be paid upon notice and demand by the collector.

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

(H) Penalties.—*For failure to make and file return on time.*—Five percent to 25 percent of the amount of the tax, unless such failure is due to reasonable cause, and, in addition, where failure is willful, a fine of not more than \$10,000 or imprisonment for not more than one year, or both, together with the costs of prosecution.

For willfully attempting to evade or defeat payment of the tax.—Not more than \$10,000 or imprisonment for not more than five years, or both, together with the costs of prosecution.

For deficiency due to negligence or fraud.—Five percent of the amount of the deficiency if due to negligence or intentional disregard of rules and regulations without intent to defraud, or 50 percent of the amount of the deficiency if due to fraud.

SPECIFIC INSTRUCTIONS

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

4. **Taxable interest on Government obligations, etc.**—Interest on an aggregate amount not exceeding \$5,000 principal amount of the obligations enumerated on line (e), Schedule B, is exempt from the surtaxes imposed by section 12. Enter in column 4, line (e), interest received from such obligations in an amount not exceeding the interest received or accrued on an aggregate principal of \$5,000 of such obligations. If at times during the taxable year the estate or trust held more than \$5,000 principal in the aggregate of such obligations, enter in column 5, line (e), the interest received or accrued in excess of interest on an aggregate of \$5,000 principal amount of such obligations. Each beneficiary should be advised of the amount of his proportionate share of such amounts of interest in order that he may include this information in his individual return and claim as a credit for the purpose of the normal tax, in addition to the credits allowed to him under section 25, his proportionate share of such amounts of interest specified in section 25(a) as are, under the provisions of section 162, required to be included in computing his net income. (See section 163. See also General Instruction (K), paragraph (d).)

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

(I) **Copy of will or trust instrument.**—A copy of the will or trust instrument sworn to by the fiduciary as a true and complete copy in cases in which the gross income of the estate or trust is \$5,000 or over, must be filed with the fiduciary return of the estate or trust, together with a statement by the fiduciary indicating the provisions of the will or trust instrument which, in his opinion, determine the extent to which the income of the estate or trust is taxable to the estate or trust, the beneficiaries, or the grantor, respectively. If, however, a copy of the will or trust instrument, or statement relating to the provisions of the will or trust instrument, has once been filed, it need not again be filed if the fiduciary return contains a statement showing when and where it was filed. If the trust instrument is amended in any way after such copy has been filed, a copy of the amendment, together with a statement by the fiduciary, indicating the effect, if any, in his opinion, of such amendment on the extent to which the income of the estate or trust is taxable to the estate or trust, the beneficiaries, or the grantor, respectively, must be filed with the return for the taxable year in which the amendment was made.

(J) **Received or accrued income.**—If the books of account of the estate or trust are kept on the accrual basis, report all income accrued, even though it has not been actually received or entered on the books, and expenses incurred instead of expenses paid. As to disallowance of deductions for unpaid expenses and interest due to certain persons, see Specific Instruction 11. If the books are not kept on the accrual basis, or if no books are kept, make the return on the cash basis and report all income received or constructively received, such as bank interest credited to the account of the estate or trust and coupon bond interest matured, and report expenses actually paid.

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

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

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

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

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

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

(e) Amounts received through accident or health insurance or under workmen's compensation acts, as compensation for personal injuries or sickness, plus the amount of any damages received, whether by suit or agreement, on account of such injuries or sickness;

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

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

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

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

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

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

(M) **Information at source.**—Every person making payments of salaries, wages, interest, rents, commissions, or other fixed or determinable income of \$1,000 or more during the calendar year 1937, to a single person, a partnership, or a fiduciary, or \$2,500 or more to a married person, is required to make a return on Forms 1096 and 1099 showing the amount of such payments and the name and address of each recipient. These forms will be furnished by any collector of internal revenue upon request and must be forwarded to the Commissioner of Internal Revenue, Sorting Section, Washington, D. C., in time to be received not later than February 15, 1938.

(N) **Stock owned in domestic and foreign personal holding companies.**—If at any time during the taxable year the estate or trust owned directly or indirectly any stock of a domestic or foreign personal holding company, attach to the return a statement setting forth the name and address of each such company and the highest percentage of the total number of shares of each class of outstanding stock owned by the estate or trust during the taxable year. If the estate or trust owned stock at any time during the taxable year in a foreign personal holding company as defined in section 331 of the Revenue Act of 1936, as amended by the Revenue Act of 1937, there must be included in the return as a dividend the amount required to be included in gross income by section 337 of the Revenue Act of 1936, as amended by the Revenue Act of 1937. If the estate or trust owned 5 percent or more in value of the outstanding stock of such foreign personal holding company, set forth in an attached statement in complete detail the information required by section 337(d) of the Revenue Act of 1936, as amended by the Revenue Act of 1937.

Where obligations of this type are purchased between interest dates and the purchase price includes accrued interest, such part of the purchase price as represents accrued interest purchased should neither be claimed as a deduction for interest paid nor be added to the cost of the obligations but should be treated as an offset against the interest received or accrued at a later date.

5. **Income (or loss) from partnerships, syndicates, pools, etc., and income from other fiduciaries.**—Enter as item 5 the share of the estate or trust of the profits (whether received or not) or of the losses of a partnership (including a syndicate, pool, etc., not taxable as a corporation) and of the income from another estate or trust. Include in items 26 and 27, respectively, the estate's or trust's share of credits claimed for Federal income taxes paid at source, and foreign income and profits taxes.

If the taxable year on the basis of which the return is filed does not coincide with the annual accounting period of the partnership or other fiduciary, include in the return the distributive share of the estate or trust of the net profits for such accounting period ending within its taxable year.

SPECIFIC INSTRUCTIONS—Continued

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

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

7. Capital gain (or loss).—Report sales or exchanges of capital assets in Schedule E and enter the net amount of gain or loss to be taken into account in computing net income as item 7. (Capital losses are allowable only to the extent of \$2,000 plus capital gains. Therefore, if the total amount of capital losses is in excess of the total amount of capital gains, the amount to be entered as item 7 must not exceed \$2,000.) Every sale or exchange of property, even though no gain or loss may be indicated, must be reported in detail.

Enter full description of each item of property sold or exchanged. Such description should include the following facts: (a) For real estate, location and description of land, description of improvements, details explaining depreciation (column 7 of Schedule E); (b) for bonds or other evidences of indebtedness, name of issuing corporation, description of the particular issue, denomination, and amount; (c) for stocks, name of issuing corporation, class of stock, number of shares, capital changes affecting basis (nontaxable stock dividends, other nontaxable distributions, stock rights, etc.).

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

Enter in column 7 of Schedule E the amount of depreciation, exhaustion, wear and tear, obsolescence, and depletion which has been allowed (but not less than the amount allowable) in respect of such property since date of acquisition, or since March 1, 1913, if the property was acquired before that date. In addition, if the property was acquired before March 1, 1913, the cost shall be reduced by the depreciation and depletion actually sustained before that date.

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

Losses not allowable.—No loss shall be recognized in any sale or other disposition of shares of stock or securities where you have acquired substantially identical stock or securities or entered into a contract or option to acquire substantially identical stock or securities within 30 days before or after the date of such sale or disposition, unless you are engaged in the trade or business of buying and selling stocks and securities.

No deduction shall be allowed in respect of losses from sales or exchanges of property, directly or indirectly, (A) between members of a family, as hereinafter defined, or (B) except in the case of distributions in liquidation, between an individual and a corporation in which such individual owns, directly or indirectly, more than 50 percent in value of the outstanding stock, or (C) between a grantor and a fiduciary of any trust, or (D) between the fiduciary of a trust and the fiduciary of another trust, if the same person is a grantor with respect to each trust, or (E) between a fiduciary of a trust and a beneficiary of such trust. For the purpose of determining the ownership of stock, in applying this paragraph—

(a) Stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust, shall be considered as being owned proportionately by or for its shareholders, partners, or beneficiaries;

(b) An individual shall be considered as owning the stock owned, directly or indirectly, by or for his family;

(c) An individual owning any stock in a corporation (otherwise than by the application of subparagraph (b) above) shall be considered as owning the stock owned, directly or indirectly, by or for his partner;

(d) The family of an individual shall include only his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants.

(e) **Constructive ownership as actual ownership.**—Stock constructively owned by a person by reason of the application of subparagraph (a) shall, for the purpose of applying subparagraph (a), (b), or (c), be treated as actually owned by such person, but stock constructively owned by an individual by reason of the application of subparagraph (b) or (c) shall not be treated as owned by him for the purpose of again applying either of such subparagraphs in order to make another the constructive owner of such stock.

See section 117 for definition of capital assets, determination of period for which held, limitation on capital losses, etc.

One hundred percent of the gain resulting to the distributee from distributions in liquidation of a corporation shall be taken into account in computing net income, except in the case of amounts distributed in complete liquidation of a corporation. (See section 115(c).)

Section 117 applies only to gains and losses upon the sale or exchange of capital assets and, therefore, has no application to loss of useful value upon the permanent abandonment of the use of property or loss sustained as the result of corporate stock or debts becoming worthless.

8. Net profit (or loss) from trade or business.—If the estate or trust was engaged in a trade or business during the taxable year, enter the net profit (or loss) as item 8 and attach to the return a statement showing the nature of the trade or business, total receipts, cost of merchandise bought for sale, inventories of merchandise on hand at the beginning and end of the taxable year, other items entering into cost of goods sold, net cost of goods sold, salaries and wages of employees, interest, taxes, losses and bad debts directly attributable to the trade or business, depreciation, obsolescence and depletion of property used in the trade or business, rent, repairs and all other expenses in detail.

Inventories.—If engaged in a trade or business in which the production, manufacture, purchase and sale of merchandise is an income-producing factor, inventories of merchandise on hand should be taken at the beginning and end of the taxable year, which may be valued at (a) cost, or (b) cost or market, whichever is lower. Taxpayers were given an option to adopt the basis of either (a) cost, or (b) cost or market, whichever is lower, for their 1920 inventory. The basis properly adopted for that year or any subsequent year is controlling and a change can now be made only after permission is secured from the Commissioner. Application for permission to change the basis of valuing inventories shall be made in writing and filed with the Commissioner within 90 days after the beginning of the taxable year in which it is desired to make the change. Indicate opposite the inventories in the statement submitted by the use of "C" or "C or M" whether the inventories are valued at (C) cost, or (C or M) cost or market, whichever is lower.

Depreciation, etc.—See General Instruction (L) with respect to requirements in case any deduction is claimed for depreciation, obsolescence or depletion.

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

Taxpayers were given an option for 1921 to select either of these methods and the method used in the return for the year 1921 must be used in returns for all subsequent years unless permission is granted by the Commissioner to change to the other method. Application for permission to change the method shall be made in writing at least 30 days prior to the close of the taxable year for which it is desired to effect the change.

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

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

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

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

Installment sales.—If the installment method is used, attach to the return a schedule showing separately for the years 1934, 1935, 1936, and 1937 the following: (a) Gross sales; (b) cost of goods sold; (c) gross profits; (d) percentage of profits to gross sales; (e) amount collected; and (f) gross profit on amount collected. (See section 44.)

10. Total income.—Enter and explain in Schedule G all income, except interest, claimed as exempt, but do not include as part of item 10. Exempt interest on Government obligations, etc., should be entered in Schedule B.

11. Interest.—Enter as item 11 all interest paid or accrued, other than on business indebtedness (which should be deducted in computing income under item 6 or 8). Do not include interest on indebtedness incurred or continued to purchase or carry obligations (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest upon which is wholly exempt from taxation. Any deductions on account of interest should be explained and itemized in Schedule F.

Attention is called to the following limitations on deductions for unpaid expenses and interest provided in section 24(c), Revenue Act of 1936, as amended by the Revenue Act of 1937:

(c) **UNPAID EXPENSES AND INTEREST.**—In computing net income no deduction shall be allowed in respect of expenses incurred under section 23(a) or interest accrued under section 23(b)—

(1) If not paid within the taxable year or within two and one half months after the close thereof; and

(2) If, by reason of the method of accounting of the person to whom the payment is to be made, the amount thereof is not, unless paid, includable in the gross income of such person for the taxable year in which or with which the taxable year of the taxpayer ends; and

(3) If, at the close of the taxable year of the taxpayer or at any time within two and one half months thereafter, both the taxpayer and the person to whom the payment is to be made are persons between whom losses would be disallowed under section 24(b).

12. Taxes.—Enter as item 12 taxes imposed upon the estate or trust and paid or accrued during the taxable year, not including taxes on property used in the trade or business of the estate or trust and those assessed against local benefits of a kind tending to increase the value of the property assessed. Do not include Federal income taxes, nor estate, inheritance, legacy, succession, gift taxes, taxes imposed upon the interest of the estate or trust as shareholder of a corporation which are paid by the corporation without reimbursement from the estate or trust. Do not include sales taxes unless the tax was imposed directly upon the estate or trust by law. No deduction is allowable for any portion of foreign income and profits taxes if a credit is claimed in item 27.

Any deduction on account of taxes should be explained and itemized in Schedule F.

13. Other deductions authorized by law.—Enter as item 13 the total amount of all deductions authorized by law which are not reflected elsewhere on the return and itemize such deductions in Schedule F. Such deductions include losses by fire, storm, etc., bad debts not incurred in a trade or business, and stocks which became worthless during the taxable year. In the case of loss by fire, storm, shipwreck, or other casualty, or from theft, set forth in Schedule F a description of the property, date acquired, cost, subsequent improvements, depreciation allowable since acquisition, insurance, salvage value, and deductible loss. In the case of bad debts, including bonds, ascertained to be worthless during the taxable year, state in Schedule F, (a) of what the debts consisted, (b) name of the debtor, (c) when the debts were created, (d) when they became due, (e) what efforts were made to collect, and (f) how they were actually determined to be worthless.

In case the estate or trust incurred expenses in connection with exempt income, or owned any property the income from which is exempt, see section 24(a)(5) and article 24-4 of Regulations 94.

16. Amounts distributable to beneficiaries.—Enter as item 16 the total amount distributable to beneficiaries as reflected in columns 2 and 4 of Schedule A. Care should be taken in filling out Schedule A so as to include as shares of beneficiaries amounts of charitable contributions which pursuant to the terms of the will or deed creating the trust are during the taxable year paid or permanently set aside as provided in section 162(a). If any part of the income of the trust is taxable to the grantor, such grantor's share should be designated and included among the beneficiaries' shares in Schedule A.

19. Personal exemption allowed under section 163(a)(1).—An estate or trust is allowed for both normal tax and surtax purposes the personal exemption of \$1,000 allowed a single person under section 25(b)(1), except that such personal exemption is not allowed to any trust if the trust instrument requires or permits the accumulation of any portion of the trust income and the sum of the following items is less than its gross income: (a) total deductions allowable under sections 23 and 162 and (b) total amounts included in gross income which (A) under the law of the jurisdiction under which the trust is administered cannot (even if permitted or required by the trust instrument to be considered as income) be considered as income and (B) are not distributable during the taxable year. If a personal exemption is claimed for a trust which has not distributed during the taxable year an amount equal to its gross income less its deductions allowable under section 23, there should be attached to the return a statement setting forth the facts regarding that portion of the income which, under the law of the jurisdiction under which the trust is administered, cannot be considered as income and is not distributable.

24. Surtax.—The surtax on any amount of surtax net income (item 20) not stated in round figures in the table below is computed by adding to the surtax for the largest amount stated which is less than the income, the surtax upon the excess over that amount at the rate indicated in the table. For example, if item 20 is \$9,261.84, the surtax (item 24) is \$255.71 (i. e., \$180, the surtax on \$8,000, plus \$75.71—6 percent of \$1,261.84).

SURTAX RATES

Amount of surtax net income	Rate percent	Total surtax	Amount of surtax net income	Rate percent	Total surtax
A	B	C	A	B	C
\$0 to \$4,000.....	\$62,000 to \$68,000.....	39	\$14,000
4,000 to 6,000.....	4	\$80	68,000 to 74,000.....	43	16,580
6,000 to 8,000.....	5	180	74,000 to 80,000.....	47	19,400
8,000 to 10,000.....	6	300	80,000 to 90,000.....	51	24,500
10,000 to 12,000.....	7	440	90,000 to 100,000.....	55	30,000
12,000 to 14,000.....	8	600	100,000 to 150,000.....	58	59,000
14,000 to 16,000.....	9	780	150,000 to 200,000.....	60	89,000
16,000 to 18,000.....	11	1,000	200,000 to 250,000.....	62	120,000
18,000 to 20,000.....	13	1,260	250,000 to 300,000.....	64	152,000
20,000 to 22,000.....	15	1,560	300,000 to 400,000.....	66	218,000
22,000 to 26,000.....	17	2,240	400,000 to 500,000.....	68	286,000
26,000 to 32,000.....	19	3,380	500,000 to 750,000.....	70	461,000
32,000 to 38,000.....	21	4,640	750,000 to 1,000,000.....	72	641,000
38,000 to 44,000.....	24	6,080	1,000,000 to 2,000,000.....	73	1,371,000
44,000 to 50,000.....	27	7,700	2,000,000 to 5,000,000.....	74	3,591,000
50,000 to 56,000.....	31	9,560	5,000,000 up.....	75
56,000 to 62,000.....	35	11,660			

26. Income tax paid at source.—Enter as item 26 the fiduciary's share of that portion of the 2 percent Federal income tax on bond interest which was paid at the source by the debtor corporation, as reflected in Schedule A, column 5, line (b).

27. Income and profits taxes paid to a foreign country or United States possession.—If, in accordance with section 131(a), a credit is claimed in item 27 for income, war-profits, and excess-profits taxes paid to a foreign country or a possession of the United States, submit Form 1116 with the return, together with the receipts for such payments. In case credit is sought for taxes accrued, the form must have attached to it a certified copy of the return on which the tax was based, and the Commissioner may require a bond on Form 1117 for the payment of any tax found due if the tax when paid differs from the credit claimed.