

# CORPORATION INCOME TAX RETURN

## For Fiscal Year 1926

Fiscal Year begun \_\_\_\_\_, 1925, and ended \_\_\_\_\_, 1926

File This Return Not Later Than the Fifteenth Day of the Third Month Following the Close of the Taxable Year

PRINT PLAINLY CORPORATION'S NAME AND BUSINESS ADDRESS

(Name)

(Street and Number)

(Post office and State)

Date of Incorporation \_\_\_\_\_

Under the Laws of what State or Country \_\_\_\_\_

File Code \_\_\_\_\_

Serial Number \_\_\_\_\_

(Cashier's Stamp)

Cash Check M. O. Cert. of Ind.  
First Payment

\$ \_\_\_\_\_  
Examined

By \_\_\_\_\_

KIND OF BUSINESS \_\_\_\_\_

IS THIS A CONSOLIDATED RETURN? \_\_\_\_\_

Item and Instruction No.	GROSS INCOME				DEDUCTIONS				NET INCOME				
1.	Gross Sales from Trading or Manufacturing, Less Returns and Allowances												
2.	Less Cost of Goods Sold:												
	(a)	Inventory at beginning of year			\$								
	(b)	Merchandise bought for sale											
	(c)	Cost of manufacturing or otherwise producing goods (From Schedule A)											
	(d)	Total of lines (a), (b), and (c)			\$								
	(e)	Less inventory at end of year											
3.	Gross Profit from Trading or Manufacturing (Item 1 minus Item 2)												
4.	Gross Profit from Operations Other Than Trading or Manufacturing. (State source of income):												
	(a)												
	(b)												
	(c)												
5.	Interest on Bank Deposits, Notes, Mortgages, and Corporation Bonds												
6.	Rents												
7.	Royalties												
8.	Profit from Sale of Real Estate, Stocks, Bonds, and other Capital Assets (From Schedule B)												
9.	Dividends on Stock of Domestic Corporations												
10.	Other Income (including dividends received on stock of foreign corporations). (State nature of income):												
	(a)												
	(b)												
	(c)												
11.	TOTAL INCOME IN ITEMS 3 TO 10								\$				
12.	Compensation of Officers (From Schedule C)												
13.	Rent on Business Property												
14.	Repairs (From Schedule D)												
15.	Interest												
16.	Taxes (From Schedule E)												
17.	Losses by Fire, Storm, etc. (From Schedule F)												
18.	Bad Debts (From Schedule G)												
19.	Dividends (From Schedule H)												
20.	Depreciation (resulting from exhaustion, wear and tear, or obsolescence) (From Schedule I)												
21.	Depletion of Mines, Oil and Gas Wells, Timber, etc.												
22.	Other Deductions Not Reported Above. (Explain below, or on separate sheet):												
	(a)	Salaries and wages. (Not included in Items 2, 12, or 14 above)											
	(b)												
	(c)												
23.	TOTAL DEDUCTIONS IN ITEMS 12 TO 22								\$				
24.	NET INCOME (Item 11 minus Item 23)								\$				

### COMPUTATION OF TAX

25.	Net Income (Item 24 above)	\$				34.	Income Tax (13½% of Item 23)	\$			
26.	Less Credit of \$2,000 (for a Domestic Corporation having a Net Income of less than \$25,260)					35.	If the Net Income of a Domestic Corporation is less than \$25,270, enter the amount in excess of \$25,000				
27.	Balance (Item 25 minus Item 26)	\$				36.	Total Tax at 1926 rates (Item 34 plus Item 35)	\$			
28.	Income Tax (13% of Item 27)	\$				37.	That proportion of Item 30 which the number of months in 1925 is of the number of months in the period	\$			
29.	If the Net Income of a Domestic Corporation is less than \$25,260, enter the amount in excess of \$25,000					38.	That proportion of Item 36 which the number of months in 1926 is of the number of months in the period				
30.	Total Tax at 1925 rates (Item 28 plus Item 29)	\$				39.	Total Tax for fiscal year 1926 (Item 37 plus Item 38)	\$			
31.	Net Income (Item 24 above)	\$				40.	Less: Income Tax paid at source (This credit can only be allowed to a nonresident foreign corporation)	\$			
32.	Less Credit of \$2,000 (for a Domestic Corporation having a Net Income of less than \$25,270)					41.	Income and Profits Taxes paid to a foreign country or U. S. possession by a Domestic Corporation				
33.	Balance (Item 31 minus Item 32)	\$				42.	Balance of Tax (Item 39 minus Items 40 and 41)	\$			

ITEMS	BEGINNING OF TAXABLE YEAR				END OF TAXABLE YEAR			
	Amount		Total		Amount		Total	
<b>ASSETS</b>								
1. Cash.....				\$				\$
2. Notes receivable.....								
3. Accounts receivable.....	\$				\$			
Less reserve for bad debts.....								
4. Inventories:								
Raw materials.....	\$				\$			
Work in process.....								
Finished goods.....								
Supplies.....								
5. Investments:								
Obligations of a State, Territory, or any political subdivision thereof, or the District of Columbia.....	\$				\$			
Securities issued under the Federal Farm Loan Act, or under such Act as amended.....								
Obligations of the United States or its possessions.....								
6. Loans (describe fully):								
.....	\$				\$			
.....								
7. Deferred charges:								
Prepaid insurance.....	\$				\$			
Prepaid taxes.....								
8. Capital assets:								
Land.....								
Buildings.....	\$				\$			
Machinery and equipment.....								
Furniture and fixtures.....								
Delivery equipment.....								
.....								
Less reserves for depreciation and depletion.....	\$				\$			
9. Patents.....								
10. Good will.....								
11. Other assets (describe fully):								
.....	\$				\$			
.....								
12. TOTAL ASSETS.....				\$				\$
<b>LIABILITIES</b>								
13. Notes payable.....				\$				\$
14. Accounts payable.....								
15. Accrued expenses (describe fully):								
.....	\$				\$			
.....								
16. Other liabilities (describe fully):								
.....	\$				\$			
.....								
17. Capital stock:								
Preferred stock (less stock in treasury).....	\$				\$			
Common stock (less stock in treasury).....								
18. Surplus.....	\$				\$			
19. Undivided profits.....								
20. TOTAL LIABILITIES.....				\$				\$

Remarks.....

SCHEDULE L—RECONCILIATION OF NET INCOME AND ANALYSIS OF CHANGES IN SURPLUS

Table with 17 numbered rows for reconciliation of net income and analysis of changes in surplus. Rows include: 1. Net income from Item 24, page 1 of the return; 2. Nontaxable income; 3. Charges against reserve for bad debts; 4. Charges against reserves for contingencies; 5. Total of Lines 1 to 4, inclusive; 6. Total from Line 14; 7. Net profit for year as shown by books; 8. Surplus and undivided profits as shown by balance sheet; 9. Other credits to surplus; 10. Total of Lines 7 to 9, inclusive; 11. Total from Line 17; 12. Surplus and undivided profits as shown by balance sheet at close of taxable year; 13. Unallowable deductions; 14. Total of Line 13; 15. Dividends paid during the taxable year; 16. Other debits to surplus; 17. Total of Lines 15 and 16.

QUESTIONS

KIND OF BUSINESS

1. By means of the key letters given below, identify the corporation's main income-producing activity with one of the general classes, and follow this by a special description of the business sufficient to give the information called for under each general class.

A.—Agriculture and related industries, including fishing, logging, ice harvesting, etc., and also the leasing of such property. State the product or products. B.—Mining and quarrying, including gas and oil wells, and also the leasing of such property. State the product or products. C.—Manufacturing. State the product and also the material if not implied by the name of the product. D.—Construction—excavations, buildings, bridges, railroads, ships, etc., also equipping and installing same with systems, devices, or machinery, without their manufacture. State nature of structures built, materials used, or kind of installations. E1.—Transportation—rail, water, local, etc. State the kind and special product transported, if any. E2.—Public utilities—gas (natural, coal, or water); electric light or power (hydro or steam generated); heating (steam or hot water); telephone; waterworks or power. E3.—Storage—without trading or profit from sales—(elevators, warehouses, stock-yards, etc.). State product stored. E4.—Leasing transportation or utilities. State kind of property. F.—Trading in goods bought and not produced by the trading concern. State manner of trade, whether wholesale, retail, or commission, and product handled. Sales with storage with profit primarily from sales. G.—Service—domestic, including hotels, restaurants, etc.; amusements; other professional, personal, or technical service. State the service. H.—Finance, including banking, real estate, insurance. I.—Concerns not falling in above classes (a) because of combining several of them with no predominant business, or (b) for other reasons.

2. Concerns whose business involves activity falling in two or more of the above general classes, where the same product is concerned, should report business as identified with but one of the above general classes; for example, concerns in A or B which also transport and market their own product exclusively or mainly, should still be identified with classes A or B; concerns in C (manufacturing) which own or control their source of material supply in A or B and which also transport, sell, or install their own product exclusively or mainly, should be identified with manufacturing; concerns in D may control or own the source of supply of materials used exclusively or mainly in their constructive work; concerns in E1 or E2 may own or control the source of their material or power; concerns in F may transport or store their own merchandise, but its production would identify them with A, B, or C.

3. Answers:

- (a) General class (use key letter designation)
(b) Main income-producing business (give specifically the information called for under each key letter, also whether acting as principal, or as agent on commission; state if inactive or in liquidation)

AFFILIATIONS WITH OTHER CORPORATIONS

SEE INSTRUCTION 38

4. Does the corporation own 95 per cent or more of the outstanding capital stock of another domestic corporation or of other corporations?

5. Is over 95 per cent or more of your outstanding capital stock owned by another corporation?

6. Is 95 per cent or more of your outstanding capital stock as well as 95 per cent or more of the outstanding capital stock of another corporation or of other corporations owned or controlled by the same individual or partnership or by the same individuals, partnerships, or corporations in substantially the same proportion?

7. If the answer to questions 4, 5, and 6, or to any of them, is "yes," answer the following:

(a) Did the corporation file Forms 851, 852, 853, and 853A for the taxable year 1922 or subsequent taxable years? If the answer to this question is "yes," these forms will not be required, except under the circumstances described in question (b). If the answer to this question is "no," and the answer to questions 4, 5, and 6, or to any of them, is "yes," procure from the Collector of Internal Revenue for your district Forms 851, 852, 853, and 853A, Affiliations Schedules 1, 2, 3, and 4, which shall be filled in and filed as a part of this return. If the answer to this question is "no," question (b) need not be answered.

(b) Did substantially the same conditions, as are set out in the Affiliations Schedules filed for 1925 or prior years, obtain during the entire taxable year 1926? If the answer to this question is "no," a statement, setting forth the particulars in which the situation has changed, should be attached to and made a part of this return. If there have been substantial changes in stockholdings, a complete schedule of such changes should be submitted on Form 853, Affiliations Schedule 3. If there are companies other than those covered by the Affiliations Schedules for prior years which, applying the tests contained in questions 4, 5, or 6, may have come into the affiliated group since 1925, Forms 851, 852, 853, and 853A, are required for the entire group for the taxable year. (c) Did the corporation file a consolidated return for the preceding taxable year?

PREDECESSOR BUSINESS

8. Did the corporation file a return under the same name for the preceding taxable year? If not, was the corporation in any way an outgrowth, result, continuation, or reorganization of a business or businesses in existence during this or the preceding taxable year? If answer is "yes," give name and address of each predecessor business.

BASIS OF RETURN

9. Is this return made on the basis of actual receipts and disbursements? If not, describe fully what other basis or method was used in computing net income.

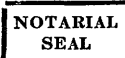
LIST OF ATTACHED SCHEDULES

10. Enter below a list of all schedules accompanying this return, giving for each a brief title and the schedule number. The name and address of the taxpayer should be placed on each separate schedule accompanying the return.

AFFIDAVIT

We, the undersigned, president and treasurer of the corporation for which this return is made, being severally duly sworn, each for himself deposes and says that this return, including the accompanying schedules and statements, has been examined by him and is, to the best of his knowledge and belief, a true and complete return made in good faith, for the taxable year as stated, pursuant to the Revenue Act of 1926 and the Regulations issued under authority thereof.

Sworn to and subscribed before me this day of 192



(Signature of officer administering oath)

(Title)



President.

Treasurer.

# INSTRUCTIONS

**The Instructions Numbered 1 to 24 on this Page Correspond with the Item Numbers on Page 1 of the Return**

## GROSS INCOME AND DEDUCTIONS

**1. Gross sales.**—If engaged in trading or manufacturing, enter as Item 1 on page 1 of the return, the gross sales, less goods returned and any allowances or discounts from the sale price.

Railroad corporations, banks, insurance companies, and other corporations required to submit statements of income and expenses to any national, State, municipal, or other public officer may submit with the return a statement of income and expenses in the form in which submitted to such officer, in lieu of furnishing the information requested in Items 1 to 23 of the return. In such cases the taxable net income will be reconciled by means of Schedule L on page 4 of the return, with the net profit shown by the income and expense statement submitted, and should be entered as Item 24 on page 1 of the return.

**2. Cost of goods sold.**—Enter as Item 2 the information requested on lines (a) to (e), and list in Schedule A, on page 2 of the return, the principal items of cost included in the amount entered on line (c), the minor items to be grouped in one amount.

If the production, purchase, or sale of merchandise is an income-producing factor in the trade or business, secure from the Collector of Internal Revenue and file as a part of this return a *Certificate of Inventory, Form 1126*. Enter on lines (a) and (e) under Item 2, immediately before the amount column, the letters "C," or "C or M," to indicate that the inventories are valued at either cost, or cost or market, whichever is lower. In case the inventories reported on the return do not agree with those shown on the balance sheet, attach a statement explaining how the difference occurred.

**3. Gross profit.**—Enter as Item 3 the gross profit from trading or manufacturing, which is obtained by deducting Item 2, the cost of goods sold, from Item 1, the gross sales.

**4. Gross profit from other operations.**—Enter as Item 4 the gross profit from operations other than trading or manufacturing, stating in the space provided the nature and amount of the principal items; the minor items should be grouped in one amount.

**5. Interest on bank deposits, etc.**—Enter as Item 5 all interest received or credited to the corporation during the taxable year on bank deposits, notes, mortgages, and corporation bonds.

**6. Rent.**—Enter as Item 6 the gross amount received for the rent of property. Any deductions claimed for repairs, interest, taxes, and depreciation should be included in Items 14, 15, 16, and 20, respectively.

**7. Royalties.**—Enter as Item 7 the gross amount received as royalties. If a deduction is claimed for depletion, it should be reported as Item 21.

**8. Profit from sale of capital assets.**—Enter as Item 8 the amount of gain or loss from the sale or other disposition of real estate, stocks, bonds, and capital assets.

Describe the property briefly in Schedule B, and state the actual consideration or price received, or the fair market value of the property received in exchange. Expenses connected with the sale, such as commissions paid agents, may be deducted in computing the amount received.

Enter the original cost of the property, and if it was acquired prior to March 1, 1913, the fair market value as of that date. Attach statement explaining how value as of March 1, 1913, was determined. Expenses incidental to the purchase may be included in the cost if never deducted from income.

Enter as depreciation the amount of exhaustion, wear and tear, obsolescence, amortization, or depletion which has been 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, and if the cost of such property is greater than its fair market value as of that date, the cost shall be reduced by the depreciation actually sustained before that date. See Sections 202 to 204 of the Revenue Act of 1926.

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

No loss shall be recognized in any sale or other disposition of shares of stock or securities where the corporation has acquired substantially identical property within 30 days before or after the date of such sale, unless the corporation is a dealer in stock or securities in the ordinary course of business.

In case the amount to be entered as Item 8 is a deductible loss, such amount should be preceded by a minus sign or written with red ink.

**9. Dividends.**—Enter as Item 9 the amount received as dividends (a) from a domestic corporation other than a corporation entitled to the benefits of Section 262 of the Revenue Act of 1926 and other than a corporation organized under the China Trade Act, 1922, or (b) from a foreign corporation when it is shown to the satisfaction of the Commissioner that more than 50 per cent of the gross income of such foreign corporation for the three-year period ending with the close of its taxable year preceding the declaration of such dividends (or for such part of such period as the corporation has been in existence) was derived from sources within the United States as defined under Section 217 of the Act.

**10. Other income.**—Enter as Item 10 all other taxable income for which no place is provided on the return, together with any dividends specifically excluded from Item 9.

**11. Total income.**—Enter the net amount of Items 3 to 10, inclusive, after deducting any losses reported in Items 3, 4, and 8.

**12. Compensation of officers.**—Enter as Item 12 the compensation of all officers, in whatever form paid, and fill in Schedule C, giving the information requested.

**13. Rent.**—Enter as Item 13 rent paid for business property in which the corporation has no equity.

**14. Repairs.**—Enter as Item 14 the cost of incidental repairs, including the labor, supplies, and other items which do not add to the value or appreciably prolong the life of property. Expenditures for new buildings, machinery, equipment, or for permanent improvements or betterments which increase the value of the property are chargeable to capital account. Expenditures for restoring or replacing property are not deductible, as such expenditures are chargeable to capital account or to depreciation reserve, depending on how depreciation is charged on the books of the corporation.

List in Schedule D the principal items of cost, grouping the minor items in one amount.

**15. Interest.**—Enter as Item 15 interest paid on business indebtedness. Do not include interest on indebtedness incurred or continued to purchase or carry obligations or securities (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the corporation) the interest upon which is wholly exempt from taxation.

**16. Taxes.**—Enter as Item 16 taxes paid or accrued during the taxable year. Do not include Federal income taxes, income and profits taxes claimed as a credit in Item 41, taxes against local benefits tending to increase the value of the property assessed, taxes paid on bonds containing a tax-free covenant, nor taxes imposed upon sales by the manufacturer. List in Schedule E each class of taxes deducted.

**17. Losses by fire, storm, etc.**—Enter as Item 17 the net loss arising from fire, storm, shipwreck, or other casualty, or from theft, and not compensated for by insurance or otherwise.

Explain losses claimed in Schedule F.

**18. Bad debts.**—Enter as Item 18 debts, or portions thereof, arising from sales or services that have been reflected in income, which have been definitely ascertained to be worthless and have been charged off within the year, or such reasonable amount as has been added to a reserve for bad debts within the year.

If the debts are included in the deduction claimed, submit a schedule showing the amounts charged off, and state how each was determined to be worthless.

If the amount deducted is an addition to a reserve, Schedule G should be filled in giving the information requested.

A debt previously charged off as bad, if subsequently collected, must be returned as income for the year in which collected.

**19. Dividends.**—Enter as Item 19 the dividends described in Paragraph 9 which were reported as income in Item 9.

Describe in Schedule H any dividends claimed as a deduction.

**20. Depreciation.**—The amount deductible on account of depreciation in Item 20 is an amount fairly measuring the portion of the investment in depreciable property by reason of exhaustion, wear and tear, or obsolescence, which is properly chargeable against the operations of the year. If the property was acquired by purchase on or after March 1, 1913, the amount of depreciation 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 useful life. In case the property was purchased prior to March 1, 1913, the amount of depreciation will be determined in the same manner, except that it will be computed on its original cost, or the fair market value as of March 1, 1913, whichever is greater. If the property was acquired in any other manner than by purchase see Section 204 of the Revenue Act of 1926. The capital sum to be replaced should be charged off over the useful life of the property either in equal annual installments or in accordance with any other recognized trade practice, such as an apportionment over units of production. Whatever plan or method of apportionment is adopted must be reasonable and must have due regard to operating conditions during the taxable year. The method adopted should be described in the return. Stocks, bonds, and like securities are not subject to exhaustion, wear and tear within the meaning of the law.

If a deduction is claimed on account of depreciation Schedule I shall be filled in, and the total amount claimed therein should correspond with the figures reflected in the balance sheet. In case obsolescence is included, state separately amount claimed and basis upon which it is computed. Land values must not be included in this schedule.

**21. Depletion.**—If a deduction is claimed on account of depletion, secure from the Collector Form D (minerals), Form E (coal), Form F (miscellaneous nonmetals), Form O-3 (oil and gas), or Form T (timber), fill in and file with return. If complete valuation data have been filed with Questionnaire in previous years, then file with this return information necessary to bring your depletion schedule up to date, setting forth in full statement of all transactions bearing on deductions or additions to value of physical assets with explanation of how depletion deduction for the taxable year has been determined. See Section 204(c) of the Revenue Act of 1926.

**22. Other deductions.**—Enter any other authorized deductions for which no place is provided on the return, including any salaries and wages not claimed as a deduction in Item 2, 12, or 14.

**23. Total income.**—Enter the total of Items 12 to 22, inclusive.

**24. Net income.**—Enter as Item 24 the net income, which is obtained by deducting Item 23 from Item 11. The net income of a corporation shall be computed upon the basis of its taxable year in accordance with the method of accounting regularly employed in keeping the books, unless such method does not clearly reflect the income.

## COMPUTATION OF TAX

**25.** The tax for a fiscal year beginning in 1925 and ending in 1926 is the sum of (a) the tax attributable to the calendar year 1925, which is found by computing the tax on the net income at 13 per cent as if the fiscal year were the calendar year 1925, and determining the proportion of such tax which the number of months falling within the calendar year 1925 is of the entire period; and (b) the tax attributable to the calendar year 1926, which is found by computing the tax on the net income at 13½ per cent as if the fiscal year were the calendar year 1926, and determining the proportion of such tax which the number of months falling within the calendar year 1926 is of the entire period. In case the first or the final return of a corporation is for a period of less than twelve months, the credit of \$2,000 shall be reduced to an amount which bears the same ratio to the full credit as the number of months for which the return is made bears to twelve months. For the credit allowed a corporation organized under the China Trade Act, 1922, see Section 263 of the Revenue Act of 1926.

## CREDIT FOR TAXES

**26.** A foreign corporation subject to taxation and not engaged in a trade or business within the United States and not having any office or place of business therein may claim as a credit in Item 40 any income tax required to be deducted and withheld at the source.

**27.** If a credit is claimed by a domestic corporation in Item 41 on account of income and profits taxes paid or accrued to a foreign country or a possession of the United States, the claim shall be made on Form 1118, and a bond when required on Form 1119. A foreign corporation is not allowed to claim this credit.

**LIABILITY FOR FILING RETURNS**

28. **Corporations generally.**—Every domestic or resident corporation, joint-stock company, association, or insurance company not specifically exempted by Section 231 of the Revenue Act of 1926, whether or not having any net income, must file a return on this form, or on Form 1120 if for the calendar year 1926.

29. **Corporations in possessions of the United States.**—Domestic corporations within the possessions of the United States (except the Virgin Islands) may report as gross income only gross income from sources within the United States, provided, (a) 80 per cent or more of the total gross income for the three-year period immediately preceding the close of the taxable year (or such part thereof as may be applicable) was derived from sources within a possession of the United States; and (b) 50 per cent or more of the total gross income for such three-year period or applicable part thereof was derived from the active conduct of a trade or business within a possession of the United States.

30. **Foreign corporations.**—A foreign corporation subject to the provisions of the Revenue Act of 1926, regardless of the amount of its net income, is required to file a return with the Collector in whose district is located its principal office or agency through which is transacted the business in the United States. The net income should be computed in accordance with Section 217 of the Revenue Act of 1926.

**INSURANCE COMPANIES**

31. **Life insurance companies.**—A life insurance company issuing life insurance and annuity contracts (including contracts of combined life, health, and accident insurance), as defined by Section 242 of the Revenue Act of 1926, shall file its tax return on Form 1120L, instead of this form.

32. **Mutual insurance companies.**—A mutual insurance company (other than a life insurance company), in addition to the deductions allowed a corporation, unless otherwise allowed, may claim as deductions in Item 22 of the return, (a) the net addition required by law to be made within the taxable year to reserve funds (including in the case of an assessment insurance company the actual deposit of sums with State or Territorial officers pursuant to law as additions to guarantee or reserve funds), and (b) the sums other than dividends paid within the taxable year on policy and annuity contracts.

33. A mutual marine insurance company shall include in its gross income in Item 4 of this return the gross premiums collected and received, less amounts paid for reinsurance, and in addition to the deductions allowed a corporation, and to a mutual insurance company in paragraph 32 above, unless otherwise allowed, may claim as a deduction in Item 22 of the return amounts repaid to policyholders on account of premiums previously paid by them, and interest paid upon such amounts between the ascertainment and the payment thereof.

34. A mutual insurance company (including interinsurance and reciprocal underwriters, but not including a mutual life or mutual marine insurance company) requiring its members to make premium deposits to provide for losses and expenses, in addition to the deductions allowed a corporation, and to a mutual insurance company in paragraph 32 above, unless otherwise allowed, may claim as a deduction in Item 22 of the return, the amount of premium deposits returned to its policyholders and the amount of premium deposits retained for losses, expenses, and reinsurance reserves.

35. The receipts of a shipowners' mutual protection and indemnity association, not organized for profit, and no part of the net earnings of which inures to the benefit of any private stockholder or member, are exempt from taxation, but such association shall be subject as a corporation to the tax upon its net income from interest, dividends, and rents.

36. Benevolent life insurance associations of a purely local character, mutual ditch or irrigation companies, mutual or cooperative telephone companies, or like organizations are exempt from taxation only if 85 per cent or more of the income consists of amounts collected from members for the sole purpose of meeting losses and expenses.

37. **Other insurance companies.**—The net income of an insurance company (other than a life or mutual insurance company referred to above), upon which a tax of 12½ per cent is imposed, is the gross income 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, as provided in Section 246 of the Revenue Act of 1926, less the deductions for ordinary and necessary expenses, interest, taxes, losses, bad debts, depreciation, etc., as allowed by Section 247 of the Act.

**CONSOLIDATED RETURNS**

38. If one domestic corporation owns 95 per cent or more of the outstanding stock of another or others, or if 95 per cent or more of the outstanding stock of two or more domestic corporations is owned by the same individual or partnership, or by the same individuals, partnerships, or corporations, in substantially the same proportion, a consolidated return may be filed by such corporations. The term "stock" does not include nonvoting stock which is limited and preferred as to dividends. In case a consolidated return is filed, the parent or principal corporation of the affiliated group must furnish the information called for in questions 4 to 7 on page 4 of the return.

39. Where a group of corporations are affiliated within the meaning of Section 240 of the Revenue Act of 1926, they shall either elect to file one consolidated return for the entire group, or a separate return for each corporation, and all returns thereafter made shall be upon the same basis unless permission to change the basis has been granted by the Commissioner. A corporation organized under the China Trade Act, 1922, shall not be deemed to be affiliated with any other corporation within the meaning of Section 240 of the Act.

40. The parent or principal reporting company of affiliated corporations, when filing a consolidated return on this form, shall attach thereto a schedule showing the names and addresses of all affiliated corporations in the group, and if the tax is apportioned among these corporations, the amount allocated to each. Each of the other affiliated corporations shall file Form 1122 in the office of the Collector for its district.

41. All supplementary and supporting schedules filed with a consolidated return should be prepared in columnar form, one column being provided for each corporation included in the consolidation, one column for a total of like items before adjustments are made, one column for intercompany eliminations and adjustments, and one column for a total of like items after giving effect to the eliminations and adjustments. The items included in the column for eliminations and adjustments should be symbolized so as to readily identify contra items affected, and suitable explanations appended, if necessary.

**WORKING PAPERS**

42. Every corporation should preserve, available for inspection by a revenue officer, working papers showing the balance in each account on the corporation's books that was used in preparing the return.

**BALANCE SHEETS**

43. The balance sheets on page 3 of the return, Schedule K, should be prepared from the books and should agree therewith, or any differences should be reconciled. The balance sheets for a consolidated return should be furnished in accordance with Paragraph 41. All corporations engaged in an interstate and intrastate trade or business and reporting to the Interstate Commerce Commission and to any national, State, municipal, or other public officer, may submit, in lieu of Schedule K, copies of their balance sheets prescribed by said Commission or State and municipal authorities, as at the beginning and end of the taxable year.

In case the balance sheet as at the beginning of the current taxable year does not agree in every respect with the balance sheet which was submitted as at the end of the previous taxable year the differences should be fully explained in the space provided under Schedule K.

**PERIOD COVERED**

44. Except in the case of the first return the corporation shall make its return on the basis upon which the return was made for the taxable year immediately preceding unless, with the approval of the Commissioner, a change is made in the accounting period.

45. If a corporation desires to change its accounting period from fiscal year to calendar year, from calendar year to fiscal year, or from one fiscal year to another fiscal year, an application for such change shall be made on Form 1128 and forwarded to the Collector at least thirty days before the close of the proposed or new taxable year or period.

46. Where the Commissioner approves a change in the accounting period the net income computed on the separate return for a fractional part of a year shall be placed on an annual basis by multiplying the amount thereof by twelve and dividing by the number of months included in the period, and the tax shall be such part of a tax computed on such annual basis as the number of months in such period is of twelve months. See Sections 212 and 226 of the Revenue Act of 1926.

**TIME AND PLACE FOR FILING**

47. The return must be sent to the Collector of Internal Revenue for the district in which the corporation's principal office is located so as to reach the Collector's office on or before the fifteenth day of the third month following the close of the fiscal year. In the case of a foreign corporation not having any office or place of business in the United States the return shall be filed with the Collector of Internal Revenue, Baltimore, Md., on or before the fifteenth day of the sixth month following the close of the fiscal year.

48. The Collector of Internal Revenue may grant a reasonable extension of time for filing a return, if application therefor is made before the date prescribed by law for filing such return, whenever in his judgment good cause exists.

**SIGNATURES AND VERIFICATION**

49. The return shall be sworn to by the president, vice president, or other principal officer, and by the treasurer or assistant treasurer. The return of a foreign corporation having an agent in the United States shall be sworn to by such agent. If receivers, trustees in bankruptcy, or assignees are operating the property or business of the corporation, such receivers, trustees, or assignees shall execute the return for such corporation under oath.

**PAYMENT OF TAXES**

50. The tax should be paid by sending or bringing with the return a check or money order drawn to the order of "Collector of Internal Revenue at (insert name of city and State)."

Do not send cash through the mail or pay it in person except at the office of the Collector.

The total tax may be paid at the time of filing the return or in four equal installments, as follows:

The first installment shall be paid on or before the fifteenth day of the third month following the close of the fiscal year, the second installment shall be paid on or before the fifteenth day of the third month, the third installment on or before the fifteenth day of the sixth month, and the fourth installment on or before the fifteenth day of the ninth month, after the latest date prescribed for paying the first installment.

If any installment is not paid on the date fixed for its payment, the whole amount of the tax unpaid shall be paid upon notice and demand by the Collector.

**PENALTIES**

51. **For willful failure to make and file a return on time.**—Not more than \$10,000 or imprisonment for not more than one year, or both, and, in addition, 25 per cent of the amount of the tax.

52. **For willfully making a false or fraudulent return.**—Not more than \$10,000 or imprisonment for not more than five years, or both, and, in addition, 50 per cent of the amount of the tax.

53. **For deficiency in tax.**—Interest on deficiency at 6 per cent per annum to the date the deficiency is assessed, or to the thirtieth day after the filing of a waiver of the right to file a petition with the Board of Tax Appeals, whichever date is the earlier, and, in addition 5 per cent of the amount of the deficiency if due to negligence or intentional disregard of rules and regulations without intent to defraud, or 50 per cent of amount of deficiency if due to fraud.

**UNDISTRIBUTED PROFITS**

54. If any corporation is formed or availed of for the purpose of preventing the imposition of the surtax upon its shareholders by permitting its gains and profits to accumulate instead of being divided or distributed, there shall be levied, collected, and paid for each taxable year upon the net income of such corporation a tax equal to 50 per cent of the amount thereof, which shall be in addition to the tax imposed by Section 230 of the act. In such case the net income shall include interest on obligations of the United States issued after September 1, 1917, which would be subject to tax in whole or in part in the hands of an individual owner, and dividends received from a domestic corporation. (See Section 220 of the Revenue Act of 1926.)

**INFORMATION AT THE SOURCE**

55. Every corporation making payments of salaries, wages, interest, rent, commissions, or other fixed or determinable income of \$1,500 or more during the calendar year, to a single individual, fiduciary, or partnership, or \$3,500 or more to a married person, or payments of dividends of \$500 or more to any individual, fiduciary, or partnership, is required to make a true and accurate return to the Commissioner of Internal Revenue, showing the amount of such payments and the name and address of the recipient. Forms 1096 and 1099, for reporting salaries, etc., and Forms 1097 and 1097A for dividends, will be furnished by any Collector of Internal Revenue upon request. Such returns of information covering the calendar year 1926 must be forwarded to the Commissioner of Internal Revenue, Sorting Section, Washington, D. C., in time to be received not later than March 15, 1927.