A. WHO MUST MAKE A RETURN.—Every citizen and resident of the United States having during the taxable year gross income (income derived from any source whatever, unless exempt from tax by law) in an amount specified below, regardless of the amount of net income, shall make a return if:

1. (1) Single, or married and not living with husband or wife for any part of the taxable year. If having a gross income of $800 or over.

2. Married and living with husband or wife for the entire taxable year. If each has income and their combined gross income is $2,000 or over, they must each make a return or file a joint return. If only one has income and his gross income is $2,000 or over, or equal to, or in excess of, their total personal exemption (not including credit as head of a family or for dependents), they must each make a return or file a joint return. If only one has income and his gross income is $2,000 or over, or equal to, or in excess of, his personal exemption (not including credit as head of a family or for dependents), only that one is required to make a return. (See Specific Instruction 22 as to personal exemption.)

Joint return.—May be filed by husband and wife only if they are (1) both citizens or residents of the United States, etc., owned by partners, estate, or trust. Include in item 13, and Enter in Schedule B your share of interest on obligations of the United States, States, etc., not taxable as a corporation (including a syndicate, pool, etc., not taxable as a corporation except capital gains and losses), which enter in Schedule F. Enter as item 7 income from an estate or trust. Include in Schedule B your share of interest on obligations of the United States, States, etc., owned by partnership, estate, or trust. Include in Schedule C your share of gains or losses of a partnership, syndicate, pool, etc., not taxable as a corporation except capital gains and losses, which enter in Schedule H, your share of any contribution or gift, payment of which was made by the partnership within its taxable year. Enter in items 32 and 33, respectively, your share of credits for Federal income tax paid at source and foreign income taxes.

8. RENTS AND ROYALTIES.—Include rent received in property or

accredal basis, report all income accrued, even though not received or entered on books, and expenses incurred even though not paid. If books are not kept on accrual basis, or if no books are kept, report all income actually or constructively received, and all expenses paid.

G. ITEMS EXEMPT FROM TAX.—Explain items claimed to be excluded in Schedule I, except interest on obligations reported in Schedule I, as follows:

1. Interest on governmental obligations:
   (a) Entirely exempt.—The interest on (1) obligations of a State, Territory, or political subdivision thereof, or the District of Columbia, or United States possessions; (2) obligations issued under Federal Farm Loan Act, or under any other Act of Congress, and held by a United States citizen at the time his return is filed on or before September 1, 1917; and (4) Treasury notes, Treasury bills, Treasury certificates of indebtedness, postal savings obligations, adjusted service bonds, and certain other obligations of the United States.

2. Proceeds of insurance policies.—The proceeds of life insurance policies, paid by reason of the death of the insured, are exempt. If any part of the proceeds is held by the insurer under an agreement to pay interest, the interest is taxable. Amounts received under a life insurance or endowment policy, not payable by reason of the death of the insured, are not taxable until the aggregate of the amounts received exceeds the premiums or contributions paid for the policy. See Specific Instruction 11 as to taxation of annuities.

3. Federal savings and loan associations.—Dividends on shares accounts in Federal savings and loan associations are subject only to surtax.

4. Miscellaneous items wholly exempt from tax:
   (a) Gifts (not received as a consideration for service rendered) and money and property received by bequest, devise, or inheritance (but income therefrom is taxable);
   (b) Amounts received through accident or health insurance or under workmen's compensation acts, as compensation for personal injuries or sickness or illness, if amounts paid or expenses paid, whether by suit or agreement, or account of such injuries or sickness; or
   (c) The rental value of a dwelling house and appurtenances thereof furnished to a minister of the gospel as part of his compensation;
   (d) Pensions and compensation received by veterans from the United States and pensions received from any foreign country by a veteran, by the family of a veteran, for services rendered by the veteran in time of war; and
   (e) Amounts received as earned income from sources without the United States (except amounts paid by the United States or any agency thereof) by any person for any part of the taxable year, if received during more than 6 months during the taxable year (no deduction may be taken for any amount properly allocable to or chargeable against amounts so excluded).

H. DEPRECIATION AND DEPLETION.—A reasonable allowance for exhaustion, wear and tear, including obsolescence, of property used in trade or business may be deducted. The deduction must be based on cost if acquired by purchase after February 28, 1913. If acquired before March 1, 1913, or by other than purchase, see section 112.

I. INFORMATION AT SOURCE.—Every person making payments of (1) interest, rents, commissions, or other fixed or determinable income of $800 or more during the calendar year, (2) wages of $2,000 or more during the calendar year, (3) value of more than $5,000 of property, or (2) who have any income or losses from rental or sale of property, must report thereon to the person receiving same. (See Instruction 22 as to personal exemption.)

J. STOCK OWNED IN FOREIGN CORPORATIONS AND PERSONAL HOLDING COMPANIES.—If at any time during the year you owned directly or indirectly (a) any stock of a foreign corporation, or a personal holding company (section 501), attach a statement showing name and address of each such company and total number of shares of each class of outstanding stock owned. If at any time during the year you owned stock in a foreign personal holding company (section 331), include in income as a dividend the amount required by section 331, and if you owned 5 percent or more in value of the outstanding stock of such company, attach a statement giving in detail the information required by section 337(d).

SPECIFIC INSTRUCTIONS
(Numbered to correspond with item numbers on page 1 of return)

1. SALARIES, ETC.—Include compensation received as an officer or employee of a State or political subdivision or any agency or instrumentality thereof. For treatment of compensation for a period of 5 years or more, see section 107.

2. DIVIDENDS.—Enter total of all taxable dividends. Enter in Schedule I all dividends claimed to be not taxable. Enter in item 11 dividends on shares accounts in Federal savings and loan associations.

6. 7. INCOME FROM PARTNERSHIPS, FIDUCIARIES, ETC., WHOSE TAXABLE YEAR ENDS WITHIN THE TAXABLE YEAR COVERED BY THIS RETURN.—Enter as item 6 your share of profits (whether received or accruing, whether realized or unrealized, from a syndicate, pool, etc., not taxable as a corporation) except capital gains and losses, which enter in Schedule F. Enter as item 7 income from an estate or trust. Enter in Schedule B your share of interest on obligations of the United States, States, etc., owned by partnership, estate, or trust. Enter in Schedule C your share of gains or losses of a partnership, syndicate, pool, etc., not taxable as a corporation except capital gains and losses, which enter in Schedule H, your share of any contribution or gift, payment of which was made by the partnership within its taxable year. Enter in items 32 and 33, respectively, your share of credits for Federal income tax paid at source and foreign income taxes.

8. RENTS AND ROYALTIES.—Include rent received in property or

reported crop received on crop-share basis in year in which disposed of (unless return is made on accrual basis).

9. BUSINESS OR PROFESSION.—Fill in Schedule D. Farmers keeping no books of account, or books on cash basis, must attach Form 1040F. A taxpayer electing to include in gross income amounts received during the calendar year as compensation from a trade or business must file with his return a statement showing the details of such loans. (See section 123.) If installment method is used, attach schedule showing separately for years 1937, 1938, 1939, and 1940: (a) Gross sales; (b) cost of goods sold; (c) gross profits; (d) percentage of profits to gross sales; (e) amount credited, if any, for personal services on account of capital stock, and (f) amount of mark-up or discount allowed.

Bad debts may be deducted either (1) when ascertained to be wholly or partially worthless, or (2) by a reasonable addition to a reserve. (No change of method without permission of Commissioner.)

10. GAINS AND LOSSES FROM SALES OR EXCHANGES OF CAPITAL ASSETS AND OTHER PROPERTY.—Report details in Schedules F and G.

“Capital assets” defined.—The term “capital assets” means property held by the taxpayer (whether or not connected with his trade or business), but not stock in trade or other property of a kind which would properly be
included in his inventory if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business, or property used in the trade or business of a character which is subject to the allowance for depreciation provided in section 23 (1).

1. Description of property.—State following facts: (a) For real estate, location and description of land and improvements; (b) for bonds or other evidences of indebtedness, name of issuing corporation, particular issue, denomination and amount; and (c) for stocks, name of corporation, class of stock, number of shares, and capital changes affecting basis (including nonadjustable limitations).

2. Losses.—Do not deduct losses in case of property acquired before March 1, 1913, use 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 use cost so adjusted. If the property was acquired after February 28, 1913, use cost or FMV at the time of acquisition, whichever is lower.

3. Losses on securities becoming worthless.—If (1) shares of stock become worthless during the year or (2) corporate securities with interest coupons or in registered form are ascertained to be worthless and charged off during the year, and are capital assets, the loss therefrom shall be considered lost from the sale or exchange of capital assets as of the last day of such taxable year.

4. Classification of capital gains and losses.—The phrase “short-term” applies to gains and losses from the sale or exchange of capital assets held for a period of 18 months or less; the phrase “long-term” to capital assets held for more than 18 months.

5. Limitation on short-term capital losses.—Short-term capital losses shall be allowed only to the extent of the net short-term capital gains. However, any net short-term capital loss (not in excess of the net income for the year involved) may be carried forward for a period of 1 year against the excess of long-term capital gains over long-term capital losses in the same taxable year. The carry-forward is restricted to 1 year.

6. Alternative tax.—In the case of a long-term capital gain or loss, an alternative tax shall be computed in the manner prescribed by paragraph (a) of this section, on the gains and losses; but capital transactions of such items must be shown in separate schedules.

7. Losses in transactions between certain persons.—No deduction is allowable for losses from sales or exchanges of property directly or indirectly between (a) members of a family, (b) a corporation and an individual owning more than 50 percent of the voting stock of the corporation, (c) a grantor and fiduciary of any trust, or (d) fiduciary and a beneficiary of the same trust.

8. Other income.—Enter any other taxable income, including: (a) salaries and wages, (b) professional profits and fees, (c) income from farm property, (d) interest and dividends, (e) rents from real property, (f) gains from the sale of household and personal property, (g) gains from the sale of personal property, (h) gains from the sale of personal property, and (i) gains from the sale of personal property.

9. Capital losses of husband and wife.—A husband and wife, both engaged in a trade or business, may combine their capital losses and gains, and losses and gains, but capital transactions of such items must be shown in separate schedules.

10. 11. OTHER INCOME.—Enter any other taxable income, including: (a) salaries and wages, (b) professional profits and fees, (c) income from farm property, (d) interest and dividends, (e) rents from real property, (f) gains from the sale of household and personal property, (g) gains from the sale of personal property, (h) gains from the sale of personal property, and (i) gains from the sale of personal property.

12. 13. CONTRIBUTIONS PAID.—Enter (not to exceed 15 percent of your net income computed without the benefit of this deduction) contributions or gifts, payment of which was made within the year or for the use of—

14. INTEREST.—Enter interest on personal indebtedness as distinguished from business indebtedness (which should be entered in Schedules C and D). For limitations on deductions for unpaid expenses and interest, see section 24 (c).

15. TAXES.—Enter taxes imposed on you and paid or accrued during the taxable year, except taxes entered in Schedules C and D. Do not include taxes assessed against local benefits, Federal income taxes, sales, inheritance, legacy, succession, gift taxes, taxes imposed on your interest as shareholder of a corporation which are paid by the corporation without reimbursement from you, nor income taxes claimed as a credit in item 33. Federal social security and employment taxes paid by or for an employee are not deductible by the employee.

16. LOSSES.—Enter property losses (not claimed in Schedule D), from fire, storm, shipwreck, or other casualty, or from theft, not compensated for by insurance or otherwise. Explain in Schedule H giving description of property, date of loss, and to whom surrendered. If life insurance policies, depreciations, allowable, insurance, salvage value and deductible loss.

17. BAD DEBTS.—Enter bad debts other than those claimed in Schedule D. Show in Schedule H: (a) what the debts consisted of; (b) name and address of the person from whom received, if any; (c) the amount of the debts; (d) when due; (e) efforts made to collect; and (f) how determined to be worthless. Enter in Schedule F losses from corporate securities with interest coupons or in registered form ascertained to be worthless and charged off during the year, and which are capital assets.

18. OTHER DEDUCTIONS.—Enter other authorized deductions, including net operating loss deduction allowed by section 23 (e). Every taxpayer claiming a deduction due to a net operating loss for the preceding year must file with his return the statement required by section 19.122–1, Regulations 103.

Do not deduct losses in transactions not connected with your trade or business or not entered into for profit. Losses from wagering transactions are allowable to the extent of gains therefrom.

19. CREDIT FOR PERSONAL EXEMPTION AND DEPENDENTS.—A single person, or a married person not living with spouse, is allowed a personal exemption of $800. A person who, during the entire taxable year, was the head of a family or was married and living with spouse, is allowed an exemption of $2,000. On separate returns, the personal exemption may be taken by either husband or wife or divided between them.

20. A “head of a family” is one who supports in one household one or more dependent individuals closely connected with him by blood relationship, relationship by marriage, or by adoption, and whose right to exercise family control is imposed by some moral or legal obligation.

21. A credit of $400 is allowed for each person (other than husband or wife) under 16 years of age, because mentally or physically defective. Such chief support was received from the taxpayer.

22. If taxpayer's status, with respect to personal exemption and credit for dependents, changed during the taxable year, such exemption and credit shall be apportioned according to the number of months before and after such change. A fractional part of a month is disregarded unless it exceeds half a month, when it shall be considered a month.

23. CREDIT FOR INTEREST, ETC.—Enter interest reported as item 5, and also dividends on shares in Federal savings and loan associations reported in item 10.

24. EARNED INCOME CREDIT.—“Earned income” means wages, salaries, professional fees, and other amounts received as compensation for personal services actually rendered. Where a taxpayer is engaged in a trade or business in which both personal services and capital are material elements of the trade or business (whether or not the personal services are the main factor), the taxpayer may elect not to be considered as engaged in a trade or business in which both personal services and capital are material elements of the trade or business. Where a taxpayer is engaged in such a trade or business, the credit is limited to 15 percent of the taxpayer's earned income.

25. INCOME TAX PAID AT SOURCE.—A corporation, trust, or community chest, fund, or foundation, created or organized in the United States or any possession thereof or territory of the United States, shall be entitled to the credit provided in section 23 (c), which is presumed to be paid at source. For purposes of the credit, the filing of a Form 1116 certified copy of return on which tax was based, shall be deemed to be payment at source. Income tax paid to a foreign country or possession of United States, submit Form 1116 and Form 1116-C. For such payments, if the credit is claimed for taxes accrued, attach to Form 1116 certified copy of return on which tax was based.

26. DEFENSE TAX.—The amount of the tax to be entered as item 35 shall not exceed 10 percent of the amount by which the net income exceeds the tax computed without reference to defense tax.