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.

1. Single persons having gross income $1,200 or over, or married and not living with husband or wife for any part of the taxable year. If having a gross income of $500 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 $1,200 or over, they must each make a return or file a joint return. If only one has income and his gross income is $1,200 or over, only that one is required to make a return.

3. Married and living with husband or wife for only part of the taxable year. If each has income and their combined gross income is $1,200 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 $1,200 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 21 as to personal exemption.)

If the return is filed by husband and wife only if they are (1) both citizens or residents of the United States and (2) living together at the end of the taxable year. A joint return is permissible even though one has no gross income. In a joint return the aggregate income, deductions, and credits are computed as though husband and wife were one person.

Deceased individuals. The return for the period to the date of death of a deceased individual is a return for the entire taxable year, and the credit for personal exemption (as well as credit as head of a family and for dependents) is reduced proportionately to the number of months in such period. The return is required on Form 1040, not Form 1040A, and is required if gross income to date of death is equal to, or in excess of, the credit for personal exemption as so reduced. Amounts (other than amounts includible by a partner under section 182 in computing net income) which would be includible in the net income of, or allowable as deductions and credits to, a decedent solely by reason of his death shall not be included in computing the decedent's income for the taxable period in which falls the date of death. All amounts of gross income which are not includible in the income of the decedent will, when received, be includible in the income of the estate or person receiving such amounts by inheritance or survivorship from the decedent under section 126.

B. FORM OF RETURN.—Citizens and resident alien individuals use Form 1040, except that those whose gross income, computed on the cash basis for the calendar year, is not more than $3,000, and consists wholly of salary, wages, other compensation for personal services, dividends, interest, or annuities may use optional Form 1040A. In the case of a husband and wife living together at any time during the year, separate returns may not be made on Form 1040A unless each elects to use Form 1040. A husband and wife must file a joint return or Form 1040B. Fiduciaries for estates and trusts use Form 1041.

C. FILING OF RETURNS AND PAYMENT OF TAX.—File on or before 15th day of 3d month following close of taxable year with collector for the district in which the taxpayer has his legal residence or principal place of business. If the taxpayer has no legal residence or place of business in the United States, file with collector at Baltimore, Md. The taxpayer's income after payment of income tax may be determined by the collector.

Any income, whether or not required to file return under Form 1040, must be paid to the Collector of Internal Revenue on receipt of return or in four equal installments on or before the 15th day of the 3d, 6th, 9th, and 12th month from close of taxable year.

D. PENALTY FOR PERFORMING CERTAIN ACTS POSTPONED BY REASON OF WAR.—Section 3804 (a) provides that any period of time after December 6, 1941, during which an individual is continuously outside the Americas for more than 90 days, and the next 90 days thereafter, shall be disregarded in making certain determinations under the Internal revenue laws with respect to performance of certain listed acts. These acts include, among others, filing returns and making payments of income tax (with certain exceptions), filing claims for credit or refund of any tax, and assessing and collecting any tax.

In the case of an individual who is a prisoner of war or otherwise detained by an enemy country or by enemy forces or who is in the military or naval forces of the United States serving on sea duty or outside the continental United States, sections 13 and 14 of the Act approved March 7, 1942, specify as the due date for filing returns and making payments of income tax the fifteenth day of the third month following the month in which such status ceases or the present war is terminated, whichever is earlier.

E. PENALTIES.—Severe penalties are imposed for failing to file a required return, for late filing, and for filing a false or fraudulent return.

F. DECLARATION.—The return shall contain or be verified by a written declaration that it is made under the penalties of perjury. The return may be verified either by the taxpayer or by the person preparing the return.

G. RECEIVED OR ACCRUED INCOME.—If books are kept on an accrual basis, report all income accrued, even though not received, and expenses incurred even though not paid. If books are not kept on an accrual basis, or if no books are kept, report all income actually or constructively received, and all expenses paid.

H. ITEMS EXEMPT FROM TAX.—As to items of income exempt from tax other than those listed below, see sections 22 (b) and 116.

1. Interest on governmental obligations is exempt to the extent indicated in Schedule A.

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 insured 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 proceeds less the consideration for the policy. (See Specific Instruction 7 as to taxation of annuities.)

3. Miscellaneous items wholly exempt from tax:

(a) Gifts (not received as a consideration for service rendered) and money and property acquired by bequest, devise, or inheritance (but income therefrom is taxable).

(b) Exempt in the case of amounts attributable to (and not in excess of) deductions allowed under section 23 (x) in any prior taxable year, 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, and amounts received as a pension, annuity, or similar allowance for personal injury or sickness resulting from active service in the armed forces of any country;

(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 the United States by the family of a veteran, for services rendered by the veteran in time of war;

(e) Interest on adjusted service bonds and interest credited to postal savings accounts to the extent that they represent deductions from tax which have been or will be credited to the taxpayer;

(f) Income, other than rent, derived by a lessor of real property upon the termination of a lease, representing the value of such property attributable to buildings erected or other improvements made by the lessee;

(g) Income attributable to the recovery during the taxable year of a deduction in a prior year taken for depreciation on a depreciating asset, to the extent that such debt, tax, or delinquency amount did not operate to reduce the income tax liability of the taxpayer for any prior year with respect to such debt, tax, or amount; and

(h) Amount received by personnel below the grade of commissioned officer in the military or naval forces of the United States as salary or compensation for any part of the period for which the person is on active service in such forces not in excess of...
amortization of the adjusted basis (for determining gain) of an emergency facility (as defined in section 124 (c)), based on a period of sixty months. A statement of the pertinent facts should be filed with the taxpayer's return.

J. INFORMATION AT SOURCE.—Every person making payments of (1) interest, rents, commissions, or other fixed or determinable income of $600 or more during calendar year 1942 to an individual, (2) salary or wages of $500 or more to a single person or $1,200 or more to a married person shall make a return on Forms 1096 and 1099.

K. STOCK OWNED IN FOREIGN CORPORATIONS AND PERSONAL HOLDING COMPANIES.—If at any time during the year you owned directly or indirectly 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 337, 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. (See General Instruction H3(b) for exclusion allowable for military and naval personnel.)

2. 4. INTEREST ON CORPORATION BONDS, ETC.—Enter the interest received on stock dividends on shares issued before that date should be entered in Schedule A.

3. INTEREST ON GOVERNMENT OBLIGATIONS, ETC.—Enter in Schedule A the amount owned at the end of the year of the various obligations listed therein and the interest received or accrued during the year. The total of column 5, line (b), Schedule A (amount subject to normal tax but not surtax), should be entered as item 5 (b).

4. Section 28 provides for the deduction of amortizable bond premium by the owner of the bond. The term "bond" means any bond, debenture, note, or certificate or other evidence of indebtedness, issued by any corporation and bearing interest (including any obligation issued by a government or political subdivision thereof), with interest coupons or in registered form, but does not include any such obligation which constitutes stock in trade of the taxpayer or which is the evidence of a kind which properly should be included in the inventory of the taxpayer if on hand at the close of the taxable year, or any such obligation held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business. The amount of the amortization premium should be entered in the appropriate spaces in items 4 and 5, and deducted from the amount of interest received or accrued. Amortization of bond premium is mandatory with respect to fully tax-exempt bonds (the interest on which is subject to only state, local, or foreign income tax and the surtax) and partially tax-exempt bonds (the interest on which is subject only to surtax), the amortization of bond premium is elective as to either one or as to both. Such election shall be made by the taxpayer by taking a deduction for the bond premium on the return for the taxable year in which he desires the election to be applicable. Attach a statement showing the computation of the deduction.

12. CONTRIBUTIONS PAID.—Enter (not to exceed 15 percent of your net income computed without the benefit of item 8, item 9, item 10, or item 11; or $100, whichever is greater) for extraordinary medical expenses deductible under section 23 (x) contributions or gifts, payment of which was made within the year to or for the use of—

(1) a hospital, church, school, college, institution, or organization, of which you are a member or to which you contribute, or that is organized and operated exclusively for religious, educational, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the income of which inures to the benefit of any private shareholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation—

(2) The United States, any State, Territory, or any political subdivision thereof, or the District of Columbia, or any possession of the United States, for exclusively public purposes.
13. INTEREST.—Enter interest on personal indebtedness as distinguished from business indebtedness (which should be entered in Schedules B and H). Do not include interest on indebtedness incurred in the supply of goods and services (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. Include tenant-stockholder’s proportion of interest on indebtedness secured by the pledge of the tenant’s share in a cooperative apartment building or in the acquisition of the land on which the building is located. (See section 23 (e)). For limitations on deductions for unpaid expenses and interest, see section 24 (e). Do not deduct interest on indebtedness incurred or accrued on indebtedness incurred or ended in the purchase of a single premium life insurance or endowment contract. A contract shall be considered a single premium life insurance or endowment contract, if substantially all the premiums on such contract are paid within a period of 4 years from the date on which the contract is purchased. (See section 23 (e)).

14. TAXES.—Enter taxes paid or accrued during the taxable year except taxes entered in Schedules B and H and taxes not deductible. The taxes imposed by the United States Government on the following items may be deducted: Admissions, club dues, telephone and telegraph services, safe deposit boxes, or any other property, right, or franchise, the use of which is principal to the taxpayer. Motor vehicle or boat, and documents. State and local retail sales taxes may be deducted to the extent that they are separately stated and paid by the purchaser. Do not include taxes assessed against local benefits, Federal income taxes or estate, inheritance, legacy, and gift taxes levied on the assets of a shareholder of a corporation which are paid by the corporation without reimbursement from you, nor income taxes claimed as a credit in item 32. Federal social security and employment taxes paid or accrued by an employee on an employee’s behalf for the employee may be deducted. Include taxes on property which are paid or accrued on indebtedness incurred or ended in the purchase of a single premium life insurance or endowment contract. (See section 23 (e)).

15. LOSSES.—Enter property losses (not claimed in Schedule H) from fire, storm, shipwreck, or other casualty, or from theft, in one paragraph immediately before the paragraph in which the losses are claimed. Include also losses (not claimed in Schedule H) from property destroyed or seized in the course of military or naval operations during the war, and of property located in enemy countries or in areas which come under the control of the enemy. See section 127 for rules as to treatment of losses from war; taxation of property recovered, and basis of property. Explain in Schedule C, giving description of property, date acquired, cost, subsequent improvements, depreciation allowable, insurance, salvage value, and deductible loss.

16. BAD DEBTS.—Enter bad debts other than those claimed in Schedule H. Show in Schedule C: (a) of what the debt consists; (b) whether or for whom the debt is due; (c) when created; (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 which become worthless during the year, and which are capital assets.

17. 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 taxable year or years shall file with his return the statement required by section 19.22-1 of the regulations. Include alimony and separate maintenance payments to the extent permitted by section 19.22-1 of the regulations. Income tax expenses incurred either (1) for the production or collection of taxable income or (2) for the management, conservation, or maintenance of property held for the production of taxable income. Expenses paid, not compensated for by insurance or otherwise, for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body (including amounts paid for accident or health insurance) of the taxpayer, his spouse, or a dependent of the taxpayer, are deductible. The deduction is limited to such expenses as exceed 5% of the net income computed without the benefit of the deduction for expenses paid for such medical treatment. The limitation is 5% of the aggregate net income of such husband and wife. The maximum deduction in the case of a husband and wife who file a joint return or a head of a family may not exceed $2,500, and in the case of all other individuals, $1,250.

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.

21, 22. CREDIT FOR PERSONAL EXEMPTION AND DEPENDENTS.—A single person, or a married person not living with spouse, is allowed a personal exemption of $500. A married person living with spouse, or a married person living with dependents, is allowed an exemption of $1,200. On separate returns (Form 1040), the personal exemption may be taken by either husband or wife or divided between them in any proportion.

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

A credit of $350 is allowed for each person (other than husband or wife) under 18 years of age, or incapable of self-support because of physical or mental impairments, for whom the chief support was received by the taxpayer. If taxpayer is head of a family only because of dependents for whom he would be entitled to credit under preceding sentence, $350 credit is allowed for each of such dependents except one.

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

25. EARNED INCOME CREDIT.—“Earned income” means wages, salaries, professional fees, and other amounts received for personal services performed for compensation not considered to be wages, salaries, or professional fees, for work performed in the trade or business in which the taxpayer engages in the performance of personal services, whether or not the net profits of such trade or business, shall be considered as earned income. “Earned net income” means the excess of the amount of the earned income over the amount of the earned income deductions, which are the ordinary and necessary expenses of the trade or business properly chargeable against earned income.

28. SURTAX.—The following table shows the surtax due for the tax year upon certain specified amounts of surtax net income.

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<th>SURTAX TABLE</th>
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<td>If the surtax net income is:</td>
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<td>$500,000 or over</td>
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31. INCOME TAX PAID AT SOURCE.—Enter 2 percent of interest on bonds on which Federal income tax was paid by donor or contributor.

32. FOREIGN TAX CREDIT.—If credit is claimed for taxes paid to a foreign country or possession of United States, submit Form 1116 and receipts for such payments. If credit is claimed for taxes accrued, attach to Form 1116 certificate of return on which tax was based.
INSTRUCTIONS ON THIS PAGE NEED BE CONSIDERED ONLY IF ENTRIES ARE MADE IN ITEMS 8, 9, AND 10, PAGE 1 OF RETURN

8. 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 (f), or an obligation of the United States or any of its possessions, or of a State or Territory, or any political subdivision thereof, or of the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding one year from the date of issue, or real property used in the trade or business of the taxpayer.

Section 165 (b) provides that if an employee receives the total distribution that he is entitled to under an employee's trust plan that meets the requirements of section 165 (a) in one taxable year on account of his separation from service, the amount of such distribution shall be the lesser of the amounts contributed by the employee shall be considered a gain from the sale or exchange of a capital asset held for more than 6 months.

A capital gain dividend, as defined in section 362 (relating to tax on regulated investment companies) shall be treated by the shareholder as gains from the sale or exchange of capital assets held for more than 6 months.

For special treatment of gains and losses from involuntary conversion, and from sale or exchange of certain property used in the trade or business, see section 117 (j).

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 non-taxable distributions).

Basis.—In determining GAIN 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 or adjusted cost, as the case may be.

If the property was acquired after February 28, 1913, use cost, except as otherwise provided in section 113.

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 become worthless during the year, and no capital losses from the sale or exchange of capital assets of the last day of such taxable year shall be considered as from the sale or exchange of capital assets as of the last day of such taxable year.

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 6 months or less; the phrase "long-term" to capital assets held for more than 6 months.

LIMITATION ON CAPITAL LOSSES.—Losses from sales or exchanges of capital assets shall be allowed only to the extent of the gains from such sales or exchanges, plus the net income (computed without regard to capital gains and losses) of $1,000, whichever is smaller. However, the amount of the net short-term capital loss of the last taxable year beginning in 1941 (computed without regard to amounts treated as short-term capital losses from the preceding taxable year), which is not in excess of the net income for such year, shall, to the extent of the net short-term capital gain for the succeeding taxable year, be a short-term capital loss of such succeeding taxable year.

ALTERNATIVE TAX.—If the net long-term capital gain exceeds the net short-term capital loss, an alternative tax may be imposed in lieu of the normal tax and surtax imposed on net income. (See Computation of Alternative Tax, Schedule F.)

"Wash sales" losses.—Loss from sale or other disposition of stocks or securities cannot be deducted unless sustained in connection with the taxpayer's trade or business, if, within 30 days before or after the date of sale or other disposition, the taxpayer has acquired (by purchase or by an exchange upon which the entire amount of gain or loss was recognized by law), or has entered into a contract or option to acquire, substantially identical stock or securities.

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 its stock (liquidations excepted), (c) a grantor and fiduciary of any trust, or (d) a fiduciary and a beneficiary of the same trust.

9. BUSINESS OR PROFESSION.—Fill in Schedule H. Farmers keeping no books of account, or books on cash basis, must attach Form 1040F in lieu of Schedule H. A taxpayer electing to include in gross income amounts received during the year as loans from the Commodity Credit Corporation should file with his return a statement showing the details of such loan. See section 123.

If installment method is used, attach schedule showing separately for years 1939, 1940, 1941, and 1942: (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.

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

Except as stated below, if any increase or decrease in salary or wages is made after October 3, 1942, without the prior approval of the National War Labor Board or the Commissioner of Internal Revenue, no amount of such salary or wages paid or accrued in contravention of the Act of October 2, 1942, entitled "An Act to amend the Emergancy Price Control Act of 1942, to aid in preventing inflation, and for other purposes," or regulations, rulings, or orders promulgated thereunder, is allowable as a deduction. Any increase, however, may be made without the prior approval of the National War Labor Board or the Commissioner of Internal Revenue if it is made in accordance with the terms of an established wage or salary agreement or established wage or salary rate schedule covering the work involved, and it is made as a result of individual promotions or reclassifications, individual merit increases within established rate ranges, operation of an established plan of wage or salary increases based upon length of service, increased productivity under piece-work or incentive plans, or operation of an apprenticeship or trainee system.

10 (a). INCOME FROM PARTNERSHIPS, FIDUCIARIES, ETC., WHOSE TAXABLE YEAR ENDS WITHIN THE TAXABLE YEAR COVERED BY THIS RETURN.—Enter as item 10 your share of profits (whether received or not), or losses of a partnership (including a syndicate, pool, etc., not taxable as a corporation) except capital gains and losses, which enter in Schedule F. Enter as item 10 income from an estate or trust. Enter in Schedule A your share of interest on obligations of the United States and instrumentalities, issued prior to March 1, 1941, owned by partnership, estate, or trust. Enter in Schedule C, your share of any contribution or gift, payment of which was made by the partnership within its taxable year. Enter in items 31 and 32, respectively, your share of credits for Federal income tax paid at source and foreign income taxes.

10 (b). OTHER INCOME.—Enter any other income, including earnings of minor children if parent is legally entitled thereto and alimony and separate maintenance income.