

1943

GENERAL INSTRUCTIONS

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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:

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|--|---------|
| (1) Single for the entire year and gross income equals or exceeds..... | \$500 |
| (2) Married but not living with husband or wife for any part of the year and gross income equals or exceeds..... | \$500 |
| (3) Married and living with husband or wife for any part of the year or for the entire year, and—
Gross income exceeds..... | \$624 |
| or
Combined gross income of husband and wife equals or exceeds..... | \$1,200 |
| (4) Single or married (regardless of amount of gross income for 1943) if liable for tax for 1942. | |

Where the marital status changes during the year, a return must be filed where the combined gross income of husband and wife, though less than \$1,200, equals or exceeds the aggregate of (a) \$500 prorated for the period during which the husband was single, (b) \$500 prorated for the period during which the wife was single, and (c) \$1,200 prorated for the period during which they are married.

Joint Return.—May be 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 decedent is a return for a fractional part of a 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, or in excess of \$624. 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 that form. Nonresident aliens use Form 1040B or 1040NB. Fiduciaries for estates and trusts use Form 1041.

C. FILING OF RETURNS.—File on or before 15th day of 3d month following close of taxable year with Collector of Internal Revenue 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 United States, file with Collector of Internal Revenue at Baltimore 2, Md. The taxpayer's home address must be given and a permanent business address may be added.

D. PAYMENT OF TAX.—The tax shown on the return may be paid in cash at the collector's office or by check or money order payable to "Collector of Internal Revenue." The Income and Victory Tax imposed for the taxable year must be paid in full on or before the 15th day of the 3d month following the close of the taxable year. For information regarding postponement of payment of part of the tax, see item 21, page 1, of the return.

E. POSTPONEMENTS DUE TO WAR.—In cases of (a) members of the armed forces of the United States serving outside the continental United States or on sea duty, (b) civilian employees of the United States outside of the Americas for more than 90 days continuously but detained by an enemy government or beleaguered or besieged by enemy forces, and (c) other individuals outside the Americas for more than 90 days continuously, the due date for filing returns and making

payment of tax is, for (a) and (b), the 15th day of the 4th month following return to the United States and, for (c), the 91st day after return to the Americas, or, in either case, the 15th day of the 3d month following the month in which the war ends, whichever is the earlier.

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

G. 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 made by an agent if the taxpayer is (1) too ill to make it or (2) absent from the United States for 60 days before the due date. A power of attorney on Form 935 must accompany the return made by an agent. Person or persons actually preparing the return for the taxpayer must also sign the declaration.

H. RECEIVED OR ACCRUED INCOME.—If books are kept on accrual basis, report all income accrued, even though not received, 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.

I. 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 other than those listed in Schedule A is exempt.

(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 consideration paid for the policy. (See Specific Instruction 5 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) Except 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 deposits made before March 1, 1941;

(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 bad debt, prior tax, or delinquency amount, 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) Compensation not exceeding \$1,500, received by a member of the military or naval forces of the United States for active service in such forces during the present war, or by a citizen or resident of the United States who is a member of the military or naval forces of the other United Nations for active service in such forces during the present war. The amounts contributed by the Government to the servicemen's "monthly family allowance" are in the nature of gifts and need not be included in income.

J. DEPRECIATION, DEPLETION, AND AMORTIZATION OF EMERGENCY FACILITIES.—A reasonable allowance for exhaustion, wear and tear (including a reasonable allowance for obsolescence) (1) of property used in trade or business or (2) property held for the production of income, may be deducted, based on cost if acquired by purchase after February 28, 1913. If acquired before March 1, 1913, or otherwise than by purchase, see section 114. For depletion deduction, see sections 23 (m) and 114.

Individuals, provided an election is made as prescribed in section 124 (b), are entitled to a deduction with respect to the amortization of the adjusted basis (for determining gain) of an emergency facility (as defined in section 124 (e)), based on a period of 60 months. A statement of the pertinent facts should be filed with the taxpayer's return.

K. INFORMATION AT SOURCE.—Every person making payments of (1) interest, rents, commissions, or other fixed or determinable income of \$500 or more during the calendar year 1943 to an individual, partnership, or fiduciary, or (2) salary or wages of \$500 or more to a single person or \$624 or more to a married person shall make a return on Forms 1098 and 1099, except that the making of such returns will not be required with respect to salary or wage payments from which the tax has been withheld, provided duplicates of the statements (Form W-2 and Form V-2) are furnished.

L. 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.—Enter the amount received as salaries, fees, bonuses, commissions, and other compensation for personal services. This means the amounts before deductions for taxes, union dues, health insurance, etc. Any amount claimed as a deduction for ordinary and necessary expenses against salaries, etc., such as traveling expenses while away from home in connection with your occupation, should be fully explained in an attached statement. Include compensation received as an officer or employee of a State or political subdivision or any agency or instrumentality thereof.

2. DIVIDENDS.—Enter the total of all taxable dividends. Include dividends on share accounts in Federal savings and loan associations in case of shares issued on or after March 28, 1942; dividends on shares issued before that date should be entered in Schedule A.

3. INTEREST ON CORPORATION BONDS, NOTES, BANK DEPOSITS, ETC.—Enter interest received or accrued, as the case may be, on bonds, debentures, notes, certificates or other evidences of indebtedness, or similar interest-bearing obligations.

4. INTEREST AND OWNERSHIP OF TAXABLE 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 which is subject to Federal tax. In the case of United States Savings Bonds, the taxpayer may elect to report the accrual of redemption value either as it occurs each year (see paragraph below) or in a lump sum when finally received. In the case of other obligations, the taxpayer may elect to amortize bond premium, thereby reducing the amount of interest subject to tax currently (see Instruction 16). Irrespective of the method of reporting interest, however, the principal amount of United States Savings Bonds owned should be entered in Schedule A at cost and the principal amount of all other securities owned should be entered at par or face amount.

Noninterest-bearing obligations issued at a discount.—Taxpayer on the cash basis may elect, as to all noninterest-bearing obligations issued at a discount and redeemable for fixed amounts increasing at stated intervals (for example, United States Savings Bonds), to include the increase in redemption price applicable to the current year. For the year of election the total increase in redemption price of such obligations occurring between the date of acquisition and the end of the year must be included. Taxpayer so electing shall report such income as interest in item 3 or 4, page 1, whichever is applicable, and attach statement listing obligations owned and computation of accrued income. An election exercised in the current year or in a prior year is binding for all subsequent years.

5. ANNUITIES.—Amounts received as an annuity under an annuity or endowment contract shall be included in gross income to the extent of 3 percent of the aggregate premiums or consideration paid for such annuity. If the aggregate of the amounts received and excluded from gross income in this and prior years equals the aggregate premiums or consideration paid for such annuity, the entire amount thereafter received must be included in gross income.

6. GAINS AND LOSSES.—For instructions relating to net gain (or loss) from the sale or exchange of capital assets and other property, see Schedule B (Form 1040).

7. RENTS AND ROYALTIES.—Fill in Schedule C (1). All allowable deductions should be entered even in the absence of gross income. Include rent received in property or crops. Report crops received on crop-share basis in year in which disposed of (unless return is made on accrual basis).

8. BUSINESS OR PROFESSION.—Fill in Schedule C (2). Farmers keeping no books of account, or keeping books on the cash basis, must attach Form 1040F in lieu of Schedule C (2). 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 loans. (See section 123.)

If installment method is used, attach schedule showing separately for years 1940, 1941, 1942, and 1943: (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 treated in either of two ways—(1) by a deduction from income in respect of debts ascertained to be worthless in whole or in part, or (2) by a deduction from income of a reasonable addition to a reserve.

Do not include compensation for services of yourself, your dependent minor children (if you are legally entitled to their earnings), or of husband or wife if a joint return is filed, which items are not deductible.

In any case in which a wage or salary payment, for which a deduction would otherwise be allowable under section 23 (a), is determined by the National War Labor Board, by the Secretary of Agriculture, or by the Commissioner to have been made in contravention of the Act of October 2, 1942, or of the regulations, orders, or rulings promulgated thereunder, the entire amount of such payment will be disallowed as a deduction.

9. (a) INCOME FROM PARTNERSHIPS, FIDUCIARIES, ETC., WHOSE TAXABLE YEAR ENDS WITHIN THE TAXABLE YEAR COVERED BY YOUR RETURN.—Fill in Schedule C (3). Include 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 should be entered in Schedule B. Include also income from an estate or trust. Enter in Schedule A your share of in-

terest on obligations of the United States and instrumentalities, issued prior to March 1, 1941, owned by partnership, estate, or trust. Include in item 11, and explain in Schedule D, your share of any contribution or gift, payment of which was made by the partnership within its taxable year. Include in lines 11 and 15, page 4 of the return, your share of credits for foreign income taxes and income tax paid at source on tax-free covenant bond interest.

(b) **OTHER INCOME.**—Include any other taxable income, such as earnings of minor children if parent is legally entitled thereto and alimony and separate maintenance income.

11. CONTRIBUTIONS PAID.—Explain in Schedule D and enter (not to exceed 15 percent of your net income computed without the benefit of this deduction, or of the deduction 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—

(a) A corporation, trust, or community chest, fund, or foundation, created or organized in the United States or in any possession thereof or under the law of the United States or of any State or Territory or of any possession of the United States, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings 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;

(b) 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;

(c) The special fund for vocational rehabilitation authorized by section 12 of the World War Veterans' Act, 1924;

(d) Posts or organizations of war veterans, or auxiliary units or societies of any such posts or organizations, if such posts, organizations, units, or societies are organized in the United States or any of its possessions, and if no part of their net earnings inures to the benefit of any private shareholder or individual; or

(e) A domestic fraternal society, order, or association, operating under the lodge system, but only if such contributions or gifts are to be used exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals.

Charitable and other contributions are not allowable as a deduction in computing the Victory Tax net income, except that in the case of a taxpayer who qualifies under the provisions of section 120, the deduction for contributions is allowable without regard to the 15 percent limitation. (Such deduction should be entered as a part of item 16.)

12. INTEREST—For Income Tax.—Enter interest on personal indebtedness as distinguished from business indebtedness (which should be entered in Schedule C (1) and (2)). 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. (For limitations on deductions for unpaid expenses and interest, see section 24 (c).) Do not deduct amounts paid or accrued on indebtedness incurred or continued to purchase 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.

For Victory Tax.—The deduction generally allowable for the purpose of computing the Income Tax net income is allowable for the purpose of computing the Victory Tax net income if the indebtedness with respect to which such interest is paid or accrued was incurred (a) in carrying on any trade or business, (b) for the production or collection of income, or (c) for the management, conservation, or maintenance of property held for the production of income. Interest upon indebtedness representing a mortgage upon taxpayer's home is not deductible. Interest upon indebtedness incurred incident to the acquisition of property held for investment, even though such property produces no income during the taxable year, is nevertheless deductible. Such deductible interest not reported in Schedule C (1) or (2) should be included in item 16, column 2, page 1.

13. TAXES—For Income Tax.—Enter taxes paid or accrued during the taxable year except taxes entered in Schedules C (1) and (2) 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, transportation of persons and property, use of motor vehicle or boat, and documents.

State and local retail sales taxes imposed in the first instance upon retailers 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, 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 line 11, page 4. Federal social security and employment taxes paid by or for an employee are not deductible by the employee.

For Victory Tax.—Taxes paid or accrued generally allowable for the purpose of computing Income Tax net income are allowable for the purpose of computing Victory Tax net income only if paid or accrued (a) in connection with the carrying on of a

trade or business, (b) in connection with property used in the trade or business, or (c) in connection with property held for the production of income. Taxes paid or accrued by a taxpayer with respect to the ownership of his home are not deductible. Such deductible taxes not reported in Schedule C (1) or (2) should be included in item 16, column 2, page 1.

14. LOSSES.—Enter property losses (not claimed in Schedule C (2), from fire, storm, shipwreck, or other casualty or from theft not compensated for by insurance or otherwise. Include also losses (not claimed in Schedule C (2)) 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 G, giving description of property, date acquired, cost, subsequent improvements, depreciation allowable, insurance, salvage value, and deductible loss.

Only losses incurred in a trade or business are deductible for the purpose of computing the Victory Tax net income. Such deductible losses should be reported in Schedule C (2).

15. MEDICAL, DENTAL, ETC., EXPENSES.—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 *only* for the purpose of computing the Income Tax net income. The deduction is limited to such expenses as exceed 5 percent of the net income computed without the benefit of the deduction for expenses paid for such medical care. The maximum deduction in the case of a husband and wife who file a joint return or the head of a family may not exceed \$2,500, and in the case of all other individuals, \$1,250.

16. OTHER DEDUCTIONS AUTHORIZED BY LAW.—For Both Income and Victory Tax.—Enter other authorized deductions, including net operating loss deduction allowed by section 23 (s). (For computation of net operating loss, including net operating loss carry-back and carry-over, see section 122.) 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 the regulations. Include alimony and separate maintenance payments to the extent permitted by section 23 (u). Include nontrade or nonbusiness 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. Bad debts arising from sales and services should be entered in Schedule C (2). Worthless bonds and similar obligations, and nonbusiness bad debts should be included in Schedule B as losses on capital assets.

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

For Income Tax.—

AMORTIZABLE BOND PREMIUM.—Section 23 (v) 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 like 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 any such obligation of a kind which would properly 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.

Amortization of bond premium is mandatory with respect to fully tax-exempt bonds (the interest on which is not subject to income tax). In the case of fully taxable bonds (the interest on which is subject to the normal 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 his return for the first taxable year to which he desires the election to be applicable. Attach a statement showing the computation of the deduction.

The election shall apply to all bonds, with respect to which it was made, owned by the taxpayer at the beginning of the first taxable year to which the election applies and also to all bonds of such class (or classes) thereafter acquired by him, and shall be binding for all subsequent taxable years, unless upon application by the taxpayer, the Commissioner permits the taxpayer to revoke the election.

In the case of a fully tax-exempt bond, the amortizable premium for the taxable year is an adjustment to the basis or adjusted basis of the bond, but no deduction is allowable on account of such amortizable premium. In the case of a fully taxable bond, the amortizable premium is both an adjustment to the basis or adjusted basis of the bond and also a deduction. In the case of a partially tax-exempt bond, the amortizable premium for the taxable year is used for three purposes: (1) As an adjustment to the basis or adjusted basis; (2) as a deduction; and (3) as a reduction to the credit for the interest on the bonds.

The deduction for amortization of bond premium is not allowable for the purpose of computing Victory Tax net income.

TENANT-STOCKHOLDER'S PROPORTIONATE SHARE OF INTEREST AND TAXES.—A tenant-stockholder may deduct amounts paid or accrued with his taxable year to a cooperative apartment corporation representing (a) real-estate taxes on the apartment building and the land on which it is situated, allowable as a deduction under section 23 (c), paid or accrued prior to the close of the taxable year of the tenant-stockholder, or (b) interest paid or accrued by the corporation prior to such time on its indebtedness contracted in the acquisition, construction, alteration, rehabilitation, or maintenance of such apartment building or in the acquisition of the land on which the building is situated.

The deduction of amounts representing such taxes and interest paid to cooperative apartment corporations is not allowable for the purpose of computing the Victory Tax net income.

TAX COMPUTATION INSTRUCTIONS

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 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 \$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 closely connected with him 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 mentally or physically defective, whose chief support was received from 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, 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.

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 income-producing factors, a reasonable allowance as compensation for the personal services actually rendered by the taxpayer, not in excess of 20 percent of his share of 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 sum of the "earned income deductions," which

are the ordinary and necessary expenses properly chargeable against earned income.

SURTAX TABLE.—The following table shows the surtax due for the taxable year upon surtax net income:

<i>If the surtax net income is:</i>	<i>The surtax shall be:</i>
Not over \$2,000.....	13% of the surtax net income.
Over \$2,000 but not over \$4,000.....	\$200, plus 16% of excess over \$2,000.
Over \$4,000 but not over \$6,000.....	\$580, plus 20% of excess over \$4,000.
Over \$6,000 but not over \$8,000.....	\$980, plus 24% of excess over \$6,000.
Over \$8,000 but not over \$10,000.....	\$1,460, plus 28% of excess over \$8,000.
Over \$10,000 but not over \$12,000.....	\$2,020, plus 32% of excess over \$10,000.
Over \$12,000 but not over \$14,000.....	\$2,660, plus 36% of excess over \$12,000.
Over \$14,000 but not over \$16,000.....	\$3,380, plus 40% of excess over \$14,000.
Over \$16,000 but not over \$18,000.....	\$4,180, plus 43% of excess over \$16,000.
Over \$18,000 but not over \$20,000.....	\$5,040, plus 46% of excess over \$18,000.
Over \$20,000 but not over \$22,000.....	\$5,960, plus 49% of excess over \$20,000.
Over \$22,000 but not over \$24,000.....	\$6,940, plus 52% of excess over \$22,000.
Over \$24,000 but not over \$26,000.....	\$9,020, plus 55% of excess over \$24,000.
Over \$26,000 but not over \$28,000.....	\$12,320, plus 58% of excess over \$26,000.
Over \$28,000 but not over \$30,000.....	\$15,800, plus 61% of excess over \$28,000.
Over \$30,000 but not over \$32,000.....	\$19,460, plus 63% of excess over \$30,000.
Over \$32,000 but not over \$34,000.....	\$23,240, plus 66% of excess over \$32,000.
Over \$34,000 but not over \$36,000.....	\$27,140, plus 69% of excess over \$34,000.
Over \$36,000 but not over \$38,000.....	\$31,160, plus 72% of excess over \$36,000.
Over \$38,000 but not over \$40,000.....	\$35,400, plus 75% of excess over \$38,000.
Over \$40,000 but not over \$42,000.....	\$39,860, plus 77% of excess over \$40,000.
Over \$42,000 but not over \$44,000.....	\$44,540, plus 79% of excess over \$42,000.
Over \$44,000 but not over \$46,000.....	\$49,440, plus 81% of excess over \$44,000.
Over \$46,000 but not over \$48,000.....	\$54,560, plus 82% of excess over \$46,000.
Over \$48,000 but not over \$50,000.....	\$60,000, plus 82% of excess over \$48,000.

FOREIGN TAX CREDIT.—If credit is claimed against the total normal tax and surtax for tax paid to a foreign country or possession of the United States, submit Form 1116 and receipts for such payments. If credit is claimed for taxes accrued, attach to Form 1116 certified copy of return on which tax was based.

SPECIFIC EXEMPTION FROM VICTORY TAX.—Every individual taxpayer is entitled to an exemption of \$624, regardless of marital status. An exemption of \$1,248 is allowed a husband and wife filing a joint return unless the Victory Tax net income of one spouse is less than \$624, in which case the total exemption is limited to \$624 plus the Victory Tax net income of such spouse.

VICTORY TAX.—This tax is 5 percent, less a credit of 25 percent of the tax if you were single, or 40 percent if married, plus in either case 2 percent for each dependent. The amount of

the credit is limited, however, to \$500 if you were single, or \$1,000 if married, plus in either case \$100 for each dependent. Originally this credit was a "post-war credit," but most taxpayers were eligible to claim it now because of war bond purchases, insurance payments, etc. Accordingly, to simplify figuring, Congress decided last fall that the credit is to be allowed annually.

LIMITATION ON AMOUNT OF VICTORY TAX.—The amount of the Victory Tax is limited to an amount representing the excess of 90 percent of the taxpayer's net income for the taxable year over the tax imposed by chapter 1 for such taxable year, computed without regard to the Victory Tax imposed by section 450, and without regard to the application of (a) the credit for foreign income tax, (b) the credit for tax withheld at the source under section 143, and (c) the credit for Income and Victory Tax withheld at the source on wages.

FORGIVENESS FEATURE—(a) **In general.**—In adopting during 1943 the system of current payments of tax liability for individuals, the Current Tax Payment Act of 1943 grants relief to those taxpayers who would otherwise be liable for the payment during 1943 of the taxes due for both 1942 and 1943.

This relief is provided through the forgiveness of a portion or all of one year's tax.

In most cases the forgiveness will be three-fourths of the 1942 tax, or all the tax if it does not exceed \$50. This will be true unless the 1943 tax was less than the 1942 tax, in which case the forgiveness will be figured on the 1943 tax. Whether the 1942 or the 1943 tax liability is the greater is determined on the basis of the tax liability before the allowance of credits against the tax for amounts withheld at the source, without regard to interest and penalties, and without regard to the unforgiven portion of the tax.

No amount of the tax liability of an individual who died during the taxable year 1942 is discharged.

(b) **Where Tax for 1942 Is Not Greater Than Tax for 1943.**—Where the 1943 tax liability is equal to or greater than the tax liability for 1942, the unforgiven portion of the tax is determined on the basis of the net tax liability after credits for 1942.

(c) **Where Tax for 1942 Is Greater Than Tax for 1943.**—(1) Where the tax liability of an individual for 1942 is discharged and such tax liability is greater than the tax for 1943, the excess of 1942 over the 1943 tax liability is added to the 1943 tax liability. For the purpose of determining the amount of the forgiveness, the net tax liability after credits for 1942 is used with respect to the year 1942 and the net tax liability plus the credits for tax withheld at source on wages is used with respect to the year 1943.

(2) *In the case of a taxpayer who is in active service in the military or naval forces of the United States or any of the other United Nations at any time during the taxable year 1942 or 1943, and whose tax for the taxable year 1942 is greater than the tax for the taxable year 1943, the forgiveness shall be increased to the extent that the excess of the 1942 tax over the 1943 tax is attributable to the inclusion of earned net income.* (For definition of "earned net income," see page 3 of these instructions.)

(3) For the purpose of determining the unforgiven portion of the tax where the 1942 tax liability is greater than the 1943 tax liability, the net tax liability for 1943 plus the credits for Income and Victory Tax withheld at source on wages is used.

In cases where the tax before the credits for tax withheld at source for 1942 exceeds the tax for 1943 similarly determined, but the tax imposed for 1942 is less than the tax imposed for 1943 plus the credits for taxes withheld at the source on wages, so that there is no excess of 1942 tax liability over 1943 tax liability, the unforgiven portion of the tax is limited to 25 percent of the net tax for 1942, or the excess of such tax over \$50, whichever is the lesser.

(d) **Joint Return for One Year and Separate Returns for Other Year.**—(1) *Change from separate returns to a joint return.*—If husband and wife filed separate returns for 1942 but are filing a joint return for 1943, the amount to be entered in line 17, page 4 of return, is the sum of the 1942 taxes shown on their separate returns.

(2) *Change from a joint return to separate returns.*—If husband and wife filed a joint return for 1942 but are filing separate returns for 1943, and their 1942 tax is not larger than their combined 1943 taxes (the sum of line 16, page 4 of their separate returns, Form 1040), they may divide the 1942 tax between them in any proportion they choose, PROVIDED that the amount allocated to either shall not exceed his or her separate tax for 1943. If their 1942 tax exceeds their combined 1943 taxes, they may divide the excess between them in any proportion they choose; then, each should enter in line 17, page 4 of the return, the amount of his or her 1943 tax plus his or her share of the excess of the 1942 tax over the combined 1943 taxes. Attach a statement to your return showing how you shared the joint 1942 tax. FOR PURPOSES OF COMPUTING THE AMOUNT OF TAX FORGIVENESS the comparison of 1942 and 1943 taxes and the computation of the amount forgiven must be made on the basis of the COMBINED taxes of husband and wife for each year. The resulting unforgiven tax may be divided between them in any proportion they choose. Each should show on line 19 (c), page 4 of return, the combined unforgiven tax and enter only his or her share in the right-hand column.

INCOME AND VICTORY TAX WITHHELD ON WAGES.—Enter the total of amounts withheld at the source on wages for (1) Victory Tax (5 percent) for first half of 1943, and (2) Income Tax (20 percent) for last half of 1943.

PAYMENTS TO COLLECTOR DURING 1943 FOR 1942 INCOME TAX.—Enter all payments (other than interest and penalties) made to the Collector of Internal Revenue in the taxable year 1943 on account of the Income Tax liability shown on your Income Tax return for the taxable year 1942. If husband and wife filed a joint return for 1942, but file separate returns for the taxable year 1943, the payments on account of the 1942 tax may be treated as the payments of either the husband or the wife, or may be divided between them.

PAYMENTS TO COLLECTOR FOR ESTIMATED INCOME AND VICTORY TAX.—Enter all payments made on account of the estimated tax shown on your Declaration of Estimated Income and Victory Tax for the taxable year 1943. If husband and wife filed a joint declaration of estimated Income and Victory Tax, but file separate returns for the taxable year 1943, the estimated tax paid may be treated as the estimated tax of either the husband or the wife, or may be divided between them.

Schedule L-1.—TAX FORGIVENESS SCHEDULE (If this schedule is used as indicated by Footnote 1, page 4 of return, tear it off and attach it to your return)

(If joint return for one year and separate returns for other, see Instructions above)

A. Tax on 1943 income (line 14, page 4 of return).....	\$.....	----
B. Tax on 1942 income. (See Statement, Form 1125, from collector. If Form 1040 was used add amount shown as item 31 on Form 1040).....	\$.....	----
NOTE.—If line A is equal to or greater than line B use Part I below. If line B is greater than line A use Part II below.		
I. Where tax on income for 1943 is equal to or greater than tax on income for 1942. (See lines A and B, above.)		
1. Balance of income tax on 1942 income (line 17, page 4 of return).....	\$.....	----
2. The FORGIVEN portion of the tax is either \$50 or three-fourths of line 1, immediately above, whichever is LARGER.....		----
3. The UNFORGIVEN portion is the balance (line 2 subtracted from line 1). (Enter in line 19(c), page 4 of return).....	\$.....	----
II. Where tax on income for 1942 is greater than tax on income for 1943. (See lines A and B, above.)		
4. Balance of tax on 1942 income (line 17, page 4 of return).....	\$.....	----
5. Balance of Income and Victory Tax for 1943 (line 16, page 4 of return).....	\$.....	----
6. The FORGIVEN portion of the tax is either \$50 or three-fourths of the SMALLER of the 1942 tax (line 4) or 1943 tax (line 5), above, whichever is LARGER.....	\$.....	----
7. The UNFORGIVEN portion is the balance (line 6 subtracted from the smaller of line 4 or line 5). (Enter in line 19(c), page 4 of return).....	\$.....	----