### Income Tax Rates and Exemptions

The income tax includes a “normal tax” and a “surtax.” Both are figured as percentages of your income, but with different rates. In reducing taxes for 1946, the Revenue Act of 1945 provided for a tentative normal tax of 3 percent and tentative surtax of 17 to 88 percent, and for further reducing these taxes by 5 percent to determine the final tax.

For normal tax and surtax, you are allowed (subject to the restrictions stated under the heading “Purpose of Return” on page 2 of these instructions) an exemption of $500 for yourself, $500 for your wife, and $500 for each dependent relative.

### Exclusions From Gross Income

Income from any source whatsoever is subject to income tax unless excluded by some specific provision of law. The exclusions are described in sections 22 (b) and 116 of the Internal Revenue Code. The principal exclusions are:

1. **Armed Forces, Etc.**—Members and veterans of the armed forces and their families should exclude from their income:
   
   (a) All pay for active service as a member below the grade of commissioned officer, and the first $1,500 of annual pay for active service as a commissioned officer.
   
   (b) Mustering-out pay.
   
   (c) Contributions by the Government to monthly family allowances.
   
   (d) Pensions and disability compensation to war veterans and their families.
   
   (e) Disability retirement pay (but other retirement pay is taxable).
   
   (f) Interest on adjusted-service bonds.

2. **Social Security Benefits.**—Exclude benefit payments received from the Federal Government or from a State under the Federal social security program.

3. **Sickness and Injury Benefits.**—Exclude amounts received as compensation for bodily injury or sickness, whether in the form of health and accident insurance, workmen’s compensation payments, or government payments for injuries or sicknesses which are caused by military service. However, reimbursements on account of medical and dental expenses which were claimed as a deduction in a prior year should be reported as income up to the amount of such deductions.

4. **Tax-exempt Interest.**—Exclude interest on obligations of a State or political subdivision; interest on obligations of the United States issued prior to March 1, 1941, if made wholly exempt from taxation by the Act authorizing their issuance; and interest on not exceeding $5,000 of United States savings bonds (at cost) and Treasury bonds (at face value) which were issued before March 1, 1941.

5. **Gifts.**—All bona fide gifts for filing purposes should be excluded, but so-called “gifts” received as compensation for personal services rendered are taxable.

6. **Bequests, Inheritances, Etc.**—Property acquired by bequest, devise, or inheritance should be excluded, but any income earned by the property is taxable.

7. **Life Insurance.**—Proceeds payable on account of death of the insured should be excluded, but if the proceeds are held by the insurer under an agreement to pay interest, the interest is taxable. Payments on a life or endowment policy (other than annuity payments) during the lifetime of the insured should be excluded until they equal the amount paid into the policy, the amount paid by the insured, and all prior payments on account of the insured’s death, but proceeds paid by the insurer under an agreement to pay interest should be included.

8. **Recoveries of Bad Debts, Etc.**—Recoveries of bad debts, of prior-year taxes, or of payments on account of tax delinquencies, should be excluded if deductions for such items did not reduce the income tax liability of the taxpayer for any prior year.

### Cash or Accrual Basis of Reporting Income

Your return must be on the “cash basis”—which means on the basis of cash receipts and payments—unless you keep accounts on the “accrual basis.” However, cash receipts include the full amount of your wages or salary even though a part was deducted for taxes, war bonds, union dues, etc. They also include uncashed salary or dividend checks, bank interest credited to your account, matured bond coupons, and similar items which you can immediately turn into cash. If you keep accounts on the accrual basis, your return must be made accordingly.

### Farmers

Farming is regarded as a business and the instructions applicable to returns of farmers may be found on page 3 under “Schedule C—Business or Profession.”

### Information at Source

Every person who made payments of salary, wages, interest, rents, commissions, or other fixed or determinable income of $500 or more during the calendar year 1946 to an individual, partnership, or fiduciary, must file a return on Form W-2. Payments of any such salary or wage payments on a Withholding Statement (Form W-2) must be reported on Form 1099, only the remainder must be reported on Form 1099.

### HOW TO FILL OUT FORM 1040

In preparing Form 1040, you are required to fill out only those lines and pages which apply to your particular circumstances. Thus, if your income is all from wages or salary, you should disregard items 3, 4, and 5 on page 1 and the whole of page 2. Likewise, if you use the tax table on page 4, you should disregard all of page 3.

Specific instructions for filling out particular lines and schedules on the form are given in the following pages. The specific instructions have been so arranged that they may be placed alongside the corresponding items on the form, for easy reference.
INSTRUCTIONS FOR PAGE 1 OF FORM 1040
Place alongside page 1 of Form 1040 for easy reference

Your Exemptions

1. List the names called for in item 1, in order to get credit for your exemptions.
   “Close relative” means: Your son, daughter, or a descendant of either; your stepson, stepdaughter, son-in-law, daughter-in-law; your father, mother, or ancestor of either; your stepfather, stepmother, father-in-law, or mother-in-law; your brother, sister, stepbrother, stepsister, half brother, half sister, brother-in-law, or sister-in-law; your uncle, aunt, nephew, or niece. Do not include an uncle, aunt, nephew, or niece if related to you only by marriage.
   The above relationships apply to a legally adopted child the same as though he or she were a child by blood. Do not claim a citizen of a foreign country as a dependent unless he or she was a resident of the United States, Canada, or Mexico. Do not claim an exemption for any relative who files a joint return with another person.

2. Wages and Salaries.—If this return includes wages of both husband and wife, list wages and employers of each. Do not include earnings of anyone else.
   Members of the armed forces should exclude mustering-out payments, the active-service pay of a member below the grade of commissioned officer and the first $1,500 of active-service pay of a commissioned officer.
   If, in connection with your employment, you claim deductions for traveling or reimbursed expenses, itemize actual expenses on a separate sheet of paper, subtract them from your total compensation and allowances, and enter the balance in item 2. Attach the itemized list.

3. Dividends.—Enter the total amount of all dividends.

4. Interest.—Enter the total of any interest unless wholly exempt from tax. See General Instructions under “Exclusions From Gross Income.” Allowance for any partial exemption or amortizable bond premium is made in the tax table and in the standard deduction of $500. If you do not use the tax table or the standard deduction, these items may be deducted in the tax computation on page 3 (line 6). The increase in value of a War Bond (Series E or F) or United States savings bond (Series A, B, C, or D) need not be reported until the bond is cashed. However, you may at any time adopt the practice of reporting each year the annual increase in value; but if you do so, you must report in the first year the entire increase to date and must continue to report the annual increase each year thereafter.

5. Other Income.—If you had any income from annuities, rents, royalties, a business or profession, farming, transactions in securities or other property, partnerships, estates and trusts, or other sources, explain on page 2 and enter the total in item 5, page 1.

Tax Due or Refund

7. Your Tax.—This is your total tax liability before taking credit for tax withheld from your wages and payments on your 1946 Declaration of Estimated Tax.

8. Payments.—(A) Enter the amount of income tax withheld from your wages by your employer as shown on your Withholding Statement (Form W-2). Keep all your Withholding Statements. Your employer will furnish the collector with copies.
   (B) If you filed a 1946 Declaration of Estimated Tax (Form 1040-ES), enter the total amount of estimated tax paid, including any prior year's credit which you applied against your estimated tax. You can determine the amount paid or credited from the retained copy of your declaration, your canceled checks, or other personal records.
   If husband and wife filed a joint declaration but are now filing separate returns, they may divide the payments of estimated tax between them in any proportion they desire.

9. Balance of Tax Due.—Any tax owed in excess of payments must be shown in item 9. This amount must be paid in full at the time your return is filed. If payments exceed tax, leave item 9 blank.

10. Refund or Credit.—If you have overpaid your tax and ask for a refund in item 10, any refund found due will be made as promptly as possible without any further action on your part. Refunds will bear interest at 6 percent from March 15, 1947.
   Do not ask that any overpayment on this return be credited on your 1947 estimated tax unless you expect to file a Declaration of Estimated Tax (Form 1040-ES) showing an estimated tax against which the overpayment can be applied.

Signature

You must sign your return. If husband and wife are filing a joint return, both must sign. If you cannot sign because you are ill or out of the United States, an authorized agent may sign for you, but the agent must attach a power of attorney on Form 935 to show that he is empowered to sign for you.

INSTRUCTIONS FOR TAX TABLE ON PAGE 4 OF FORM 1040

Purpose of Table.—The table is a short-cut method of finding your income tax. It is provided by law and saves you the trouble of itemizing deductions and computing your tax on page 3 of the return. The table allows for: (a) Your exemptions—$500 for each person listed in item 1, page 1; (b) charitable contributions, interest, taxes, etc., approximating 10 percent of your income; and (c) the additional 5 percent reduction in both the tentative normal tax and surtax, as provided by the Revenue Act of 1945.

Arrangement of Table.—The table contains income columns and exemption columns. The income columns are headed by the numbers 1, 2, 3, 4; etc.

How to Find Your Tax.—Read down the income columns until you find the line that fits the income you reported in item 6 on page 1. Then read across that line until you come to the exemption column which is headed by a number corresponding to the number of persons you listed in item 1 on page 1. The figure you find there is your tax. EXAMPLE.—If your income was $2,245 and you were entitled to three exemptions, you would find your tax opposite the income line “At least $2,225 but less than $2,250.” You would read over to the column headed by the figure “3” and thus find your tax was $98.

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INSTRUCTIONS FOR PAGE 2 OF FORM 1040

Place alongside page 2 of Form 1040 for easy reference

Since these instructions relate to special types of income, they may be disregarded by persons whose income is all from salaries, wages, dividends, and interest.

Schedule A.—Annuities and Pensions

If you received a pension or annuity which you bought or to which you contributed, you are entitled to recover your cost tax-free. However, an amount equal to 3 percent of your total cost must be reported as income each year until you recovered your total cost tax-free. Thereafter, the entire amount received each year must be reported as income.

If you have not recovered your total cost tax-free in prior years, fill in all the lines of Schedule A to determine how much of the amount you received in 1946 is taxable.

On line 1, enter the total amount you paid for the annuity or the total amount of your contributions to the pension or retirement fund. If you received the annuity by gift, or as the survivor of a deceased annuitant, enter the cost to the donor or deceased annuitant. However, an employer's contribution to an employee's pension is not a gift and should not be included in line 1.

On line 2, enter the total of the amounts received in all prior years, less 3 percent of line 1 for each year during which the annuity has been received since 1933.

If the payments received in 1947 were for less than 12 months, compute 1/12 of 3 percent of the amount on line 1 and multiply by the number of months for which payments were received; then enter on line 6 either the amount so computed or the amount on line 5, whichever is greater.

If you have recovered your cost tax-free in prior years, or if the entire cost of your pension or annuity is borne by a former employer, you may omit lines 1 to 5, inclusive, and enter directly on line 6 the total amount received in 1947.

Schedule B.—Rents and Royalties

Fill in all applicable columns of Schedule B whether the transactions resulted in a profit or a loss. If rent was received in property or crops instead of money, except under a crop-sharing arrangement, enter the fair market value of the property or crops received. In the case of crops received as rent under a crop-sharing arrangement by a taxpayer who reports his income on the cash basis, the value of the crop rent should be reported in the year in which the commodities received as rent are disposed of. Include in "Other expenses" taxes and interest chargeable against rental or royalty income.

Schedule C.—Business or Profession

Profit or loss from a business or profession must be explained in Schedule C, except that farmers who keep no books or who keep books on the cash basis must obtain Form 1040F and fill it in instead of Schedule C. Farmers who keep books on the accrual basis may also substitute Form 1040F for Schedule C if they so desire. If you include in your income loans received from the Commodity Credit Corporation, attach a statement explaining the details.

If you sell merchandise on the installment plan and your return is made on that basis, attach a schedule showing separately for the years 1944, 1945, 1946, and 1947 the following: (a) Gross sales; (b) cost of goods sold; (c) gross profit; (d) percentage of gross profit to gross sales; (e) amount collected; (f) gross profit on amount collected.

If you make your return on the accrual basis, you may deduct either (a) the amount of accounts receivable arising from sales or services, which became wholly worthless within the taxable year, or (b) a reasonable addition to a duly established reserve for bad debts. On either the cash or the accrual basis you may deduct the amount of any business loans which became wholly worthless during the taxable year. A debt which became partially worthless may be deducted to the extent charged off during the year.

List as repairs, expenditures for the upkeep of rental or royalty property, but do not include expenditures which materially prolong the life of the property and therefore should be added to its cost and recovered by annual depreciation allowances. Do not include taxes levied for paving, sewers, or other local improvements which tend to increase the value of the property. Deductions for depreciation, repairs, and other expenses should be entered as totals in Schedule B and explained in detail in Schedules F and G. If more space is needed, use separate sheet and attach securely to your return.

Schedule D.—Gains and Losses from Sales or Exchanges of Capital Assets, Etc.

If you sold or exchanged any capital assets or other property during the year, fill in the separate sheet entitled Schedule D (Form 1040). Profit from the sale of property held for personal use, including your personal residence, is taxable, but loss from such sale is not recognized. The totals from the separate sheet should be entered on lines 1 and 2 of Schedule D, page 2, of your return. Be sure to attach the separate sheet to your return.

Schedule E.—Income from Partnerships, Estates and Trusts and Other Sources

Partnerships.—Include in your return your share of the net profit (whether received by you or not) or loss of a partnership, pool, syndicate or the like, whose taxable year ends within the year covered by your return. However, you should enter in Schedule E only your share of the “ordinary” net income or loss, excluding the following items:

1. Capital gains and losses, which should be entered in separate Schedule D.

Estates and Trusts.—Include in your return your share of the distributable income (whether received by you or not) of an estate or trust whose taxable year ends within the year covered by your return. However, you should enter in Schedule E only your share of the income of the estate or trust after the exclusion of the following items:

1. Partially tax-exempt interest on obligations of the United States or its instrumentalities, which should be included in item 4, page 1.

2. Income taxes paid to a foreign government and income taxes paid at source on tax-free covenant bond interest—all of which should be omitted if you use the tax table on page 4 or take the standard deduction, but should be entered in the proper spaces on page 3 if you itemize your deductions.

Other Sources.—List and explain other income, such as amounts received from alimony or separate maintenance, rewards or prizes, recoveries of bad debts for which a deduction was taken in a prior year, and health and accident insurance benefits received as reimbursement for medical expenses for which a deduction was taken in a prior year.

Schedule F.—Explanation of Deduction for Depreciation Claimed in Schedules B and C

Depreciation.—In determining net rents (Schedule B) or business profits or losses (Schedule C), you may deduct each year as depreciation a reasonable allowance for exhaustion, wear and tear, and obsolescence of property used in a trade or business or held for the production of income. The depreciation must be based on the useful life of the property and on its cost if purchased after February 28, 1913. For further information regarding depreciation, see Bulletin "F" of the Bureau of Internal Revenue and section 114 of the Internal Revenue Code.

Depletion.—For information about depletion allowances in connection with oil and gas wells, mines, timber, and other natural resources, see sections 23 (m) and 114 of the Internal Revenue Code.
Contributions

The deduction for contributions cannot exceed 15 percent of the income you reported on item 6, page 1. Do not include contributions of money or property (not services) to organizations operated exclusively for religious, charitable, scientific, literary, or educational purposes or for the prevention of cruelty to children or animals; veterans’ organizations; or governmental organizations for use exclusively for public purposes.

Itemize interest paid on personal debts, such as bank loans or home mortgages. Do not deduct in this schedule interest paid on business debts; such interest should be reported in Schedule B or C. Do not deduct interest on loans obtained to buy tax-exempt securities or a single-premium life insurance or endowment contract. Do not deduct interest paid on behalf of another person unless you were legally liable to make the payment.

Only certain taxes may be deducted. You may deduct State income taxes, personal property taxes, and real estate taxes except those levied for paving, sewers, or other improvements which tend to increase the value of your property. You may deduct State or local retail sales taxes (including gasoline taxes) if under the laws of your State or locality they are imposed directly upon the consumer or if they are imposed directly upon the retailer and the amount of the tax is separately stated by the retailer to the consumer.

Taxes

Do not deduct Federal income tax, or any estate, inheritance, legacy, succession, or gift taxes, or taxes on your shares in a corporation which are paid for you by the corporation. Do not deduct in this schedule taxes on business or rental property, but report such taxes in Schedule B or C. Do not deduct in this schedule Federal import duties or Federal excise or stamp taxes; but any such taxes attributable to your business activities may be deducted in Schedule B or C. Federal social security taxes are not deductible by employees.

Losses From Fire, Storm, Shipwreck, or Other Casualty, or Theft

You may deduct the net amount of actual property losses resulting from war, accident, fire, storm, shipwreck, or other casualty, or from theft. Do not deduct here any losses claimed elsewhere in your return. Compute loss by determining value of the property just before the loss (ordinarily, cost less depreciation sustained) and subtracting both (a) salvaged value, and (b) any insurance or other reimbursement received. Attach a statement fully explaining the nature of the loss, describing the property, and showing date acquired, cost, subsequent improvements, depreciation, insurance, and salvage value.

Medical and Dental Expenses

You may deduct the net amount of any medical, hospital, or dental expenses paid by you during the year for yourself, your wife (or husband), or a dependent, over and above 5 percent of the total income you reported in item 6, page 1. However, this deduction is limited to $1,250 if you claimed only one exemption in item 1, page 1, or $2,500 if you claimed more than one. Expenses for eyeglasses, artificial limbs, hearing aids, etc., may be included. Also include any amount paid for health, accident, or hospitalization insurance.

List names of those to whom payments were made and State and amounts and dates of payment. Find your “Net expenses” by subtracting the total of all insurance and other amounts received as reimbursement for the expenses itemized. From these net expenses subtract 5 percent of the total income you reported in item 6, page 1, since only the excess is deductible.

Miscellaneous

Itemize all allowable deductions not claimed elsewhere on your return, including: (a) Expenses incurred in the production or collection of taxable income or in the management of property held for the production of taxable income; (b) expenses incurred in connection with your employment, such as union dues; (c) alimony and separate maintenance payments which are taxable to the wife; (d) gambling losses not exceed-

TAX COMPUTATION INSTRUCTIONS FOR TAXPAYERS NOT USING THE TAX TABLE ON PAGE 4 OF FORM 1040

1946 TAX RATES (COMBINED NORMAL TAX AND SURTAX BEFORE 5 PERCENT REDUCTION)

From the following table figure your tax on the income on line 3, page 3 of the return.

If the amount on line 5 is: Enter on line 6:
Not over $2,000 . $400, plus 22% of excess over $2,000.
Over $2,000 but not over $4,000 . $400, plus 26% of excess over $4,000.
Over $4,000 but not over $6,000 . $400, plus 26% of excess over $4,000.
Over $6,000 but not over $8,000 . $1,360, plus 30% of excess over $6,000.
Over $8,000 but not over $10,000 . $1,960, plus 34% of excess over $8,000.
Over $10,000 but not over $12,000 . $2,640, plus 38% of excess over $10,000.
Over $12,000 but not over $14,000 . $3,400, plus 43% of excess over $12,000.
Over $14,000 but not over $16,000 . $4,260, plus 47% of excess over $14,000.
Over $16,000 but not over $18,000 . $5,200, plus 50% of excess over $16,000.
Over $18,000 but not over $20,000 . $6,200, plus 53% of excess over $18,000.
Over $20,000 but not over $22,000 . $7,260, plus 56% of excess over $20,000.
Over $22,000 but not over $26,000 . $8,380, plus 59% of excess over $22,000.
Over $26,000 but not over $32,000 . $10,740, plus 62% of excess over $26,000.
Over $32,000 but not over $38,000 . $14,460, plus 65% of excess over $32,000.
Over $38,000 but not over $44,000 . $18,360, plus 69% of excess over $38,000.
Over $44,000 but not over $50,000 . $22,500, plus 72% of excess over $44,000.
Over $50,000 but not over $60,000 . $26,820, plus 75% of excess over $50,000.
Over $60,000 but not over $80,000 . $34,320, plus 78% of excess over $60,000.
Over $70,000 but not over $80,000 . $42,120, plus 81% of excess over $70,000.
Over $80,000 but not over $90,000 . $50,220, plus 84% of excess over $80,000.
Over $90,000 but not over $100,000 . $58,620, plus 87% of excess over $90,000.
Over $100,000 but not over $150,000 . $67,320, plus 89% of excess over $100,000.
Over $150,000 but not over $200,000 . $111,820, plus 90% of excess over $150,000.
Over $200,000 . $156,820, plus 91% of excess over $200,000.

Adjustment on Line 6, Page 3, for Partially Tax-Exempt Interest

If you itemize your deductions, the combined tax to be entered on line 6 should be reduced by 3 percent of the tax-exempt interest included in line 3, or 3 percent of line 5, whichever amount is the lesser. If you so reduce your tax, attach an explanatory statement.

Items to be considered in the adjustment on line 6 are (a) interest on the excess over $5,000 of United States savings bonds (at cost) and (b) interest on obligations of an instrumentality of the United States issued prior to March 1, 1941 (other than Federal land banks, Federal intermediate credit banks, and joint stock land banks); and (c) dividends on share accounts in Federal savings and loan associations if the shares were issued prior to March 28, 1942.