HELPFUL INFORMATION ON

How To Prepare Your

INCOME TAX RETURN

on Form 1040 for 1961

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A Personal Letter to Taxpayers:

Oliver Wendell Holmes, one of our Nation’s greatest judges, once wrote—"Taxes are what we pay for civilized society. . . .” Later, in saying he liked to pay taxes, he did not mention whether his enthusiasm included the filling out of tax forms.

But we all know that the forms as well as the taxes are necessary for the kind of orderly government which will preserve America and its way of life.

I therefore urge you to prepare your returns carefully and early. This will save you the inconveniences of correcting last-minute mistakes and obtaining last-minute information and assistance. Remember, the filing deadline is April 15.

Be sure you list all your income from every source—including dividends, interest and other earnings. List also deductions to which you are entitled, unless you are claiming them by the standard deduction.

After we receive your return, it is our duty to examine it for accuracy and completeness. In doing this, we may have to ask you to verify or correct some items. Most examinations are routine and should not cause concern to the overwhelming majority of taxpayers. If an examining officer indicates that additional tax is due, you will be given full opportunities for explanation and appeal if you do not agree with his conclusions.

Most taxpayers are able, with the enclosed instructions, to prepare their own returns. If, however, you have questions, you may telephone or visit the nearest Internal Revenue office. An employee there will be glad to help you.

INSTRUCTIONS FORM 1040 (1961)

Commissioner of Internal Revenue
HOW TO USE FORM 1040

In order to make preparation of tax returns easier for the great majority of taxpayers, the individual income tax return Form 1040 has been revised. The main form is limited to a single sheet. Supporting schedules may be attached according to the individual needs of each taxpayer.

If your income was entirely from salary and wages you will need only the 2-page Form 1040. You can use it whether you take the standard deduction or itemize deductions.

If in addition to salary and wages you have not more than $200 of dividends and interest, you also need only file the 2-page Form 1040. In such case merely enter the taxable amount of dividends and interest received on line 5 of the form. In figuring the amount of dividends to be reported, exclude the first $50 received from domestic corporations. This exclusion does not apply to so-called dividends received from mutual savings banks or savings (building) and loan associations on deposits or withdrawable accounts. If a joint return is filed and both husband and wife had dividend income, each is entitled at most to a $50 exclusion and one may not use any portion of the $50 exclusion not used by the other. For example, if the husband had $100 in dividends, and the wife had $20, only $70 may be excluded on a joint return.

If your dividends and interest exceed $200, or if you have income from rents, royalties, pensions, annuities, partnerships, estates, trusts, etc., use and attach Schedule B.

If you have income from a personally owned business, attach Schedule C.

If you have income from the sale or exchange of property, attach Schedule D.

If you have income from farming, attach Schedule F.

These schedules may be obtained from any Internal Revenue Service office.

WAGE EARNERS WITH LESS THAN $10,000 INCOME

You can use a simpler return (Form 1040A), printed on a punchcard, if:

1. Your income was less than $10,000, AND
2. It consisted of wages reported on withholding statements (Forms W-2) and not more than $200 total of other wages, interest, and dividends, AND
3. You wish to take the standard deduction (about 10 percent of your income) instead of itemizing deductions.

The special instruction sheet for the form provides further information about its use. One of the special features is that if your income is less than $5,000, you can choose to have the Internal Revenue Service figure your tax for you. You can obtain these forms from most banks and some post offices.

IMPORTANT OF SOCIAL SECURITY NUMBERS

The Internal Revenue Service is installing an automatic data processing system which uses modern highspeed electronic equipment to improve and strengthen tax administration.

Because many names are alike it is necessary to use numbers, in addition to names, to identify taxpayers in our electronic and other records. Since 130 million Americans already have Social Security numbers, it has been decided to use these numbers for tax purposes to save them the inconvenience of obtaining other numbers. Most taxpayers have been putting these numbers on their tax returns for many years, and will need only to continue this practice.

At some time in the near future, those individuals who have income but do not have Social Security numbers will need to obtain account numbers.

LOCATIONS OF DISTRICT-DIRECTORS' OFFICES

Following is a list of the District Directors' offices. If there is more than one District Director's office in your State and you are not sure which one to use, consult your local post office.

ALABAMA—Birmingham 3, Ala.
ALASKA—Anchorage, Alaska.
ARIZONA—Phoenix, Ariz.
ARKANSAS—Little Rock, Ark.
CALIFORNIA—Los Angeles 12, Calif.; San Francisco 2, Calif.
COLORADO—Denver 2, Colo.
CONNECTICUT—Hartford 6, Conn.
DELAWARE—Wilmington 1, Del.
DISTRICT OF COLUMBIA—Baltimore 2, Md.
FLORIDA—Jacksonville 2, Fla.
GEORGIA—Atlanta 3, Ga.
HAWAII—Honolulu 13, Hawaii
IDAHO—Boise, Idaho
ILLINOIS—Chicago 2, Ill.; Springfield, Ill.
INDIANA—Indianapolis 4, Ind.
IOWA—Des Moines 9, Iowa
KANSAS—Wichita 2, Kans.
KENTUCKY—Louisville 2, Ky.
LOUISIANA—New Orleans 12, La.
MAINE—Augusta, Maine
MARYLAND—Baltimore 2, Md.
MASSACHUSETTS—Boston 15, Mass.
MICHIGAN—Detroit 31, Mich.
MINNESOTA—St. Paul 3, Minn.
MISSISSIPPI—Jackson 5, Miss.
MISSOURI—St. Louis 1, Mo.; Kansas City 6, Mo.
MONTANA—Helena, Mont.
NEBRASKA—Omaha 2, Nebr.
NEVADA—Reno, Nev.
NEW HAMPSHIRE—Portsmouth, N.H.
NEW JERSEY—Newark 2, N.J.; Camden 2, N.J.
NEW MEXICO—Albuquerque, N. Mex.
NEW YORK—Brooklyn 1, N.Y.; 484 Lexington Avenue, New York 17, N.Y.; Albany 10, N.Y.; Syracuse 2, N.Y.
RIDE 2, N.Y.
NORTH CAROLINA—Greensboro, N.C.
NORTH DAKOTA—Fargo, N. Dak.
OHIO—Cleveland 15, Ohio; Cincinnati 2, Ohio.
OKLAHOMA—Oklahoma City 2, Okla.
OREGON—Portland 12, Ore.
PANAMA CANAL ZONE—Director of International Operations, Internal Revenue Service, Washington 25, D.C.
PUERTO RICO—Director of International Operations, Internal Revenue Service, 1105 Fernandez Juncos Avenue, San Juan, P.R.
RHODE ISLAND—Providence 7, R.I.
SOUTH CAROLINA—Columbia, S.C.
SOUTH DAKOTA—Aberdeen, S. Dak.
TENNESSEE—Nashville 3, Tenn.
TEXAS—Austin 1, Tex.; Dallas 1, Tex.
UTAH—Salt Lake City 1, Utah.
VERMONT—Burlington, Vt.
VIRGINIA—Richmond 19, Va.
VIRGIN ISLANDS—Director of International Operations, Internal Revenue Service, 1105 Fernandez Juncos Avenue, San Juan, P.R.
WASHINGTON—Seattle 2, Wash.
WEST VIRGINIA—Parkersburg, W. Va.
WISCONSIN—Waukesha 1, Wis.
WYOMING—Cheyenne, Wyo.

FOREIGN ADDRESS—Taxpayers with legal residence in Foreign Countries—Director of International Operations, Internal Revenue Service, Washington 25, D.C.

DIVIDENDS? INTEREST? RENTS?

Be sure to report all of your income from all sources. Some taxpayers, while reporting income from wages and other principal sources, tend to forget to report lesser amounts from sources such as interest on savings accounts and other interest, dividends, and rents, particularly when such amounts are credited to their accounts rather than received in cash. Your accuracy in reporting these amounts will benefit both you and your Government, and will avoid expensive enforcement action that might otherwise be necessary.
GENERAL INSTRUCTIONS

If you received such income and believe it is excludable for income tax purposes, complete Form 2555 and attach it to your Form 1040.

MEMBERS OF ARMED FORCES

Members of Armed Forces should give name, service serial number, and permanent home address.

WHEN AND WHERE TO FILE

Please file as early as possible. You must file not later than April 15. Mail your return to the “District Director of Internal Revenue” for the district in which you live. U.S. citizens abroad who have no legal residence or place of business in the United States should file with Director of International Operations, Internal Revenue Service, Washington 25, D.C.

WHERE TO GET FORMS

As far as practical, the forms are mailed directly to taxpayers. Additional forms may be obtained from any Internal Revenue Service office, and also at most banks and some post offices.

HOW TO PAY

The balance of tax shown to be due on line 16, page 1, of your return on Form 1040 must be paid in full with your return if it amounts to $100 or more. Checks or money orders should be made payable to “Internal Revenue Service.”

ATTACHMENTS TO THE RETURN

Insofar as possible, you should fill in all required information directly on your return. If schedules are attached, they should conform in arrangement and detail with the official schedules, and totals should be entered on the return form.

MARRIED PERSONS—JOINT OR SEPARATE RETURNS

Advantages of a Joint Return.—Generally it is advantageous for a married couple to file a joint return. There are benefits in figuring the tax on a joint return which often result in a lower tax than would result from separate returns.

How To Prepare a Joint Return.—You must include all income and deductions of both husband and wife. In the return heading, list both names including middle initials (for example: “John F. and Mary L. Doe”). Both must sign the return.

A husband and wife may file a joint return even though one of them had no income. A joint return may not be filed if either husband or wife was a nonresident alien at any time during the taxable year. A nonresident alien should file on Form 1040B, 1040NB or 1040NB—a, whichever is appropriate.

When a joint return is filed, the couple assumes full legal responsibility for the entire tax, and if one fails to pay, the other must pay it.

How To Prepare a Separate Return.—If you file separate returns each must report his or her separate income and deductions. When filing separate returns, the husband and wife should each claim the allowable deductions paid with his or her own funds. (In community property States, deductions resulting from payments made out of funds belonging jointly to husband and wife may be divided half and half.) If one itemizes and claims actual deductions, then both must do so.

Changes in Marital Status.—If you are married at the end of your taxable year, you are considered married for the entire year. If you are divorced or legally separated on or before the end of your year, you are considered single for the entire year. If your wife or husband died during the year, you are considered married for the entire year, and may file a joint return. You may also be entitled to the benefits of a joint return for the two years following the death of your husband or wife. See below.

SPECIAL COMPUTATIONS

for whom you are entitled to a deduction for an exemption, unless the deduction arises from a multiple support agreement. (2) your unmarried child, grandchild, or stepchild, even though such child is not a dependent or (3) your married child, grandchild, or stepchild for whom you are entitled to a deduction for an exemption.

If you qualify under (a) or (b) above, you are entitled to the special tax rate if you pay more than half the cost of maintaining a household (not necessarily your home) which is the principal place of abode of your father or mother and who qualifies as your dependent.

The rates for Head of Household are found in Tax Rate Schedule III on page 9 of these instructions.

Widows and Widowers.—Under certain conditions a taxpayer whose husband (or wife) has died during either of her two preceding taxable years may compute her tax by including only her income, exemptions, and deductions, but otherwise computing the tax as if a joint return had been filed. However, the exemption for the decedent may be claimed only for the year of death.

The conditions are that the taxpayer (a) must not have remarried, (b) must maintain as her home a household which is the principal place of abode of her child or stepchild for whom she is entitled to a deduction for an exemption, and (c) must have been entitled to file a joint return with her husband (or wife) for the year of death.
HOW TO REPORT YOUR INCOME

The law states that all kinds of income in whatever form received are subject to tax with specific exemptions. This means that all income which is not specifically exempt must be included in your return, even though it may be offset by expenses and other deductions.

The following examples will help you to determine what kinds of income must be reported on your income tax return and what items are exempt from tax.

Examples of Income Which Must Be Reported

Wages, salaries, bonuses, commissions, fees, tips, and gratuities.
Dividends.
Interest on bank deposits, bonds, notes.
Interest on U.S. Savings bonds.
Profits from sales or exchanges of real estate, securities, or other property.
Disability retirement payments and other benefits paid by the Veterans Administration.
Dividends on veterans’ insurance.

Examples of Income Which Should Not Be Reported

Industrial, civil service and other pensions, annuities, endowments.
Rents and royalties from property, patents, copyrights.
Profits from business or profession.
Your share of partnership profits; estate or trust income.

Employer supplemental unemployment benefits.
Alimony, separate maintenance or support payments received from (and deductible by) your husband (or wife). For details see Miscellaneous, page 8 of this pamphlet.

INSTRUCTIONS FOR PAGE 1 OF FORM 1040

Line 1.—Wages, Salaries, Etc.—Report the full amount of your wages, salaries, fees, commissions, tips, bonuses, and other payments for your personal services even though taxes and other amounts have been withheld by your employer. All income regardless of where earned must be reported on one Federal tax return.

Payment in Merchandise, etc.—If you are paid in whole or in part in merchandise, services, stock, or other things of value, you must determine the fair market value of such items and include it in your wages.

Meals and Living Quarters.—Employees who, as a matter of choice, receive meals and lodging from their employers whether or not it is agreed to be part of their salaries must include in income the fair market value of the meals and lodging.

However, if, for the convenience of your employer, your meals are furnished at your place of employment or you are required to accept lodging at your place of employment as a condition of your employment, the value of the meals or lodging is not to be reported in your return.

Two or More Employers.—If more than $144.00 of Social Security (F.I.C.A.) employee tax was withheld during 1961 because either you or your wife received wages from more than one employer, the excess should be claimed as a credit against income tax. Enter any excess of Social Security tax withheld over $144.00 on line 1, column (b), the “Federal Income Tax Withheld” column, and write “F.I.C.A. tax” in the “Where Employed” column. If a joint return, do not add the Social Security tax withheld from both husband and wife to figure the excess over $144.00; compute the credit separately.

Credit for Taxes Paid by Regulated Investment Companies.—If you are entitled to a credit for taxes paid by a regulated investment company on undistributed capital gains, enter the credit on line 1, column (b), and write “Credit from regulated investment company” in the “Where Employed” column. To substantiate the credit claimed attach Copy B of Form 2439 to page 1 of Form 1040 in the same manner as Withholding Statements, Form W-2.

EMPLOYEE BUSINESS EXPENSES

Deductible Expenses.—You may deduct the following expenses from the amounts you are required to report on line 1, page 1, to the extent they are not paid by your employer.

(1) Travel and transportation.—You can deduct the costs of bus, taxi, plane, train, etc., fares or the cost of operating an automobile in connection with your duties as an employee.

(2) Meals and lodging.—If you are temporarily away on business, at least overnight from the city, town, or other general area which constitutes your principal or regular business location, you can deduct meals and lodging in addition to the travel costs.

(3) Outside salesmen.—If you are an “outside salesman,” you may also deduct other expenses which are ordinary and necessary in performing your duties, such as business entertainment, stationery, and postage. An “outside salesman” is one who is engaged in full-time solicitation of business for his employer away from the employer’s place of business. It does not include a person whose principal activities consist of service and delivery as, for example, a milk driver-salesman.

If you itemize deductions on page 2 of your return, you may also deduct (under the heading “Other Deductions”) business expenses, other than those described above. Examples of such expenses are professional and union dues, and the cost of tools, materials, etc., which are not paid for by your employer.

Additional Information.—If (1) you were required to and did submit an expense voucher or other accounting for your expenses to your employer, and (2) you are not claiming a deduction for business expenses, no additional information is required to be submitted with your return. You have made the equivalent of an accounting to your employer if you received per diem in lieu of subsistence, or a mileage allowance not in excess of certain prescribed amounts. These amounts for the period ending August 13, 1961, are $15 per diem and 12½ cents mileage and for the period subsequent to that date, $20 per diem and 15 cents mileage.

If you do not meet the two conditions indicated above you must submit the following additional information with your return:

(1) The total of all amounts received from or charged to your employer for business expenses,
(2) The amount of your business expenses broken down into broad categories, and
(3) The number of days away from home on business.
EXCLUSION FOR "SICK PAY"

Line 3.—You may exclude from income amounts received under a wage continuation plan for the period during which you were absent from work on account of personal injuries or sickness. If both you and your employer contribute to the plan, any benefits attributable to your own contributions are excludable without limit, but there are certain limitations on the exclusion of the benefits attributable to your employer’s contributions. In the case of such a contributory plan, it will be necessary for you to know to what extent any benefits are attributable to your contributions and to what extent they are attributable to your employer’s contributions.

The employer-provided wage continuation payments can be excluded at a rate not to exceed $100 a week. In cases where these payments exceed a weekly rate of $100, the exclusion is figured by multiplying the amount received by 100 and dividing the result by the weekly rate of payment.

If your absence is due to sickness, you cannot exclude the payments received for the first 7 calendar days of each absence from work. However, if you were (a) hospitalized on account of sickness for at least one day at any time during the absence from work, or (b) injured, the exclusion applies from the first day of absence.

If you received sick pay and it is included in your gross wages as shown on Form W–2, enter the gross wages on line 1, and enter on line 3 the amount of such wages to be excluded. In addition, attach Form 2440 or a statement showing your computation, and indicating the period or periods of absence, nature of sickness, or injury, and whether hospitalized. Form 2440 may be obtained from any Internal Revenue Service office.

Amounts received by an employee for a period of absence from work on account of pregnancy are not excludable as sick pay unless a written statement is furnished by a physician that the employee should remain at home because of substantial danger of miscarriage. However, a woman is considered to be “sick” for tax purposes from the beginning of labor and continues as long as she is absent from work on account of being physically incapacitated as a result of childbirth or a miscarriage.

INCOME OTHER THAN SALARIES AND WAGES

Income other than from salaries and wages with one exception is to be reported by means of separate schedules.

The exception is that if you have income from dividends and interest in an amount of $200 or less it will not be necessary for you to use a separate schedule to report the income.

“How to Use Form 1040” on page 2 of these instructions.

The following separate schedules are to be used to report items of other income.

Schedule B.—Dividends, Interest, Pensions, Annuities, Rents, Royalties, and other income or losses not required to be reported elsewhere.

Schedule C.—Profit (or Loss) From Business or Profession.

Schedule D.—Gains and Losses From Sales or Exchanges of Property.

Schedule F.—Schedule of Farm Income and Expenses.

TAX—PAYMENTS AND CREDITS—BALANCE DUE OR REFUND

Line 10.—The Tax Table is provided by law and saves you the trouble of itemizing deductions and computing your tax. The table allows for an exemption of $600 for each person claimed as a dependent, and charitable contributions, interest, taxes, etc., approximating 10 percent of your income.

Line 11.—The tax rate schedules on page 9 are to be used to figure your tax. Be sure to use the right schedule. See page 3 for special computations.

Line 15.—Payments and Credits.—There are credits and payments that you may use to reduce your tax. They are:

a. Income Tax Withheld which is reflected on the Forms W–2 which you receive from your employer.


c. Dividends received credit.—Part VII of separate Schedule B.

Note.—If your income was from salary and wages and not more than $200 of dividends and interest as explained on page 2, you are entitled to a credit of 4 percent of the amount of dividends included in your return. However, the credit may not exceed the lesser of:

(1) the total income tax reduced by the foreign tax credit; or

(2) four percent of the taxable income.

(If tax is computed, taxable income is the amount on line 11d, page 1. If the Tax Table is used, it is the amount on line 9, page 1, less (a) 10 percent thereof, and (b) the number of exemptions on line 3 of Schedule A multiplied by $600.)

d. Retirement Income Credit from Part VIII separate Schedule B.

e. Other Credits.—If you itemize deductions on page 2 of the return you may receive credit for foreign income taxes (attach Form 1116), credit for partially tax-exempt interest, and tax paid at source on tax-free covenant bonds.

Tax Due or Refund.—In order to facilitate the processing of collections and refunds, balances due of less than $1.00 need not be paid, and overpayments of less than $1.00 will be refunded only upon separate application to your District Director.

Declarations of Estimated Tax.—For many taxpayers the withholding tax on wages is not sufficient to keep them paid up on their income tax. In general, the law requires every citizen or resident of the United States to file a Declaration of Estimated Income Tax, Form 1040–ES, and to make quarterly payments in advance of filing the annual income tax return if his total expected tax exceeds his withholding (if any) by $40 or more. Farmers may postpone filing their 1962 declarations until January 15, 1963. A declaration must be filed if you:

(a) can reasonably expect gross income exceeding—

(1) $10,000 for a head of a household or a widow or widower entitled to the special tax rates;

(2) $5,000 for other single individuals;

(3) $5,000 for a married individual not entitled to file a joint declaration;

(4) $5,000 for a married individual entitled to file a joint declaration, and the combined income of both husband and wife can reasonably be expected to exceed $10,000; OR

(b) can reasonably expect to receive more than $200 from sources other than wages subject to withholding.

Additional Charge for Underpayment of Estimated Tax.—Estimate your tax carefully. Avoid the difficulties of paying a large balance with your return.

Furthermore, there is an additional charge imposed by law for underpayment of any installment of estimated tax. Details of this additional charge, and exceptions to it, are printed on Form 1040–ES and Form 2210. If you had an underpayment and believe one of the exceptions applies, attach a statement or Form 2210 to your return.
SCHEDULE A—Exemptions

HOW TO CLAIM YOUR EXEMPTIONS

You Are Allowed a Deduction of $600 for Each Exemption for Which You Qualify as Explained Below

1. **Exemptions for You and Wife**

   For You.—You, as the taxpayer, are always entitled to at least one exemption. If, at the end of your taxable year, you were either blind or 65 or over, you get two exemptions. If you were both blind and 65 or over, you get three exemptions. Be sure to check the appropriate blocks. Age and blindness are determined as of December 31, 1961.

   For Your Wife.—An exemption is allowed for your wife (or husband) if you and she are filing a joint return. If you file a separate return, you may claim her exemptions only if she had no income and did not receive more than half her support from another taxpayer. You are not entitled to an exemption for your wife on your return if she files a separate return for any reason (for example, to obtain a refund of tax withheld where her income is less than $600). Otherwise, your wife’s exemptions are like your own—one, if she was neither blind nor 65 or over; two, if she was either blind or 65 or over; three, if she was both blind and 65 or over.

   In Case of Death.—If your wife or husband died during 1961, the number of her or his exemptions is determined as of the date of death.

   Proof of Blindness.—If totally blind, a statement to that effect must be attached to the return. If partially blind, attach a statement from a qualified physician or a registered optometrist that (1) central visual acuity did not exceed 20/200 in the better eye with correcting lenses, or (2) that the widest diameter of the visual field subtends an angle no greater than 20°.

2. **Support.**—Received more than half of his or her support from you (or from husband or wife if a joint return is filed), (see definition below of support), and

3. **Married Dependents.**—Did not file a joint return with her husband (or his wife), and

4. **Nationality.**—Was either a citizen or resident of the United States or a resident of Canada, Mexico, the Republic of Panama or the Canal Zone; or was an alien child adopted by and living with a United States citizen abroad.

5. **Relationship.**—Either (1) for your entire taxable year had your home as his principal place of abode and was a member of your household; or (2) was related to you (or to husband or wife if a joint return is filed) in one of the following ways:

   - Child*
   - Stepchild
   - Son-in-law
   - Stepbrother
   - Stepfather
   - Stepmother
   - Daughter-in-law
   - The following if father related by blood:
   - Grandparent
   - Mother
   - Father
   - Brother
   - Sister
   - Grandchild
   - Niece

   *Includes a child who is a member of your household if placed with you by an authorized placement agency for legal adoption.

   **Definition of Support.**—Support includes food, shelter, clothing, medical and dental care, education, and the like. Generally, the amount of an item of support will be the amount of expense incurred by the one furnishing such item. If the item of support furnished by an individual is in the form of property or lodging, it will be necessary to measure the amount of such item of support in terms of its fair market value.

   In computing the amount of support include amounts contributed by the dependent for his own support and also amounts ordinarily excludable from income (for example, social security benefits).

   In figuring whether you provide more than half of the support of a student, you may disregard amounts received by him as scholarships.

   **Definition of Student.**—The law defines a student as an individual who, during each of 5 calendar months during the year, is (a) a full-time student at an educational institution or (b) pursuing a full-time course of institutional on-farm training under the supervision of an accredited agent of an educational institution or of a State, or a political subdivision of a State.

   Returns for Children under 19 and Students.—If your dependent child is under 19 or is a student and has income of $600 or over, he must file an income tax return, report the income, and claim his exemption. If you provide over half of your child’s support and meet the other qualifications for claiming a dependent, you may also claim the exemption on your return.

   **Birth or Death of Dependent.**—You can claim a full $600 exemption for a dependent who was born or died during the year if the tests for claiming an exemption for such dependent are met for the part of the year during which he was alive.

   **Exemptions for Individuals Supported by More Than One Taxpayer.**—If several persons contributed toward the support of an individual during the taxable year, but none contributed over half of the support, they may designate one of their number to claim the exemption if:

   (a) They as a group have provided over half of the support of the individual; and

   (b) Each of them, had he contributed over half of the support, would have been entitled to claim the individual as a dependent; and

   (c) The person claiming the exemption for the individual contributed over 10 percent of the support; and

   (d) Each other person in the group who contributed over 10 percent of the individual’s support makes a declaration that he will not claim the individual as a dependent for the year. The declarations must be filed with the return of the person claiming the exemption. Form 2120, Multiple Support Declaration, is available at any Internal Revenue Service office.
ITEMIZED DEDUCTIONS—If you do not use Tax Table or Standard Deduction

CONTRIBUTIONS

If you itemize deductions, you can deduct gifts to religious, charitable, educational, scientific, or literary organizations, and organizations for the prevention of cruelty to children and animals, unless the organization is operated for personal profit, or conducts propaganda or otherwise attempts to influence legislation. You can deduct gifts to fraternal organizations if they are to be used for charitable, religious, etc., purposes. You can also deduct gifts to veterans’ organizations, or to a governmental agency which will use the gifts for public purposes including civil defense purposes. Civil defense volunteers may deduct unreimbursed expenses paid for gasoline and other expenses of participation in official civil defense activities.

A contribution may be made in money or property (not services). If in property, it is generally measured by the fair market value of the property at the time of contribution.

For the contribution to be deductible, the recipient of the contribution must have been organized or created in the United States, or its possessions, or under our law. The law does not allow deductions for gifts to individuals, or to other types of organizations, however worthy.

In general, the deduction for contributions may not exceed 20 percent of your income, line 9, page 1. However, you may increase this limitation to 30 percent if the extra 10 percent consists of contributions made to churches, a convention or association of churches, tax-exempt educational institutions, tax-exempt hospitals, or certain medical research organizations. Attach a schedule showing this computation.

While you can deduct gifts to the kind of organizations listed below, you cannot deduct dues or other payments to them, for which you receive personal benefits.

If you support a student in your home under a written agreement with a charitable or educational institution, you may be entitled to deduct as a contribution a part or all of your expenses. Consult the nearest Internal Revenue Service office for details.

You CAN Deduct Gifts To:

- Churches, including assessments
- Salvation Army
- Red Cross, community chests
- Nonprofit schools and hospitals
- Veterans’ organizations
- Boy Scouts, Girl Scouts, and other similar organizations
- Nonprofit organizations primarily engaged in conducting research or education for the alleviation and cure of diseases such as tuberculosis, cancer, multiple sclerosis, muscular dystrophy, cerebral palsy, poliomyelitis, diabetes, cystic fibrosis, diseases of the heart, etc.

You CANNOT Deduct Gifts To:

- Relatives, friends, other individuals
- Political organizations or candidates
- Social clubs
- Labor unions
- Chambers of commerce
- Propaganda organizations

INTEREST

If you itemize deductions, you can deduct interest you paid on your personal debts, such as bank loans or home mortgages. Interest paid on business debts should be reported in the separate schedule in which your business income is reported. Do not deduct interest paid on money borrowed to buy tax-exempt securities or single-premium life insurance. Interest paid on behalf of another person is not deductible unless you were legally liable to pay it. In figuring the interest paid on a mortgage on your home or on an installment contract for goods for your personal use, eliminate such items as carrying charges and insurance, which are not deductible, and taxes which may be deductible but which should be itemized separately.

If interest charges are not stated separately on installment purchases of personal property (such as automobiles, radios, etc.), you may deduct an amount equal to 6 percent of the average unpaid monthly balance.

You CAN Deduct Interest On:

- Your personal note to a bank or an individual
- A mortgage on your home
- A life insurance loan, if you pay the interest in cash
- Delinquent taxes

You CANNOT Deduct Interest On:

- Indebtedness of another person, when you are not legally liable for payment of the interest
- A gambling debt or other nonenforceable obligation
- A life insurance loan, if interest is added to the loan and you report on the cash basis

TAXES

If you itemize deductions, you can deduct most non-Federal taxes paid by you. You can deduct state or local retail sales taxes if under the laws of the state they are imposed directly upon the consumer, or if they are imposed on the retailer (or wholesaler in case of gasoline taxes) and the amount of the tax is separately stated by the retailer. In general, you cannot deduct taxes assessed for pavements or other local improvements, including front-foot benefits, which tend to increase the value of your property. Consult your Internal Revenue Service office for circumstances under which local improvement taxes may be deducted.

Do not deduct on page 2 any non-business Federal taxes, or any taxes paid in connection with a business or profession which are deductible in Part IV of Schedule B, or Schedule C or F.

You CAN Deduct:

- Personal property taxes
- Real estate taxes
- State income taxes
- State or local retail sales taxes
- Auto license fees
- State capitation or poll taxes
- State gasoline taxes

You CANNOT Deduct:

- Any Federal excise taxes on your personal expenditures, such as taxes on theater admissions, furs, jewelry, cosmetics, transportation, telephone, gasoline, etc.
- Federal social security taxes
- Hunting licenses, dog licenses
- Auto inspection fees
- Water taxes
- Taxes paid by you for another person

MEDICAL AND DENTAL EXPENSES

If you itemize deductions, you can deduct, within the limits described below, the amount you paid during the year (not compensated by hospital, health or accident insurance) for medical or dental expenses for yourself, your wife, or any dependent who received over half of his support from you whether or not the dependent had $600 or more income. List on the attachment the name and amount paid to each person or institution.

- You can deduct amounts paid for the prevention, cure, correction, or treatment of a physical or mental defect or illness. If you pay someone for both nursing and domestic duties, you can deduct only the nursing cost.

You can deduct amounts paid for transportation primarily for and essential to medical care, but not for any other travel expense even if it benefits your health. Meals and lodging while you are away from home receiving medical treatment may not be treated as medical expense unless they are part of a hospital bill or are included in the cost of care in a similar institution.

FIGURING THE DEDUCTION

(A) General Rule:

(1) Medical and dental expenses.—You can deduct that portion of your medical and dental expenses which exceed 3 percent of line 9, page 1, of Form 1040 and which were paid for:

(a) the taxpayer, wife, dependent parent(s), all of whom were under 65 years of age, and (b) all other dependents regardless of age.

(2) Medicine and drugs.—The total amount paid for medicine and drugs for the persons listed above is also reduced by 1 percent of line 9, page 1, Form 1040.
INSTRUCTIONS FOR PAGE 2 OF FORM 1040—Continued

(B) Special Rule For Certain Persons 65 or over:
The 3 percent reduction does not apply to medical and dental expenses paid by a taxpayer or his wife for:
(a) Himself and his wife if EITHER is 65 years of age or over;
(b) A dependent who is 65 or over and who is the mother or father of the taxpayer or his wife.
If you wish, you may obtain Form 2948 from any Internal Revenue Service office to assist you.

Limitations.—The deduction for medical and dental expenses may not exceed $2,500 multiplied by the number of exemptions claimed on the return (other than the exemptions for age and blindness). In addition, there is a maximum limitation as follows:
(a) $5,000 if the taxpayer is single and not a head of household or a widow or widower entitled to the special tax rates;
(b) $5,000 if the taxpayer is married but files a separate return; or
(c) $10,000 if the taxpayer files a joint return, or is a head of household or a widow or widower entitled to the special tax rates.
(d) If either you or your wife are disabled and 65 or over, you may qualify for an increased maximum limitation. Consult the nearest Internal Revenue Service office for further information.

Subject to the Forgoing Limitations, You CAN Deduct as Medical Expenses Payments To or For:
Physicians, dentists, nurses, and hospitals
Drugs or medicines
Transportation necessary to get medical care
Eyeglasses, artificial teeth, medical or surgical appliances, braces, etc.
X-ray examinations or treatment
Premiums on hospital or medical insurance
You CANNOT Deduct Payments For:
Funeral expenses and cemetery plot
Illegal operations or drugs
Travel ordered or suggested by your doctor for rest or change
Premiums on life insurance
Cosmetics

OTHER DEDUCTIONS

Expenditures for the Care of Children and Certain Other Dependents.—If expenditures are itemized, a deduction not to exceed a total of $600 for expenses paid by a woman or a widower (including men who are divorced or legally separated under a decree and who have not remarried) for the care of:
(a) dependent children under 12 years of age; or
(b) dependent persons (excluding husband or wife) physically or mentally incapable of caring for themselves, if such care is to enable the taxpayer to be gainfully employed or to actively seek gainful employment.

Do not deduct any child care payments to a person for whom you claim an exemption.

In the case of a woman who is married, the deduction is allowed only (a) if she files a joint return with her husband; and (b) if the deduction is reduced by the amount (if any) by which their combined income, line 9, page 1, exceeds $4,500. If the husband is incapable of self-support because of mental or physical defect, these two limitations do not apply.

If the person who receives the payment performs duties related to dependent care, only that part of the payment which is for the dependent’s care may be deducted.

If you claim this deduction, attach a detailed statement showing the amounts expended and the person or persons to whom they were paid. If you wish, you may obtain Form 2441 from any Internal Revenue Service office.

Casualty Losses and Thefts.—If you itemize deductions, you can deduct a net loss resulting from the destruction of your property in a fire, storm, automobile accident, shipwreck, or other losses caused by natural forces. Damage to your car by collision or accident can be deducted if due merely to faulty driving but cannot be deducted if due to your willful act or negligence. You can also deduct losses due to theft, but not losses due to mislaying or losing articles.

The amount of loss to be deducted is measured by the fair market value of the property just before the casualty less its fair market value immediately after the casualty (but not more than the cost or other adjusted basis of the property), reduced by any insurance or compensation received. Attach an explanation.

You CAN Deduct Losses On:
Property such as your home, clothing, or automobile destroyed or damaged by fire
Property, including cash, which is stolen from you
Loss or damage of property by flood, lightning, storm, explosion, or freezing

You CANNOT Deduct Losses On:
Personal injury to yourself or another person
Accidental loss by you of cash or other personal property
Property lost in storage or in transit
Damage by rust or gradual erosion
Animals or plants damaged or destroyed by disease

Expenditures for Education.—Expenditures for education may be deducted if the education was undertaken primarily for the purpose of:
(a) Maintaining or improving skills required in your employment or other trade or business, or
(b) Meeting the express requirements of your employer, or the requirements of applicable law or regulations, imposed as a condition to the retention of your salary, status, or employment.

Expenses incurred for the purpose of obtaining a new position, a substantial advancement in position, or for personal purposes are not deductible. The expenses incurred in preparing for a trade or business or a specialty are personal expenses and are not deductible.

The rules for reporting deductible education expenses are the same as those shown on page 4 for the reporting of “Employee Business Expenses.” If you are required therein to attach a statement to your return explaining the nature of the expenses, also include a description of the relationship of the education to your employment or trade or business. If the education was required by your employer, a statement from him would be helpful.

Miscellaneous.—If you itemize deductions, you can deduct several other types of expenses under “Other Deductions.”

If you work for wages or a salary, you can deduct your ordinary and necessary employee business expenses which have not been claimed on page 1.

You can deduct all ordinary and necessary expenses connected with the production or collection of income, or for the management or protection of property held for the production of income.

If you are divorced or legally separated and are making periodic payments of alimony or separate maintenance under a court decree, you can deduct these amounts. Periodic payments made under either (a) a written separation agreement entered into after August 16, 1954, or (b) a decree for support entered after March 1, 1954, are also deductible. Such payments must be included in the wife’s income. You cannot deduct any voluntary payments not under a court order or a written separation agreement, lump-sum settlements, or specific maintenance payments for support of minor children.

You may deduct gambling losses only to the extent of gambling winnings.

If you are a tenant-stockholder in a cooperative housing corporation, you can deduct your share of its payments for interest and real estate taxes.

You CAN Deduct Cost Of:
Safety equipment
Dues to union or professional societies
Entertaining customers
Tools and supplies
Fees to employment agencies

You CANNOT Deduct Cost Of:
Travel to and from work
Entertaining friends
Bribes and illegal payments
## TAX RATE SCHEDULE

If you do not use the Tax Table on page 10, then figure your tax on amount on line 11d, page 1 of your return, by using appropriate tax-rate schedule on this page.

### Schedule I. (A) SINGLE TAXPAYERS who do not qualify for rates in Schedules II and III, and (B) married persons filing separate returns.

<table>
<thead>
<tr>
<th>If the amount on line 11d, page 1, is:</th>
<th>Enter on line 12, page 1:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $2,000 ..................</td>
<td>20% of the amount on line 11d.</td>
</tr>
<tr>
<td>Over— But not over— of excess over—</td>
<td></td>
</tr>
<tr>
<td>$2,000 — $6,000 ..........</td>
<td>$400, plus 22% — $2,000</td>
</tr>
<tr>
<td>$6,000 — $8,000 ..........</td>
<td>$1,360, plus 30% — $6,000</td>
</tr>
<tr>
<td>$8,000 — $10,000 .........</td>
<td>$1,960, plus 34% — $8,000</td>
</tr>
<tr>
<td>$10,000 — $12,000 ......</td>
<td>$2,640, plus 38% — $10,000</td>
</tr>
<tr>
<td>$12,000 — $14,000 ......</td>
<td>$3,400, plus 43% — $12,000</td>
</tr>
<tr>
<td>$14,000 — $16,000 ......</td>
<td>$4,260, plus 47% — $14,000</td>
</tr>
<tr>
<td>$16,000 — $18,000 ......</td>
<td>$5,200, plus 50% — $16,000</td>
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<tr>
<td>$18,000 — $20,000 ......</td>
<td>$6,200, plus 53% — $18,000</td>
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<tr>
<td>$20,000 — $22,000 ......</td>
<td>$7,260, plus 56% — $20,000</td>
</tr>
<tr>
<td>$22,000 — $26,000 ......</td>
<td>$8,380, plus 59% — $22,000</td>
</tr>
</tbody>
</table>

### Schedule II. (A) MARRIED TAXPAYERS filing joint returns, and (B) certain widows and widowers. (See page 3 of these instructions)

<table>
<thead>
<tr>
<th>If the amount on line 11d, page 1, is:</th>
<th>Enter on line 12, page 1:</th>
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</thead>
<tbody>
<tr>
<td>Not over $1,000 ........................</td>
<td>20% of the amount on line 11d.</td>
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<tr>
<td>Over— But not over— of excess over—</td>
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</tr>
<tr>
<td>$4,000 — $8,000 ..........................</td>
<td>$800, plus 22% — $4,000</td>
</tr>
<tr>
<td>$8,000 — $12,000 ..........................</td>
<td>$1,680, plus 26% — $8,000</td>
</tr>
<tr>
<td>$12,000 — $16,000 ..........................</td>
<td>$2,720, plus 30% — $12,000</td>
</tr>
<tr>
<td>$16,000 — $20,000 ..........................</td>
<td>$3,920, plus 34% — $16,000</td>
</tr>
<tr>
<td>$20,000 — $24,000 ..........................</td>
<td>$5,280, plus 38% — $20,000</td>
</tr>
<tr>
<td>$24,000 — $28,000 ..........................</td>
<td>$6,800, plus 43% — $24,000</td>
</tr>
<tr>
<td>$28,000 — $32,000 ..........................</td>
<td>$8,320, plus 47% — $28,000</td>
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<tr>
<td>$32,000 — $36,000 ..........................</td>
<td>$10,400, plus 50% — $32,000</td>
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<tr>
<td>$36,000 — $40,000 ..........................</td>
<td>$12,400, plus 53% — $36,000</td>
</tr>
<tr>
<td>$40,000 — $44,000 ..........................</td>
<td>$14,520, plus 56% — $40,000</td>
</tr>
<tr>
<td>$44,000 — $52,000 ..........................</td>
<td>$16,760, plus 59% — $44,000</td>
</tr>
</tbody>
</table>

### Schedule III. Unmarried (or legally separated) taxpayers who qualify as HEAD OF HOUSEHOLD. (See page 3 of these instructions)

<table>
<thead>
<tr>
<th>If the amount on line 11d, page 1, is:</th>
<th>Enter on line 12, page 1:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $2,000 ..................</td>
<td>20% of the amount on line 11d.</td>
</tr>
<tr>
<td>Over— But not over— of excess over—</td>
<td></td>
</tr>
<tr>
<td>$2,000 — $4,000 ..........</td>
<td>$400, plus 21% — $2,000</td>
</tr>
<tr>
<td>$4,000 — $6,000 ..........</td>
<td>$820, plus 24% — $4,000</td>
</tr>
<tr>
<td>$6,000 — $8,000 ..........</td>
<td>$1,300, plus 26% — $6,000</td>
</tr>
<tr>
<td>$8,000 — $10,000 .........</td>
<td>$1,820, plus 30% — $8,000</td>
</tr>
<tr>
<td>$10,000 — $12,000 ......</td>
<td>$2,420, plus 32% — $10,000</td>
</tr>
<tr>
<td>$12,000 — $14,000 ......</td>
<td>$3,060, plus 36% — $12,000</td>
</tr>
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<td>$3,780, plus 39% — $14,000</td>
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<td>$4,560, plus 42% — $16,000</td>
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<tr>
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<td>$5,400, plus 43% — $18,000</td>
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<td>$20,000 — $22,000 ......</td>
<td>$6,260, plus 47% — $20,000</td>
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<tr>
<td>$22,000 — $24,000 ......</td>
<td>$7,200, plus 49% — $22,000</td>
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<tr>
<td>$24,000 — $28,000 ......</td>
<td>$8,180, plus 52% — $24,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>If the amount on line 11d, page 1, is:</th>
<th>Enter on line 12, page 1:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over— But not over— of excess over—</td>
<td></td>
</tr>
<tr>
<td>$28,000 — $32,000 ..........</td>
<td>$10,260, plus 54% — $28,000</td>
</tr>
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<td>$23,580, plus 68% — $50,000</td>
</tr>
<tr>
<td>$60,000 — $70,000 ..........</td>
<td>$30,380, plus 71% — $60,000</td>
</tr>
<tr>
<td>$70,000 — $80,000 ..........</td>
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<tr>
<td>$300,000 — $500,000 ......</td>
<td>$235,480, plus 91% — $300,000</td>
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</table>
### TAX TABLE

**FOR PERSONS WITH INCOMES UNDER $5,000 WHO DO NOT ITEMIZE ON PAGE 2 OF FORM 1040**

Read down the income columns below until you find the line covering the total income you entered on line 9, page 1, Form 1040. Then read across to the appropriate column headed by the number corresponding to the number of exemptions claimed on line 3, Sch. A, page 2. Enter the tax you find there on line 12, page 1.

<table>
<thead>
<tr>
<th>If total income on line 9, page 1, is—</th>
<th>And the number of exemptions claimed on line 3, Sch. A, p. 2 is—</th>
<th>If total income on line 9, page 1, is—</th>
<th>And the number of exemptions claimed on line 3, Sch. A, page 2 is—</th>
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</thead>
<tbody>
<tr>
<td><strong>At least</strong></td>
<td><strong>But less than</strong></td>
<td><strong>At least</strong></td>
<td><strong>But less than</strong></td>
</tr>
<tr>
<td><strong>1</strong></td>
<td><strong>2</strong></td>
<td><strong>3</strong></td>
<td><strong>4</strong></td>
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#### Table Data

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<td><strong>0</strong></td>
<td><strong>0</strong></td>
<td></td>
</tr>
</tbody>
</table>

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(*This column may also be used by a widow or widower with dependent child who meets certain qualifications which are explained on page 3 of these instructions.*

U.S. GOVERNMENT PRINTING OFFICE 1959–50–70077–7
INSTRUCTIONS FOR SCHEDULE B (Form 1040)

DIVIDENDS
INTEREST
RENTS

ROYALTIES
PENSIONS
PARTNERSHIPS

ESTATES
TRUSTS
MISCELLANEOUS

Part I—DIVIDENDS

If you own stock, the payments you receive out of the company's earnings and profits are dividends and must be reported in your tax return. Usually dividends are paid in cash, but if paid in merchandise or other property, they are taxable at their fair market value.

In some cases payers, especially mutual funds and investment club partnerships, distribute both an ordinary dividend and a capital gain at the same time; the check or notice will usually show them separately. You must report the dividend income portion in Part I of this Schedule, and the capital gain portion on line 7, Part I of Schedule D (Form 1040).

There are special rules applicable to stock dividends, partial liquidations, stock rights, and redemptions; call your Internal Revenue Service office for more complete information.

You may exclude from your income $50 of dividends received from qualifying domestic corporations.

If a joint return is filed and both husband and wife have dividend income, each one may exclude $50 of dividends received from qualifying corporations, but one may not use any portion of the $50 exclusion not used by the other. For example, if the husband had $300 in dividends, and the wife had $20, only $70 may be excluded on a joint return.

Use Part I to list your dividends including dividends you receive as a member of a partnership or as a beneficiary of an estate or trust, and to show the amount of the exclusion to which you are entitled. Dividends from mutual insurance companies which are a reduction of premiums are not to be included. So-called "dividends" paid on deposits or withdrawable accounts by the following corporations are considered interest and should be reported as interest in Part II:

- Mutual savings banks, cooperative banks, savings and loan associations, and credit unions.
- Taxable dividends from the following nonqualifying corporations should be reported on line 5 of Part I:
  (a) foreign corporations.
  (b) so-called exempt organizations (charitable, fraternal, etc.) and exempt farmers' cooperative organizations.
  (c) regulated investment companies except to the extent designated by the company to be taken into account as a dividend for these purposes.
  (d) real estate investment trusts.
  (e) China Trade Act corporations.
  (f) corporations deriving 80 percent or more of their income from U.S. possessions and 50 percent or more of their income from the active conduct of a business therein.

See page B-4 for an explanation of the dividends received credit.

Part II—INTEREST

You must include in your return any interest you received or which was credited to your account (whether entered in your passbook or not) and can be withdrawn by you. All interest on bonds, debentures, notes, savings accounts, or loans is taxable, except for certain governmental issues. Examples of interest which is fully exempt from tax are (a) interest from State and municipal bonds and securities and (b) interest on any $5,000 principal value of Treasury bonds issued before March 1, 1941.

If you own United States Savings or War bonds, the gradual increase in value of each bond is considered interest, but you need not report it in your tax return until you cash the bond or until the year of final maturity, whichever is earlier. However, you may at any time elect to report each year the annual increase in value, but if you do so you must report in the first year the entire increase to date on all such bonds and must continue to report the annual increase each year.

Part III—PENSIONS AND ANNUITIES

Noncontributory Annuities.—The full amount of an annuity or a pension of a retired employee, where the employee did not contribute to the cost and was not subject to tax on his employer's contributions, must be included in his income.

However, if there is a death-benefit exclusion, this rule does not apply; consult the Internal Revenue Service.

Other Annuities.—Amounts received from other annuities, pensions, endowments, or life insurance contracts, whether paid for a fixed number of years or for life, may have a portion of the payment excluded from income. The following types come under this rule: (a) pensions where the employee has either contributed to its cost or has been taxed on his employer's contributions, and (b) amounts paid for a reason other than the death of the insured under an annuity, endowment, or life insurance contract.

Part III is provided for reporting the taxable portion of the annuity. If you are receiving payments on more than one pension or annuity, fill out a separate Part III for each one.

General Rule for Annuities.—Generally, amounts received from annuities and pensions are included in income in an amount which is figured upon your life expectancy. This computation and your life expectancy multiple can
be found in the regulations covering annuities and pensions. Once you have obtained the multiple it remains unchanged and it will not be necessary to recompute your taxable portion each year unless the payments you receive change in amount. In making this computation you can get help from the Internal Revenue Service as well as from some employers and insurance companies.

Special Rule for Certain Types of Employees’ Annuities.—There is a special rule provided for amounts received as employees’ annuities where part of the cost is contributed by the employer and the amount contributed by the employee will be returned within 3 years from the date of the first payment received under the contract. If both of these conditions are met, then all the payments received under the contract during the first 3 years are to be excluded from income until the employee recovers his cost (the amount contributed by him plus the contributions made by the employer on which the employee was previously taxed); thereafter all amounts received are fully taxable. This method of computing taxable income also applies to the employee’s beneficiary if the employee died before receiving any annuity or pension payments.

Example: An employee received $200 a month from an annuity. While he worked, he contributed $4,925 toward the cost of the annuity. His employer also made contributions toward the cost of the annuity for which the employee was not taxed. The retired employee would be paid $7,200 during the first 3 years, which amount exceeds his contribution of $4,925. He would exclude from income all the payments received from the annuity until he has received $4,925. All payments received thereafter are fully taxable.

Amounts Received Under Life-Insurance Policies by Reason of Death.—Generally, a lump sum payable at the death of the insured under a life insurance policy is excludable from the income of the recipient. For more detailed information, call or visit your Internal Revenue Service office.

Part IV—RENTS AND ROYALTIES

If you are not engaged in selling real estate to customers, but receive rent from property owned or controlled by you, or royalties from copyrights, mineral leases, and similar rights, report the total amount received in Part IV. If property other than money was received as rent, its fair market value should be reported.

In the case of buildings you can deduct depreciation, as explained on page B-3. You can also deduct all ordinary and necessary expenditures on the property such as taxes, interest, repairs, insurance, agent’s commissions, maintenance, and similar items. However, you cannot deduct capital investments or improvements but must add them to the basis of the property for the purpose of depreciation. For example, a landlord can deduct the cost of minor repairs but not the cost of major improvements such as a new roof or remodeling.

If You Rent Part of Your House.—If you rent out only part of your property, you can deduct only that portion of your expenses which relates to the rented portion. If you cannot determine these expenses exactly, you may figure them on a proportionate basis. For example, if you rent out half of your home, and live in the other half, you can deduct only half of the depreciation and other expenses.

Room rent and other space rentals should be reported as business income in separate Schedule C (Form 1040) if services are rendered to the occupant; otherwise, report such income in Part IV. If you are engaged in the business of selling real estate, you should report rentals received in separate Schedule C.

Part V—OTHER INCOME OR LOSSES

Partnerships.—A partnership does not pay income tax unless it elects to be taxed on the same basis as a domestic corporation. It does, however, file an information return on Form 1065. Only one Form 1065 need be filed for each partnership. Each partner must report his share of the partnership’s income.

Include in Part V your share of the ordinary income (whether actually received by you or not) or the net loss of a partnership, joint venture, or the like, whose taxable year ends within or with the year covered by your return. Other items of income, deductions, etc., to be carried to the appropriate schedule of your individual return are shown in Schedule K of the partnership return. Your share of income of the following classes should be entered on the appropriate lines and schedules of your return:

- Dividends.
- Interest on tax-free covenant bonds.
- Partially tax-exempt interest.
- Gains from the sale or exchange of capital assets and other property.

If the partnership is engaged in a trade or business, the individual partner may be subject to the self-employment tax on his share of the self-employment income from the partnership. In this case the partner’s share of partnerships self-employment net earnings (or loss) should be entered on line 5(b), page 1, separate Schedule C-3. Members of farm partnerships should use Schedule F-1 to figure self-employment tax.

Estates and Trusts.—If you are a beneficiary of an estate or trust, report your taxable portion of its income whether you receive it or not. Your share of income of the following classes should be entered on the appropriate lines and schedules of your return:

- Dividends.
- Interest on tax-free covenant bonds.
- Partially tax-exempt interest.
- Gains from the sale or exchange of capital assets and other property.

All other taxable income from estates and trusts should be included in Part V. Any depreciation (on estate or trust property) which is allocable to you may be subtracted from estate or
trust income so that only the net income received will be included in your return. Information regarding these items may be obtained from the fiduciary.

Small Business Corporations.—If you are a shareholder in a small business corporation which elects to have its current taxable income taxed to its stockholders, you should report your share of both the distributed and undistributed current taxable income as ordinary income in Part V except that portion which is reportable as a long-term capital gain in separate Schedule D. Neither type of income is eligible for the dividends received credit or the exclusion. Your share of any net operating loss should be treated just as if the loss were from a proprietorship.

Other Income.—If you cannot find any specific place on your return to list certain types of income, you should report such income in Part V. This is the proper place to report amounts received as alimony, support and prizes. Recoveries of bad debts and other items which reduced your tax in a prior year should also be reported in Part V. A refund of state income tax should be entered here. The general rule is that a refund of state income taxes is income to the taxpayer if a deduction was taken in a prior year which resulted in a Federal tax benefit. Taxpayers using the cash basis report the refund in the year received; taxpayers using the accrual basis report when the claim is allowed (if no claim is filed report when the taxing authority notifies you of the overpayment).

Net Operating Loss.—If, in 1961, your business or profession lost money instead of making a profit, if you had a casualty loss, or a loss from the sale or other disposition of depreciable property (or real property) used in your trade or business, you can apply the losses against your 1961 income. If the losses exceed your income, the excess is a "net operating loss" which may be used to offset your income for the 3 years prior to and the 5 years following this year. The loss must be first carried back to the third prior year and any remaining balance brought forward to each succeeding year. If a "carryback" entitles you to a refund of prior year taxes, ask the District Director for Form 1045 to claim a quick refund.

If you had a loss in a prior year which may be carried over to 1961, it should be reported on line 3, Part V, and you should attach a statement showing the computation.

Part VI—DEPRECIATION

A reasonable allowance for the exhaustion, wear and tear, and obsolescence of property used in the trade or business or of property held by the taxpayer for the production of income shall be allowed as a depreciation deduction. The allowance does not apply to inventories or stock-in-trade nor to land apart from the improvements or physical development added to it.

The cost (or other basis) to be recovered should be charged off over the expected useful life of the property. Similar assets may be grouped together as one item for reporting purposes.

Straight Line Method.—To compute, add the cost of improvements to the cost (or other basis) of the asset and deduct both the estimated salvage value and the total depreciation allowed or allowable in prior years. The depreciation deduction is this amount divided by the number of years of useful life remaining to the asset.

Declining Balance Method.—Under this method a uniform rate is applied each year to the remaining cost or other basis of property (without adjustment for salvage value) determined at the beginning of such year, but depreciation must stop when the unrecovered cost is reduced to salvage value. For property acquired before January 1, 1954, or used property whenever acquired, the rate of depreciation under this method may not exceed one and one-half times the applicable straight-line rate.

Special Rules for New Assets Acquired After December 31, 1953.—The cost or other basis of an asset acquired after December 31, 1953, may be depreciated under methods proper before that date; or, it may be depreciated under any of the following methods provided (1) that the asset is tangible, (2) that it has an estimated useful life of 3 years or more, and (3) that the original use of the asset commenced with the taxpayer and commenced after December 31, 1953.

If an asset is constructed, reconstructed, or erected by the taxpayer, so much of the basis of the asset as is attributable to construction, reconstruction, or erection after December 31, 1953, may be depreciated under methods proper before that date; or, it may be depreciated under any of the following methods provided that the asset meets qualifications (1) and (2) above.

(a) Declining balance method.—This method may be used with a rate not in excess of twice the applicable straight-line rate.

(b) Sum of the years-digit method.—The deduction for each year is computed by multiplying the cost or other basis of the asset (reduced by estimated salvage value) by the number of years of useful life remaining (including the year for which the deduction is computed) and dividing the product by the sum of all the digits corresponding to the years of the estimated useful life of the asset. In the case of a 5-year life this sum would be 15 (5+4+3+2+1). For the first year five-fifteenths of the cost reduced by estimated salvage value would be allowable, for the second year four-fifteenths, etc.

(c) Other methods.—A taxpayer may use any consistent method which does not result at the end of any year in accumulated allowances greater than the total of the accumulated allowances which would have resulted from the use of the declining balance method. This limitation applies only during the first two-thirds of the property's useful life.
Additional First-Year Depreciation.—You may elect to write off, in the year assets are first subject to depreciation, 20 percent of the cost of the assets if they are tangible personal property acquired by purchase for use in a trade or business or to be held for the production of income. If the aggregate cost of these assets exceeds $10,000 ($20,000 for joint return) the additional depreciation is limited to $2,000 ($4,000 for joint return).

The additional depreciation is limited to property with a remaining useful life of 6 years or more and which is not acquired from a person (other than a brother or sister) whose relationship to the taxpayer would result in the disallowance of losses. Normal depreciation may also be taken on the cost of the asset reduced by the first-year depreciation.

The additional first-year depreciation should be shown on a separate line of the depreciation schedule rather than included on the line used to show the regular depreciation of the asset.

Enter the total depreciation claimed, both additional first-year and other, on the “Total” line of the depreciation schedule. In addition, enter the total additional first-year depreciation in the box provided below the “Total” or “Balance” line.

Part VII—DIVIDENDS RECEIVED CREDIT

The law provides a credit against tax for dividends received from qualifying domestic corporations. This credit is equal to 4 percent of these dividends in excess of those which you may exclude from your income. The credit may not exceed:

(a) the total income tax reduced by the foreign tax credit; or
(b) 4% of the taxable income.

Part VIII—RETIREMENT INCOME CREDIT

You may qualify for this credit which is generally 20 percent of retirement income if you received earned income in excess of $600 in each of any 10 calendar years—not necessarily consecutive—before the beginning of your taxable year.

The term “earned income” means wages, salaries, or professional fees, etc., received as compensation for personal services actually rendered. It does not include any amount received as an annuity or pension. If you were engaged in a trade or business in which both personal services and capital were material income-producing factors, a reasonable allowance as compensation for the personal services rendered by you, not in excess of 50 percent of your share of the net profits of such business, shall be considered as earned income.

If you are a surviving widow (widower) and have not remarried, you may use the earned income of your deceased husband (wife), or you may combine such income with your earned income, for the purpose of determining whether you qualify. If a husband and wife both qualify and each has retirement income, each is entitled to the credit.

Retirement income for the purpose of the credit means—

(a) In the case of an individual who is not 65 before the end of his taxable year, only that income received from pensions and annuities under a public retirement system (one established by the Federal Government, a State, county, city, etc.) which is included in income in his return.

(b) In the case of an individual who is 65 or over before the end of his taxable year, income from pensions, annuities, interest, rents, and dividends, which are included in gross income in his return. (Gross income from rents for this purpose means gross receipts from rents without reduction for depreciation or any other expenses. Royalties are not considered rents for this purpose.)

The amount of the retirement income used for the credit computation may not exceed $1,200 reduced by:

(a) any amount received and excluded from income as a pension or annuity under the Social Security Act and Railroad Retirement Acts and by other tax-exempt pensions or annuities. This reduction does not include (1) that part of a pension or annuity which is excluded from income because it represents, in effect, a return of capital or tax-free proceeds of a like nature, or (2) amounts excluded from income received as compensation for injuries or sickness or under accident or health plans; and

(b) for an individual who is not 65 before the end of the taxable year, any amount of earned income received in excess of $900; and for an individual who is 65 or over but who is not 72 before the end of the taxable year, any amount of earned income received in excess of $1,200.