INSTRUCTIONS FOR FORM 1040B

1950

UNITED STATES NONRESIDENT ALIEN INCOME TAX RETURN

1950

(BUSINESS WITHIN UNITED STATES)

(References are to the Internal Revenue Code, unless otherwise noted)

GENERAL INSTRUCTIONS

The term "nonresident alien individual" includes "nonresident alien fiduciary"

(A) **Who must make a return on Form 1040B.**—Every nonresident alien individual who at any time within the taxable year was engaged in trade or business within the United States is required to make or have made a return on Form 1040B of his income received from all sources within the United States, except a resident of Canada or Mexico whose sole income from sources within the United States consisted of compensation for personal services and did not exceed $600 during the taxable year. Section 51 (b) provides that "No joint return may be made if either the husband or wife is a nonresident alien."

The phrase "engaged in trade or business within the United States" includes the performance of personal services within the United States at any time within the taxable year, but does not include the performance of personal services for a nonresident alien individual, foreign partnership, or foreign corporation not engaged in trade or business within the United States by a nonresident alien individual temporarily present in the United States for a period or periods not exceeding a total of 90 days during the taxable year and whose compensation for such services did not exceed, in the aggregate, $3,000. Such phrase does not include the effecting, through a resident broker, commission agent, or custodian, of transactions in the United States in commodities (if of a kind customarily dealt in on an organized commodity exchange, if the transaction is of the kind customarily consummated at such place, and if the alien, partnership, or corporation has no office or place of business in the United States at any time during the taxable year through which or by the direction of which such transactions in commodities are effected), or in stocks or securities.

The responsible representative or agent within the United States of a nonresident alien individual who at any time within the taxable year was engaged in trade or business within the United States shall make, in behalf of his nonresident alien principal, a return of, and shall pay the tax on, all income from sources within the United States coming within his control as representative or agent. The agency appointment will determine how completely the agent is substituted for the principal for tax purposes.

Unless a nonresident alien individual who, at any time within the taxable year, was engaged in trade or business within the United States shall file, or cause to be filed with the collector, a true and accurate return of his total income from sources within the United States, in the manner prescribed by law, the tax shall be collected on the basis of gross income (not net income) from sources within the United States.

A nonresident alien individual who is a member of a partnership which at any time within the taxable year is engaged in trade or business within the United States is considered as being engaged in trade or business within the United States. Such individual is, therefore, taxable under section 211 (b) and is required to file Form 1040B.

Every nonresident alien individual not engaged in trade or business within the United States is required to make or have made a return on Form 1040NB or Form 1040NB-a, instead of Form 1040B, in any case in which the tax was not fully satisfied at the source.

A resident of the United Kingdom engaged in trade or business within the United States at any time during the taxable year (for example, rendering personal services therein) but not having a permanent establishment therein in such year should not report on Form 1040B dividends, interest, royalties, natural resource royalties, real property rentals, or capital gains, since such items are exempt from tax subject to the conditions provided in the United States-United Kingdom income tax convention. A like rule applies to a resident of the Netherlands or Denmark as to dividends, interest, and royalties. If, however, a resident of the United Kingdom or the Netherlands receives natural resource royalties or real property rentals in the taxable year and elects to be taxed as if he were engaged in trade or business through a permanent establishment in the United States, he must report on Form 1040B his entire income from sources within the United States.

(B) **Returns of income of decedents.**—The executor or administrator shall make a return on Form 1040B for a nonresident alien decedent who was engaged in trade or business in the United States at any time during his last taxable year.

(C) **Period to be covered by return.**—Calendar year 1950 or fiscal years ending after September 30, 1950, but before December 31, 1951.

The established accounting period must be adhered to for all years, unless permission is received from the Commissioner to make a change. An application for a change in the accounting period shall be made on Form 1128.

(D) **When and where the return must be filed.**—On or before the 15th day of the sixth month following the close of the taxable year with the collector of internal revenue for the district in which you have your principal place of business in the United States, **except that a nonresident alien individual whose wages are subject to withholding at the source under section 1622 is required to file Form 1040B on or before the 15th day of the third month following the close of the taxable year.** In case you have no principal place of business in the United States at the time of filing return, it should be forwarded to the Collector of Internal Revenue, Baltimore 2, Maryland, U. S. A.

(E) **Declaration.**—The return shall contain or be verified by a written declaration that it is made under the penalties of perjury. The return may be made by an agent (1) if made by the responsible representative or agent within the United States under competent agency appointment, or (2) if, by reason of illness, the person liable for the making of the return is unable to make it, or (3) if the taxpayer is unable to make the return by reason of continuous absence from the United States for a period of at least 60 days prior to the date prescribed by law for making the return. Whenever a return is made by an agent it must be accompanied by a power of attorney.

Where the return is actually prepared by some person or persons other than the taxpayer, such person or persons must also sign the declaration.

(F) **When and to whom the tax must be paid.**—The tax must be paid in full when the return is filed, **except that in the case of a nonresident alien individual whose wages are subject to withholding at the source under section 1622, the tax must be paid in full on or before the 15th day of the third month following the close of the taxable year.** If any installment is not paid on or before the date fixed for payment, the whole amount of tax unpaid shall be paid upon notice and demand by the collector.

The tax may be paid in cash or by check or money order drawn to the order of "Collector of Internal Revenue."

(G) **Penalties.**—Severe penalties are provided by law for failure to file a required return, for filing late, and for filing a false or fraudulent return.

(H) **Received or accrued income.**—If your books of account are kept on the accrual basis, report all income accrued, even though it has not been actually received or entered on the books, and expenses incurred instead of expenses paid. As to disallowance of deductions for unpaid expenses and interest payable to certain persons, see section 24 (c). If your books are not kept on the accrual basis, or if you kept no books, make your return on a cash basis and report all income received or constructively received, such as bank interest credited to your account and coupon bond interest matured, and report expenses actually paid.

(I) **Items exempt from tax.**—The following items are exempt, except where otherwise indicated, from United States income tax and should not be included in gross income:

(*a*) The proceeds of life insurance policies, paid by reason of the death of the insured. If any part of the proceeds is held by the insurer under an agreement to pay interest, the interest

is taxable. Amounts received under a life insurance or endowment policy, not payable by reason of the death of the insured, are not taxable until the aggregate of the amounts received exceeds the premiums or consideration paid for the policy. (See Specific Instruction 5 as to taxation of annuities.)

(*b*) Gifts (not received as consideration for services rendered) and money and property acquired by bequest, devise, or inheritance (but the income derived from such property is taxable and must be reported);

(*c*) 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;

(*d*) Except in the case of amounts attributable to (and not in excess of) deductions allowed under section 23 (x) in any prior taxable year, amounts received through accident or health insurance or under workmen's compensation acts, and amounts received as a pension, annuity, or similar allowance for personal injuries or sickness resulting from active service in the armed forces of any country;

(*e*) Income which consists exclusively of earnings derived from the operation of a ship or ships documented under the laws of a foreign country, provided such country grants an equivalent exemption to citizens of the United States and to corporations organized in the United States;

(*f*) Interest received from a resident alien individual, a resident foreign corporation, or a domestic corporation when it is shown to the satisfaction of the Commissioner that less than 20 percent of the gross income of such resident payor or domestic corporation has been derived from sources within the United States for the 3-year period ending with the close of the taxable year of such payor preceding the payment of such interest, or for such part of such period as may be applicable;

(*g*) Certain dividends as noted in Specific Instruction 2;

(*h*) Royalties and like amounts received by a resident of France, the Netherlands, or Denmark at no time within the taxable year having a permanent establishment within the United States;

(*i*) Royalties and interest derived by a nonresident alien resident in the United Kingdom if such alien (*a*) is subject to United Kingdom tax on such income and (*b*) is not engaged in trade or business through a permanent establishment in the United States;

(*j*) Private pensions and life annuities paid to nonresident alien individuals residing in Canada, the United Kingdom, France, Sweden, the Netherlands, or Denmark; and

(*k*) The following classes of income received by nonresident alien individuals: (1) Industrial and commercial profits of a Swedish, Canadian, French, or United Kingdom enterprise having no permanent establishment in the United States; (2) income derived by a Swedish, Canadian, French, or United Kingdom enterprise from the operation of ships or aircraft registered in the respective countries; (3) royalties and like amounts derived by a nonresident alien individual resident in Sweden; (4) gains derived from the sale or exchange of capital assets by a nonresident alien individual resident in Sweden, Canada, France, or the United Kingdom having no permanent establishment in the United States; (5) wages, salaries, and similar compensation and pensions paid by Sweden, Canada, France, or the United Kingdom or by a political subdivision thereof, to individuals (other than citizens of the United States) temporarily residing in the United States; (6) compensation for labor or personal services performed within the United States by a nonresident alien individual resident in Sweden, Canada, or the United Kingdom, such exemption being, however, subject to certain limitations (see Treasury Decisions 4975, 5206, 5532, and 5569); (7) compensation derived by a resident of France in the exercise of a liberal profession if he has no place of business within the United States; (8) remittances from sources within Sweden, Canada, France, or the United Kingdom (see Treasury Decisions 4975, 5206, 5499, and 5532) received in the United States by nonresident alien individuals residents of Sweden, Canada, France, or the United Kingdom who are temporarily residing in the United States for the purposes of study or for acquiring business experience, such remittances being for the purposes of their maintenance or studies.

Any taxpayer who excludes from gross income from sources within the United States income of the type specified in (*f*) above must file with his return a statement setting forth the amount of such income and such information as may be necessary to show that the income is of the type specified in that paragraph.

(J) **Treatment of depreciation and depletion.**—A reasonable allowance for the exhaustion, wear and tear, and obsolescence of property used in the trade or business may be deducted. All deductions for depreciation must be explained in the depreciation schedule on page 3. If obsolescence is claimed, explain why the useful life is less than the actual life.

The amount of depreciation on property acquired by purchase should be determined upon the basis of the original cost (not replacement cost) of the property and the probable number of years remaining of its expected useful life, except if the property was purchased prior to March 1, 1913, it will be computed on the fair market value of such property as of that date or its original cost (less depreciation actually sustained before that date), whichever is greater. (See sections 23 (l) and 114.)

See the regulations under sections 23 (m) and 114 with respect to additional forms and information required if a deduction is claimed for depletion.

SPECIFIC INSTRUCTIONS

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

1. **Salaries and other compensation for personal services.**—Report all salaries, wages, commissions, bonuses, etc., for services performed within the United States. Except as noted in General Instruction (A), gross income from sources within the United States includes compensation for labor or personal services performed within the United States regardless of the residence of the payor, of the place in which the contract for services was made, or of the place of payment. If a specific amount is paid for labor or personal services performed in the United States, such amount (if income from sources within the United States) shall be included in the gross income. If no accurate allocation or segregation of compensation for labor or personal services performed in the United States can be made, or when such labor or service is performed partly within and partly without the United States, the amount to be included in the gross income shall be determined by an apportionment on the time basis, i. e., there shall be included in the gross income an amount which bears the same relation to the total compensation as the number of days of performance of the labor or services within the United States bears to the total number of days of performance of labor or services for which the payment is made. Except as noted in General Instruction (A), wages received for services rendered inside the territorial limits of the United States and wages of an alien seaman earned on a coastwise vessel are to be regarded as from sources within the United States.

Any amount claimed as a deduction for ordinary and necessary expenses against salaries, etc., such as traveling expenses in connection with your occupation, should be fully explained. Traveling expenses ordinarily include expenditures for transportation, meals, and lodging. The expenses of a commuter in traveling to and from work are not deductible.

2. **Dividends.**—Attach a statement showing (*a*) dividends on share accounts in Federal savings and loan associations in case of shares issued on or after March 28, 1942 (dividends on shares issued before that date should be included in item 4, page 1); (*b*) dividends from a domestic corporation constituting income from sources within the United States; and (*c*) dividends from a foreign corporation to the extent they constitute income from sources within the United States.

Dividends will be treated as income from sources within the United States unless the taxpayer submits sufficient data to establish to the satisfaction of the Commissioner that they should be excluded from gross income. (See section 119 (a).)

3. **Interest on corporation bonds, etc.**—Enter interest on bonds, debentures, notes, or certificates or other evidences of indebtedness, issued by any corporation with interest coupons or in registered form, and all interest received or credited to your account on corporation bonds upon which a United States income tax was paid at the source by the debtor corporation. Include all interest received or accrued, as the case may be, on notes, mortgages, or similar interest-bearing obligations of residents of the United States, except the interest specified in paragraphs (*c*), (*f*), and (*i*) of General Instruction (I).

4. **Interest on Government obligations, etc.**—Enter interest received or accrued during the year.

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

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

6. **Gains and losses from sales or exchanges of capital assets and other property.**—Report details in Schedules A (1) and (2).

"Capital assets" defined.—The term "capital assets" means property held by the taxpayer (whether or not connected with his trade or business), but not stock in trade or other property of a kind which would properly be included in his inventory if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business, or property used in the trade or business of a character which is subject to the allowance for depreciation provided in section 23 (l), or an obligation of the United States or any of its possessions, or of a State or Territory, or any political subdivision thereof, or of the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding 1 year from the date of issue, or real property used in the trade or business of the taxpayer.

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

Basis.—In determining GAIN in case of property acquired before March 1, 1913, use the cost or the fair market value as of March 1, 1913, adjusted as provided in section 113 (b), whichever is greater, but in determining LOSS use cost so adjusted. If the property was acquired after February 28, 1913, use cost, except as otherwise provided in section 113.

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

Nonbusiness debt.—If a debt, other than a debt evidenced by a corporate security with interest coupons or in registered form and other than a debt the loss from the worthlessness of which is incurred in the trade or business, becomes totally worthless within the taxable year, the loss resulting therefrom shall be considered a loss from the sale or exchange during the taxable year, of a capital asset held for not more than 6 months. Enter such loss in column 6 (describe in column 1) of Schedule A (1) under schedule of short-term capital gains and losses.

Classification of capital gains and losses.—The phrase "short-term" applies to gains and losses from the sale or exchange of capital assets held for 6 months or less; the phrase "long-term" to capital assets held for more than 6 months.

Collapsible corporations.—Gain from the sale or exchange of stock of a collapsible corporation is not a capital gain. (See section 117 (m).)

Limitation on capital losses.—Losses from sales or exchanges of capital assets shall be allowed only to the extent of the gains from such sales or exchanges, plus the net income (computed without regard to capital gains and losses) or $1,000, whichever is smaller. However, a net capital loss as defined in section 117 (a) (11) may be carried over to each of the five succeeding taxable years and treated as a short-term capital loss to the extent not allowed as a deduction against any net capital gains of any taxable years intervening between the taxable year in which the net capital loss was sustained and the taxable year to which carried. The amount of the net capital loss carry-over may not be included in computing a new capital loss of a taxable year which can be carried forward to the next five succeeding taxable years.

Alternative tax.—If the net long-term capital gain exceeds the net short-term capital loss, an alternative tax may be imposed in lieu of the normal tax and surtax imposed on net income. (See Computation of Alternative Tax, Schedule A (1).)

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

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

7. **Rents and royalties.**—Fill in Schedule B (1) giving the information requested.

Report all rents and royalties from property located within the United States or from any interest in such property, including rents and royalties for the use of or the privilege of using within the United States, patents, copyrights, secret processes and formulas, good will, trade-marks, trade brands, franchises, and other like property. The income arising from the rental of property, whether tangible or intangible, located within the United States, or from the use of property, whether tangible or intangible, within the United States, is from sources within the United States.

Deductions which may be properly allocated to income from rents and royalties are ordinary and necessary expenses incurred in connection with the property for the use of which the rents and royalties are paid and depreciation or depletion of such property sustained during the taxable year. Other necessary expenses, such as repairs, interest, taxes, fire insurance, fuel, light, and labor, should be itemized.

8. **Net profit (or loss) from business or profession.**—If you owned a business, or practiced a profession on your own account, fill in Schedule B (2) of the return, and enter the net profit (or loss) as item 8.

If installment method is used, attach schedule showing separately for years 1947, 1948, 1949, and 1950: (*a*) Gross sales; (*b*) cost of goods sold; (*c*) gross profits; (*d*) percentage of profits to gross sales; (*e*) amount collected; and (*f*) gross profit on amount collected.

Bad debts may be treated in either of two ways—(1) by a deduction from income in respect of debts which became wholly worthless within the taxable year, or (2) by a deduction from income of a reasonable addition to a reserve.

Every taxpayer claiming a deduction due to a net operating loss for the preceding taxable year or years shall file with his return the statement required by section 29.122–1 of Regulations 111.

Do not include in your costs or other business deductions any salary or other compensation for yourself.

From the items of income derived specifically from sources within the United States there shall be deducted the expenses, losses, and other deductions properly apportioned or allocated thereto and a ratable part of any other expenses, losses, or deductions which cannot definitely be allocated to some item or class of gross income. The remainder shall be included in full as net income from sources within the United States. The ratable part is based upon the ratio of gross income from sources within the United States to the total gross income.

9. (*a*) **Income from partnerships, joint ventures, etc., and fiduciaries.**—Enter in Schedule B (3) your share of the profits (whether received or not) or of the losses of a partnership (including a joint venture, or the like, not taxable as a corporation) doing business in the United States (except your share of capital gains and losses, which should be entered in Schedule A (1)), and income from a domestic estate or trust.

If the taxable period on the basis of which you file your return does not coincide with the annual accounting period of the partnership, joint venture, etc., or fiduciary, then you should include in your return your distributive share of the net profits or losses for such accounting period ending within your taxable year.

Include in item 4 your share of interest on obligations of the United States and instrumentalities, issued prior to March 1, 1941, owned by the partnership, estate, or trust. Include in item 11, and explain in Schedule C, your share of any contribution or gift, payment of which was made by the partnership, within its taxable year, to organizations created in the United States.

(*b*) **Other income.**—Enter in Schedule B (3) any other taxable income, including alimony and separate maintenance income.

11. **Contributions.**—Enter contributions or gifts paid within the taxable year to any domestic corporation, or to any community chest, fund, or foundation, created in the United States, operated exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder, or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation; or to the special fund for vocational rehabilitation authorized by section 12 of the World War Veterans' Act, 1924. The amount claimed shall not exceed 15 percent of your adjusted gross income. For definition of adjusted gross income, see section 22 (n).

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Report in Schedule C the name and address of each organization and the approximate date and amount of the contribution or gift in each case.

12. **Interest.**—Enter interest on personal indebtedness as distinguished from business indebtedness (which should be entered in Schedules B (1) and (2)). Do not include interest on indebtedness incurred or continued to purchase or carry obligations (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest upon which is wholly exempt from taxation. For limitations on deductions for unpaid expenses and interest, see section 24 (c). Do not deduct amounts paid or accrued on indebtedness incurred or continued to purchase a single premium life insurance or endowment contract. A contract shall be considered a single premium life insurance or endowment contract, if substantially all the premiums on such contract are paid within a period of 4 years from the date on which the contract is purchased.

In order to claim a deduction for interest paid, the indebtedness must be connected with some source of taxable income within the United States. Any deductions on account of interest should be itemized and explained in Schedule D.

13. **Taxes.**—Enter personal taxes and all taxes on property having a situs in the United States, and not used in your business or profession, which were paid or accrued during the taxable year. State and local retail sales taxes imposed in the first instance upon retailers may be deducted to the extent that they are separately stated and paid by the purchaser. Do not include taxes assessed against local benefits, Federal income taxes or estate, inheritance, legacy, succession, gift taxes, taxes imposed on your interest as shareholder of a corporation which are paid by the corporation without reimbursement from you. Do not include Federal import duties or Federal excise or stamp taxes; but any such duties or taxes attributable to your business activities may be deducted in Schedule B (1) or B (2). Federal social security and employment taxes paid by or for an employee are not deductible by the employee.

Any deduction on account of taxes should be itemized and explained in Schedule E.

14. **Losses from fire, storm, shipwreck, or other casualty, or theft.**—Losses sustained during the taxable year of property not connected with the trade or business if arising from fire, storm, shipwreck, or other casualty, or from theft, and if not compensated for by insurance or otherwise, are deductible only if the property was located within the United States. Explain and itemize losses claimed in Schedule F.

15. **Other deductions.**—Enter other authorized deductions not claimed elsewhere on this return.

Do not deduct losses incurred in transactions which were neither connected with your trade or business nor entered into for profit. Losses sustained during the taxable year and not compensated for by insurance or otherwise, if incurred in any transaction entered into for profit, although not connected with a trade or business, are (if otherwise allowable) deductible only if and to the extent that the profit, if such transaction resulted in a profit, would have been taxable as income from sources within the United States. Losses from wagering transactions are allowable only to the extent of the gains derived by you from the United States. (See the regulations issued under section 119 (e).)

Explain fully in a statement attached to the return how you determined the amount entered in item 19 as the portion of income attributable to sources within the United States.

22. **Exemptions for normal tax and surtax.**—In the case of a nonresident alien (other than a resident of Canada or Mexico) the exemption is $600.

A nonresident alien residing in Canada or Mexico is entitled to—

(I) One exemption ($600) for the taxpayer himself—two if he is either 65 years of age or over OR blind—three if he is both 65 or over AND blind;

(II) One exemption ($600) for the taxpayer's wife (or husband) if she (or he) had no gross income from sources within the United States and her (or his) exemption is not claimed on another return—two if she (or he) is 65 years of age or over OR blind—three if she (or he) is both 65 or over AND blind;

For purposes of (I) and (II) above, marital status, age, and blindness must be determined as of the close of the taxable year. However, if the husband or wife died during the year, the exemptions of the deceased should be determined as of the date of death instead of the close of the year. If totally blind, attach a statement of such fact 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 degrees.

(III) One exemption ($600) for each closely related *dependent* who received *more than half* of his or her support from the taxpayer during the taxable year and who during the year had less than $500 income of his or her own from sources within the United States. (The law does not allow additional exemptions for age and blindness for dependents.)

"Closely related" means that the person is the taxpayer's son or daughter (including legally adopted children), or descendant of either; stepson, stepdaughter, son-in-law, or daughter-in-law; father, mother, or ancestor of either; stepfather, stepmother, father-in-law, or mother-in-law; brother, sister, stepbrother, stepsister, half brother, half sister, brother-in-law, or sister-in-law; uncle, aunt, nephew, or niece (but not if related only by marriage).

To qualify as a dependent, a person must also be either a citizen of the United States, or a resident of the United States, Canada, or Mexico.

24. **Tax rates.**—The table below shows the combined tentative normal tax and surtax for the taxable year. The combined tax to be entered as item 24, page 1, should be reduced by 3 percent of any partially tax-exempt interest and dividends included in item 4, page 1, or 3 percent of item 23, page 1, whichever amount is the lesser. If you so reduce your tax, attach an explanatory statement.

If item 23, page 1, is:	*Enter as item 24, page 1:*
Not over $2,000	20% of the amount in item 23.
Over $2,000 but not over $4,000	$400, plus 22% of excess over $2,000.
Over $4,000 but not over $6,000	$840, 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.