GENERAL INSTRUCTIONS

Nonresident alien students receiving scholarships or fellowship grants should obtain IRS Document No. 5588 from the Director of International Operations for information as to the method of computing their taxable income.

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, a true and accurate return of his total income from all sources within the United States, in the manner prescribed by law, including therein all the information which the Commissioner may deem necessary for the calculation of the deductions and credits, the tax shall be collected on the basis of gross amount of income, and he shall not receive the benefit of the deductions and credits (other than those provided in sections 31 and 32 for tax withheld at source).

NOTE: A resident alien whose status changed during the taxable year to that of nonresident alien, or vice versa, must file a return for the period during which such status existed, at the time of the expiration of such year, on Form 1040. For information on how the tax should be computed, request IRS Document No. 5584 from the Director of International Operations.

Period to be covered by return.—Calendar year 1966 or other taxable year beginning in 1966.

Permission to change the accounting period must be obtained from the Commissioner of Internal Revenue, Washington, D.C. 20224.

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 in the United States (1) in the case of any person authorized to receive payments of the income of a nonresident alien individual, who has a bank account or similar account with a financial institution; (2) if the income is subject to withholding at the source under section 3402; 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.

The declaration is also required to be signed by any person (1) in the case of a nonresident alien individual who is a member of a partnership, corporation, or any other fiduciary relationship, or (2) in the case of a nonresident alien individual who is not a member of a partnership, corporation, or any other fiduciary relationship, and whose income is subject to withholding at the source under section 3402.

When and to whom the tax must be paid.—The tax must be paid in full in U.S. funds when the return is filed, and may be paid in cash or by check or money order payable to “Internal Revenue Service.” Please enter your social security number on your check or money order.

Instructions 1040B (1966)
(G) Failure to file, etc.—Substantial additions to the tax are imposed for failing to file a return, or late filing, and for filing a false or inaccurate return.

(H) Received or accrued income.—Generally, if your books of account are kept on an accrual method, report all income earned, even if not received, and deduct expenses when incurred, even if not paid within the taxable year. As to disallowance of deductions for unpaid expenses and interest payable to certain persons, see section 166. If you keep your books on the cash method, or if you keep no books, make your return on the cash method and report all income actually or constructively received (whether in cash or in property or services) and only those amounts actually paid during the year for deductible expenses.

(I) Items exempt from tax.—The following items are exempt, except as 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; however, see section 101(b).

(b) Gifts (not received as consideration for services rendered) and money and property acquired by bequest, devise, or inheritance.

(c) Interest on obligations of a State, or a possession of the United States, or any political subdivision thereof, or of the District of Columbia.

(d) Income which consists exclusively of earnings derived from the operation of a ship or ships (or aircraft) documented (or registered) under the laws of a foreign country, provided such ships or aircraft are not domiciled in the United States and to corporations organized in the United States.

(e) 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 payer 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 payer preceding the payment of such interest, or for such part of such period as may be applicable.

(f) Dividends from foreign corporations to the extent that they do not constitute income from sources within the United States.

(g) Income to the extent provided by tax convention (see special notice on page 1).

(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 only if, and to the extent, connected with income from sources within the United States. All deductions for depreciation must be explained.

Revenue Procedure 62–21 (supplemented by Rev. Proc. 65–13), provides for basic reforms in the standards and procedures used in the determination of depreciation. The guideline class lives established (broad categories, not item-by-item) are in most cases shorter than previously prescribed lives. A copy of Rev. Proc. 62–21, and additional information is contained in I.R.S. Publication No. 456 which may be purchased for 30 cents from the Superintendent of Documents, Government Printing Office, Washington, D.C.

The new rules do not supersede existing rules and procedures. If you do not choose to adopt this new procedure you may continue to compute your depreciation as before. (See sections 167 and 179.)

See the regulations under sections 611 through 614 with respect to additional forms and information required if a deduction is claimed for depletion.

SPECIFIC INSTRUCTIONS

INCOME

1. Salaries and other compensation for personal services.—Report on line 5, page 1, all salaries, wages, commissions, tips, bonuses, etc., for services performed within the United States. Tips reported to your employer are to be included with other amounts on this line (see Form 4137).

Gross income from sources within the United States includes compensation for labor or personal services performed within the United States. If the wages are paid by employers outside the United States, the place of which the contract for services was made, or of the place of payment. If a specific amount is paid for labor or personal service 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 income 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 ratio to the total compensation as the number of days of performance of labor or services within the United States bears to the number of days of performance of labor or services for which the payment is made. Wages received for services rendered in the territorial limits of the United States and wages of an alien subject to tax in the United States of a vessel are to be regarded as from sources within the United States.

However, compensation for labor or services performed in the United States shall not be deemed to be income from sources within the United States if all of the following conditions are met:

(a) the labor or services are performed 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,

(b) such compensation does not exceed $3,000 in aggregate,

(c) the compensation is for labor or services performed as an employee of or under contract with

(i) a nonresident alien, foreign partnership, or foreign corporation engaged in trade or business within the United States, or

(ii) a domestic corporation, if such labor or services are performed for an office or place of business maintained in a foreign country or in a possession of the United States by such corporation.

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 his work are subject to the same limitations. (See instructions covering “Expenses” on page 3 for limitations.)

On line 5, page 1, itemize income tax withheld by your employer and report the total amount on line 25(b), page 1.

2. Dividends.—Report in Schedule A, page 3, (a) dividends from domestic corporations constituting income from sources within the United States, and (b) dividends from foreign corporations 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 with his return sufficient data to establish to the satisfaction of the Commissioner that they should be excluded from gross income.

Dividends from the following corporations are considered interest for Federal income tax purposes and should be reported as interest in Schedule B, page 3: mutual savings banks, cooperative banks, domestic building and loan associations, domestic savings and loan associations, and Federal savings and loan associations, on deposits or withdrawable accounts; and credit unions.

You may exclude from your income $100 of dividends received from qualifying domestic corporations during your taxable year. The exclusion does not apply to the taxable dividends received from the following nonqualifying corporations which should be reported on line 5 of Schedule A:

(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.

3. Interest on corporation bonds, etc.—Except to the extent permitted by General Instructions (I), enter in Schedule B, page 3, of the return, all interest received or accrued on (a) bonds, notes, mortgages, or similar interest-bearing obligations of residents, corporate or otherwise, of the United States, including any such interest upon which a United States income tax was paid at the source by the debtor corporation, and (b) Government obligations, etc.
4. Net profit (or loss) from business or profession.—If you owned a business, or practiced a profession on your own account, fill in Schedule C, page 4 of the return, and enter the net profit (or loss) in Schedule C Summary, page 3, of the return.

If installment method of reporting income from sales is used, attach a statement showing the method used for years 1963, 1964, 1965, and 1966: (a) Gross sales; (b) cost of goods sold; (c) gross profits; (d) percentage of profits to gross sales; (e) amounts collected; and (f) gross profits on amounts collected.

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

Do not include in your costs or other business deductions any salary or other compensation for yourself or any merchandise withdrawn from the business for your personal use.

5. Gains and losses from sales or exchanges of capital assets and other property.—For details as to the treatment of such gains and losses, see instructions on the back of separate Schedule D (Form 1040). Only those gains and losses shall be entered on separate Schedule D which are derived from or allocable to sources within the United States. Disregard the references on the separate Schedule D which are not applicable to Form 1040B. See instructions for Schedule D for undistributed capital gains from regulated investment companies.

Alternative Tax.—If the net long-term capital gain exceeds the net short-term capital loss, or in the case of only a net long-term capital gain, taxpayers with taxable income exceeding $26,000 should compute the alternative tax in Schedule I, page 4 of Form 1040B. The alternative tax, if less than the tax on line 18, page 1, shall be the tax.

6. Income from partnerships, estates and trusts, and other sources.—Enter in Schedule E your share of the ordinary income (whether received or not) or of the net loss of a partnership (including a joint venture, or the like), or taxable income of an estate or trust, deriving income from sources within the United States to the extent that such income is allocable to such estate or trust. Capital gains, dividends, etc., should be reported in the appropriate schedules.

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, you should include in your return your distributive share of the taxable income or losses of the partnership, joint venture, etc., or fiduciary for such accounting period ending with or within your taxable year.

Annuities.—For explanation of annuities and pensions see the instructions for Form 1040 which may be obtained from any Internal Revenue office.

9. Interest.—To claim a deduction for interest paid, the indebtedness must be connected with some source of taxable income within the United States, except as provided by section 265. Otherwise, do not deduct interest paid in connection with personal transactions, such as mortgage and consumer debts, and real and personal residences outside the United States. In any event, the deduction must be allocable to personal residence. Any deductions on account of interest should be itemized and explained in the “Interest” schedule of page 2.

10. Taxes.—In general, most non-Federal taxes paid in connection with taxable income from sources within the United States may be deducted. Do not deduct Federal income taxes; estate, inheritance, succession, or gift taxes; or taxes imposed on your interest as a shareholder of a corporation which are paid from the corporation without reimbursement from you. Do not deduct Federal import duties, Federal excise or stamp taxes, State taxes, gasoline taxes, or taxes on personal residences, but any non-Federal taxes allocable to your business activities may be deducted in Schedule C. Federal social security 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 the “Taxes” schedule on page 2.

11. 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, limited to the amount in excess of $100 for each loss. Losses arising from theft shall be deducted only in the year in which the loss is discovered. Explain and itemize losses claimed in the “Miscellaneous” schedule on page 2.

12. Other deductions.—Enter other authorized deductions not claimed elsewhere on the return in the “Miscellaneous” schedule. Every taxpayer claiming a deduction due to a net operating loss for the preceding taxable year or years shall file with his return the statement required by the regulations under section 172.

Do not deduct losses incurred in transactions which were neither connected with your trade or business nor entered into for profit; however, see instruction 11. 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 deductible) deductible only if and to the extent that the profit, if such transaction had resulted in a profit, would have been taxable as income from sources within the United States.

In case you incurred expenses in connection with exempt income items of Schedule B, see section 265 and the regulations thereunder.

For the deduction of amortizable bond premium by the owner of the bond, see section 171 and the regulations thereunder.
13. Ratable part of deductions not definitely allocated to any class of income.—In addition to the deductions which can be definitely allocated to income from sources within the United States, there may be deducted a ratable part of any other losses, expenses, or deductions which are connected with income from sources within the United States. This ratable part must not be definitely allocated to some item or class of gross income from sources within the United States, but must be connected with income from sources within the United States, but must be definitely allocated to some item or class of gross income from sources within the United States. The ratable part is based upon the ratio of gross income. Fill in the explanation schedule on page 2 of the return and enter on line 10, page 1, the ratable part of any deduction not definitely allocated within a family accounting class of gross income.

14. Income derived partly from sources within and partly from sources without the United States.—Items of gross income not allocated to sources within or without the United States such as gross income derived from the sale of personal property produced (in whole or in part) by the taxpayer within the United States and sold within a foreign country, or produced (in whole or in part) by the taxpayer within a foreign country and sold within the United States, shall be treated as derived partly from sources within and partly from sources without the United States. To determine the taxable income attributable to sources within the United States, see sections 861 thru 863 and the regulations issued thereunder.

Explain fully in a statement attached to the return how you determined the amount entered on line 13, page 1, as the portion of income attributable to sources within the United States.

15. Personal Exemptions.—In the case of a nonresident alien (other than a resident of Canada or Mexico) the deduction for the exemption is limited to a total of $600. Residents of Japan, accompanied by wife (husband) or children to the U.S., see Article XVI of the Tax Convention between Japan and the United States.

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

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

(II) One exemption ($600) for the taxpayer's wife (or husband) if either of these was 65 years of age or over OR blind—three if either of these was 65 or over AND blind.

16. Tax Rate Schedule.—The schedule below shows tax rates for the taxable year. The tax should be entered on line 18, page 1. If the taxpayer is entitled to a reduced rate under a tax convention, attach a statement showing details and tax computation. A summary of treaty references is set out in the instructions for Form 1040NB and NB-a.

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17. Enter on line 21(a), page 1, tax assumed at source on tax-free covenant bond interest; enter on line 25(a) the tax withheld at source on such interest.

18. Credit for investment.—Enter on line 21(b), page 1, credit from line 10, Form 3468. In computing the credit on Form 3468, the amount to be entered on line 6(a) of that form is the tax shown on line 20, page 1 of Form 1040B.

19. Enter on line 23, page 1, the amount that the credit taken in a prior year or years exceeds the credit as recomputed due to entering into such property. Attach computation.

20. Tax withheld at source.—Enter on line 25(a), page 1, tax withheld at source under chapter 3 of the Code on dividends, interest, etc., including tax withheld from United States wages under section 1441.

21. United States income tax withheld by employer.—Enter on line 25(b), page 1, tax withheld at source on income tax withheld from wages subject to withholding under section 3402 and attach all Forms W-2 (Copy B) received from employers for the year.

22. United States tax paid on 1966 Declaration of Estimated Tax.—A nonresident alien engaged in trade or business within the United States and having wages subject to withholding under section 3402 and who filed a Declaration of Estimated Tax for 1966 should enter on line 25(c), page 1, the total of all payments of estimated tax shown on such declaration.

23. Other.—Include any amounts from the following sources on line 25e:

(a) Two or more employers: If more than $277.20 of social security (F.I.C.A.) employees tax was withheld during 1966 because either you or your wife received wages from more than one employer, the excess should be included in the total for this line.

(b) Credit for taxes paid by regulated investment companies. Attach Copy B of Form 2439.

(c) Credit for Federal taxes on gasoline and lubricating oil (Form 4316).

24. Lines 26 and 27. Social security tax on tip income.—If you owe social security tax (from Form 4137 or Form W-2) on tip income, show the amount on the bottom margin of Form 1040B, page 1, as "additional amount from Form 4137" or "additional amount from Form W-2" and increase the amount of "balance due" or decrease the amount of the "overpayment" accordingly.