HELPFUL INFORMATION ON

# *How to prepare your income tax return*

ON FORM 1040 FOR 1954

You can save money for yourself and the Government, if you—

*File your return early*

*Make sure the figures are right*

Under the new law, the final date for filing is April 15, but taxpayers who wait until the last minute often make costly mistakes.

Give yourself time to double check every figure on your return—this will save time and money in the long run.

If you need help or more forms (including Form 1040–ES for declaration of 1955 estimated tax), go to the nearest Internal Revenue Service Office.

T. Coleman Andrews
*Commissioner.*

IRS Pub-3

# HOW TO USE THIS PAMPHLET

The information contained in this pamphlet has been selected to help the average taxpayer in preparing his return. You need only read those items that concern you. Use the following checklist in deciding which items you wish to read.



# WHERE TO FILE YOUR RETURN

***Mail your return to the "District Director of Internal Revenue" for the district in which you live***

**ALABAMA**---**Birmingham 3, Ala.**
**ALASKA**---**Tacoma 2, Wash.**
**ARIZONA**---**Phoenix, Ariz.**
**ARKANSAS**---**Little Rock, Ark.**
**CALIFORNIA:**
Counties of Imperial, Kern, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Luis Obispo, Santa Barbara, and Ventura---**Los Angeles 12, Calif.**
All other counties---**San Francisco 2, Calif.**
**CANAL ZONE**---**Jacksonville, Fla.**
**COLORADO**---**Denver 2, Colo.**
**CONNECTICUT**---**Hartford, Conn.**
**DELAWARE**---**Wilmington 99, Del.**
**DISTRICT OF COLUMBIA**---**Baltimore 2, Md.**
**FLORIDA**---**Jacksonville, Fla.**
**GEORGIA**---**Atlanta 3, Ga.**
**HAWAII**---**Honolulu 13, T. H.**
**IDAHO**---**Boise, Idaho**
**ILLINOIS:**
Counties of Boone, Bureau, Carroll, Cook, De Kalb, Du Page, Grundy, Henry, Jo Daviess, Kane, Kankakee, Kendall, Lake, La Salle, Lee, McHenry, Marshall, Mercer, Ogle, Putnam, Rock Island, Stark, Stephenson, Whiteside, Will, and Winnebago--**Chicago 2, Ill.**
All other counties---**Springfield, Ill.**
**INDIANA**---**Indianapolis 6, Ind.**
**IOWA**---**Des Moines 8, Iowa**
**KANSAS**---**Wichita 21, Kans.**
**KENTUCKY**---**Louisville 1, Ky.**
**LOUISIANA**---**New Orleans 16, La.**
**MAINE**---**Augusta, Maine**
**MARYLAND**---**Baltimore 2, Md.**
**MASSACHUSETTS**---**Boston 15, Mass.**
**MICHIGAN**---**Detroit 31, Mich.**
**MINNESOTA**---**St. Paul 1, Minn.**
**MISSISSIPPI**---**Jackson 5, Miss.**
**MISSOURI:**
Counties of Adair, Audrain, Bollinger, Boone, Butler, Callaway, Cape Girardeau, Carter, Clark, Crawford, Dent, Dunklin, Franklin, Gasconade, Howard, Iron, Jefferson, Knox, Lewis, Lincoln, Linn, Macon, Madison, Maries, Marion, Mississippi, Monroe, Montgomery, New Madrid, Oregon, Osage, Pemiscot, Perry, Phelps, Pike, Pulaski, Ralls, Randolph, Reynolds, Ripley, St. Charles, St. Francois, Ste. Genevieve, St. Louis, Schuyler, Scotland, Scott, Shannon, Shelby, Stoddard, Warren, Washington, and Wayne---**St. Louis 1, Mo.**
All other counties---**Kansas City 6, Mo.**
**MONTANA**---**Helena, Mont.**
**NEBRASKA**---**Omaha 2, Nebr.**
**NEVADA**---**Reno, Nev.**
**NEW HAMPSHIRE**---**Portsmouth, N. H.**
**NEW JERSEY:**
Counties of Bergen, Essex, Hudson, Hunterdon, Middlesex, Morris, Passaic, Somerset, Sussex, Union and Warren---**Newark 2, N. J.**
All other counties---**7th and Cooper Sts., Camden 1, N. J.**
**NEW MEXICO**---**Albuquerque, N. Mex.**
**NEW YORK:**
Brooklyn: Counties of Kings, Nassau, Queens, and Suffolk---**Brooklyn 1, N. Y.**
Lower Manhattan: All that part of Manhattan Island south of 34th Street (this includes both sides of 34th Street) and Richmond County---**Customhouse Bldg., New York 4, N. Y.**
Upper Manhattan: That part of Manhattan Island north of 34th Street (this includes Welfare Island, Randall's Island, and Ward's Island) and counties of Bronx, Rockland, and Westchester---**484 Lexington Ave., New York 17, N. Y.**
Eastern New York State: Counties of Albany, Clinton, Columbia, Dutchess, Essex, Fulton, Greene, Hamilton, Montgomery, Orange, Putnam, Rensselaer, Saratoga, Schenectady, Schoharie, Sullivan, Ulster, Warren, and Washington---**Albany 1, N. Y.**
Central New York State: Counties of Broome, Cayuga, Chenango, Cortland, Delaware, Franklin, Herkimer, Jefferson, Lewis, Madison, Oneida, Onondaga, Oswego, Otsego, St. Lawrence, Schuyler, Seneca, Tioga, Tompkins, and Wayne---**Syracuse 2, N. Y.**
Western New York State: Counties of Allegany, Cattaraugus, Chautauqua, Chemung, Erie, Genesee, Livingston, Monroe, Niagara, Ontario, Orleans, Steuben, Wyoming, and Yates---**Buffalo 2, N. Y.**
**NORTH CAROLINA**---**Greensboro, N. C.**
**NORTH DAKOTA**---**Fargo, N. Dak.**
**OHIO:**
NORTHEASTERN: Counties of Ashland, Ashtabula, Belmont, Carroll, Columbiana, Cuyahoga, Geauga, Harrison, Holmes, Jefferson, Lake, Lorain, Mahoning, Medina, Monroe, Portage, Richland, Stark, Summit, Trumbull, Tuscarawas, and Wayne---**Cleveland 15, Ohio**
SOUTHEASTERN: Counties of Adams, Athens, Coshocton, Delaware, Fairfield, Franklin, Gallia, Guernsey, Hocking, Jackson, Knox, Lawrence, Licking, Madison, Marion, Meigs, Morgan, Morrow, Muskingum, Noble, Perry, Pickaway, Pike, Ross, Scioto, Union, Vinton, and Washington---**Columbus 16, Ohio**
NORTHWESTERN: Counties of Allen, Auglaize, Champaign, Crawford, Darke, Defiance, Erie, Fulton, Hancock, Hardin, Henry, Huron, Logan, Lucas, Mercer, Ottawa, Paulding, Putnam, Sandusky, Seneca, Shelby, Van Wert, Williams, Wood, and Wyandot---**Toledo 1, Ohio**
SOUTHWESTERN: Counties of Brown, Butler, Clark, Clermont, Clinton, Fayette, Greene, Hamilton, Highland, Miami, Montgomery, Preble, and Warren---**Cincinnati 2, Ohio**
**OKLAHOMA**---**Oklahoma City, Okla.**
**OREGON**---**Portland 9, Oreg.**
**PENNSYLVANIA:**
SOUTHEASTERN: Counties of Adams, Bedford, Berks, Blair, Bucks, Chester, Cumberland, Dauphin, Delaware, Franklin, Fulton, Huntingdon, Juniata, Lancaster, Lebanon, Lehigh, Mifflin, Montgomery, Perry, Philadelphia, Schuylkill, Snyder, and York---**Philadelphia 7, Pa.**
NORTHEASTERN: Counties of Bradford, Carbon, Centre, Clinton, Columbia, Lackawanna, Luzerne, Lycoming, Monroe, Montour, Northampton, Northumberland, Pike, Potter, Sullivan, Susquehanna, Tioga, Union, Wayne, and Wyoming---**Scranton 14, Pa.**
WESTERN: Counties of Allegheny, Armstrong, Beaver, Butler, Cambria, Cameron, Clarion, Clearfield, Crawford, Elk, Erie, Fayette, Forest, Greene, Indiana, Jefferson, Lawrence, McKean, Mercer, Somerset, Venango, Warren, Washington, and Westmoreland---**P. O. and Courthouse Bldg., Pittsburgh 30, Pa.**
**PUERTO RICO**---**Santurce Bldg., Santurce, Puerto Rico.**
**RHODE ISLAND**---**Providence 2, R. I.**
**SOUTH CAROLINA**---**Columbia 1, S. C.**
**SOUTH DAKOTA**---**Aberdeen, S. Dak.**
**TENNESSEE**---**Nashville 3, Tenn.**
**TEXAS:**
SOUTHERN: Counties of Aransas, Atascosa, Austin, Bandera, Bastrop, Bee, Bell, Bexar, Blanco, Bosque, Brazoria, Brazos, Brewster, Brooks, Burleson, Burnet, Caldwell, Calhoun, Cameron, Chambers, Colorado, Comal, Coryell, Culberson, De Witt, Dimmit, Duval, Edwards, El Paso, Falls, Fayette, Fort Bend, Freestone, Frio, Galveston, Gillespie, Goliad, Gonzales, Grimes, Guadalupe, Hamilton, Hardin, Harris, Hays, Hidalgo, Hill, Hudspeth, Jackson, Jasper, Jeff Davis, Jefferson, Jim Hogg, Jim Wells, Karnes, Kendall, Kenedy, Kerr, Kimble, Kinney, Kleberg, Lampasas, La Salle, Lavaca, Lee, Leon, Liberty, Limestone, Live Oak, Llano, McCulloch, McLennan, McMullen, Madison, Mason, Matagorda, Maverick, Medina, Milam, Montgomery, Newton, Nueces, Orange, Pecos, Polk, Presidio, Real, Reeves, Refugio, Robertson, San Jacinto, San Patricio, San Saba, Somervell, Starr, Terrell, Travis, Trinity, Tyler, Uvalde, Val Verde, Victoria, Walker, Waller, Washington, Webb, Wharton, Willacy, Williamson, Wilson, Zapata, and Zavala---**Austin 14, Tex.**
NORTHERN: All other counties---**Dallas 1, Tex.**
**UTAH**---**Salt Lake City, Utah**
**VERMONT**---**Burlington, Vt.**
**VIRGINIA**---**Richmond 19, Va.**
**VIRGIN ISLANDS**---**Customhouse Bldg., New York 4, N. Y.**
**WASHINGTON**---**Tacoma 2, Wash.**
**WEST VIRGINIA**---**Parkersburg, W. Va.**
**WISCONSIN**---**Milwaukee 1, Wis.**
**WYOMING**---**Cheyenne, Wyo.**

**Taxpayers with legal residence in foreign countries......Baltimore 2, Md., U. S. A.**

## SPECIAL FOR EMPLOYEES EARNING LESS THAN $5,000

**This pamphlet contains the forms and instructions used by most taxpayers. However, if your gross income was less than $5,000 and consisted entirely of wages reported on withholding statements (Form W-2) and not more than $100 total of other wages, interest, and dividends, the law provides a simple way for you to file. Merely enter the required information on the prescribed card form (1040A), and the Internal Revenue Service will figure your tax and send you a check for any refund or a bill for any amount due. *You may obtain the card form from your District Director. If you qualify and decide to use Form 1040A, do not use any of the forms in this pamphlet.***

## NEW PROVISIONS OF THE TAX LAW

Many changes in the income tax law were made by the Internal Revenue Code of 1954. The more important benefits are listed below.



## HOW TO FILE YOUR RETURN

### *Who Must File*

Every citizen or resident of the United States—whether an adult or minor—who had $600 ($1,200 if 65 years of age or over) or more gross income in 1954 must file. For requirements respecting self-employment tax, see page 9 of these instructions. Citizens of Puerto Rico who are also citizens of the United States and nonresident aliens who were bona fide residents of Puerto Rico during the entire taxable year must also file United States individual income tax returns if they meet the income test.

### *Why You Must File a Return*

Most of your tax is withheld from your wages every payday or paid on Declarations of Estimated Tax every quarter. (See page 14, relative to the Declaration of Estimated Tax.) However, the law requires you to file an annual return to determine whether you owe more or should get a refund.

### *When and Where To File*

File on or after January 1 but not later than April 15, 1955, with the District Director of Internal Revenue for your district. Try to avoid the last-minute rush. Taxpayers who keep books on a fiscal-year basis must file by the fifteenth day of the fourth month after the close of their taxable years.

### *How To Pay*

Any balance of tax shown to be due in item 13, page 1, of your return on Form 1040 must be paid in full with your return. Checks or money orders should be made payable to "District Director, I. R. S."

### *How To Sign*

You have not filed a valid return unless you sign it. If you and your wife are filing a joint return, both of you must sign. You do not need to have your return notarized, since your signature has the same legal effect as swearing to the truthfulness of your return.

### *Preparer's Statement*

The statement on page 4 of the Form 1040 is required to be signed by any person(s), firm, or corporation who prepares the taxpayer's return. If the return is prepared by a firm or corporation, the return should be signed in the name of the firm or corporation. The statement is not required if the return is prepared by a regular, full-time employee of the taxpayer such as a clerk, secretary, bookkeeper, etc.

### *Where To Get Forms*

As far as practical, the District Director mails forms directly to taxpayers. If you need additional forms you can get them from any Internal Revenue Service office, and also at most banks and post offices. Many employers also keep forms for the convenience of employees.

### *Where To Get Help*

After reading these instructions you should be able to prepare your own return, unless you have complicated problems. If you do need help, you can get it at any Internal Revenue Service office. A more detailed publication entitled, "Your Federal Income Tax," may be purchased for twenty-five cents from the Superintendent of Documents, Government Printing Office, Washington 25, D. C.

### *Your Rights Of Appeal*

If you believe there is an error in any bill, statement, or refund in connection with your tax, you are entitled to have the matter reconsidered by the District Director. He will give you an opportunity to dispute any change in your tax which he proposes, and will advise you of further appeal rights if you cannot reach an agreement with him. All deductions claimed by you must be supported by canceled checks, receipts, or other evidence if there is an audit of your return.

## *The Three Types Of Returns*

Three different forms are provided to meet the needs of the 50,000,000 persons who file tax returns—Form 1040A, Short-Form 1040, and Long-Form 1040.

## *Income Less Than $5,000*

1. *Form 1040A.*—This form has been revised this year so as to offer eligible taxpayers the simplest return and to put the form on a punch card which can be processed efficiently. If you file this form, the Internal Revenue Service will compute your tax. You may use it if your total income was less than $5,000 and consisted entirely of wages reported on Withholding Statements (Form W-2), or of such wages and not more than $100 total of other wages, interest, and dividends (after exclusion as explained on page 7), all of which must be entered on the tax return. From your answers to the questions, the Internal Revenue Service will figure your tax for you, and send you a bill or a refund.

You may not use Form 1040A but must file your return on Form 1040 if (1) you had income from any other sources, such as annuities, rents, royalties, a business or profession, farming, transactions in securities or other property, partnerships, estates, and trusts, or reimbursements includible as income, (2) you wish to deduct from your wages travel, transportation, reimbursed expenses, or business expenses of an outside salesman, (3) you wish to claim credits against the tax with respect to dividends or retirement income, or (4) you wish to claim the status of head of household or surviving widow or widower.

2. *Short-Form 1040.*—Form 1040 may be used either as a short or long form. The short form is simpler than the long form. It differs from Form 1040A in that (a) you must find your own tax; (b) you must include income from sources not eligible for reporting on Form 1040A; (c) you may deduct from your wages certain reimbursed expenses, travel, transportation, and outside salesman's business expenses; and (d) you may deduct from your tax the credits for dividends and retirement income. If your income was less than $5,000 and your nonbusiness deductions (contributions, interest, etc.) were less than 10 percent of your income, find your tax from the Tax Table and enter the amount in item 7, page 1 of the return.

3. *Long-Form 1040.*—If your nonbusiness deductions are more than 10 percent of your income, you will ordinarily save money by itemizing them on Long-Form 1040. You will then figure your tax according to the computation on page 3. If your nonbusiness deductions are so close to 10 percent that you are in doubt which is the better form, try both the short form and the long form to make sure.

## *Income Of $5,000 Or More*

If your income was $5,000 or more, you must use Long-Form 1040. However, in that case, you can either take a standard deduction or itemize and claim your actual deductions. The standard deduction is 10 percent of your income but not more than $1,000. However, if husband and wife file separate returns and each had income of $5,000 or more, the standard deduction is $500 for each. Compare your actual deductions with the amount of the standard deduction.

## *Married Persons—Joint Or Separate Returns*

*Are You Married?*—If married at the close of your taxable year, you are considered married for the entire year. If divorced or legally separated on or before the close 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.

*Joint or Separate Returns.*—If husband and wife have separate income (for example, if both work), they may file separate returns or a joint return. A separate return accounts for the income and deductions of only one person. If married persons living in community property States file separate returns, each must report half of any community income. A joint return must include all the income and deductions of both husband and wife. 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.

*How To Make a Joint Return.*—In a joint return you include all income and deductions of both husband and wife. In the return heading, list both names (for example: "John H. and Mary D. Doe"). Both must sign the return.

*Advantages of a Joint Return.*—In most cases it is advantageous for married couples to file joint returns. The law provides a "split income" method of figuring the tax on a joint return which often results in a lower tax than would result from separate returns.

*Joint Tax or Refund.*—When a joint return is filed, the couple assume full legal responsibility for the entire tax, and if one fails to pay, the other must pay it.

*How To Make a Separate Return.*—Husband and wife must each have income under the laws of their State and they must fill out separate forms. The "split income" provisions of the Federal tax law do not apply to separate returns of husband and wife. 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 on the long form, then both must.

## *Unmarried Persons—Head Of Household*

The law provides a special tax rate for any individual who qualifies as a "Head of Household." To qualify you must be unmarried (or legally separated) at the end of your taxable year. In addition, you must have furnished over half the cost of maintaining as your home a household which during the entire year, except for temporary absence, was occupied as the principal place of abode and as a member of such household by (a) any related person (see those listed under 5 (a), page 5) for whom you are entitled to a deduction for an exemption, unless the deduction arises from a multiple support agreement or (b) your unmarried child, grandchild, or stepchild, even though such child is not a dependent.

You also qualify if you pay more than one-half the cost of maintaining a household (not necessarily your home) which is the principal place of abode of your father or mother and either qualifies as your dependent.

The cost of maintaining a household includes expenditures for such items as:

1. Maintenance of the dwelling and premises. For example, rent (or if the taxpayer owns his home, real estate taxes and interest on a mortgage on the home), insurance on the dwelling and premises, repairs, and upkeep.
2. Utilities. For example, gas, telephone, electricity, water, and fuel.
3. Food consumed in the home.

The cost of maintaining a household is computed without regard to the value of personal services performed by a member of the household, including the taxpayer.

The above expenditures are to be used only for determining whether you are entitled to the use of the head of household tax rate. Do not claim them as deductions on your return unless they are otherwise allowable.

If you are married to a nonresident alien at any time during your taxable year but otherwise meet the foregoing tests, you are considered a "Head of Household" since you are not permitted to file a joint return.

If you qualify as a surviving widow or widower as described in the next paragraph, as well as a head of household, it will be to your advantage to compute your tax as a surviving widow or widower.

### *Surviving Widow Or Widower*

Under certain conditions a taxpayer whose husband or wife has died during either of his two preceding taxable years may compute his tax by including only his income, exemptions, and deductions but otherwise computing the tax as if a joint return had been filed.

The conditions are that the taxpayer must not have remarried, and must (*a*) maintain as his home a household which is the principal place of abode of a child or stepchild for whom he is entitled to a deduction for an exemption and (*b*) have been entitled to file a joint return with his wife (or husband) in the year of death.

## HOW TO CLAIM YOUR EXEMPTIONS

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

### *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 blind or were 65 or over, you get two exemptions. If you were both blind and 65 or over, you get three exemptions.

*For Your Wife.*—You get exemptions 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. 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 wife or husband died during 1954, the number of his or her exemptions is determined as of the date of death.

*Proof Of Blindness.*—If totally blind, a statement of such fact 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°.

### *Exemptions For Your Children*

You are entitled to one exemption for each child (including a stepchild, or legally adopted child), if during the taxable year, that child:

1. Received more than one-half of his or her support from you (or from your husband or wife if this is a joint return), and
2. Had not attained the age of 19 or was a student (if the child is 19 or over and not a student, he must have received less than $600 gross income), and
3. Did not file a joint return with her husband (or his wife), and
4. Was either a citizen or resident of the United States or a resident of Canada, Mexico, the Republic of Panama or the Canal Zone. For the exemption in the case of children who are residents of the Republic of the Philippines and were born to or were legally adopted by servicemen in the Philippine Islands before July 5, 1946, consult your Internal Revenue Service office.

The law defines a student as an individual who during each of five calendar months during the calendar year in which the taxable year of the taxpayer begins is a full-time student at an educational institution or is 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 political subdivision of a State. The term educational institution means only an educational institution which normally maintains a regular faculty and curriculum and normally has a regularly organized body of students in attendance at the place where its educational activities are carried on.

Amounts received as scholarships for study at an educational institution need not be taken into account in determining whether a child who qualifies under the above definition as a "student" received more than one-half of his or her support from you.

### *Exemptions For Dependents Other Than Your Children*

You are entitled to one exemption for each other dependent who meets all the following requirements for the year:

1. Received less than $600 gross income, and
2. Received more than one-half of his or her support from you (or from husband or wife if this is a joint return), and
3. Did not file a joint return with her husband (or his wife), and
4. Was either a citizen or resident of the United States or a resident of Canada, Mexico, the Republic of Panama or the Canal Zone, and
5. (a) Was related to you (or to husband or wife if this is a joint return) in one of the following ways:

| | | |
|---|---|---|
| Mother | Stepbrother | Son-in-law |
| Father | Stepsister | Daughter-in-law |
| Grandmother | Stepmother | *The following if related by blood:* |
| Grandfather | Stepfather | |
| Brother | Mother-in-law | Uncle— |
| Sister | Father-in-law | Aunt— |
| Grandson | Brother-in-law | Nephew— |
| Granddaughter | Sister-in-law | Niece— |

or, (b) had as his principal place of abode your home and was a member of your household, even if not related to you.

### *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 able 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 person described in (b) above (other than the person claiming the exemption) who contributed over 10 percent of the individual's support files a declaration that he will not claim the individual as a dependent for the year. Consult your Internal Revenue Service office for information regarding the filing of these declarations.

# HOW TO REPORT YOUR INCOME

## *What Income Is Taxed*

The law says all kinds of income in whatever form received are subject to tax with specific exceptions. 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.

| Examples of Income Which Must Be Reported | Examples of Income Which Should Not Be Reported |
|---|---|
| Wages, salaries, bonuses, commissions | Armed forces pay due to active service in a combat zone or while hospitalized from such service after June 24, 1950—enlisted men's entire service pay for each month; officers' service pay up to $200 for each month. Your service withholding statement (Form W-2) does not include this nontaxable service pay but shows only the pay you must report |
| Tips and gratuities for services rendered | All Government payments and benefits made to veterans and their families, except nondisability retirement pay and interest on terminal leave bonds |
| Dividends and other earnings from investments | Dividends on veterans' Government insurance |
| Interest from loans and bonds, including Federal bonds issued on or after March 1, 1941 | Federal and State Social Security benefits |
| Industrial, civil service and other pensions, annuities, endowments | Railroad Retirement Act benefits |
| Rents, and royalties from property, patents, copyrights | Gifts, inheritances, bequests |
| Profits from business or profession | Workmen's compensation, insurance, damages, etc., for bodily injury or sickness |
| Profit from sale of real estate, securities, autos | Interest on State and municipal bonds |
| Your share of partnership profits | Life insurance proceeds upon death. |
| Your share of estate or trust income | |
| Contest prizes | |
| Gambling winnings | |
| Alimony, separate maintenance or support payments received from (and deductible by) your husband (or wife). For details see Miscellaneous Section relative to deductions. | |

## *Wages, Salaries, Etc.*

You must report your wages, salaries, fees, commissions, bonuses, and other payments for your personal services even though tax has been withheld by your employer.

## *Exclusions From Salaries And Wages*

The new law allows you to exclude from wages amounts received as wages or in place of wages under a wage continuation plan for the period during which you were absent from work on account of personal injuries or sickness. This amount may not exceed a weekly rate of $100. (This limitation applies only to amounts received under plans which are financed by the employer. If the plan is one to which you contributed, the amounts received which are attributable to your contributions are excludable without limit.)

If your absence is due to illness, the exclusion does not apply to the amounts received for the first 7 calendar days. However, if you were hospitalized on account of sickness for at least one day during the illness then the exclusion applies from the first day of absence. In cases where the 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 you received such payments, enter your gross wages in item 2, page 1 of Form 1040, and enter in item 3 the amount to be excluded. Attach a statement showing your computation.

You may also exclude from gross income amounts received under an accident or health plan which are paid directly or indirectly to you to reimburse you for expenses for the medical care of yourself, your wife (or husband), or your dependents. However, you may not claim a deduction for medical expense for these amounts.

*Report Total Wages Before Pay-Roll Deductions.*—When your employer deducts taxes, insurance, union dues, savings bond subscriptions, social security, pension fund contributions, community chest, or other items from your pay, these amounts are still part of your wages. You must report your total wages in the amount that would have been paid if your employer had not made any deductions.

*Tips and Gratuities.*—The law requires you to include in your wages all tips, gratuities, bonuses, and similar payments for services rendered whether you get them from a customer or from your employer. Legally, these are not "gifts," even though sometimes called by that name.

*Payment In Merchandise, Etc.*—If your employer pays part or all of your wages 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 stipulated 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.

## *Trade and Business Deductions of Employees*

*Reimbursed Expenses Other Than for Travel and Transportation.*—If your employer pays you an "expense account" or otherwise reimburses you for money spent for him in connection with your employment (other than "travel and transportation"), you should add these payments to your wages, and then subtract your actual allowable expenses of this type but not more than the reimbursements. Attach a detailed statement in explanation. Any allowable expense in excess of the reimbursed amount may be deducted as Miscellaneous Expenses on page 3 of your return if you itemize your deductions.

*Out-Of-Town Travel Expenses.*—The law provides special deductions for the expenses of travel while away from home in connection with your employer's business. Traveling "away from home" means going away from the city or town where you normally work and remaining away at least overnight. "Travel expenses" means the cost of transportation fares, meals, and lodging, and includes porters' tips, hire of public stenographers, baggage charges, and similar expenses necessary to travel. Travel expenses do not include any entertainment expenses or any personal expenses such as laundry. Any amount paid to you to cover these expenses must be included in your wages. You can deduct your full "travel expenses" from your wages before writing the balance of your wages in item 2. page 1. Attach a statement to your return explaining in detail the expenses you deduct. If you choose to live away from the city where you regularly work, or do not transfer your home when your employer transfers your work to a different city, the law does not allow any "travel deduction" resulting from your choice of residence.

*Other Transportation Expenses.*—Even though you do not travel away from home, as explained above, you may deduct from your wages or other compensation, before entering the balance on page 1, transportation expenses paid in connection with the performance of services for your employer. Transportation expenses include payments for actual travel or, if you use your own car, the business portion of the cost of operation, including fuel, repairs, and depreciation. Any reimbursement of these expenses must be included in your income. Attach a statement to your return explaining in detail the expenses you deduct.

*Going To and From Work.*—The law regards the cost of transportation between your residence and your principal place of employment as personal expense and does not allow you to deduct such cost, no matter how far you live from work, or how expensive the transportation may be.

*Expenses Of Outside Salesmen.*—The new law allows "Outside Salesmen" to deduct all their ordinary and necessary business expenses from their compensation before entering the balance in item 2, page 1. This applies only to salesmen who are engaged full-time in soliciting business for their employers away from their employer's place of business. The term does not include one whose principal activities consist of service and delivery such as a milk-driver salesman.

*Other Expenses Of Employees.*—The expenses set forth above are the only ones which may be deducted from salaries and wages on page 1 of Form 1040 by employees. If you file a Short-Form 1040, or if you take the standard deduction on a Long-Form 1040, you automatically receive an allowance for a deduction which takes the place of all other employment expenses and nonbusiness deductions. On the other hand, if you itemize your deductions on a Long-Form 1040, you can deduct the cost of tools, materials, dues to unions and professional societies, entertaining customers, and other expenses which are ordinary and necessary in connection with your employment. These items may be itemized and deducted on page 3 under the heading "Miscellaneous."

## *Dividends*

If you own stock, the payments you receive out of the company's earnings and profits are called 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.

If a distribution is not paid from earnings and profits, it is not taxable as a dividend, but is treated as reduction of the cost or other basis of your stock. These distributions are not taxable until they exceed your cost or other basis, after which you must generally include any additional receipts as gains from the sale or exchange of property, for which special tax treatment is provided.

In some cases a corporation distributes both a dividend and a repayment of capital at the same time; the check or notice will usually show them separately. In any case, you must report the dividend portion as income.

There are special rules applicable to stock dividends or stock rights; ask your Internal Revenue Service office for more complete information.

If your taxable year ends after July 31, 1954, you may exclude from your income $50 of dividends received from domestic corporations during your taxable year. Use Schedule J, page 4, to show the exclusion. However, this exclusion does not apply to dividends received from:

(a) life insurance companies, and mutual insurance companies (other than mutual marine or mutual fire insurance companies issuing perpetual policies).

(b) China Trade Act corporations.

(c) so-called exempt organizations (charitable, fraternal, etc.) and farmer's cooperative organizations.

(d) mutual savings banks, cooperative banks, domestic building and loan associations, domestic savings and loan associations, Federal savings and loan associations on deposits or withdrawable accounts. Dividends from these organizations must be reported as interest in Schedule B, on page 2 of Form 1040 and not as dividends.

(e) regulated investment companies except to the extent designated by the company to be taken into account as a dividend for these purposes.

(f) corporations deriving 80 percent or more of their income from U. S. possessions and 50 percent or more of their income from active conduct of a business therein.

If a joint return is filed and both husband and wife have dividend income, each one may exclude up to $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 has $200 in dividends, and the wife has $20, only $70 may be excluded on a joint return.

See page 15 for the dividends received credit.

## *Interest*

You must include in your return any interest you receive or which is credited to your account (whether entered in your pass-book 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. For example, some of the interest which is fully exempt from tax is (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.

You must include in your gross income the interest from certain United States securities issued prior to March 1, 1941, which was exempt from the normal tax by the acts authorizing their issuance. However, under the new law you now receive a credit against your tax computed according to the instructions on page 14. The following securities are examples of those for which the credit for partially tax-exempt interest is allowed: (a) Treasury bonds in excess of $5,000 issued before March 1, 1941; (b) "dividends" on shares of Federal savings and loan associations if the shares were issued before March 28, 1942.

The interest on U. S. Government bonds and securities issued on or after March 1, 1941, is fully taxable.

If you own United States Savings or War bonds (Series A to F, inclusive), the gradual increase in value of each bond (as shown in the table on its back) 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 and must continue to report the annual increase each year.

Itemize your interest in Schedule B, page 2, stating the name of the payor and the amount of interest received.

## *Business Or Profession*

*General.*—The law taxes the profits from a business or profession—not its total receipts. Therefore, separate Schedule C, which contains further instructions, is provided to help you figure your profit or loss from business. Generally, you may deduct the ordinary and necessary expenses of doing business—cost of merchandise, salaries, interest, taxes, rent, repairs, and incidental supplies. In the case of capital investments and improvements in depreciable property, such as buildings, machines, fixtures, and similar items having a useful life of more than one year, the law provides a depreciation allowance as the method of deducting the cost over the life of the property. For further information on depreciation, see page 11.

If some of your expenses are part business and part personal, you can deduct the business portion but not the personal portion. For instance, a doctor who uses his car half for business can deduct only half the operating expenses.

Everyone engaged in a trade or business and making payments to another person of salaries, wages, commissions, interest, rent, etc., of $600 or more in the course of such trade or business during his taxable year must file information returns, Forms 1096 and 1099, to report such payments. If a portion of such salary or wage payments was reported on a Withholding Statement (Form W-2), only the remainder must be reported on Form 1099. Information returns are not required unless the payments are made in the course of business.

Individuals in business may under certain conditions elect to report and pay income tax on such business income on the same basis as a domestic corporation. For full details consult your Internal Revenue Service office.

*Accrual-Method Taxpayers Only—Prepaid Income and Reserves for Estimated Expenses.*—Under the new law a taxpayer using the accrual method of accounting in a trade or business may elect to take prepaid income into account proportionately in the year of receipt and subsequent taxable years (not to exceed five), and may elect to deduct for the taxable year an addition to a reserve for estimated expenses. Prepaid income is income received in a transaction in which you undertake to render services, furnish goods or other property, or allow the use of property beyond the end of the taxable year.

An election to deduct additions to reserves for estimated expenses applies to expenses part or all of which would be taken into account for subsequent taxable years but are attributable to income received in the current taxable year. In order to qualify as a deduction it is necessary that such expenses be estimated with reasonable accuracy. The election to take estimated expenses into account does not apply to expenses attributable to income which you elect to treat as prepaid income nor does it apply to additions to reserves for bad debts. For additions to reserves for bad debts see separate Schedule C.

For more information concerning the requirements to make elections with respect to prepaid income and estimated expenses (and the detailed statements which must be submitted when making the election) consult your Internal Revenue Service office.

## *Farming*

For the assistance of farmers, a separate schedule, Form 1040F, is provided and must be used by all farmers who report on the cash method. This form is optional with farmers who keep books on the accrual method.

Farmers must report as business income all Government payments, such as milk subsidy and conservation payments and amounts received under the Soil Conservation and Domestic Allotment Act, as amended, section 303 of the Agricultural Adjustment Act, as amended, and the Sugar Act of 1937. A taxpayer may elect to treat as income loans received from the Commodity Credit Corporation. If he does so, he must continue to report them as income unless he secures permission to change.

Farmers who market produce through a cooperative should add any patronage dividends received in the taxable year to their gross receipts from farming. Farmers who buy, through a cooperative, implements, gasoline, seed, fertilizer, or other items for use in their business should either reduce the cost of such items by the amount of patronage dividends received or add the patronage dividends to income. Patronage dividends received as rebates on purchases of items not used in your business should be omitted from your return. Patronage dividends are considered paid when remitted in cash, merchandise, stock certificates, or when credited to you.

If livestock are sold or exchanged because they are diseased, or if property is sold or disposed of to meet acreage limitations under Federal reclamation laws, the sale or disposition may be treated as an involuntary conversion provided proceeds are reinvested in similar property. Such reinvestment must generally be made within a year.

*Soil and Water Conservation Expenditures.*—If you are engaged in the business of farming, you may deduct certain expenditures made by you (including any amount paid on any assessment levied by a soil or water conservation or drainage district to defray expenditures made by such district) for soil or water conservation and the prevention of erosion if such expenditures are in respect of land used by you in your farming operations. The term expenditures means expenditures (a) for the treatment or moving of earth, including but not limited to leveling, grading, terracing, contour furrowing; (b) the construction, control, and protection of diversion channels, drainage ditches, earthen dams, watercourses, outlets, and ponds; (c) the eradication of brush; and (d) the planting of windbreaks. You may not deduct expenditures for the construction, installation, or improvement of facilities which are subject to the allowance for depreciation.

The allowable deduction for any one year may not exceed 25 percent of your gross income from farming but any excess may be carried over to succeeding years with the same limit applying to those years. The phrase "gross income from farming" means the gross income of the farmer from the production of crops, fruits or other agricultural products or from livestock and includes such income from a farm other than the one on which expenditures for soil and water conservation or for the prevention of erosion were made.

To claim a deduction for these expenditures you must (a) elect to do so for the first taxable year which began after December 31, 1953, and ended after August 16, 1954 for which such expenditures are paid; or, (b) secure consent from the Internal Revenue Service. Once you have elected to do so, you must continue to treat these expenditures as deductions in all future taxable years unless you secure consent from the Internal Revenue Service to change.

## *Partnership*

A partnership does not pay income tax in the firm's name. Each partner must report in his personal tax return his share of his partnership's income and pay tax on it.

Include in Schedule C Summary, page 2 of Form 1040, your share of the ordinary net 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 the year covered by your return. Other income and deductions to be carried to your individual return are shown in Schedule K of the partnership return.

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 partnership's self-employment income. In such a case the partner's share of partnership self-employment net earnings (or loss) should be entered on line 30, separate Schedule C.

## *Net Operating Loss*

If, in 1954, your business or profession lost money instead of making a profit or 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 these losses against your other 1954 income. If these losses exceed your other income, the excess of this "net operating loss" may be carried back to offset your income for 1952 or 1953, and any remaining excess may be carried forward against your income for the years 1955 through 1959. If a carryback entitles you to a refund of prior year taxes, ask the District Director for Form 1045 to claim a quick refund. For further information, see section 172 of the Internal Revenue Code of 1954 and section 122 of the 1939 Code.

If you had a loss in preceding years which may be carried over to 1954, you should claim a net operating loss deduction on line 5 of Schedule C Summary, page 2, of Form 1040 whether or not there are other items to be entered, and file a concise statement setting forth this computation.

## *Self-employment Tax*

Every self-employed individual will have to file an annual return of his self-employment income on Form 1040 if he has at least $400 of net earnings from self-employment in his taxable year, even though he may not have sufficient income to require the filing of an income tax return.

If your income is derived solely from salary or wages, or from dividends and interest on investments, capital gains, annuities, or pensions, you will have no self-employment income and no self-employment tax to pay.

Generally, if you carry on a business as a sole proprietor, or if you render service as an independent contractor, or as a member of a partnership or similar organization, you will have self-employment income.

The computation of your self-employment tax is made on separate Schedule C which, with attached Schedule C–a, should be filed with your individual income tax return. The self-employment tax is a part of the income tax.

Any declaration of estimated tax required to be filed need not include estimated tax on self-employment income.

## *Sale and Exchange of Property*

If you sell your house, car, furniture, securities, real estate, or any other kind of property, you must report any profit on your tax return. Generally, such profits are capital gains if the property was not held for sale to customers in the ordinary course of business. Separate Schedule D is provided to compute capital gains and losses, and the results from other transactions in property.

*Sale of Homes, Etc.*—General Rule.—The law requires you to report any gains from the sale or exchange of your residence or other nonbusiness property, but does not allow you to claim any loss from the sale of a home or other asset which was not held for the purpose of producing income. Your gain from the sale of this kind of property is the difference between (1) the sales price and (2) your original cost plus the cost of permanent improvements. If depreciation was allowed or allowable during any period because you rented the house or used part of it for business purposes, then the original cost must be reduced by the amount of depreciation which was allowed or allowable.

Special Rule for Sale of Residence at a Gain.—If you sold or exchanged your residence during 1954 at a gain and within one year after (or before) the sale, you purchased and occupied another residence, none of the gain is taxable if the cost of the new residence equals or exceeds the adjusted sales price of the old residence. See, however, instructions below for information to be furnished. If instead of purchasing another residence, you begin construction of a new residence (either one year before or within one year after the sale of your old residence) and occupy it not later than 18 months after the sale, none of the gain upon the sale is taxable if your cost of construction plus the cost of land (acquired within the period beginning one year before the sale and ending 18 months after the sale) equals or exceeds the adjusted sales price of the old residence.

If the adjusted sales price of your old residence exceeds the cost of your new residence, the gain on the sale is taxable to the extent of such excess. The adjusted sales price is the gross selling price less commissions and the expenses for work performed on the residence in order to assist in its sale, such as selling and redecorating expenses. Redecorating expenses, however, must be for work performed during the 90-day period ending on the day on which a contract to sell is entered into, and must be paid within 30 days after date of sale.

For example, assume your adjusted sales price is $15,000 for a residence which cost you $10,000 and you purchase a new residence for $14,000. The taxable portion of your gain is only $1,000, the difference between the adjusted sales price of your original residence and the purchase price of the new residence. The nontaxable portion of the gain of $4,000 serves to reduce the basis of the new property. Therefore in any future transaction its adjusted basis would be $10,000 (cost of $14,000 less non-taxable gain of $4,000).

Special rules apply if (a) a part of your old or new residence is used for rental or business purposes, (b) you sell within one year more than one property used as your principal residence, (c) the shares of the husband and wife in the old and new residences are not identical, (d) you own more than one residence at the same time, or (e) you acquired your new residence because your old residence was destroyed by a casualty (such as fire) or condemned. Consult your Internal Revenue Service office for assistance in reporting the disposal of such property.

If you sold or exchanged your residence, report the details of the sale in separate Schedule D. If you do not intend to replace, or if the period for replacement has passed, report the details in the year of sale. If you have acquired and occupied your new residence, enter in column (h) of Schedule D only the amount of taxable gain, if any, and attach statement showing the purchase price, date of purchase, and date of occupancy.

If you have decided to replace, but have not done so, or if you are undecided, you should enter "None" in column (h) of Schedule D. When you do replace within the required period, you must advise the District Director, giving full details. When you decide not to replace, or the period has passed, you must file an amended return, if you previously filed a return. Since any additional tax due will bear interest from the due date of the original return until paid, it is advisable to file the amended return for the year of sale as promptly as possible.

The running of the 1-year period or the 18-month period will be suspended during the time, if any, in which you serve on active duty in the Armed Forces after the date of sale of the old residence and during an induction period, pursuant to a call or order for an indefinite period or for more than 90 days. This suspension applies only where your service begins before the end of the 1-year period or the 18-month period, as the case may be, and cannot extend such period beyond a date which falls 4 years after the date of sale.

If your residence is destroyed or condemned, or even if you sell because of the threat of condemnation, you may be entitled to the benefit of other provisions of law which give you a longer time in which to buy a new residence. If you require more information about your particular case, you should apply to your Internal Revenue Service office.

*Nonbusiness Bad Debts.*—If you fail to collect a personal loan, you can list the bad debt as a "short-term capital loss" provided the loan was made with a true expectation of collecting. So-called loans to close relatives, which are really in the nature of gifts, must not be listed as deductible losses.

## *Annuities and Pensions*

*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 taxable on his employer's contributions, must be included in his gross income. The total of the payments received during his taxable year should be shown on line 6, Part I of Schedule E.

*Other Annuities.*—Amounts received from other annuities, pensions, endowments, or life insurance contracts for a reason other than the death of the insured, whether paid for a fixed number of years or for life, may have a portion of the payment excluded from gross income. The following types are included under this rule: (a) pensions where the employee has either contributed to its cost or has been taxed on his employer's contributions, (b) amounts paid for a reason other than the death of the insured under an annuity, endowment, or life insurance contract, and (c) amounts paid to a beneficiary, through an option in the policy or otherwise, in installments or in a lump sum under a life insurance contract at a date or dates later than the insured's death where the death occurred on or after August 17, 1954.

Schedule E on Form 1040 and the following instructions should enable you to compute the taxable portion of the annuity. If you are receiving payments on more than one pension or annuity, fill out a separate schedule for each one.

### *General Rule for Annuities*

In general, amounts received from annuities and pensions are included in income to the extent they exceed the exclusion described below. You may exclude from your income an amount found by using the following formula:

$$\frac{\text{Investment in the contract}}{\text{Expected return}} \times \text{payment received}$$

This formula means that you divide the investment in the contract by the expected return and multiply the result by the payment received under the annuity, pension, or contract. Formula terms are explained below.

"*Investment in the contract*" is, in general, the total amount of the premiums or other consideration paid (the amount contributed by you plus the contributions made by your employer on which you were previously taxable) for the contract as of the annuity starting date. This investment must be reduced by the amounts received under the investment before the annuity starting date to the extent excludable from gross income under prior income tax law. The "*annuity starting date*" is the first day of the first period for which a payment is received as an annuity under the contract; except that if the date was before January 1, 1954, then the annuity starting date is considered January 1, 1954.

"*Expected return*"—There are two methods for determining expected return depending on the type of contract.

(a) If the contract provides for amounts to be received for a fixed number of years, then the expected return is the total amount of the payments to be received after the annuity starting date.

(b) If the contract provides for amounts to be received for the life of the annuitant, then the expected return is found by multiplying the amount of the annual payment by the multiple applicable to the age and sex of the annuitant as of the annuity starting date. Special multiples are applicable in the case of payments under joint and survivor annuities. The multiples are set out in actuarial tables which will be furnished by your Internal Revenue Service office upon request.

"*Payment received*" is the total amount received for a year under the contract.

Example: D purchased a life annuity on January 1, 1952, for $15,000 which provides for annual payments of $1,200 beginning January 1, 1953. The multiple applicable in D's case as of January 1, 1954, is 15.0. During the year 1953, D received tax-free under the existing tax laws $750 ($1,200 less 3% of $15,000). The amount of each payment which D is to exclude from his gross income beginning with the 1954 payment is $950, determined as follows:

| | | |
|---|---|---|
| Annual payment | | $1, 200 |
| Investment in the contract | $15, 000 | |
| Less: Amount recovered tax free in prior years | 750 | |
| Investment in the contract as of 1/1/54, the annuity starting date as defined above | | $14, 250 |
| Expected return ($1,200×15.0) | | $18, 000 |

The amount to be excluded based on the formula above:

$$\frac{\$14{,}250}{\$18{,}000} \times \$1{,}200 \text{ which equals } \$950$$

D will include in his income $250 ($1,200—$950) in the year 1954 and each subsequent year as long as he lives.

### *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 (whether or not before January 1, 1954) of the first payment received under the contract. If both of these conditions are met, then all the payments received under the contract are to be excluded from gross 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 taxable); thereafter all amounts received under the contract are fully taxable. This method of computing taxable income also applies to employee's beneficiary if employee died before receiving any annuity or pension payments.

Example: An employee receives $200 a month under 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. The retired employee would be paid $7,200 during his first 3 years, which amount exceeds his contribution of $4,925. Therefore, he excludes from gross income all the payments received from the annuity until he has received $4,925. All payments received thereafter are fully taxable.

### *Other Types of Annuities*

*Amounts Received Under Life-Insurance Policies By Reason Of Death.*—In general, a lump sum payable at the death of the insured under a life insurance policy is excludable from the gross income of the recipient. When, however, the beneficiary of a life insurance contract leaves a sum on deposit with the insurer, and receives interest on it under an agreement with the insurer the interest is includible in its entirety in the beneficiary's gross income. If the beneficiary receives, through his option or otherwise, installment payments at dates later than the insured's death he or she may be taxed on a part of the amount or amounts so received.

Special rules also apply in the case of joint and survivor annuities where the first annuitant died in 1951, 1952, or 1953; where a refund feature is involved; where amounts are received under an annuity, endowment, or life insurance contract, if such amount is not received as an annuity; and in cases which have not been otherwise explained in the instructions. See your Internal Revenue Service office for more detailed instructions.

## *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 Schedule F on page 2 of Form 1040. If property, other than cash, was received as rent, its fair market value should be reported.

You are entitled to various deductions which are indicated in Schedule F. In the case of buildings you can deduct depreciation, as explained elsewhere in these instructions. If you have depletion, consult your Internal Revenue Service office for more detailed information.

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. 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.

Expenses, depreciation, and depletion should be listed in total in the columns provided in Schedule F.

*If You Rent Part of Your House, Etc.*—If you rent out only part of your property, you can deduct only a similar portion of the expenses. For example, if you rent out one-half of your home, and live in the other half, you can deduct only one-half of the depreciation and other expenses.

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

## *Estates and Trusts*

If you are a beneficiary of an estate or trust, report in your personal tax return any of its income which is required to be distributed to you or which has been paid or credited to your account for the taxable year. The administrator, executor, or trustee should advise you what to report.

Include in Schedule G of your return your share of such income (whether actually received by you or not) of an estate or trust for its taxable year which ends with or within the year covered by your return. Subtract from your share of such income any depreciation on estate or trust property which is allocable to you and show the net amount (or loss). There may be distributions (other than ordinary income) by an estate or trust, such as capital gains, dividends, etc., which are properly reportable in other schedules in your return. The fiduciary should advise you of such items requiring this special treatment.

## *Other Income*

If you cannot find any specific place on your return to list certain types of income, you should report it in Schedule G, page 2. This is the proper place to report amounts received as alimony, support, prizes; or recoveries of bad debts, taxes, etc., which reduced your tax in a prior year.

## *Depreciation*

The law does not allow you to deduct the full cost of your capital investments or improvements in the year made in figuring your profits from rents, royalties, businesses and professions. For most property with a life longer than one year, with the exception of land, the law provides for a deduction from gross income called "depreciation" as the method of recovering your cost (less any salvage value) over the useful life of the asset.

*What is "Useful Life"?*—The useful life of an asset can be measured in units of production or machine hours (for machinery), in miles of operation (for automotive equipment), etc., but the ordinary practice is to measure useful life in years. Business experience, engineering information, and other relevant factors provide a reasonable basis for estimating the useful life of property. For your guidance, comprehensive tables of "average useful lives" of various kinds of buildings, machines, and equipment in many industries and businesses have been published in a booklet called Bulletin F, which you can buy for 30 cents from the Superintendent of Documents, Government Printing Office, Washington 25, D. C.

*Figuring the Deduction*—STRAIGHT LINE METHOD.—The most common method of computing depreciation is the "straight-line" method. It allows for the deduction of cost in equal annual amounts over the useful life of the property, with only salvage value remaining at the end of its useful life. To figure the deduction 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 past years. Divide the result by the number of years of useful life remaining to the asset—the answer is the depreciation deduction.

*Special Rules for New Assets Acquired After December 31, 1953.*—New assets acquired by the taxpayer after 1953 and the portion of the basis of property attributable to construction or reconstruction by the taxpayer after 1953 may be depreciated under methods proper in the past or under additional methods provided in the new law. These methods (which may be employed only with respect to tangible assets having a useful life of three years or more) are—

(a) "*Declining balance method.*"—The deduction is computed by applying a uniform rate to the cost or other basis of the asset reduced by depreciation previously allowed or allowable. This rate cannot exceed twice the straight line rate computed without regard to salvage value.

(b) "*Sum of the years-digits method.*"—The deduction is the cost or other basis of the asset (reduced by estimated salvage value) multipled by the number of years of useful life remaining to it (including the year of the deduction) divided by the sum of all the digits corresponding to the years of the asset's estimated useful life (in the case of a 3-year life such sum would be 6, that is $1+2+3$).

(c) "*Other methods.*"—Other methods may be employed subject to special limitations; for details consult your Internal Revenue Service office.

## *Accounting Methods and Records*

Your return must be on the "cash method" unless you keep books of account. "Cash method" means that all items of taxable income actually or constructively received during the year (whether in cash or in property or services) and only those amounts actually paid during the year for deductible expenses are shown. Income is "constructively" received when it is credited to your account or set aside for you and may be drawn upon by you at any time. Uncashed salary or dividend checks, bank interest credited to your account, matured bond coupons, and similar items which you can immediately turn into cash are "constructively received" even though you have not actually converted them into cash.

An "*accrual method*" means that you report income when earned, even if not received, and deduct expenses when incurred, even if not paid within the taxable period.

If you keep accounting records, your return must be on the same method as your records. The method used in keeping your records may be the cash receipts and disbursements method, or an accrual method, so long as income is clearly reflected. However, in most cases you must secure consent of the Commissioner before changing your accounting method.

## *Contributions*

If you itemize deductions on a Long-Form 1040, 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, conducts propaganda or otherwise attempts to influence legislation, or participates or intervenes in any political campaign on behalf of any candidate for public office. 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. A contribution may be made in money or property (not services). If in property, it is 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 adjusted gross income.

Under the new law, there is a special additional deduction of up to 10 percent for contributions made to churches, a convention or association of churches, tax-exempt educational institutions, and tax-exempt hospitals, which must be computed as explained below. If all your contributions were to these churches, schools, and hospitals, you can deduct up to 30 percent of your adjusted gross income. To compute the deduction for contributions you should first figure the contributions to these special institutions to the extent of 10 percent of your adjusted gross income and the amount in excess of 10 percent should be added to the other contributions to which the 20 percent limitation applies. 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. For example, you can deduct gifts to a YMCA but not dues.

Some examples of the treatment of contributions are:

*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, and 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 on a Long-Form 1040, 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 separate Schedule C or Schedule F, page 2, of Form 1040. 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.

The new law provides a deduction for interest paid for purchasing personal property (such as automobiles, radios, etc.) on the installment plan where the interest charges are not separately stated from other carrying charges. This deduction is equal to 6 percent of the average unpaid monthly balance under the contract. Compute the average unpaid monthly balance by adding up the unpaid balance at the beginning of each month during the year and dividing by 12. The interest deduction may not exceed the portion of the total carrying charges attributable to the taxable year.

*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 on a Long-Form 1040, you can deduct most non-Federal taxes paid by you. You can deduct State or local retail sales taxes if under the laws of your 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 to the consumer. 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. If you paid foreign taxes you may be entitled to a credit against your tax rather than a deduction from income.

Do not deduct on page 3 any nonbusiness Federal taxes, or any taxes paid in connection with a business or profession which are deductible in Schedule F or separate Schedule C.

*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, railroad tickets, telephone, etc.
- Federal social security taxes
- Hunting licenses, dog licenses
- Auto inspection fees
- Water taxes
- Taxes paid by you for another person

## *Casualty Losses and Thefts*

If you itemize deductions on a Long-Form 1040, you can deduct your 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 negligent driving but cannot be deducted if due to your willful act or your willful negligence. You can also deduct in the year of discovery losses due to theft, but not losses due to mislaying or losing articles.

You should determine the amount of any casualty loss by comparing the fair market value of the property just before and just after the casualty. This loss or the adjusted basis of the property, whichever is lower, should then be reduced by any insurance or other reimbursement to arrive at your deductible loss. Explain in attached statement.

If your 1954 casualty losses exceed your 1954 income, the excess may be carried back as a "net operating loss" to offset your income for 1952. If the loss carried back exceeds your 1952 income, the excess may be used to offset your 1953 income. Any remaining excess may be carried over to the years 1955–1959, inclusive.

*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

## *Medical and Dental Expenses*

If you itemize deductions on a Long-Form 1040 you can deduct, within the limits described below, the amount you paid during the year (not compensated for by hospital, health or accident insurance) for medical or dental expenses for yourself, your wife, or any dependent who received over one-half of his support from you. If you pay medical expenses for a dependent who gets over half of his support from you, you can deduct the payments even though you are not entitled to a deduction for an exemption for that dependent because he had more than $600 of gross income.

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

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

*Figuring the Deduction.*—You can deduct only those medical and dental expenses which exceed 3 percent of your adjusted gross income. However in figuring these expenses, the amount paid for medicine and drugs may be taken into account only to the extent it exceeds 1 percent of your adjusted gross income, item 6, page 1. There is a schedule provided on page 3 to make this computation.

*Limitations.*—The deduction may not exceed $2,500 multiplied by the number of exemptions 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 qualifying surviving widow or widower;

(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 qualifying surviving widow or widower.

*Special Rule For Persons 65 Or Over.*—If either you or your wife were 65 or over, the maximum limitation for amounts spent is the same as set out above. However, amounts deductible for medical and dental expenses for you and your wife are not restricted to the excess over 3 percent of your adjusted gross income. In effect, the 3 percent rule may be disregarded. But the amounts spent by you for your medicine and drugs are still limited to the excess of 1 percent of your adjusted gross income, and amounts spent by you for your dependents' medical expenses are deductible only to the extent they exceed 3 percent of your adjusted gross income.

*Special Rule For Decedents.*—In the case of a decedent, expenses for medical care may be treated as paid by the decedent at the time incurred, if such expenses are paid from his estate within one year after his death, and provided they are not deducted in computing the decedent's taxable estate for Federal estate tax purposes. If the expenses are allowable for estate tax purposes, but it is preferred to deduct them for income tax purposes, there must be filed with the Form 1040 a statement that this amount has not been claimed in the estate tax return, and a waiver of the right to have this amount allowed at any time for estate tax purposes.

Any expense claimed as a deduction for the care of children and certain other dependents should not be included in your computation of the deduction for medical expense.

*You CAN Deduct Payments To or For:*

- Doctors, 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 health and accident insurance, and hospital or medical insurance

*You CANNOT Deduct Payments For:*

- Funeral expenses
- Cemetery plot
- Illegal operations or drugs
- Travel ordered or suggested by your doctor for rest or change
- Premiums on life insurance

## *Expenses For the Care of Children and Certain Other Dependents*

Generally, there is allowed 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 one or more dependents if such care is to enable the taxpayer to be gainfully employed or actively to seek gainful employment. For this purpose, the term "dependent" is limited to the following persons for whom the taxpayer is entitled to a deduction for an exemption:

(a) a child or stepchild of the taxpayer who is under 12 years of age; or

(b) a person who is physically or mentally incapable of caring for himself, regardless of age.

The deduction is not allowable to the extent the payments are made to an individual who the taxpayer claims as a dependent.

In the case of a woman who is married, the deduction is allowed only if she files a joint return with her husband; and the deduction is reduced by the amount (if any) by which their combined adjusted gross income exceeds $4,500. If the husband is incapable of self-support because mentally or physically defective these two limitations do not apply.

If the person who receives the payment performs duties other than dependent care, only that part of the payment which is for the dependent's care may be deducted.

## *Miscellaneous*

If you itemize deductions on a Long-Form 1040, you can deduct several other types of expenses under the heading "miscellaneous."

If you work for wages or a salary, you can deduct the ordinary and necessary expenses which you incur for your employer's benefit and which have not been claimed on page 1. For example, if your job requires you to furnish small tools, you can deduct the cost of such tools.

*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
- Educational expenses

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 after August 16, 1954, under either (a) a written separation agreement entered into after that date or (b) a decree for support entered after March 1, 1954, are also deductible. Such payments must be included in the wife's income. However, you cannot deduct lump-sum settlements, specific maintenance payments for support of minor children, or any voluntary payments not under a court order or a written separation agreement.

You may not deduct gambling losses in excess of gambling winnings. If you are a tenant-stockholder in a co-operative housing corporation, you can deduct your share of its payments for interest and real-estate taxes.

## *Declarations of Estimated Tax*

For many taxpayers the withholding tax on wages is not sufficient to keep them paid up on their income tax. The law requires every individual (including an alien who is a resident of Puerto Rico during the entire taxable year) to file a Declaration of Estimated Tax, Form 1040–ES, and to make quarterly payments in advance of filing the annual income tax return if:

(a) his gross income can reasonably be expected to consist of wages subject to withholding and of not more than $100 from other sources and to exceed—

(1) $5,000 for a single individual who is not a head of household or a surviving widow or widower or for a married individual not entitled to file a joint declaration;

(2) $10,000 for a head of household or a surviving widow or widower; or

(3) $5,000 for a married person entitled to file a joint declaration and the total income for both husband and wife can reasonably be expected to exceed $10,000; or

(b) his gross income can reasonably be expected to include more than $100 from sources other than wages and to exceed the sum of $600 multiplied by the number of exemptions plus $400.

The District Director will mail Form 1040–ES, as far as is practical, to each person who may need it. Anyone else required to file should obtain the form from an Internal Revenue Service office in time to file by April 15, 1955. Farmers may postpone filing their declarations for 1955, until January 15, 1956.

# HOW TO FIGURE YOUR TAX

*Using the Tax Table.*—To relieve the average taxpayer from computing the tax, the law provides a table which shows the correct tax for any income up to $5,000. If you file a Short-Form 1040, use the Tax Table on page 16, to determine your tax. The table is based on the same rates used in a Long-Form 1040 computation. If your actual deductions are larger than 10 percent of your income, you may file a Long-Form 1040 and claim them.

*Making a Long-Form Computation.*—To figure your tax on the amount on either line 5 or line 7(a), page 3, of Long-Form 1040, use the schedule below.

### *1954 Tax Rate Schedule*

**I. FOR ALL TAXPAYERS EXCEPT UNMARRIED (OR LEGALLY SEPARATED) PERSONS QUALIFYING AS HEAD OF HOUSEHOLD**

| *If the amount on line 5 or 7 (a) is:* | *Enter on line 6 or 7 (b):* |
|---|---|
| Not over $2,000 | 20% of the amount on line 5 or 7 (*a*) |
| 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 |
| Over $16,000 but not over $18,000 | $5,200, plus 50% of excess over $16,000 |
| Over $18,000 but not over $20,000 | $6,200, plus 53% of excess over $18,000 |
| Over $20,000 but not over $22,000 | $7,260, plus 56% of excess over $20,000 |
| Over $22,000 but not over $26,000 | $8,380, plus 59% of excess over $22,000 |
| Over $26,000 but not over $32,000 | $10,740, plus 62% of excess over $26,000 |
| Over $32,000 but not over $38,000 | $14,460, plus 65% of excess over $32,000 |
| Over $38,000 but not over $44,000 | $18,360, plus 69% of excess over $38,000 |
| Over $44,000 but not over $50,000 | $22,500, plus 72% of excess over $44,000 |
| Over $50,000 but not over $60,000 | $26,820, plus 75% of excess over $50,000 |
| Over $60,000 but not over $70,000 | $34,320, plus 78% of excess over $60,000 |
| Over $70,000 but not over $80,000 | $42,120, plus 81% of excess over $70,000 |
| Over $80,000 but not over $90,000 | $50,220, plus 84% of excess over $80,000 |
| Over $90,000 but not over $100,000 | $58,620, plus 87% of excess over $90,000 |
| Over $100,000 but not over $150,000 | $67,320, plus 89% of excess over $100,000 |
| Over $150,000 but not over $200,000 | $111,820, plus 90% of excess over $150,000 |
| Over $200,000 | $156,820, plus 91% of excess over $200,000 |

**II. *ONLY* FOR UNMARRIED (OR LEGALLY SEPARATED) TAXPAYERS WHO QUALIFY AS HEAD OF HOUSEHOLD**

| *If the amount on line 5 is:* | *Enter on line 6:* |
|---|---|
| Not over $2,000 | 20% of the amount on line 5. |
| Over $2,000 but not over $4,000 | $400, plus 21% of excess over $2,000 |
| Over $4,000 but not over $6,000 | $820, plus 24% of excess over $4,000 |
| Over $6,000 but not over $8,000 | $1,300, plus 26% of excess over $6,000 |
| Over $8,000 but not over $10,000 | $1,820, plus 30% of excess over $8,000 |
| Over $10,000 but not over $12,000 | $2,420, plus 32% of excess over $10,000 |
| Over $12,000 but not over $14,000 | $3,060, plus 36% of excess over $12,000 |
| Over $14,000 but not over $16,000 | $3,780, plus 39% of excess over $14,000 |
| Over $16,000 but not over $18,000 | $4,560, plus 42% of excess over $16,000 |
| Over $18,000 but not over $20,000 | $5,400, plus 43% of excess over $18,000 |
| Over $20,000 but not over $22,000 | $6,260, plus 47% of excess over $20,000 |
| Over $22,000 but not over $24,000 | $7,200, plus 49% of excess over $22,000 |
| Over $24,000 but not over $28,000 | $8,180, plus 52% of excess over $24,000 |
| Over $28,000 but not over $32,000 | $10,260, plus 54% of excess over $28,000 |
| Over $32,000 but not over $38,000 | $12,420, plus 58% of excess over $32,000 |
| Over $38,000 but not over $44,000 | $15,900, plus 62% of excess over $38,000 |
| Over $44,000 but not over $50,000 | $19,620, plus 66% of excess over $44,000 |
| Over $50,000 but not over $60,000 | $23,580, plus 68% of excess over $50,000 |
| Over $60,000 but not over $70,000 | $30,380, plus 71% of excess over $60,000 |
| Over $70,000 but not over $80,000 | $37,480, plus 74% of excess over $70,000 |
| Over $80,000 but not over $90,000 | $44,880, plus 76% of excess over $80,000 |
| Over $90,000 but not over $100,000 | $52,480, plus 80% of excess over $90,000 |
| Over $100,000 but not over $150,000 | $60,480, plus 83% of excess over $100,000 |
| Over $150,000 but not over $200,000 | $101,980, plus 87% of excess over $150,000 |
| Over $200,000 but not over $300,000 | $145,480, plus 90% of excess over $200,000 |
| Over $300,000 | $235,480, plus 91% of excess over $300,000 |

## *Credits Against Tax*

*Credit For Foreign Taxes.*—If you claim credits for such taxes, you should submit with your return Form 1116 which contains a schedule for the computation of the credit with appropriate instructions. This form may be obtained from your Internal Revenue Service office.

*Credit For Partially Tax-Exempt Interest.*—If you itemize your deductions, you may deduct on line 11, page 3, a credit for partially tax-exempt interest. This credit is 3 percent of the partially tax-exempt interest included in gross income. See instructions on page 7 for the type of securities for which a credit is allowed. The credit may not exceed the lesser of (a) 3 percent of the taxable income (line 5, page 3, Form 1040, or line 20, separate Schedule D (twice line 20 in the case of a joint return or the return of a surviving widow or widower), whichever is applicable) for the taxable year or (b) the amount of tax less the credit for taxes paid to foreign countries and possessions of the U. S. and the credit for dividends received.

*Credit For Dividends Received.*—The new law provides a credit against tax for dividends received from domestic corporations after July 31, 1954. This credit is equal to 4 percent of the dividends in excess of those which you may exclude from your gross income (see page 7). The credit may not exceed the lesser of:

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

(b) 2 percent of the taxable income (4 percent for taxable years ending after December 31, 1954).

Schedule J has been provided to compute the dividend credit. Dividends from certain types of corporations do not qualify for either the credit for dividends received or for the exclusion previously explained. These corporations are the same corporations as those listed on page 7 under the explanation of the dividend exclusion. The credit does not apply to a nonresident alien who is not engaged in trade or business in the United States and whose gross income from sources within the United States is not more than $15,400.

Example: Assume a single individual with no dependents had gross income consisting of salary of $3,300 and dividends of $3,050 received from domestic corporations after July 31, 1954 ($50 of the dividends are excluded from gross income). The credit is computed as follows:

| | |
|---|---|
| Adjusted gross income ($3,000+$3,300) | $6, 300 |
| Standard deduction | 630 |
| | $5, 670 |
| One exemption | 600 |
| Taxable income | $5, 070 |
| Tax before credit | $1, 118. 20 |
| Dividends received credit: 4 percent of $3,000 or $120 but limited to 2 percent of $5,070 or | 101. 40 |
| Net tax liability | $1, 016. 80 |

*Credit For Retirement Income.*—Under the new law you may qualify for a retirement income credit 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. If you qualify, you are entitled to a credit for retirement income you are now receiving. If your deceased husband (or wife) would qualify for this credit, if living, you may claim the credit even though you did not meet the earnings test. If a husband and wife both qualify and each has retirement income, each one is entitled to the credit.

The credit is 20% of the retirement income (as defined below) with a maximum limit of $240 for each qualified individual. The credit may not exceed your tax (item 7, page 1) reduced by the dividends received credit in item 8A, page 1. Schedule K of the return is provided to make this computation.

Retirement income for the purpose of the credit means—

(a) In the case of an individual who is 65 years of age or over before the close of his taxable year, income from pensions, annuities, interest, rents, and dividends, which were included in gross income in your return. (Gross income from rents for this purpose means gross receipts from rents without reduction for depreciation or any other expenses.)

(b) In the case of an individual who is not 65 years of age before the close of his taxable year, only that income received from pensions or annuities under a public retirement system (one established by the Federal Government, a State, county, city, etc., but not including one established by the United States for members of the Armed Forces).

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

(b) in the case of any individual who is not 75 before the close of the taxable year, any amount of earned income in excess of $900 received in the taxable year.

Example: Assume that a qualified individual, who is married and over 65 but not 75, has the following items of income for 1954:

| | |
|---|---|
| Dividend income after exclusion | $700 |
| Pension under the Railroad Retirement Act (entirely excludable from gross income) | 500 |
| Disability payments under a workmen's compensation act (entirely excludable from gross income) | 400 |
| Rental income (Gross) | 600 |
| Earned at odd jobs | 1, 200 |

The credit is computed as follows:

| | | |
|---|---|---|
| Retirement income includes— | | |
| Dividend income | | $700 |
| Rental income | | 600 |
| Total retirement income | | $1, 300 |
| But the retirement income is limited to | | $1, 200 |
| Less: | | |
| Railroad retirement pension | $500 | |
| Earned income in excess of $900 ($1,200–$900) | 300 | $800 |
| Base for computation of credit | | $400 |
| Retirement income credit 20 percent of $400 | | $80 |

*Credit For Withholding Tax.*—Itemize the taxes withheld in item 2, page 1, and report the total amount as item 12A, page 1. If you have lost any Withholding Statement, ask your employer for a copy. If you cannot furnish Withholding Statements for all taxes withheld from you, attach an explanation.

*Credit For F. I. C. A. Tax.*—If more than $72 of F. I. C. A. (Social Security) employee tax was withheld during 1954 *because you received wages from more than one employer*, the excess should be claimed as a credit against income tax. Enter any excess of F. I. C. A. tax withheld over $72 in the "Income Tax Withheld" column of item 2, page 1, and write "F. I. C. A. tax" in the "Where Employed" column. If a joint return compute the credit separately.

*Credit For Estimated Tax Payments.*—If you paid any estimated tax on a Declaration of Estimated Tax (Form 1040–ES) for 1954, report the total of such payments as item 12B on page 1. If on your 1953 return you had an overpayment which you chose to apply on your 1954 tax include this in item 12B.

*Balance Of Tax Or Refund.*—After figuring your tax either from the Tax Table or from the long-form computation, enter the amount as item 7, page 1. Enter as item 10 the amount of your self-employment tax shown on line 35, separate Schedule C. Show as item 13 any balance you owe, or as item 14 the amount of any overpayment due you, after taking credit for the amounts entered as item 12.

# TAX TABLE FOR CALENDAR YEAR 1954

## FOR PERSONS WITH INCOMES UNDER $5,000 NOT COMPUTING TAX ON PAGE 3 OF FORM 1040

**Read down the shaded columns below until you find the line covering the adjusted gross income you entered in item 6, page 1, Form 1040. Then read across to the appropriate column headed by the number corresponding to the number of exemptions claimed in item 1E, page 1. Enter the tax you find there in item 7, page 1.**

| If total income in item 6, page 1, is— At least | But less than | And the number of exemptions claimed in item 1E, page 1, is— 1 (Your tax is—) | 2 | 3 | 4 or more | If total income in item 6, page 1, is— At least | But less than | And the number of exemptions claimed in item 1E, page 1, is— 1: And you are— Single or a married person filing separately (Your tax is—) | 1: An unmarried head of a household | 2: And you are— Single or a married person filing separately | 2: An unmarried head of a household | 2: A married couple filing jointly ★ | 3: And you are— Single or a married person filing separately | 3: An unmarried head of a household | 3: A married couple filing jointly ★ | 4 | 5 | 6 | 7 | 8 or more |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| $0 | $675 | $0 | $0 | $0 | $0 | $2,325 | $2,350 | $301 | $301 | $181 | $181 | $181 | $61 | $61 | $61 | $0 | $0 | $0 | $0 | $0 |
| 675 | 700 | 4 | 0 | 0 | 0 | 2,350 | 2,375 | 305 | 305 | 185 | 185 | 185 | 65 | 65 | 65 | 0 | 0 | 0 | 0 | 0 |
| 700 | 725 | 8 | 0 | 0 | 0 | 2,375 | 2,400 | 310 | 310 | 190 | 190 | 190 | 70 | 70 | 70 | 0 | 0 | 0 | 0 | 0 |
| 725 | 750 | 13 | 0 | 0 | 0 | 2,400 | 2,425 | 314 | 314 | 194 | 194 | 194 | 74 | 74 | 74 | 0 | 0 | 0 | 0 | 0 |
| 750 | 775 | 17 | 0 | 0 | 0 | 2,425 | 2,450 | 319 | 319 | 199 | 199 | 199 | 79 | 79 | 79 | 0 | 0 | 0 | 0 | 0 |
| 775 | 800 | 22 | 0 | 0 | 0 | 2,450 | 2,475 | 323 | 323 | 203 | 203 | 203 | 83 | 83 | 83 | 0 | 0 | 0 | 0 | 0 |
| 800 | 825 | 26 | 0 | 0 | 0 | 2,475 | 2,500 | 328 | 328 | 208 | 208 | 208 | 88 | 88 | 88 | 0 | 0 | 0 | 0 | 0 |
| 825 | 850 | 31 | 0 | 0 | 0 | 2,500 | 2,525 | 332 | 332 | 212 | 212 | 212 | 92 | 92 | 92 | 0 | 0 | 0 | 0 | 0 |
| 850 | 875 | 35 | 0 | 0 | 0 | 2,525 | 2,550 | 337 | 337 | 217 | 217 | 217 | 97 | 97 | 97 | 0 | 0 | 0 | 0 | 0 |
| 875 | 900 | 40 | 0 | 0 | 0 | 2,550 | 2,575 | 341 | 341 | 221 | 221 | 221 | 101 | 101 | 101 | 0 | 0 | 0 | 0 | 0 |
| 900 | 925 | 44 | 0 | 0 | 0 | 2,575 | 2,600 | 346 | 346 | 226 | 226 | 226 | 106 | 106 | 106 | 0 | 0 | 0 | 0 | 0 |
| 925 | 950 | 49 | 0 | 0 | 0 | 2,600 | 2,625 | 350 | 350 | 230 | 230 | 230 | 110 | 110 | 110 | 0 | 0 | 0 | 0 | 0 |
| 950 | 975 | 53 | 0 | 0 | 0 | 2,625 | 2,650 | 355 | 355 | 235 | 235 | 235 | 115 | 115 | 115 | 0 | 0 | 0 | 0 | 0 |
| 975 | 1,000 | 58 | 0 | 0 | 0 | 2,650 | 2,675 | 359 | 359 | 239 | 239 | 239 | 119 | 119 | 119 | 0 | 0 | 0 | 0 | 0 |
| 1,000 | 1,025 | 62 | 0 | 0 | 0 | 2,675 | 2,700 | 364 | 364 | 244 | 244 | 244 | 124 | 124 | 124 | 4 | 0 | 0 | 0 | 0 |
| 1,025 | 1,050 | 67 | 0 | 0 | 0 | 2,700 | 2,725 | 368 | 368 | 248 | 248 | 248 | 128 | 128 | 128 | 8 | 0 | 0 | 0 | 0 |
| 1,050 | 1,075 | 71 | 0 | 0 | 0 | 2,725 | 2,750 | 373 | 373 | 253 | 253 | 253 | 133 | 133 | 133 | 13 | 0 | 0 | 0 | 0 |
| 1,075 | 1,100 | 76 | 0 | 0 | 0 | 2,750 | 2,775 | 377 | 377 | 257 | 257 | 257 | 137 | 137 | 137 | 17 | 0 | 0 | 0 | 0 |
| 1,100 | 1,125 | 80 | 0 | 0 | 0 | 2,775 | 2,800 | 382 | 382 | 262 | 262 | 262 | 142 | 142 | 142 | 22 | 0 | 0 | 0 | 0 |
| 1,125 | 1,150 | 85 | 0 | 0 | 0 | 2,800 | 2,825 | 386 | 386 | 266 | 266 | 266 | 146 | 146 | 146 | 26 | 0 | 0 | 0 | 0 |
| 1,150 | 1,175 | 89 | 0 | 0 | 0 | 2,825 | 2,850 | 391 | 391 | 271 | 271 | 271 | 151 | 151 | 151 | 31 | 0 | 0 | 0 | 0 |
| 1,175 | 1,200 | 94 | 0 | 0 | 0 | 2,850 | 2,875 | 395 | 395 | 275 | 275 | 275 | 155 | 155 | 155 | 35 | 0 | 0 | 0 | 0 |
| 1,200 | 1,225 | 98 | 0 | 0 | 0 | 2,875 | 2,900 | 400 | 400 | 280 | 280 | 280 | 160 | 160 | 160 | 40 | 0 | 0 | 0 | 0 |
| 1,225 | 1,250 | 103 | 0 | 0 | 0 | 2,900 | 2,925 | 405 | 404 | 284 | 284 | 284 | 164 | 164 | 164 | 44 | 0 | 0 | 0 | 0 |
| 1,250 | 1,275 | 107 | 0 | 0 | 0 | 2,925 | 2,950 | 410 | 409 | 289 | 289 | 289 | 169 | 169 | 169 | 49 | 0 | 0 | 0 | 0 |
| 1,275 | 1,300 | 112 | 0 | 0 | 0 | 2,950 | 2,975 | 415 | 414 | 293 | 293 | 293 | 173 | 173 | 173 | 53 | 0 | 0 | 0 | 0 |
| 1,300 | 1,325 | 116 | 0 | 0 | 0 | 2,975 | 3,000 | 420 | 419 | 298 | 298 | 298 | 178 | 178 | 178 | 58 | 0 | 0 | 0 | 0 |
| 1,325 | 1,350 | 121 | 1 | 0 | 0 | 3,000 | 3,050 | 427 | 426 | 305 | 305 | 305 | 185 | 185 | 185 | 65 | 0 | 0 | 0 | 0 |
| 1,350 | 1,375 | 125 | 5 | 0 | 0 | 3,050 | 3,100 | 437 | 435 | 314 | 314 | 314 | 194 | 194 | 194 | 74 | 0 | 0 | 0 | 0 |
| 1,375 | 1,400 | 130 | 10 | 0 | 0 | 3,100 | 3,150 | 447 | 445 | 323 | 323 | 323 | 203 | 203 | 203 | 83 | 0 | 0 | 0 | 0 |
| 1,400 | 1,425 | 134 | 14 | 0 | 0 | 3,150 | 3,200 | 457 | 454 | 332 | 332 | 332 | 212 | 212 | 212 | 92 | 0 | 0 | 0 | 0 |
| 1,425 | 1,450 | 139 | 19 | 0 | 0 | 3,200 | 3,250 | 467 | 464 | 341 | 341 | 341 | 221 | 221 | 221 | 101 | 0 | 0 | 0 | 0 |
| 1,450 | 1,475 | 143 | 23 | 0 | 0 | 3,250 | 3,300 | 476 | 473 | 350 | 350 | 350 | 230 | 230 | 230 | 110 | 0 | 0 | 0 | 0 |
| 1,475 | 1,500 | 148 | 28 | 0 | 0 | 3,300 | 3,350 | 486 | 482 | 359 | 359 | 359 | 239 | 239 | 239 | 119 | 0 | 0 | 0 | 0 |
| 1,500 | 1,525 | 152 | 32 | 0 | 0 | 3,350 | 3,400 | 496 | 492 | 368 | 368 | 368 | 248 | 248 | 248 | 128 | 8 | 0 | 0 | 0 |
| 1,525 | 1,550 | 157 | 37 | 0 | 0 | 3,400 | 3,450 | 506 | 501 | 377 | 377 | 377 | 257 | 257 | 257 | 137 | 17 | 0 | 0 | 0 |
| 1,550 | 1,575 | 161 | 41 | 0 | 0 | 3,450 | 3,500 | 516 | 511 | 386 | 386 | 386 | 266 | 266 | 266 | 146 | 26 | 0 | 0 | 0 |
| 1,575 | 1,600 | 166 | 46 | 0 | 0 | 3,500 | 3,550 | 526 | 520 | 395 | 395 | 395 | 275 | 275 | 275 | 155 | 35 | 0 | 0 | 0 |
| 1,600 | 1,625 | 170 | 50 | 0 | 0 | 3,550 | 3,600 | 536 | 530 | 404 | 404 | 404 | 284 | 284 | 284 | 164 | 44 | 0 | 0 | 0 |
| 1,625 | 1,650 | 175 | 55 | 0 | 0 | 3,600 | 3,650 | 546 | 539 | 414 | 413 | 413 | 293 | 293 | 293 | 173 | 53 | 0 | 0 | 0 |
| 1,650 | 1,675 | 179 | 59 | 0 | 0 | 3,650 | 3,700 | 556 | 549 | 424 | 423 | 422 | 302 | 302 | 302 | 182 | 62 | 0 | 0 | 0 |
| 1,675 | 1,700 | 184 | 64 | 0 | 0 | 3,700 | 3,750 | 566 | 558 | 434 | 432 | 431 | 311 | 311 | 311 | 191 | 71 | 0 | 0 | 0 |
| 1,700 | 1,725 | 188 | 68 | 0 | 0 | 3,750 | 3,800 | 575 | 567 | 443 | 441 | 440 | 320 | 320 | 320 | 200 | 80 | 0 | 0 | 0 |
| 1,725 | 1,750 | 193 | 73 | 0 | 0 | 3,800 | 3,850 | 585 | 577 | 453 | 451 | 449 | 329 | 329 | 329 | 209 | 89 | 0 | 0 | 0 |
| 1,750 | 1,775 | 197 | 77 | 0 | 0 | 3,850 | 3,900 | 595 | 586 | 463 | 460 | 458 | 338 | 338 | 338 | 218 | 98 | 0 | 0 | 0 |
| 1,775 | 1,800 | 202 | 82 | 0 | 0 | 3,900 | 3,950 | 605 | 596 | 473 | 470 | 467 | 347 | 347 | 347 | 227 | 107 | 0 | 0 | 0 |
| 1,800 | 1,825 | 206 | 86 | 0 | 0 | 3,950 | 4,000 | 615 | 605 | 483 | 479 | 476 | 356 | 356 | 356 | 236 | 116 | 0 | 0 | 0 |
| 1,825 | 1,850 | 211 | 91 | 0 | 0 | 4,000 | 4,050 | 625 | 615 | 493 | 489 | 485 | 365 | 365 | 365 | 245 | 125 | 5 | 0 | 0 |
| 1,850 | 1,875 | 215 | 95 | 0 | 0 | 4,050 | 4,100 | 635 | 624 | 503 | 498 | 494 | 374 | 374 | 374 | 254 | 134 | 14 | 0 | 0 |
| 1,875 | 1,900 | 220 | 100 | 0 | 0 | 4,100 | 4,150 | 645 | 634 | 513 | 508 | 503 | 383 | 383 | 383 | 263 | 143 | 23 | 0 | 0 |
| 1,900 | 1,925 | 224 | 104 | 0 | 0 | 4,150 | 4,200 | 655 | 643 | 523 | 517 | 512 | 392 | 392 | 392 | 272 | 152 | 32 | 0 | 0 |
| 1,925 | 1,950 | 229 | 109 | 0 | 0 | 4,200 | 4,250 | 665 | 653 | 533 | 527 | 521 | 401 | 401 | 401 | 281 | 161 | 41 | 0 | 0 |
| 1,950 | 1,975 | 233 | 113 | 0 | 0 | 4,250 | 4,300 | 674 | 662 | 542 | 536 | 530 | 410 | 410 | 410 | 290 | 170 | 50 | 0 | 0 |
| 1,975 | 2,000 | 238 | 118 | 0 | 0 | 4,300 | 4,350 | 684 | 671 | 552 | 545 | 539 | 420 | 419 | 419 | 299 | 179 | 59 | 0 | 0 |
| 2,000 | 2,025 | 242 | 122 | 2 | 0 | 4,350 | 4,400 | 694 | 681 | 562 | 555 | 548 | 430 | 429 | 428 | 308 | 188 | 68 | 0 | 0 |
| 2,025 | 2,050 | 247 | 127 | 7 | 0 | 4,400 | 4,450 | 704 | 690 | 572 | 564 | 557 | 440 | 438 | 437 | 317 | 197 | 77 | 0 | 0 |
| 2,050 | 2,075 | 251 | 131 | 11 | 0 | 4,450 | 4,500 | 714 | 700 | 582 | 574 | 566 | 450 | 448 | 446 | 326 | 206 | 86 | 0 | 0 |
| 2,075 | 2,100 | 256 | 136 | 16 | 0 | 4,500 | 4,550 | 724 | 709 | 592 | 583 | 575 | 460 | 457 | 455 | 335 | 215 | 95 | 0 | 0 |
| 2,100 | 2,125 | 260 | 140 | 20 | 0 | 4,550 | 4,600 | 734 | 719 | 602 | 593 | 584 | 470 | 467 | 464 | 344 | 224 | 104 | 0 | 0 |
| 2,125 | 2,150 | 265 | 145 | 25 | 0 | 4,600 | 4,650 | 744 | 728 | 612 | 602 | 593 | 480 | 476 | 473 | 353 | 233 | 113 | 0 | 0 |
| 2,150 | 2,175 | 269 | 149 | 29 | 0 | 4,650 | 4,700 | 754 | 738 | 622 | 612 | 602 | 490 | 486 | 482 | 362 | 242 | 122 | 2 | 0 |
| 2,175 | 2,200 | 274 | 154 | 34 | 0 | 4,700 | 4,750 | 764 | 747 | 632 | 621 | 611 | 500 | 495 | 491 | 371 | 251 | 131 | 11 | 0 |
| 2,200 | 2,225 | 278 | 158 | 38 | 0 | 4,750 | 4,800 | 773 | 756 | 641 | 630 | 620 | 509 | 504 | 500 | 380 | 260 | 140 | 20 | 0 |
| 2,225 | 2,250 | 283 | 163 | 43 | 0 | 4,800 | 4,850 | 783 | 766 | 651 | 640 | 629 | 519 | 514 | 509 | 389 | 269 | 149 | 29 | 0 |
| 2,250 | 2,275 | 287 | 167 | 47 | 0 | 4,850 | 4,900 | 793 | 775 | 661 | 649 | 638 | 529 | 523 | 518 | 398 | 278 | 158 | 38 | 0 |
| 2,275 | 2,300 | 292 | 172 | 52 | 0 | 4,900 | 4,950 | 803 | 785 | 671 | 659 | 647 | 539 | 533 | 527 | 407 | 287 | 167 | 47 | 0 |
| 2,300 | 2,325 | 296 | 176 | 56 | 0 | 4,950 | 5,000 | 813 | 794 | 681 | 668 | 656 | 549 | 542 | 536 | 416 | 296 | 176 | 56 | 0 |

★ **This column may also be used by a surviving widow or widower who meets certain qualifications which are explained in the instructions.**

U. S. GOVERNMENT PRINTING OFFICE 16—70993-1