SERVICEMEN'S FEDERAL INCOME TAXES

QUESTIONS AND ANSWERS

EXPLANATORY OF

THE FEDERAL INCOME TAX LAWS

WITH RESPECT TO

MEMBERS OF THE ARMED FORCES OF THE

UNITED STATES IN WORLD WAR II

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1945
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QUESTIONS AND ANSWERS EXPLANATORY OF THE FEDERAL INCOME TAX LAWS WITH RESPECT TO MEMBERS OF THE ARMED FORCES OF WORLD WAR II

This analysis is intended as a guide in understanding the operation of the Federal income tax, as amended by the Revenue Act of 1945, with respect to members of the armed forces in World War II, which is the official name given to the war with Germany, Italy, and Japan which began in December 1941.

Specific tax problems should be taken up with the local offices of the Federal collectors of internal revenue for the district in which the taxpayer has his legal residence or place of business. Also, legal assistance officers are located at practically all Army and Navy installations for the convenience of servicemen. A further list of agencies which furnish assistance will be found at the end of this analysis.

The term “serviceman” as used here refers in general to all servicemen and veterans who have served in the armed forces of the United States in World War II.

PART I. FIRST THINGS A SERVICEMAN SHOULD KNOW

SECTION 1. HOW TO HANDLE HIS TAX SITUATION

1. Question. What agencies are available from which an individual serviceman may obtain reliable information as to his tax situation?
   Answer. (1) The local office of the Federal collector of internal revenue for the district in which the serviceman has his legal residence or place of business.
   (2) Legal assistance officers, located at practically all Army and Navy installations.¹

SECTION 2. WHAT TAX IS CANCELED AND WHAT TAX MAY BE EXTENDED

Enlisted men—Active-service pay

2. Question. Is an enlisted man required to file any return, or pay any tax, for the period of the present war, if his sole income during this period was from active-service pay, received as an enlisted man?
   Answer. An enlisted man is not required to file a return or pay any tax for any taxable year beginning after December 31, 1940, and before the official termination of the war, if his sole income received during these years consists of active service pay received by him as an enlisted man. The official termination of the war is the date of such termination as proclaimed by the President, and the President has not yet issued such a proclamation.

¹ In the Washington, D. C., area, Navy and Marine Corps personnel are referred to the Office of Professional Assistant, Bureau of Supplies and Accounts.
3. Question. If an enlisted man has paid Federal income tax as to service pay as described in question 2, will it be refunded?
Answer. If an enlisted man has paid such tax he is entitled to a refund by filing a claim for refund with the Federal collector of internal revenue for his district.

Enlisted men—nonservice income

4. Question. If an enlisted man had other income than income from service pay for the war years, is he required to file any return, or pay any tax?
Answer. This depends upon the amount of his nonservice income. His gross income (total nonservice income) must be $500 or more before he is required to file a return for 1944 and subsequent years. For years prior to 1944, he may not be required to file returns if his gross income exceeded that amount. (See pt. IV of this analysis, relating to filing requirements for years prior to 1944.)

5. Question. If required to file return or pay tax, how does the income tax operate?
Answer. Parts II, III, IV, V, VI, and VII, (pp. 9–22) deal with the operation of the income tax with respect to servicemen for the years 1941 to 1945, inclusive.

Commissioned officers—active-service pay

6. Question. What is the treatment with respect to the active-service pay received as a commissioned officer during the war period?
Answer. (1) For taxable years after 1942 and before the termination of the war, so much of the active-service pay as does not exceed $1,500, received as a commissioned officer, is excluded from gross income. In addition, he is entitled to the personal exemptions, credits, and allowable deductions provided by law.
(2) The time for payment of any Federal income tax attributable to active-service pay received as a commissioned officer, for any taxable year beginning after December 31, 1939, and before January 1, 1947, may be extended for 36 months, subject to payment in 12 equal quarterly installments, without interest. This extension may be obtained by filing an application with the Federal collector of internal revenue for his district.

7. Question. If interest has been paid prior to the date of the enactment of the Revenue Act of 1945 as to such tax liability, will it be refunded?
Answer. Any interest paid as to such liability will be refunded or credited if claim is filed prior to January 1, 1947, with the collector of internal revenue for the taxpayer’s district.

8. Question. When should an application for such extension be filed?
Answer. The application for the extension should be filed with the collector of internal revenue on or before the first installment date. The first installment date is as follows:
(1) If released from active duty prior to December 1, 1945, the first installment date is May 15, 1946.
(2) If released from active duty on or after December 1, 1945, the first installment date is June 15, 1947, or the fifteenth day of the sixth month which begins after the date of release from active duty, whichever is the earlier.
EXAMPLE II

Tax attributable to service pay of commissioned officers which may be extended under Revenue Act of 1945

Captain in the Army or Marine Corps, or lieutenant in the Navy, less than 3 years' service, married, no dependents, wife had no income, allowable deductions of $500:

Service pay in 1945.

Less: Exclusion

Includable service pay

Salary in 1945 from former employer

Gross income

Less: Allowable deductions

Net income

Tax payable (both normal and surtax)

The effect of the provision in the Revenue Act of 1945 allowing a 36-month extension of the tax due on service income is shown by the following computations which are necessary to arrive at the tax so deferred:

Salary from former employer

Less: Allowable deductions

Net income

Less: Surtax exemptions

Surtax net income

Net income

Less: Normal tax exemption

Normal tax net income

Total tax

13. Question. If an enlisted man or commissioned officer has deferred liability as to preserve earned income for 1940 or 1941, referred to in question 10 and the answer, how may he determine the tax which may be extended for 36 months and the tax which is still payable?

Answer. This may be determined as illustrated in the following example.

EXAMPLE III

Tax attributable to preserve earned income and treatment thereof under Revenue Act of 1945

Officer or enlisted man, married, no dependents, wife had no income, allowable deductions in 1941 of $1,000, and total income of $13,000 of which $8,500 was from salary (earned income) and $4,500 was from investments:

Earned income

Less: Deductions attributable to earned income

Earned net income

$4,500

1,000

1,000

9,700

388

1,445

1,833

500

1,500

500

1,833

265

1,500

500

1,833

265

1,500

500

1,500

1,500

60

360

965

605

CANCELLATION AND EXTENSION PROVISIONS OF THE REVENUE ACT OF 1945

14. Question. The public press and other news channels have carried statements as to changes made by the Revenue Act of 1945, with respect to Federal income taxes of servicemen; where may a summary of these amendments to the law be obtained?

Answer. The following is a summary of the changes made by the Revenue Act of 1945 with respect to servicemen.

SECTION 3. SUMMARY OF CHANGES MADE BY THE REVENUE ACT OF 1945 WITH RESPECT TO INCOME TAX OF SERVICEMEN

TREATMENT OF LIABILITY WITH RESPECT TO ACTIVE SERVICE PAY RECEIVED AS AN ENLISTED MAN

The Revenue Act of 1945 changed prior law in three principal respects:

For enlisted men (servicemen below the grade of commissioned officer, or commissioned warrant officer), any Federal income-tax liability attributable to active-service pay received as an enlisted man in any year beginning after December 31, 1940, or before January 1, 1947, is canceled, and any such liability which has been paid will be refunded.
No enlisted man in the military, or naval, or marine, or Coast Guard forces of the United States will have any income tax, or any return to file, for any "war years" (1941 to 1946, inclusive), if his sole income was income from the service.

**Treatment of liability as to nonservice income of enlisted men**

With respect to income other than from service pay, such as compensation paid by his former employer and income from investments—rent, sale of real estate, etc., received by an enlisted man, any tax liability attributable to such income is not canceled, and he will have to file return, but he will have the benefit of existing law, which contains the following liberal provisions as to filing return and payment:

1. If he is on overseas or sea duty, he has until 6 months after his return to the continental United States, or until 3 months after the termination of the war as proclaimed by the President, whichever is earlier, to file his return and pay his tax, without interest as to this period.

2. Under section 513 of the Soldiers' and Sailors' Civil Relief Act, upon showing of hardship (impairment of ability to make payment due to his military service), he has until 6 months from the date of his discharge, or until 3 months after the termination of the war as proclaimed by the President, whichever is earlier, before the tax will be due. Return will already have been made in this case when payment was deferred. At the end of that 6 months, under section 700 of the Soldiers' and Sailors' Civil Relief Act, he may, through application to the courts, obtain a further extension of time for payment for a period equal to his length of service, as to liability arising from this income derived from sources other than from the service, subject to payment in periodic installments, with interest at 6 percent, dating from the end of 6 months after his discharge, or 3 months from the termination of the war as proclaimed by the President, whichever is earlier.

Two examples will illustrate the operation of the relief provisions under this bill as to enlisted men:

**Example 1. Where the sole income is service pay.**—All liability attributable to active-service pay received as an enlisted man for any or all of the years 1941 to 1946, inclusive, the tax is canceled; and if any such tax has been paid, it will be refunded.

**Example 2. Extension of payment of tax attributable to income other than from the service.**—An enlisted man had income for one of the years 1941 to 1946 of $3,000 from rentals and tax liability of $500.

(a) If deferred under section 3804 of the code because on sea or overseas duty, no return or payment is due until 6 months after his return to the continental United States or 3 months from the termination of the war as proclaimed by the President, whichever is earlier. No interest will run as to this period.

(b) If deferred because of hardship due to military service, under section 513 of the Soldiers' and Sailors' Civil Relief Act, payment is not due until 6 months after his discharge, or 3 months from the termination of the war as proclaimed by the President, whichever is earlier. No interest will run as to this period.

(c) If at the due date under (a) or (b) it still would cause hardship to pay this tax attributable to income from outside the service, the courts have power to extend the time for payment for a period equal to the length of the military service, subject only to the requirement of payment in periodic installments, with interest at 6 percent—as to the period of extension after the period under (a) or (b).

The foregoing illustrates the operation of the bill and existing law with respect to enlisted men.

**II. Extension of time for payment without interest of tax attributable to service pay of the commissioned service received in any taxable year beginning after December 31, 1939, and before January 1, 1947.**

(The provisions excluding from gross income so much of the active-service pay as does not exceed $1,500, were not changed by the act. Also the personal exemptions and credits for dependents for the taxable year are applicable.)

**Treatment of liability with respect to active-service pay of commissioned officers**

The act provides for extension of the time for payment, without interest, of any tax attributable to the service pay of the commissioned service, for any taxable year beginning after December 31, 1939, and before January 1, 1947. The tax thus extended will include any accrued interest, up to 6 months after discharge, when the tax was not deferred under the provisions of existing law. The payment of tax is extended for 36 months, payable in 12 equal quarterly installments, without interest or penalty, except that if an installment payment lapses, interest will run as to that installment at 6 percent, from the due date until paid. If interest has been paid as to extensions already granted, it will be refunded.

In the case of regular officers of the Army, Navy, Marine Corps, and Coast Guard, this extension operates only when the tax has been deferred by reason of sea or overseas duty, and not when tax was deferred under section 513 of the Soldiers' and Sailors' Civil Relief Act.

Thus, under the act, by application within time prescribed for making application for extension, an extension of 36 months to pay tax attributable to service pay received as a commissioned officer, without interest, may be obtained subject only to the requirement of payments in 12 equal quarterly installments. The time prescribed for making applications for extension and payment of the first installment, is as follows:

1. If released from active duty is prior to December 1, 1945, the first installment date is May 15, 1946.
2. If released from active duty on or after December 1, 1945, the first installment date is June 15, 1947, or the fifteenth day of the sixth month which begins after the date of release from active duty, whichever is earlier.

**Treatment of liability as to nonservice income of commissioned officers**

The extension under the act is not applicable as to tax attributable to income other than from service pay, such as income from former employers, or investments—rentals, sale of real estate, etc., but the commissioned officer is entitled to the benefits of existing law in the same manner as other servicemen; i.e., sections 513 and 700 of the Soldiers' and Sailors' Civil Relief Act, if able to make payment is impaired by reason of military service; or section 3804 of the Internal Revenue Code, if on sea or overseas duty.

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Two examples will illustrate the treatment of the liability of commissioned officers as to service pay and as to nonservice income.

Example 1. Extension of time for payment of tax attributable to service pay.—A commissioned officer has tax liability attributable to service pay for the “war years” of $1,200, which has been deferred by reason of sea or overseas duty, or by reason of hardship due to military service. He has under prior law, until 6 months after return to the continental United States or until 3 months after the termination of the war as proclaimed by the President, whichever is earlier, before the date for filing and payment is due, if the deferment was because of sea or overseas service. Also, under prior law he has until 6 months after date of discharge, or 3 months from the termination of the war as proclaimed by the President, whichever is earlier, before payment is due, if the deferment was because of hardship due to his military service. Under the act he may, by filing an application with the collector of internal revenue for his district within the time prescribed, obtain an additional extension of 36 months, without interest, subject only to the requirement of payments in 12 equal quarterly installments, of $100 each.

Example 2. Extension of time for payment of tax attributable to nonservice income of officers.—A commissioned officer has tax attributable to nonservice income received during the “war years” of $1,200. If deferred because of sea or overseas duty, under existing law he has until 6 months after his return to the United States, or 3 months from the termination of the war as proclaimed by the President, whichever is earlier, before return or payment is due. If deferred because his ability to make payment was impaired by reason of his military service, he has until 6 months from date of discharge before payment is due. In each of the above cases, no interest is required until the due date of the tax.

However, if he is unable to make payment of tax attributable to this nonservice income within the prescribed time, he may obtain additional relief under section 700 of the Soldiers’ and Sailors’ Civil Relief Act. Under this act, upon application to the courts and a showing of hardship due to military service, a period of extension may be granted equal to the length of his military service, subject to the requirements of payment in periodic installments, with interest at 6 percent. The act provides no additional relief in such cases.

III. Extension of time for payment of tax attributable to preserve earned income, applicable for all service personnel.—The bill also provides an extension of time for payment of the tax attributable to earned income of the years 1940 and 1941, which became due after entry into the service. This provision applies to officers and enlisted men. Earned income, for this purpose, cannot exceed $14,000.

The extension granted is the same as that provided under the bill as to tax attributable to the service pay of commissioned officers, already described.

An example will illustrate the operation of this provision.

Example. Extension of time for payment for all service personnel of tax attributable to preserve earned income (of taxable years 1940 and 1941).—An individual whose sole income for 1940 consisted of a salary of $10,000, had tax attributable to that income of $500, which became due and payable after he entered the service on March 14, 1941. If this tax has not been paid, under the bill he may obtain the same extension as is granted to commissioned officers as to tax attributable to service pay for the war periods.

If the salary of the same individual for 1940 had been $30,000 instead of $10,000, the tax which may be extended under the bill cannot exceed the tax attributable to $14,000.

PROVISIONS IN EFFECT WITHOUT REGARD TO THE REVENUE ACT OF 1945

PART II. FILING REQUIREMENTS

SECTION 1

15. Question. If a serviceman is required to file an income-tax return, at what time is it required to be filed?

Answer. (1) If a serviceman was overseas or on sea duty, the time of filing was automatically postponed. It may be filed at any time within 6 months after his return to the United States. The income-tax regulations state that he has until the earliest of the following dates to file a return: The 15th day of the sixth month following the month in which he returns to the continental United States; or the 15th day of the third month following the month in which the war with Germany, Italy, and Japan is officially terminated as proclaimed by the President; or the 15th day of the third month following the month in which an executor, administrator, or a conservator of the estate of the serviceman qualifies.

(2) If assigned to duty in the United States, the return for the preceding calendar year was due on March 15 following the close of such year. If payment was deferred because of inability to make payment due to military service, a return was required to be filed with the request for such deferment.

16. Question. Are all servicemen and veterans required to file returns under the law?

Answer. The requirement of filing returns depends upon the amount of the gross income for the taxable year involved.

17. Question. What is the return requirement as to income received by enlisted men from sources other than service pay, such as salary from a former employer or from investments?

Answer. It depends on the amount of such income and the taxable year involved.

18. Question. What taxable years are involved?

Answer. A taxable year beginning after December 31, 1940, during which the individual was in the service, and for which payment was postponed.

19. Question. How much must the gross income be before a return for one of these years is required?

Answer. The amount varies with the taxable year. This is answered later in part IV, where specific features of the income tax are stated separately for each year.

20. Question. Where no return is required by law, are there any cases where the making of a return would be to the advantage of a serviceman?
Answer. In cases of overwithholding on civilian income of a year prior to entry into the service, a return should be filed. There are other cases where joint returns may have been filed by the wife or husband where filing a return by the serviceman may be desirable. In any case of uncertainty as to his tax situation, it may be helpful for the serviceman to file a return, and he should consult the agency advising him. Income-tax returns have, in general, been greatly simplified.

21. Question. Where should a return be filed?
Answer. With the Federal collector of internal revenue for the district in which the serviceman has his legal residence or principal place of business; or lacking both the foregoing, then with the collector of internal revenue at Baltimore, Md.

SECTION 3. TIME OF PAYMENT WHERE TAX WAS POSTPONED

22. Question. When is the time for payment of liability in cases not covered by the Revenue Act of 1945?
Answer. (1) If payment is postponed by reason of sea or overseas duty the date prescribed for payment of such liability is the same as the date for filing returns in such cases, which is in general 6 months after return to the continental United States, or 3 months after the termination of the war as proclaimed by the President, whichever is earlier. (See answer to question 3.)

(2) If ability to make payment is materially impaired by reason of service in the armed forces, the serviceman can apply by letter to the Federal collector of internal revenue for the district in which he has his legal residence or place of business for deferment of payment under section 513 of the Soldiers' and Sailors' Civil Relief Act. Payment (but not the filing of return) can be deferred under that section of law until 6 months after active service terminates, without interest or penalty.

(3) In addition, if it would cause hardship to meet tax liability after termination of active service, further extension may be obtained under section 700 of the Soldiers' and Sailors' Civil Relief Act for a period equal to the length of military service, subject to the requirement of periodic payment, with interest at 6 percent.

23. Question. How may the latter extension be obtained?
Answer. Under the Soldiers' and Sailors' Civil Relief Act, the last-named extension is provided through application to the courts, but the Commissioner of Internal Revenue has instructed each field officer to extend this relief on a showing of hardship by the taxpayer, without the necessity of resorting to the courts. Following is the text of the Commissioner's release on this subject:

If a discharged veteran is unable to pay income taxes within the period of deferment provided by section 513 of the Soldiers' and Sailors' Civil Relief Act (6 months after discharge), or is unable to pay promptly any other Federal tax liability incurred prior to or during his term of service, collectors should deal with the matter of collection in a cooperative and sympathetic manner. Partial payments, geared to the financial resources of the service man or woman, may be accepted in such cases.

24. Question. Should servicemen take advantage of postponement of payment in all cases?
Answer. Not necessarily. In case of extension under section 700 of the Soldiers' and Sailors' Civil Relief Act, interest will be charged at 6 percent as to any period beyond the 6 months after discharge. This interest would be saved by payment of the tax. Also, in determining whether to take advantage of a postponement of payment under that section, the serviceman should bear in mind the tax forgiveness applicable if he dies in the active service (see part VII, Abatement of Tax Upon Death), and that generally this forgiveness applies only to taxes which have not been paid.

25. Question. What was the tax effect of the exclusion provisions for servicemen, without the changes made by the Revenue Act of 1945?
Answer. It is estimated by the Government that 90 percent of all servicemen had no tax liability on service pay even before cancellation provided by the Revenue Act of 1945; that of the remaining 10 percent who would have had some liability, nearly all enlisted men would have been free of tax, and many officers; that of the remainder who will have tax on service pay, it will be very small, or greatly reduced from the tax that would be payable by a civilian on income equal to a serviceman's pay and allowances. However, tax rates for 1943 and subsequent years are much higher than those for 1941. Surtax alone began at a 20-percent rate in 1944 and 1945. Officers in the higher grades (for example, majors and lieutenant commanders with flight pay, and colonels with overseas pay) may find their aggregate tax on service pay for 1943, 1944, and 1945 to be from $1,500 to $2,000, or some other rather sizable sum.

PART III. OPERATION OF THE FEDERAL INCOME TAX WITH RESPECT TO SERVICEMEN AND VETERANS FOR TAXABLE YEARS 1941-45, INCLUSIVE

SECTION 1. GENERAL APPLICATION TO ALL YEARS

The period of service of members of the armed forces generally may extend from 1941 through 1946 or later years. Some of the provisions of the law vary with the taxable years 1941, 1942, 1943, 1944, 1945, and 1946. The operation of the law will be briefly outlined separately for each of these years later. But some of the provisions have general application for all of the years named, and these will be stated under this section.

Provisions applicable to all years; income of servicemen treated differently from income in civilian status

26. Question. How is income of servicemen treated differently from income in civilian status?
Answer. The law requires the inclusion of certain parts of the income from the service in a serviceman's gross income for the purpose of determining tax liability, and excludes other parts. That is, in making a return or computing tax, certain income is put in and certain income is left out.

27. Question. What parts of service income are included in gross income; that is, what is put in the return where one is required?
Answer. All active-service pay except the amount specifically excluded, as shown by the answer to question 28. Service pay consists of the base pay and additions to base pay, such as pay for longevity, overseas, sea, flight, submarine, parachute, and other special services. Also, any income from other sources than the service, such as compensation from a former employer, or income from investments.
28. Question. What payments are income excluded or left out? Answer. 1. Certain payments by the Government are not treated as income, and are excluded. These are as follows:

(a) Contributions by the Government to the family allowance.

(b) Pensions and benefits received under such acts as the War Risk Insurance Act, as amended; the World War Veterans' Act, 1924, as amended; the World War Adjusted Compensation Act, as amended; Public Law 2 Seventy-third Congress, approved March 20, 1933, and the Veterans' Regulations promulgated pursuant thereto, as amended; and the National Service Life Insurance Act of 1940, as amended. (Payments under these acts are exempted from income tax because of the provisions of Public Law 282, 74th Cong., approved August 12, 1935, as amended.)

(c) Benefits and subsistence allowances furnished to discharged veterans for education or training under the Servicemen's Readjustment Act of 1944 (commonly known as the GI bill of rights), and vocational rehabilitation benefits under Public Law 16, Seventy-eighth Congress, as amended.

(d) Mustering-out payments received under the provisions of the Mustering-Out Payment Act of 1944.

(e) Amounts received as a pension, annuity, or similar allowances (such as retirement pay) for personal injuries or sickness resulting from active service in the armed forces of any country.

(f) Amounts received through accident or health insurance; and also amounts received under workmen's compensation acts for personal injury or sickness, except in the case of amounts attributable to deductions for medical expenses allowed in prior taxable years.

(g) Amounts received by gift, bequest, or devise (but income derived from amounts or property so received is itself taxable); also that portion of the proceeds of a life insurance policy received by a serviceman upon the death of the insured person.

(h) Amounts received by an insured as return of premiums or consideration paid by him under life insurance contracts.

(i) Interest on certain State or Federal Government obligations to the extent provided by law.

(j) Value of subsistence and quarters furnished in kind.

(k) Money rental allowance where quarters are not furnished in kind.

(l) Money subsistence allowance where subsistence is not furnished in kind.

(m) Value of travel furnished in kind to discharged enlisted men.

(n) Per diem allowance in lieu of subsistence paid to an officer traveling on official business away from post of duty.

(o) Uniforms furnished in kind.

(p) Allowances for uniforms.

(q) Money allowance paid upon discharge to enlisted men, in lieu of unused clothing allowance to which they are entitled.

(r) Gratuitous medical or hospital treatment provided by government in Government hospitals.

Specific exclusions from gross income

2. For the taxable years 1942 and subsequent years the law specifically excludes a portion of the active service pay.

For 1942 the exclusion (sec. 22 (b) (13) of the Internal Revenue Code, as added by sec. 117, Revenue Act of 1942) is as follows:

- Additional allowance for military and Navy personnel. Thus much of the amount received, before the termination of the present war as proclaimed by the President, by personnel below the grade of commissioned officer in the military or naval forces of the United States as salary or compensation in any form from the United States for active service in such forces during such war, as does not exceed $250 in the case of a single person and $300 in the case of a married person, in each instance, of the armed forces and his family status shall be made as of the end of the taxable year.

For 1943 and subsequent years the exclusion (sec. 22 (b) (13) of the Internal Revenue Code) is similarly as amended by sec. 7 (a). Current Tax Payment Act, is as follows:

- Additional allowance for military and naval personnel. In the case of compensation received during any taxable year and before the termination of the present war as proclaimed by the President, by a member of the military or naval forces of the United States for active service in such forces during such war, or by a resident of the United States who is a member of the military or naval forces of any of the other United Nations for active service in such forces during such war, so much of such compensation as does not exceed $1,500.

By the exclusion of the above amounts is meant that from the amount of the active-service pay as defined in the answer to question 14, page 6, is deducted the properly allowable excluded amount for the taxable year involved, and putting the balance of the active-service pay in the return for the income for purpose of the tax. For example, if a serviceman's base, longevity, foreign service, and flight pay received in 1945 aggregated $4,000, he will enter on his return form for 1945 only $2,500 (that is, $4,000 minus $1,500).

Additional items of expense of servicemen deductible when itemized in Form 1040

1. Expenses incurred in travel for which mileage allowance is reported as part of gross income.

2. If traveling in a per diem status, the excess of expenses over the per diem allowances.

3. Contributions by men and officers to "Company" funds.


5. Swords and saber.

6. Depreciation on the cost of providing horse and equipment where mounted is required of officers by Government for exclusively official duties.

7. Recruiting officers' unreimbursed traveling expense.

8. Naval officers' subsistence expense over allowance on permanent duty afloat.

9. Loss due to nonnegligent shortage in accounts.

10. Expense of obtaining increased retirement pay.

11. The cost of gold lace, cap devices, and insignia of rank.

12. Due to professional societies.

13. Subscriptions to professional journals.

Items of expense of servicemen not deductible

1. Daily transportation cost between home and station.

2. Laundry and cleaning expenses of uniforms and personal effects.
3. Professional textbooks and school equipment purchased to secure education in Army or Navy school.
4. Uniforms.
5. Living expense of naval officer stationed in one locality.
7. Expense of visiting home while on furlough, leave, or liberty.
8. Damage to household equipment in moving.
10. Auto upkeep.
11. Uniform alterations.
12. War risk insurance premiums.
13. Fines imposed by court martial.

29. Question. Are there any other of the principal features of the law that apply for all of the years of service?
Answer. For each taxable year servicemen are entitled to such personal exemptions, credits, and deductions as are applicable to incomes in a civilian status. They vary with the taxable year and are stated in the following pages under the heading of the year involved.

PART IV. HOW TO COMPUTE TAX OF SERVICEMEN BEFORE REVENUE ACT OF 1945 AS TO ENLISTED MEN (FOR 1944 AND 1945)

How to determine when return is required in 1944 and 1945

SECTION 1. USING FORM 1040 AND TAX TABLE
(Page numbers refer to Form 1040 for 1944)

30. Question. Having determined what parts of the service income to include in gross income and what parts to exclude, how much gross income must a serviceman have before he is required to file a return in 1944 and 1945?
Answer. If the total gross income computed as described in the foregoing amounts for each year to $500 or more, he is required to file a return, whether single, married, a minor, or an adult.
If the total gross income from active-service pay is $500 or more, this is entered (using Form 1040) as item 2, page 1, of the return form. If he had other income it should be entered as item 3 or 4. The total is entered as item 5.

31. Question. May tax be found on this total without further computation?
Answer. Yes; if the total income in item 5 is less than $5,000. This is a form of simplification provided by the Individual Income Tax Act of 1944. Just under item 5 is a note in blackfaced type on how to figure the tax, which reads as follows:

If your income was less than $5,000. — You may find your tax in the tax table on page 2. This table, which is provided by law, is based on the same tax rates as are used in the tax computation on page 4. The table automatically allows about 10 percent of your total income for charitable contributions, interest, taxes, casualty losses, medical expenses, and miscellaneous expenses. If your expenditures and losses of these classes amount to more than 10 percent, it will usually be to your advantage to itemize them and compute your tax on page 4.

If your income was $5,000 or more. — Disregard the tax table and compute your tax on page 4. You may either take a standard deduction of $500 or itemize your deductions, whichever is to your advantage.
Personal exemptions

Each taxpayer is entitled to the benefit of (a) a normal tax exemption of $500 in computing normal tax; (b) a surtax exemption of $500 for himself in computing surtax; (c) a surtax exemption of $500 for wife (or husband) provided that they file a combined or joint return or that one had no gross income and was not a dependent of another taxpayer; and (d) $500 for each closely related dependent who had less than $500 gross income and who, if married, does not file a joint return with wife or husband. (The credit for "head of family," used in previous years, has been abolished for 1944 and later years.)

Surtax exemption

From the above, the amount of the surtax exemption can be determined, and this should be entered in item 4 of page 4. The balance after subtraction of this amount is the surtax net income.

Computation of surtax

The surtax is computed on the surtax net income entered in item 5, page 4. The surtax rates are given on page 4 of "Instructions for Form 1040" which is furnished the taxpayer with Form 1040. These rates range from 20 percent on the first $2,000 of surtax net income, to 91 percent on the amount in excess of $200,000. They are not given here because they will be furnished with Form 1040.

Normal tax exemption

The normal tax exemption can be determined under the heading above, "Personal exemptions." In item 7 you again enter the amount of the net income which was entered in item 3. The normal tax exemption is entered in item 8 and deducted from net income, item 7. The difference is entered in item 9. This is the taxable normal tax net income.

Computation of normal tax

The normal tax is 3 percent of the amount in item 9. This is then entered as item 10.

The balance of the page, items 10 to 15, inclusive, are simply an adjustment, after which the total tax is shown as item 15.

The purpose of setting out in detail the above steps is both to illustrate how tax is computed, and to enable the taxpayer to fill out his return; and to understand it in case he is assisted by another.

As pointed out, Form 1040 and "Instructions for Form 1040" are furnished by his Federal collector of internal revenue to the taxpayer on request. By following them, the making of the return is not difficult under the simplification accomplished under the current payment system.

EXAMPLES SHOWING COMPUTATION OF TAX FOR SERVICEMEN IN SPECIFIC STATUS UNDER PROVISIONS APPLICABLE TO TAXABLE YEARS 1944 AND 1945

Example 1

Sergeants, fourth grade, and naval petty officer third class, under 3 years of service, with base pay, overseas or sea-duty pay, and flight or submarine pay. Married, wife with no income, one dependent child.

1. Total service pay, including base pay, overseas or sea-duty pay, flight or submarine pay (excludes all nontaxable service income, such as Government contributions to family allowances, rentals, and subsistence, etc.) $1,684

2. Deduct exclusion, first $1,500 of service pay ................................ $1,500

3. Gross income .............................................. $184

There is no taxable income; and since return is required only where gross income is $500 or more, no return is required.

Example 2

Master sergeant or naval chief petty officer with active appointment, under 3 years of service, with base pay, overseas or sea-duty pay, and flight or submarine pay. Married, wife with no income, one dependent child.

1. Total service pay, including base pay, overseas or sea-duty pay, flight or submarine pay (excludes all nontaxable service income) ........................... $2,980.80

2. Deduct exclusion, $1,500 of active service pay ............................ 1,500.00

3. Gross income and adjusted gross income ............................. 1,480.80

(A return is required since the gross income is $500 or more.)

Normal tax

4. Adjusted gross income ............................................. 1,480.80

5. Less allowable deductions (in this case assumed as equal to 10 percent of adjusted gross income) .............................................. 148.08

6. Net income ..................................................... 1,332.72

7. Less normal tax exemption (1) .................................. 500.00

8. Taxable normal tax net income ........................................... 832.72

9. Normal tax (3 percent of $832.72) ................................... 24.98

Surtax

10. Adjusted gross income (item 3 above) ................................. 1,480.80

11. Deduct assumed deduction of 10 percent of adjusted gross income .......................... 148.08

12. Net income ..................................................... 1,332.72

13. Deduct surtax exemptions ($500 for serviceman, $500 for wife, $500 for dependent child) ............................. 1,500.00

14. Surtax net income .................................................. 0

Since the allowable deductions and surtax exemptions exceed the surtax net income, there is no surtax; but there is a normal tax of $14.997 ($15), as shown in item 9 above, which is the total tax.

Example 3

Captain in the Army or full lieutenant in the Navy, not over 3 years of service, with base pay, overseas or sea-duty, and flight or submarine pay. Married, wife has no income, one dependent child.

1. Total service pay (including rental and subsistence) ............... $5,551.00

2. Deduct rental and subsistence (nontaxable income) ................. 1,591.00

3. Total service pay, including base pay, overseas or sea duty, flight or submarine pay ........................................... 3,960.00

4. Deduct exclusion, $1,500 of service pay ................................ 1,500.00

5. Gross income and adjusted gross income ............................. 2,460.00

(A return is required, since gross income exceeds $500.)
Personal exemptions.—Single, $750; married, $1,500; head of family, $1,500.

Note.—Personal exemptions applied against both normal tax and surtax. Married person exemption applicable only if living together the entire year; if living apart, the single person exemption is applicable for each. If living together the personal exemption could be used against their total income if filing joint return, in full by either one or divided between them, if filing separate return. A married person could not claim both married and head of family exemption—only married exemption was applicable.

Credit for dependents.—$400 for each person dependent upon and receiving chief support from taxpayer, whether living with, or related to taxpayer, if under 18, or over 18 and incapable of self-support by reason of physical or mental defects.

TAXABLE YEAR 1942 (INCOME RECEIVED IN 1942)

Due date for filing return.—March 15, 1943.

Exclusion from gross income.—So much of the active service pay of members of armed forces below the grade of commissioned officer, as does not exceed $250 if single, or $300 if married. (See “specific exclusions,” p. 6.)

Who is required to file.—All taxpayers, if single (or married and not living with spouse) and income was $500 or over; or if married entire year, one spouse having no income and income was $1,200 or over (1); or if married entire year and both spouses have gross income, and if combined gross income is $1,200 or over, unless a joint return is filed, both must file separate returns (2); or if married during part of year and income is the same as (1) and (2) above, except that if the combined personal exemptions (not including credit as head of family or for dependents) which are to be prorated, where the status changes during the year, are not $1,200, the combined exemption figure is substituted for $1,200.

Personal exemptions.—Single, $500; married or head of family, $1,200.

Credit for dependents.—$350. ($385 if optional short Form 1040—A is used. Status of dependent on July 1, 1942, gives status for annual return.)

Note.—Use of personal exemptions and credits for dependents, same as for taxable year 1941, above.

TAXABLE YEAR 1943 (INCOME RECEIVED IN 1943)

(Under current payment system, withholding on civilian income as received, or quarterly payment if estimated, but annual returns required on March 15 of year following year in which income was received. See Current Tax Payment Act of 1943, p. 21.)

1 A married person in the armed forces retains married exemption while away from home on active duty.
Due date for filing return.—March 15, 1944.
Exclusion from gross income.—So much of active service pay of all members of the armed forces of the United States as does not exceed $1,500, regardless of grade.
Who is required to file.—All taxpayers, if single (or married and not living with spouse) and income was $500 or over; or if married entire year, one spouse having no income and income exceeds $824; or if married entire year, both spouses having gross income, and if spouse's income combined with any income of other spouse equals or exceeds $1,200 or if gross income of either exceeds $624; or if married during part of year, even though combined income of husband and wife is under $1,200, and they were married and living together only part of the year, if combined gross income equals or exceeds the aggregate of $500 for each, prorated to the period when they were single, plus $1,200 prorated to the period when they were married, a return must be filed.
Personal exemptions.—Single person, not head of a family, or married, not living with spouse, $500; married, living with spouse, $1,200; head of family, $1,200.
Victory tax specific exemption.—$624 for each taxpayer, no credit for dependents, no other personal exemption.
Credit for dependents.—$350. (If optional return Form 1940—A used, $385.) (See personal exemptions above under “Taxable year, 1943.”)

TAXABLE YEARS 1944 AND 1945 (INCOME RECEIVED IN 1944 AND 1945)

(Current payment system applicable. Withholding as civilian salary or wages were received, or quarterly estimates of estimated tax, but annual returns required March 15 of year following year in which income was received. (See Current Tax Payment Act, p. 21.)
Due date for filing return.—March 15, 1945, and March 15, 1946.
Who is required to file.—All taxpayers, if single (or married and not living with spouse) and income was $500 or over; or if married entire year, one spouse having no income and income was $500 or over; or if married entire year, both spouses having gross income and income is $500 or over; or if married during part of year, and the married status results if the parties are married and living together on the last day of the taxable year between periods of single or married status is eliminated (except where one spouse died during the year). Every person who has a gross income of $500 or more for the taxable year 1944 or the year 1945, whether single or married, must make a return. A joint return may be made by husband and wife even though one of them has no gross income or deductions, and even though they are not living together, if the parties are married on the last day of the taxable year (except where one spouse died during the year.)
Exclusion from gross income.—Same as for “Taxable year 1943” page 19.
Personal exemption.—(See below.)
Normal tax exemptions.—Single person, $500; married persons, separate returns, $500; if joint return is filed $1,000 or less, if adjusted gross income of one spouse is less than $500, the amount of the adjusted gross income of such spouse.

Surtax exemptions.—Single persons, $500; married persons (aggregate), $1,000; $500; for each dependent, $500.
Credit for dependents.—None as such; taxpayer allowed surtax exemption of $500 for each dependent for purposes of the surtax. (See “Personal exemptions” above.)

PART VI. THE CURRENT TAX PAYMENT SYSTEM
SECTION 1. GENERAL

32. Question. What is the current tax payment system adopted since the World War II began?
Answer. This will be briefly outlined below:
1. From the adoption of the income tax in 1913 to 1943 the income tax was payable in the year following the receipt of the income. For example, a return was due on March 15, 1943, with respect to the income received in 1942, and payment was required in 1943 (the year following receipt of the income on which tax was payable), usually in quarterly installments.

Under this system the taxpayer was regarded as being a year behind, although not so regarded under the law, which permitted payment in this manner. The taxpayer, in the year when required to pay, might have no income, or smaller income, sometimes resulting in hardship to him or loss to the Government. Taxpayers generally wanted a current payment system, often called a pay-as-you-go system, which would enable taxpayers to pay tax currently as the income was received.

SECTION 2. THE CURRENT TAX PAYMENT ACT OF 1943

By reason of the demand for a current payment system, the Congress in 1943 enacted the Current Tax Payment Act providing for current payment. Under this was set up a system for withholding by employers, as salaries were paid, of a portion of the tax liability. Withholding has never applied to active service pay of military personnel. In the case of individuals having income other than wages, including military personnel, current payment was set up by providing that persons be permitted to file within the year as income is received, “Declarations of estimated tax” for that year, and pay quarterly during the year, the major part of the tax liability as the income is received. Thus, at the end of the year, persons receiving salaries and persons receiving income from business or professions, are practically current; so that when the annual return is filed on March 15 (which is an accounting in the year following receipt of the income on liability for that year) there has already been paid through withholding, or quarterly payments in the case of individuals having income from other sources, most of the liability for the previous year. If too much has thus been paid, a refund is made, and if not enough the balance is due, when the return is filed on March 15.

Thus, taxpayers whose incomes may have fallen off in one year over a prior year are relieved of hardship of having to pay liability of a prior year in the year when income may have fallen off.
33. Question. What was the “forgiveness” provided by the Current Tax Payment Act?
Answer. The accrued income tax withholding as of July 1, 1943. (Withholding of the Victory tax imposed by the Revenue Act of 1942 began from January 1, 1943.) Under the previous tax-payment system taxpayers still owed one-half of the tax on income of 1942. Thus, without some kind of "forgiveness," or adjustment, taxpayers would be paying in 1943 tax on the income of both 1942 and 1943. To enable taxpayers to pay their liability on 1943 income currently or as the income was received, an adjustment was made on 1942 liability by which 75 percent of the latter was abated or canceled and the other 25 percent made payable, in 1944, or, at the option of the taxpayer, 12 1/2 percent in 1944 and 12 1/2 percent in 1945. This is what is frequently called "forgiveness." The net effect may be regarded as simply an increase in the tax payable in 1944 and in 1945 on war income, since in each of these years both the tax on the income of 1943 and a portion of the tax on 1942 income (12 1/2 percent in 1944 and 12 1/2 percent in 1945) was payable.

34. Question. What was the "forgiveness" for servicemen?
Answer. All of the income-tax liability of servicemen on income of 1942 that was attributable to earned income (wages, salaries, and other income for personal services) up to $14,000, was canceled to the extent, if any, that it exceeded the tax on 1943 income.

PART VII. ABATEMENT OF TAX FOR MEMBERS OF THE ARMED FORCES UPON DEATH

35. Question. What provision is made with respect to income-tax liability of members of the armed forces who died in active service during the war?
Answer. In the case of any individual who dies on or after December 7, 1941, while in active service as a member of the military or naval forces of the United States or of any of the other United Nations, and prior to the termination of the present war as proclaimed by the President, the following is provided:
1. The income tax is canceled for the year in which falls the date of death; and if paid, it is refunded.
2. The income tax for all preceding taxable years, if unpaid at the date of death, is canceled; but if paid, provision for refund has not been made.

The law containing the provision, section 421 of the Internal Revenue Code, is as follows:

In the case of any individual who dies on or after December 7, 1941, while in active service as a member of the military or naval forces of the United States or of any of the other United Nations and prior to the termination of the present war as proclaimed by the President, the tax imposed by this chapter shall not apply with respect to the taxable year in which falls the date of his death, and the tax under this chapter and under the corresponding title of each prior revenue law for preceding taxable years which is unpaid at the date of his death (including interest, additions to the tax, and additional amounts) shall not be assessed, and if assessed the assessment shall be abated, and if collected shall be credited or refunded as an overpayment.

APPENDIX

EXCLUSION PROVISIONS

Exhibit 1

SEC. 141. ADDITIONAL ALLOWANCE FOR MILITARY AND NAVAL PERSONNEL (Revenue Act of 1945).

(a) In General.—Section 22 (b) (13) (relating to the exclusion from gross income for military and naval personnel) is amended to read as follows:

"(13) Additional allowance for military and naval personnel.—

(A) In the case of compensation received during any taxable year and before the termination of the present war as proclaimed by the President, for active service as a commissioned officer (or commissioned warrant officer) in the military or naval forces of the United States during such war, or, in the case of a citizen or resident of the United States, as a member of the military or naval forces of any of the other United Nations during such war, so much of such compensation as does not exceed $1,500.

(B) Compensation received during any taxable year and before the termination of the present war as proclaimed by the President, for active service as a member below the grade of commissioned officer (or commissioned warrant officer) in the military or naval forces of the United States during such war.")

(b) TAXABLE YEARS TO WHICH APPLICABLE.—Subparagraph (A) of section 22 (b) (13), as amended by subsection (a) of this section, shall be applicable with respect to taxable years beginning after December 31, 1942; subparagraph (B) thereof shall be applicable with respect to taxable years beginning after December 31, 1949.

(c) CREDITS OR REFUNDS FOR 1941 AND 1942.—If at any time prior to January 1, 1947, the allowance of a credit or refund of an overpayment of the tax for any taxable year beginning after December 31, 1940, and before January 1, 1943, is otherwise prevented by the operation of any law or rule of law (other than section 3761, relating to compromise), a credit or refund of the overpayment of such tax to the extent that the overpayment is attributable to the enactment of this section may, nevertheless, be allowed or made if a claim therefor is filed before January 1, 1947.

Exhibit 2

Section 22 (b) (13) OF THE INTERNAL REVENUE CODE (ADDED BY SECTION 7 OF THE CURRENT TAX PAYMENT ACT OF 1943), APPLICABLE FOR 1943 AND SUBSEQUENT TAXABLE YEARS

(13) Additional allowance for military and naval personnel.—In the case of compensation received during any taxable year and before the termination of the present war as proclaimed by the President, by a member of the military or naval forces of the United States for active service in such forces during such war, or by a citizen or resident of the United States who is a member of the military or naval forces of any of the other United Nations for active service in such forces during such war, so much of such compensation as does not exceed $1,500.

Exhibit 3

Section 22 (b) (14) OF THE INTERNAL REVENUE CODE (ADDED BY SECTION 109 OF THE REVENUE ACT OF 1943)

(14) Mustering-out payments for military and naval personnel.—Amounts received during the taxable year as mustering-out payments with respect to service in the military or naval forces of the United States.
section 22 (b) (13) of the internal revenue code (as added by sec. 117 of the rev. act of 1942) applicable for the taxable year 1942.

additional allowance for military and navy personnel.—so much of the amount received, before the termination of the present war as proclaimed by the president, by personnel below the grade of commissioned officer in the military or naval forces of the united states as salary or compensation in any form from the united states for active service in such forces during such war, as does not exceed $250 in the case of a single person and $300 in the case of a married person or head of a family. the determination, for the purposes of this paragraph, of the taxpayer's status in the armed forces and his family status shall be made as of the end of the taxable year.

extension provisions

section 142. deferment of certain taxes of veterans and servicemen (revenue act of 1945).

(a) in general.—chapter 38 (miscellaneous provisions) is amended by inserting at the end thereof a new section reading as follows:

"sec. 3808. deferment of tax attributable to service pay for commissioned service and of tax attributable to pre-service earned income

"(a) definitions.—as used in this section—

"(1) tax attributable to service pay.—the term 'tax attributable to service pay' means—

"(a1) in the case of a war year for which the taxpayer had in gross income other than compensation for active service as a member of the military or naval forces of the united states, the excess of the tax imposed under chapter 1 for such war year; or

"(b) in the case of a war year for which the taxpayer had gross income in addition to compensation for active service as a member of the military or naval forces of the united states, the excess of the tax imposed under chapter 1 for such war year over the tax that would have been imposed if such compensation had been excluded from gross income; except that in the case of a commissioned officer (or a commissioned warrant officer) of the regular component of the army, navy, marine corps, or coast guard, such term shall not apply to any war year unless, at the time prescribed for the payment of the tax under chapter 1 for such war year, a period of time was being disregarded under section 3804.

"(2) war year.—the term 'war year'—

"(a1) when used with respect to the tax attributable to service pay means any taxable year beginning after December 31, 1939, and before January 1, 1947; and

"(b) when used with respect to the tax attributable to pre-service earned income means any taxable year beginning after December 31, 1939, but before January 1, 1942, and before the taxpayer entered upon active service as a member of the military or naval forces of the united states, but does not include any year unless part of the tax imposed by chapter 1 for such year became due and payable after the taxpayer entered upon such active service.

"(3) tax attributable to pre-service earned income.—the term 'tax attributable to pre-service earned income' means the excess of the tax imposed by chapter 1 for any war year over the tax that would have been imposed for such year if there had been excluded from the net income for such year the amount of the earned net income (as such term was defined in section 25 (a) subsection (a) of this act) with respect to such year, except that in computing such earned net income, compensation for active service in such forces shall be disregarded.

"(4) first installment date.—the term 'first installment date' means may 15, 1946, in the case of taxpayers released from active duty in the military or naval forces of the united states prior to december 1, 1945; and in other cases june 15, 1947, or the fifteenth day of the sixth month which begins after the date of the taxpayer's release from active duty in such forces, whichever is the earlier; except that, if the first installment date with respect to any war year would otherwise occur earlier than the fifteenth day of the third month following the close of such year, the first installment date with respect to such year shall be the fifteenth day of such third month.

"(b) extension of time for payment.—upon application with respect to any war year, made prior to the first installment date, and under regulations prescribed by the commissioner with the approval of the secretary of the treasury, the commissioner may extend the time for payment of the tax attributable to service pay for such year.

"(1) the time for payment of an amount of the tax under chapter 1 for such year which is equal to the tax attributable to service pay for such year and which has not been paid before the filing of such application; and

"(2) the time for the payment of an amount of the tax under chapter 1 for such year which is equal to the tax attributable to pre-service earned income for such year and which has not been paid before the filing of such application shall, in lieu of the time otherwise applicable, be as follows: one-twelfth thereof on the first installment date and an additional twelfth thereof every three months thereafter until such tax is paid.

"(c) suspension of period of limitation.—the running of the period of limitation provided in section 276 (e) (relating to the collection of the tax after assessment) in respect of any tax the time for the payment of which is prescribed under subdivision (b), shall be suspended for the period beginning with the date of the filing of the application under such subsection and ending six months after the date prescribed therein for the payment of the last installment of such tax.

"(d) estimated tax.—if the taxpayer is eligible for the benefits of subsection (b) with respect to any war year—

"(1) for the purposes of the application of section 58 with respect to such year, compensation for active service as a member of the military or naval forces of the united states may be disregarded in determining the gross income reasonably expected for such year, and in determining the estimated tax for such year; and

"(2) for the purposes of section 294 (d) the tax for such year shall be determined as if such compensation were excluded from gross income.

this subsection shall not apply with respect to a taxpayer for any war year who at the time prescribed for making the declaration of estimated tax for such year is a commissioned officer (or a commissioned warrant officer) of the regular component of the army, navy, marine corps, or coast guard.

"(e) payment of tax.—any interest accruing prior to the date of the enactment of this act with respect to tax attributable to service pay for any war year, or with respect to tax attributable to pre-service earned income for any war year, shall be credited or refunded if claim therefor is filed with the commissioner prior to january 1, 1947.

exhibit 6

sec. 507. time for performing certain acts postponed by reason of war (revenue act of 1942).

(a) amendments to the internal revenue code. the internal revenue code is amended by inserting after section 3803 the following new sections:

"sec. 3804. time for performing certain acts postponed by reason of war.

"(a) individuals.—the period of time after december 6, 1941, during which an individual is continuously outside the americas (if such period is longer than ninety days), and the next ninety days thereafter, shall be disregarded in determining, under the internal revenue laws, in respect of any tax liability (including any interest, penalty, additional amount, or addition to the tax) of such individual.

"(1) whether any of the following acts was performed within the time prescribed therefor:

"(a) filing any return of income, estate, or gift tax (except income tax withheld at source and income tax imposed by chapter 9 or any law superseded thereby);

"(b) payment of any income, estate, or gift tax (except income tax withheld at source and income tax imposed by chapter 9 or any law
superseded thereby) or any installment thereof or of any other liability to the United States in respect thereof;

"(C) filing a petition with the Board of Tax Appeals for redetermination of a deficiency or, for review of a decision rendered by the Board;

"(D) allowance of a credit or refund of any tax;

"(E) filing a claim for credit or refund of any tax;

"(F) bringing a suit upon any such claim for credit or refund;

"(G) assessment of any tax;

"(H) giving or making any notice or demand, for the payment of any tax, or with respect to any liability to the United States in respect of any tax, requiring the Commissioner or the collector to make the assessment or collect the tax, or otherwise, of the amount of any liability in respect of any tax;

"(J) bringing suit by the United States, or any officer on its behalf, in respect of any liability in respect of any tax; and

"(K) any other act required or permitted under the internal revenue laws specified in regulations prescribed under this section by the Commissioner with the approval of the Secretary;

"(b) Other Taxpayers and Other Circumstances.—In any case to which subsection (a) does not apply in which it is determined by the Commissioner, under regulations prescribed by him with the approval of the Secretary, that—

"(1) By reason of an individual being outside the Americas; or

"(2) By reason of any locality (within or without the Americas) being an area of enemy action or being an area under the control of the enemy, as determined by the Commissioner; or

"(3) By reason of an individual in the military or naval forces of the United States being outside the States of the Union and the District of Columbia,

it is impossible or impracticable to perform any one or more of the acts specified in subsection (a), then in determining, under the internal-revenue laws whether such act was performed within the time prescribed therefor, in respect of any tax in respect of any liability to the United States in respect of any tax, or with respect to any such liability, the exceptions or other circumstances referred to in this subsection, as an exception to the provisions of subsection (a), or to (tax) affected by the failure to perform such act within such time, and in determining the amount of any credit or refund (including interest) affected by such failure, there shall be disregarded such period after December 6, 1941, as may be prescribed by such regulations.

"(c) Limitation on Time To Be Disregarded.—The period of time disregarded under this section shall not extend beyond whichever of the following dates is the earlier:

"(1) The fifteenth day of the third month following the month in which the present war with Germany, Italy, and Japan is terminated, as proclaimed by the President; or

"(2) In the case of an individual with respect to whom a period of time is disregarded under this section, the fifteenth day of the third month following the month in which an executor, administrator, or conservator of the estate of such individual qualifies.

"(d) Exceptions.—

"(1) Tax in Jeopardy; Bankruptcy and Receiverships; and Transferred Assets.—Notwithstanding the provisions of subsection (a) or (b) any action or proceeding authorized by section 146 (regardless of the taxable year for which the tax arose), 273, 274, 311, 872, 900, 1015, 1015, 1025, or 3604, or as well as any other action or proceeding authorized by law in connection therewith, may be taken, begun, or prosecuted.

"(2) In any case in which the Commissioner determines that collection of the amount of any assessment to which jeopardy by delay, the provisions of subsections (a) and (b) shall not operate to stay collection of such amount by distraint or otherwise as authorized by law. There shall be excluded from any amount assessed or collected pursuant to this paragraph the amount of any interest, penalties, additional amount, or tax in respect of the period disregarded under subsection (a) or (b). In any case to which this paragraph relates, if the Commissioner or collector is required to give any notice or demand to any person upon whom any such notice or demand shall be deemed to be satisfied if the notice or demand is prepared and signed, in any case in which the address of such person last known to the Commissioner or collector is in an area for which United States post offices are closed during the war, accepting mail for delivery at the time the notice or demand is signed. In such case the notice

"or demand shall be deemed to have been given or made upon the date it is signed.

"(2) Action taken before ascertainment of right to benefits.—The assessment or collection of any internal revenue tax or of any liability to the United States in respect of any internal revenue tax, or proceeding by or on behalf of the United States in connection therewith, may be made, taken, begun, or prosecuted in accordance with law, without regard to the provisions of subsection (a) or (b), unless prior to such assessment or collection, or proceeding, it is ascertained that the person concerned is entitled to the benefits of subsection (a) or (b).

"(3) Expiration of period of limitations prior to enactment of this section.—This section shall not operate to extend time for recovering or enforcing any act specified in subsection (a) (G), (H), (I), or (J) if such time under the law in force prior to the date of enactment of this section expired prior to such date.

"(e) Definitions.—For purposes of this section—

"(1) Americas.—The term 'Americas' means North, Central, and South America (including the West Indies but not Greenland), and the Hawaiian Islands.

"(2) When individual ceases to be outside Americas or within an area of enemy action.—For the purpose of determining whether any act specified in subsection (a) (G), (H), (I), or (J) was performed within the time prescribed therefor, if any period of time is disregarded under this section by reason of any individual being outside the Americas or within an area of enemy action or control, such individual shall not, if he returns to the Americas or leaves such area after the date of enactment of this section, be deemed to have returned to the Americas or ceased to be within such area before the date upon which the Commissioner receives from such individual a notice or demand in such form as the Commissioner, with the approval of the Secretary, shall by regulations prescribe. A similar rule shall be applied in the case of a member of the military or naval forces of the United States with respect to whether a period of time is disregarded under this section by reason of being outside the States of the Union and the District of Columbia.

"(3) When executor, administrator, or conservator qualifies.—For the purpose of determining whether any act specified in subsection (a) (G), (H), (I), or (J) was performed within the time prescribed therefor, if an executor, administrator, or conservator qualifies, if he qualifies after the date of enactment of this section, shall be deemed to be the month in which the Commissioner receives from him a notice thereof in such form as the Commissioner, with the approval of the Secretary, shall by regulations prescribe.

"SEC. 3805. INCOME TAX DUE DATES POSTPONED IN CASE OF CHINA TRADE ACT CORPORATIONS.

"In the case of any taxable year beginning after December 31, 1940, no Federal income tax return of, or payment of any Federal income tax by, any corporation organized under the China Trade Act, 1922 (42 Stat. 849; chapter 4), shall be due until the first day of the sixth month following the month in which the present war with Germany, Italy, and Japan is terminated, as proclaimed by the President. Such due date is prescribed subject to the power of the Commissioner to extend the time for filing such return or paying such tax, as in other cases.

"(b) Amendments Upon Periods Fixed Under Laws Other Than Internal Revenue Code.—

"(1) Public law 490, seventy-seventh congress.—The amendments made by this section shall not be construed to shorten any period fixed under the Internal Revenue Code, section 13 or 14 of the Act approved March 3, 1942 (The Act approved March 3, 1942, Public Law 490—77th Congress), within which any act may be done, except that that any action or proceeding authorized under section 3804 (d) (1) of the Internal Revenue Code, as well as any other action or proceeding authorized by law in connection therewith, may be taken, begun, or prosecuted without regard to the period so fixed.

"(2) Soldiers' and Sailors' Civil Relief Act of 1940.—

"(A) The amendments made by this section shall not be construed to shorten any period fixed under the provisions of section 513 of the Soldiers' and Sailors' Civil Relief Act of 1940 within which any act may be done, except that any action or proceeding authorized under section
3804 (d) (1) of the Internal Revenue Code, as well as any other action or proceeding authorized by law in connection therewith, may be taken, begun, or prosecuted without regard to the period so fixed.

(b) Article II of the Soldiers' and Sailors' Civil Relief Act of 1940, as amended, is amended by adding at the end thereof the following new section:

"Sec. 207. Section 205 of this Act shall not apply with respect to any period of limitation prescribed by or under the internal revenue laws of the United States.

(c) RETROACTIVE EFFECT.—The provisions of sections 3804 and 3805, as added by subsection (a) of this section, shall be effective as if they were enacted on December 7, 1941; except that the phrase "date of enactment of this section", when used in subsections (d) (3) and (e) (2) and (3) of section 3804, means the date of enactment of this Act.

Any amount of interest, penalty, additional amount, or addition to the tax otherwise allowable as a refund or credit under the Internal Revenue laws (including sections 3806 and 3804), except subsection (d) (2) may be refunded or credited without regard to section 3804 (d) (2). No interest shall be allowed or paid by the United States upon any amount refunded or credited by reason of this subsection.

Exhibit 7

Public Law 490 (Seventy-Seventh Congress), Approved March 7, 1942

That for the purpose of this Act—

(a) the term "person" means (1) commissioned officer, warrant officer, enlisted person (including persons selected under the Selective Training and Service Act, as amended), member of the Army or Navy Nurse Corps (female), wherever serving; (2) commissioned officer of the Coast and Geodetic Survey of the Public Health Service; and (3) civilian officers and employees of departments, during such time as they may be assigned for duty outside the continental limits of the United States or in Alaska;

(b) the term "department", including such term when used in the amendment made by section 16, means any executive department, independent establishment, or agency (including corporations) in the executive branch of the Federal Government;

(c) the term "military or naval forces of the United States", as used in this Act, shall mean the armed forces of the United States or the militia of the United States at war, as the term is defined in the National Defense Act;

(d) the term "military service", as used in this Act, shall mean the time between the following dates: For persons in active service at the date of the approval of this Act it shall begin with the date of approval of this Act; for persons entering active service after the date of this Act, with the date of entering active service, so it shall terminate with the date of discharge from active service or death while in active service, but in no case later than the date when this Act ceases to be in force.

(4) The term "court", as used in this Act, shall include any court of competent jurisdiction of the United States or of any State, whether or not a court of record.

Sec. 102.

(2) When under this Act any application is required to be made to a court in writing, such application may be made to any court.

Sec. 513. The collection from any person in the military service of any tax on the income of such person, whether falling due prior to or during his period of military service, shall be deferred for a period extending not more than sixty months after the termination of his period of military service if such person's ability to pay such tax is materially impaired by reason of such service. No interest on any amount of tax, collection of which is deferred for any period under this section, and no penalty for nonpayment of such amount during such period, shall accrue for such period of deferment by reason of such nonpayment. The running of any statute of limitations against the collection of such tax by distraint or otherwise shall be suspended for the period of military service of any individual on whom the collection of whose tax is deferred under this section, and for an additional
period of nine months beginning with the day following the period of military service. The provisions of this section shall not apply to the income of employees imposed by section 1400 of the Federal Insurance Contributions Act.

Sec. 604. This Act shall remain in force until May 15, 1942. Provided, That should the United States be then engaged in a war, this Act shall remain in force until such war is terminated by a treaty of peace proclaimed by the President and for six months thereafter: Provided further, That wherever under any section or provision of this Act a proceeding, remedy, privilege, stay, limitation, accounting, or other transaction has been authorized or provided with respect to military service performed prior to the date herein fixed for the termination of this Act, such section or provision shall be deemed to continue in full force and effect so long as may be necessary to the exercise or enjoyment of such proceeding, remedy, privilege, stay, limitation, accounting, or other transaction.

Sec. 700. (1) A person may, at any time during his period of military service or within six months thereafter, apply to a court for relief in respect of any obligation or liability incurred by such person prior to his period of military service or in respect of any tax or assessment whether falling due prior to or during his period of military service. The court, after appropriate notice and hearing, unless in its opinion the ability of the applicant to comply with the terms of such obligation or liability or to pay such tax or assessment has not been materially affected by reason of his military service, may grant the following relief:

(b) In the case of any other obligation, liability, tax, or assessment, a stay of the enforcement thereof during the applicant's period of military service and from the date of termination of such period of military service or from the date of such application, if made after such service, for a period of time equal to the period of military service of the applicant or any part of such period, subject to payment of the balance of principal and accumulated interest due and unpaid at the date of termination of such period of military service or the date of application, as the case may be, in equal periodic installments during such extended period at such rate of interest as may be prescribed for such obligation, liability, tax, or assessment, if paid when due, and subject to such other terms as may be just.

(2) When any court has granted a stay as provided in this section no fine or penalty shall accrue during the period the terms and conditions of such stay are complied with by reason of failure to comply with the terms or conditions of the obligation, liability, tax, or assessment in respect of which such stay was granted.

PROVISIONS FOR RELIEF UPON DEATH

(Exhibit 9)

Section 421. Abatement of Tax for Members of the Armed Forces Upon Death (as Added by Section 8, Current Tax Payment Act of 1943)

In the case of any individual who dies on or after December 7, 1941, while in active service as a member of the military or naval forces of the United States or of any of the other United Nations and prior to the termination of the present war as proclaimed by the President, the tax imposed by this chapter shall not apply with respect to the taxable year in which falls the date of his death, and the tax under this chapter and under the corresponding title of each prior revenue law for preceding taxable years which is unpaid at the date of his death (including interest, additions to the tax, and additional amounts) shall not be assessed, and if assessed the assessment shall be abated, and if collected shall be credited or refunded as an overpayment.

See footnotes at end of table, p. 22.
### Exhibit 10—Continued

#### RATES, EXEMPTIONS, AND CREDITS FOR TAXABLE YEARS 1940-46—Continued

<table>
<thead>
<tr>
<th>Surtax net income</th>
<th>1940</th>
<th>1941</th>
<th>1942</th>
<th>1943</th>
<th>1944-45</th>
<th>1946</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exceeding —</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$300,000</td>
<td>62</td>
<td>67</td>
<td>82</td>
<td>91</td>
<td>88</td>
<td></td>
</tr>
<tr>
<td>$250,000</td>
<td>64</td>
<td>69</td>
<td>82</td>
<td>91</td>
<td>88</td>
<td></td>
</tr>
<tr>
<td>$200,000</td>
<td>66</td>
<td>71</td>
<td>82</td>
<td>91</td>
<td>88</td>
<td></td>
</tr>
<tr>
<td>$150,000</td>
<td>68</td>
<td>72</td>
<td>82</td>
<td>91</td>
<td>88</td>
<td></td>
</tr>
<tr>
<td>$100,000</td>
<td>70</td>
<td>73</td>
<td>82</td>
<td>91</td>
<td>88</td>
<td></td>
</tr>
<tr>
<td>$75,000</td>
<td>72</td>
<td>74</td>
<td>82</td>
<td>91</td>
<td>88</td>
<td></td>
</tr>
<tr>
<td>$50,000</td>
<td>74</td>
<td>75</td>
<td>82</td>
<td>91</td>
<td>88</td>
<td></td>
</tr>
<tr>
<td>$25,000</td>
<td>76</td>
<td>77</td>
<td>82</td>
<td>91</td>
<td>88</td>
<td></td>
</tr>
<tr>
<td>Over $50,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. For 1940 tax increased by 10 percent (Defence Tax), but limited to not more than 10 percent of the amount by which the net income exceeds such tax.
2. For 1941 in addition to the normal and surtax a Victory tax of 5 percent was imposed on gross income in excess of $250,000 with postwar credits allowed.
3. The normal-tax exemption is $500 to $200 per taxpayer. However, if husband and wife combine their income in a joint return, the normal-tax exemption is $800 plus the amount of the smaller of the two incomes, but not more than $1,000 for both. No exemption allowed for dependents.
4. All net income up to $3,000 whether earned or not, and up to $41,000 if earned. Excess credited to normal-tax net income only.
5. The tax payable is that computed at the rates and exemptions for 1946, reduced by 5 percent of the tax so computed.

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### FORM 1040

#### U.S. INDIVIDUAL INCOME TAX RETURN

**FOR CALENDAR YEAR 1944**

**Page 1**

#### Exemptions

1. List your total annual net worth (including stock in trade, business, and personal property, except as otherwise provided in Regulations 12.10.2.2).

#### Income

2. State your total annual income from wages, salaries, commissions, and other compensation received in the year before April 10, 1944, before deductions for taxes, etc., household, family, etc., in the usual manner. Numbers of dependents and other claims for deduction or exclusion, if any, should also be stated.

**Statement of employer's name, address, city and state, and amount earned.**

#### How to Figure Your Tax

3. Enter here the total amount of your dividends and interest (including interest from Government obligations unless specifically exempt from taxation). If you paid rent, enter the amount paid.

4. If you received any other income, give details on page 2 and enter the total here.

5. Add amounts in Items 2, 3, and 4, and enter the total here.

#### Tax Due or Refund

6. If Item 5 includes income of both husband and wife, enter the husband's income here. If Item 5 includes income of both husband and wife, enter the wife's income here.

7. If your income was less than $2,000, you may find your tax in the table on page 2. If your income was more than $2,000, find your tax on the Tax Computation Schedule.

8. Add the tax due or refund shown in Item 6 to your total income for the year.

9. If your tax (Item 7) is greater than your income (Item 6), enter your tax in the Payment column of the schedule.

10. If your tax (Item 7) is less than your income (Item 6), enter the excess in the Refund column of the schedule.

11. If you have a high income tax (more than $10,000), you may find your tax in the table on page 3.

12. If your tax (Item 7) is greater than your income (Item 6), enter your tax in the Payment column of the schedule.

13. If your tax (Item 7) is less than your income (Item 6), enter your tax in the Refund column of the schedule.

#### Payment of Tax Due

14. If you have a high income tax (more than $10,000), you may find your tax in the table on page 3.

15. If your tax (Item 7) is greater than your income (Item 6), enter your tax in the Payment column of the schedule.

16. If your tax (Item 7) is less than your income (Item 6), enter your tax in the Refund column of the schedule.

**Note:** The amount of tax due or refund shown in Item 7 should be paid or credited to the Internal Revenue Service as shown in the schedule.
### FEDERAL INCOME TAX OF ARMED FORCES

**Exhibit II—Continued**

**Facsimile Form 1040, 1944 Return**

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**TAX TABLE—FOR INCOMES UNDER $5,000**

Read down the shaded columns below until you find the line covering the total income you returned in item 1, page 2. Then read across the columns headed by the number corresponding to the number of persons listed in item 1, page 1. Enter the tax you find there in item 5, page 2. Husband and wife are Special Rule at end of table.

<table>
<thead>
<tr>
<th>Total income under $5,000</th>
<th>Number of persons</th>
<th>Taxable income</th>
<th>Tax</th>
<th>Total tax</th>
<th>At least</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.00 - $1,000</td>
<td>1</td>
<td>0.000</td>
<td>0.00</td>
<td>0.000</td>
<td>3.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>$1,001 - $2,000</td>
<td>1</td>
<td>1,000</td>
<td>1.10</td>
<td>1.100</td>
<td>3.90</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>$2,001 - $3,000</td>
<td>1</td>
<td>2,000</td>
<td>2.20</td>
<td>2.200</td>
<td>5.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>$3,001 - $4,000</td>
<td>1</td>
<td>3,000</td>
<td>3.30</td>
<td>3.300</td>
<td>6.50</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>$4,001 - $5,000</td>
<td>1</td>
<td>4,000</td>
<td>4.40</td>
<td>4.400</td>
<td>8.50</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

---

**SCHEDULE A—INCOME FROM ANNUITIES OR PENSIONS**

1. Cost of annuity (balance paid, if any) $______
2. Amount received taxable in prior years $______
3. Remittance of your cost (line 1 less line 2) $______
4. Enter line 3, or 3 percent of line 4, whichever is greater $______

---

**SCHEDULE B—INCOME FROM RENTS AND ROYALTIES**

1. Kind of property
2. Amount of income from property in item 1, page 2 $______
3. Depreciation or depletion (if applicable) $______
4. Royalty paid (if applicable) $______
5. Other income or gains from property (if applicable) $______

---

**SCHEDULE C—PROFIT OR LOSS FROM BUSINESS OR PROFESSION**

(Owner shall check form 1120)

1. Kind of business
2. Name of business
3. Gross profit (line 1 less line 2) $______

---

**SCHEDULE D—GAINS AND LOSSES FROM SALES OR EXCHANGES OF CAPITAL ASSETS, ETC.**

1. Gain (or loss) from sale or exchange of capital assets (from separate Schedule D) $______

---

**SCHEDULE E—INCOME FROM PARTNERSHIPS, ESTATES, AND TRUSTS, AND OTHER SOURCES**

Name and address of partnership, syndicate, etc. $______
Name and address of estate or trust $______
Other source (state nature) $______

---

**Total income from above sources** (Enter an item, page 6) $______

### FEDERAL INCOME TAX OF ARMED FORCES

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**Exhibit II—Continued**

**Facsimile Form 1040, 1944 Return**

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**Schedule F—EXPLANATION OF DEDUCTION CLAIMED IN SCHEDULES B AND C**

1. Kind of property
2. Deduction claimed (item 3, page 2) $______
3. Depreciation or depletion (if applicable) (item 3, page 2) $______
4. Royalty paid (if applicable) (item 3, page 2) $______
5. Other income or gains from property (if applicable) (item 3, page 2) $______
6. Income before tax $______

---

**Schedule G—EXPLANATION OF COLUMNS 4 AND 5 OF SCHEDULE B, AND LINES 4, 16, AND 17 OF SCHEDULE C**

1. Column
2. Explanation
3. Amount
4. Line
5. Amount

---

**SPECIAL RULE FOR WIDOWS AND WIVES**

If here is no husband, husband's name is listed, or husband's name is listed but not at the solvent address below, enter the cost of the two incomes less one by more than $600. For an example, see last paragraph of page 2, line 1, SCHEDULE A.
### Federal Income Tax of Armed Forces

#### Exhibit 11—Continued

**FACSIMILE Form 1040, 1944 Return**

Do not itemize deductions if—(1) You do not itemize your deductions before page 2, or (2) Your total income is $5,000 or more and you claim the $500 standard deduction. If you itemize and will bring together at end of your separate returns and make itemized deductions, the other must file his or her return Form 1040, and must also itemize deductions.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>$</td>
</tr>
<tr>
<td>Interest</td>
<td>$</td>
</tr>
<tr>
<td>Total Interest</td>
<td>$</td>
</tr>
<tr>
<td>Amount</td>
<td>$</td>
</tr>
<tr>
<td>Taxes</td>
<td>$</td>
</tr>
<tr>
<td>Total Taxes</td>
<td>$</td>
</tr>
<tr>
<td>Losses from fire, storm, shipwreck, or other casualty or theft</td>
<td>$</td>
</tr>
<tr>
<td>Medical and dental expenses</td>
<td>$</td>
</tr>
<tr>
<td>Miscellaneous (including library, subscription, professional, or miscellaneous deductions)</td>
<td>$</td>
</tr>
</tbody>
</table>

#### Deductions

**Tax Computation—For Persons Not Using Tax Table on Page 2**

1. Enter amount shown in Item 5, page 1. This is your Adjusted Gross Income.
2. Enter 20 percent of income above, enter the total of such deductions if adjusted gross income (See page 2) is $5,000 or more and deductions are not itemized, enter the standard deduction of $300.
3. Enter tax on 20 percent of adjusted gross income. This is your Adjusted Taxable Income.
4. Enter your Surplus Earnings (20% for such person listed in Item 5, page 1).
5. Subtract line 4 from line 3. Enter the difference here. This is your Surplus Taxable Income.
6. Enter the Surplus Taxable Income. Subtract line 5 from line 4. Enter the amount here.
7. Subtract the figures shown in line 6, and enter in column here.
8. Copy the figures entered in line 5, above. (If line 5 includes partially tax exempt interest, see Tax Computation Instructions).
9. Enter your Surplus Taxable Income ($200 for return income of only one person; otherwise see Tax Computation Instructions).
10. Enter balance in line 8 from line 7 and enter the difference here.
11. Enter here 3 percent of line 9. This is your Normal Tax.
12. Enter the figures shown in line 6 and 10, and enter the total here. (If alternative tax computation is made on an separate Schedule A, enter here tax from line 11. If Schedule B).
13. If you used the $500 standard deduction in line 2, disregard lines 12, 13, 14, and copy on line 11 the same figures as shown on line 11.
14. Enter any income tax payments from a foreign country or U. S. possession (attach Form 1100).
15. Surplus Taxable Income (20% for such person listed in Item 5, page 1). This is your tax.

#### Section 6 of the Current Tax Payment Act of 1943 (Relating to the Taxable Years 1942 and 1943)

**Exhibit 12**

**SEC. 6. RELIEF FROM DOUBLE PAYMENTS IN 1943**

(a) **Tax for 1942 Not Greater Than Tax for 1943.**—In case the tax imposed by Chapter 1 of the Internal Revenue Code upon any individual (other than an estate or trust and other than a nonresident alien not subject to the provisions of sections 88, 59, and 60 of such chapter) for the taxable year 1942 (determined without regard to this section, without regard to interest or additions to the tax, and without regard to credits against the tax for amounts withheld at source) is not greater than the tax for the taxable year 1943 (similarly determined), the liability of such individual for such tax imposed by such chapter for the taxable year 1942 shall be discharged as of September 1, 1943, except that interest and additions to such tax shall be collected at the same time and in the same manner as, and as a part of, the tax under such chapter for the taxable year 1943. In such case if the tax for the taxable year 1942 (determined without regard to this section and without regard to interest or additions to the tax) is more than $50, the tax under such chapter for the taxable year 1943 shall be increased by an amount equal to 25 per cent of the tax for the taxable year 1942 (determined) or the excess of such tax (so determined) over $50, whichever is the lesser. This subsection shall apply in any case in which the taxpayer is convicted of any criminal offense with respect to the tax for the taxable year 1942 or in which additions to the tax for such taxable year are applicable by reason of fraud.

(b) **Tax for 1942 Greater Than Tax for 1943.**—In case the tax imposed by Chapter 1 of the Internal Revenue Code upon any individual (other than an estate or trust and other than a nonresident alien not subject to the provisions of sections 88, 59, and 60 of such chapter) for the taxable year 1942 (determined without regard to this section, without regard to interest or additions to the tax, and without regard to credits against the tax for amounts withheld at source) is greater than the tax for the taxable year 1943 (similarly determined), the liability of such individual for such tax imposed by such chapter for the taxable year 1942 shall be discharged as of September 1, 1943, except that interest and additions to such tax shall be collected at the same time and in the same manner as, and as a part of, the tax under such chapter for the taxable year 1943. In such case the tax under such chapter for the taxable year 1943 shall be increased by—

1. the amount by which the tax imposed by such chapter for the taxable year 1942 (determined without regard to this section and without regard to interest and additions to such tax) exceeds the tax imposed by such chapter for the taxable year 1943 (determined without regard to this section, without regard to additions to such tax, and without regard to such tax, and without regard to credits against such tax under section 466 (e) or under section 35 of such chapter), plus
2. the amount by which the tax imposed by such chapter for the taxable year 1942 (determined without regard to this section, without regard to interest or additions to the tax, and without regard to credits against such tax under section 466 (e) or under section 35 of such chapter) is more than $50, an amount equal to 25 per cent of the tax for the taxable year 1943 (so determined) over $50, whichever is the lesser. Such amount shall in no case exceed 25 per cent of the tax for the taxable year 1942 (determined without regard to this section) and without regard to interest and additions to such tax) or the excess of such tax (so determined) over $50, whichever is the lesser.

This subsection shall not apply in any case in which the taxpayer is convicted of any criminal offense with respect to the tax for the taxable year 1942 or in which additions to the tax for such taxable year are applicable by reason of fraud. An individual who becomes subject to tax for the taxable year 1943 under this subsection shall be an individual required to make a return for the taxable year 1943 under section 51 of the Internal Revenue Code.

(c) **ADDITIONAL INCREASE IN 1943 TAX WHERE INCREASED INCOME.**—

1. **Tax for 1942 Not Greater Than That for 1943.**—In the case of a taxpayer whose liability for the tax for the taxable year 1942 is discharged under subsection (a), and whose surtax net income for the base year plus $20,000 is less than that for the taxable year 1942, the tax imposed by Chapter 1 of the Internal Revenue Code for the taxable year 1943 shall be increased by the excess of 75 per cent of the tax imposed by such chapter for the taxable
year 1942 (determined without regard to this section and without regard to interest and additions to the tax) over a tentative tax computed as if the portion of the surtax net income for the taxable year 1942 which is not greater than $20,000 constituted both the surtax net income for the taxable year 1942 and the net income for such taxable year after allowance of all credits against net income;

(b) the amount or the lesser amount of $20,000 for calendar year 1942 but the excess of 75 percent of the amount of the income determined under paragraphs (b) and (c) for the taxable year 1943 computed as if the portion of the surtax net income for such taxable year which is not greater than the sum of the surtax net income for the base year plus $20,000 constituted both the surtax net income for the taxable year 1943 and the earned income for such taxable year after allowance of all credits against net income.

For the purposes of this subsection "base year" means any one of the taxable years 1942, 1943, or 1944.

(d) RULES FOR APPLICATION OF SUBSECTIONS (A), (B), AND (C) — (1) APPLICATION OF SUBSECTION (A) TO MEMBERS OF ARMED FORCES — If the taxpayer is in active service in the military or naval forces of the United States or any of the other United Nations at any time during the taxable year 1942 or 1943, the tax for the taxable year 1942 under subsection (b) shall be reduced by an amount equal to the amount by which the tax for the taxable year 1942 (determined without regard to this section) is increased by reason of the inclusion in the income for the taxable year 1942 of the amount of the earned net income (as defined in section 25 (a) (4)).

(2) JOINT RETURNS — If the taxpayer either for the taxable year 1942 or for the taxable year 1943 makes a joint return with his spouse, the taxes for the taxable years for which a joint return is not made shall be apportioned between the joint returns, for the purposes of subsections (a) and (c), and for the purpose of the provisions of section 26 (b) and (c) of the Income Tax Act of 1942 of the base year, or the taxable year 1943, the liability for the tax for the taxable year 1943 for subsection (b) (c), shall be joint and several.

(3) FOREIGN TAX CREDIT AND APPLICATION OF SECTIONS 105, 106, AND 107 — The credit against the tax imposed by Chapter 1 of the Internal Revenue Code for the taxable year 1942 or 1943 allowed by section 31 of such chapter (relating to limitations of foreign countries and of possessions of the United States) shall be determined without regard to subsections (a), (b), and (c).

Sections 105, 106, and 107 of such chapter (relating to limitations on tax) shall be applicable to the tax imposed by Chapter 1 of the Internal Revenue Code for the taxable year 1942 or 1943, or in the case of the section 106 income in the base year, shall be applicable to the tax imposed by such chapter.

SEC. 108. INCOME ACCOUNTED FOR AS DISCUSSION. — If, during the base year of any individual, such individual was a shareholder in a corporation and if substantially all of the assets of such corporation were at any time prior to May 1, 1942, acquired by such individual or a partnership of which such individual is a partner pursuant to the complete liquidation of such corporation, and if at all times after such liquidation up to and including the taxable year 1942 (if subsection (a) is applicable) or the taxable year 1943 (if subsection (b) is applicable) the trade or business was operated substantially on behalf of such individual, for purposes of the income of such corporation, (c) such individual may compute his surtax net income for the base year as if the earnings and profits of the corporation for the base year had all been distributed as dividends at the end of such taxable year. If the interest of such individual in the partnership is proportionately less than his interest in the corporation, his distributive share of such dividends shall for the purposes of this paragraph be reduced to reflect such difference.

SPECIAL CASES OF INCREASE IN 1943 TAX NOT PART OF ESTIMATED TAX —- The amount by which the tax for the taxable year 1943 is increased under subsection (a), (b), (c), or (d) shall not be considered to be a part of the tax for such taxable year for the purposes of sections 58, 59, 60, and 204 (a) (3), (4), and (5) of the Internal Revenue Code.

(7) TAXPAYER DYING IN TAXABLE YEAR 1942 — If the individual dies less than four months after the end of the taxable year 1942, subsections (a), (b), and (c) shall not apply.

(8) EXTENSION OF TIME FOR PAYMENT OF PORTIONS OF INCREASE IN 1943 TAX — (1) TWENTY-FIVE PER CENTUM INCREASE UNDER SUBSECTION (A) OR (B) — At the election of the taxpayer, made under regulations prescribed by the Commissioner with the approval of the Secretary, the Commissioner shall, except as hereinafter provided, extend the time for the payment of the portion of the tax for the taxable year 1943 equal to one-half of the amount of the tax for the taxable year 1943 computed as if the amount in subsection (a) or (b) (2) (5) of the Internal Revenue Code for the taxable year 1943 in which case such portion shall be paid on or before the fifteenth day of the month following the close of the taxable year.

The Commissioner may condition the granting of such extension to the taxpayer's bond, or security, or surety, or insurance, or furnishing the taxpayer of a bond in such amount, not exceeding the amount with respect to which the extension applies, with such surety or sureties, as the Commissioner deems necessary, conditioned upon the payment of such amount in accordance with the terms of the extension. If such amount is not paid on or before the date on which it is payable, it shall be paid upon demand from the Collector.

If such amount is not paid on or before the date on which it is payable, the amount not paid on or before the date on which it is payable, shall be considered as a delinquent tax and delinquent at the time it is payable.

If such amount is not paid on or before the date on which it is payable, it shall be collected by the Collector, without regard to subsections (a), and (b) of section 2(a) of the Internal Revenue Code, or in the case of the tax for the taxable year 1943, of the Internal Revenue Code.

(2) INCREASE UNDER SUBSECTION (C) — At the election of the taxpayer, made under regulations prescribed by the Commissioner with the approval of the Secretary, the Commissioner shall, except as hereinafter provided, extend the time for the payment of the portion of the tax for the taxable year 1943 equal to one-half of the amount of the tax for the taxable year 1943 computed as if the amount in subsection (c) of the Internal Revenue Code for the taxable year 1943, in which case such portion shall be paid on or before the fifteenth day of the month following the close of the taxable year.

The Commissioner may condition the granting of such extension to the taxpayer's bond, or security, or surety, or insurance, or furnishing the taxpayer of a bond in such amount, not exceeding the amount with respect to which the extension applies, with such surety or sureties, as the Commissioner deems necessary, conditioned upon the payment of such amount in accordance with the terms of the extension. If such amount is not paid on or before the date on which it is payable, it shall be paid upon demand from the Collector.

If such amount is not paid on or before the date on which it is payable, the amount not paid on or before the date on which it is payable, shall be considered as a delinquent tax and delinquent at the time it is payable.

If such amount is not paid on or before the date on which it is payable, it shall be collected by the Collector, without regard to subsections (a), (b) and (c) of section 2(a) of the Internal Revenue Code, or in the case of the tax for the taxable year 1943, of the Internal Revenue Code.

(3) TREATMENT OF PAYMENTS ON ACCOUNT OF 1942 TAX — Any payment (other than interest and additions to the tax) made on account of the tax imposed by Chapter 1 of the Internal Revenue Code for the taxable year 1942 upon a taxpayer whose liability for such tax is discharged under subsection (a) or (b) shall be credited to the account of the taxpayer in accordance with the provision of section 58 (b) prior to such date shall be made notwithstanding subsection (a) or (b), but the foregoing provisions of this subsection shall apply to any such
payment. In case the taxpayer becomes delinquent, prior to September 1, 1943, in the payment of such tax or any installment thereof, subsection (a) or (b) shall not relieve the taxpayer of his liability for the tax, but the foregoing provisions of this subsection shall be applicable to payment of such liability. If any payment on account of the tax imposed by such chapter for the taxable year 1942 is made pursuant to a joint return made by husband and wife for such taxable year, and such payment is considered as a payment on account of the estimated tax for the taxable year 1943, such payment may be treated as a payment on account of the estimated tax of either the husband or the wife for such taxable year or may be divided between them.

(g) Use of Term "Taxable Year".—For the purposes of this section the terms "taxable year 1937", "taxable year 1938", "taxable year 1939", "taxable year 1940", "taxable year 1942", and "taxable year 1943" mean, respectively, the taxable year beginning in 1937, 1938, 1939, 1940, 1942, and 1943, respectively; and "taxable year" as applied to the taxable year 1942 or 1943 shall not include any period of less than twelve months unless occasioned by the death of the taxpayer or unless there is no taxable year of twelve months beginning in such calendar year.

(h) Regulations.—This section shall be applied in accordance with regulations prescribed by the Commissioner with the approval of the Secretary.

Exhibit 13

SECTION 25 (a) (4) OF THE INTERNAL REVENUE CODE (RELATING TO EARNED INCOME)

SEC. 25. CREDITS OF INDIVIDUAL AGAINST NET INCOME.

(a) Credits for Normal Tax Only.—There shall be allowed for the purpose of the normal tax, but not for the surtax, the following credits against the net income.

(4) Earned Income Definitions.—For the purposes of this section—

(A) "Earned income" means wages, salaries, professional fees, and other amounts received as compensation for personal services actually rendered, but does not include any amount not included in gross income, nor that part of the compensation derived by the taxpayer for personal services rendered by him to a corporation which represents a distribution of earnings or profits rather than a reasonable allowance as compensation for the personal services actually rendered. In the case of a taxpayer engaged in a trade or business in which both personal services and capital are material income-producing factors, a reasonable allowance as compensation for the personal services actually rendered by the taxpayer, not in excess of 20 per centum of his share of the net profits of such trade or business, shall be considered as earned income.

(B) "Earned income deductions" means such deductions as are allowed by section 23 for the purpose of computing net income, and are properly allowable to or chargeable against earned income;

(C) "Earned net income" means the excess of the amount of the earned income over the sum of the earned income deductions. If the taxpayer's net income is not more than $3,000, his entire net income shall be considered to be earned net income, and if his net income is more than $3,000, his earned net income shall not be considered to be less than $3,000. In no case shall the earned net income be considered to be more than $14,000.