

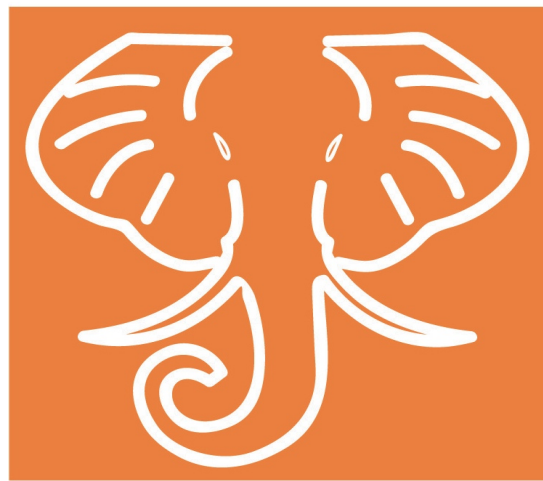
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# Revenue Act of 1940

*with* EXPLANATION *and*  
FEDERAL TAX CHARTS



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# Revenue Act of 1940

## *with* EXPLANATION *and* FEDERAL TAX CHARTS

*The Revenue Act of 1940 was signed by the President  
on June 25, 1940, at 11:45 A.M., Eastern Standard Time.*

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## EXPLANATION OF CHANGES

**¶ 1 Introduction.**—The Revenue Act of 1940 (pages 36-45) is not a complete taxing statute in itself, but consists of amendments to the Internal Revenue Code (I.R.C.). The effect of these amendments (except Sec. 401, amending Sec. 205 of the Public Salary Tax Act of 1939) is to increase the tax payable, and they are of two types: (1) permanent changes, contained in Title I of the Act; and (2) temporary changes (5-year defense tax) contained in Title II.

The permanent changes deal exclusively with income tax, and are described at ¶ 2-7. It will be noted that the principal features are: (a) reduction of personal exemptions and increase of surtax rates applicable to individuals; and (b) increase of one percent in corporation tax rates.

The temporary changes (defense taxes) apply to income taxes and also to most other taxes, and are described at ¶ 11-36. As to income taxes, their effect is to increase by 10% the tax computed under the Internal Revenue Code as amended by Title I of the 1940 Act. As to taxes other than income taxes the effect of the temporary changes is, in most instances, to increase by 10% the tax payable, but in some cases there are changes in rates which increase the tax payable by more than 10%.

Income tax increases (both permanent and temporary) apply for taxable years beginning after December 31, 1939. They will not affect returns for fiscal years beginning in 1939 and ending in 1940. However, the increased rates of income tax to be withheld at the source take effect on June 26, 1940.

Increases in excise and miscellaneous taxes take effect, for the most part, on July 1, 1940. Estate and gift tax increases take effect after the date of the enactment of the 1940 Act.

Tables showing the new rates begin at ¶ 101. A complete list of sections of the I.R.C. which are amended by the 1940 Act, appears at ¶ 40.

### INCOME TAX—PERMANENT CHANGES

**¶ 2 Personal exemptions.**—Sec. 6(a) of the 1940 Act amends Sec. 25(b)(1), I.R.C. to change the personal exemption allowed individuals as follows:

Single person or married person not living with husband or wife—reduced from \$1,000 to \$800;

Head of a family or married person living with husband or wife—reduced from \$2,500 to \$2,000.

The above provision also has the effect of reducing the personal exemption of an estate from \$1,000 to \$800. The \$100 credit allowed a trust, in lieu of the personal exemption, is not changed.

Sec. 6(b) amends Sec. 214, I.R.C., to reduce the personal exemption of nonresident alien individuals from \$1,000 to \$800.

Sec. 6(c) amends Sec. 251(f), I.R.C., to reduce the personal exemption of citizens entitled to the benefits of Sec. 251 from \$1,000 to \$800.

The \$400 credit for dependents and the earned income credit allowed individuals are not changed.

**¶ 3 Surtax on individuals.**—The 4% normal tax on individuals is not changed, but Sec. 2 of the 1940 Act amends Sec. 12(b) I.R.C., to increase the surtax rates on surtax net incomes between \$6,000 and \$100,000. The new rates are shown in the table at ¶ 101.

The amounts of the rate increases vary. The minimum increases (1%) are on surtax net incomes of \$6,000 to \$8,000 and \$90,000 to \$100,000; the maximum (13%) are on surtax net incomes of \$44,000 to \$56,000.

As to the application of the defense tax, see ¶ 12.

**¶ 4 Returns.**—Sec. 51(a), I.R.C., is amended by Sec. 7(a) of the 1940 Act to require returns by individuals in the following cases:

Single persons—gross income of \$800 or over;

Married persons—gross income of \$2,000 or over.

An amendment of Sec. 142(a), I.R.C. by Sec. 7(b) makes corresponding changes in the requirements for filing fiduciary returns, and an estate is required to file a return if it has a gross income of \$800 or over. A trust is required to file a return if it has a net income of \$100 or over, or a gross income of \$800 or over.

Sec. 147(a), I.R.C. is amended by Sec. 7(c), to reduce from \$1,000 to \$800 the amount of income which necessitates the filing of an information return.

**[¶ 5] Nonresident alien individuals.**—Sec. 211(a)(1)(A), I.R.C. relating to tax on nonresident alien individuals not engaged in trade or business within the U. S. and not having an office or place of business therein is amended by Sec. 4(a) of the 1940 Act, to increase the rate of tax from 10% to 15%.

Sec. 211(a)(2) and (c), I.R.C., as amended by Sec. 4(b) and (c) of the 1940 Act, deal with the tax of a nonresident alien individual who has no U. S. business or office and whose fixed or determinable income from sources within the U. S. is more than \$24,000 (as compared with \$21,600 prior to the amendment). Sec. 211(c) now prescribes that the aggregate of the normal and surtax shall not be less than 15% (as compared with 10% prior to the amendment) of such gross income.

A nonresident alien individual having a U. S. office or business is subject to the 4% normal tax and to the increased rates of surtax shown in ¶ 101.

As to the application of the defense tax, see ¶ 12.

**[¶ 6] Corporation income taxes.**—Sec. 3 of the 1940 Act amends Sec. 13(b), 14(b), 14(c)(1), 231(a)(1), and 362(b) to increase by one per cent the rates of income taxes on domestic and resident foreign corporations and on mutual investment companies. The new rates are shown in the table at ¶ 106. For withholding rates applicable to nonresident foreign corporations, see table at ¶ 107.

As to the application of the defense tax, see ¶ 13.

**[¶ 7] Withholding tax at source.**—The withholding rates are permanently increased by an amendment of Sec. 143 and 144, I.R.C. by Sec. 5 of the 1940 Act, and are further increased for the period after June 25, 1940, and before January 1, 1945, through the addition of a new Sec. 143(h) I.R.C. by Sec. 202. The new rates, which take effect on June 26, 1940, are shown in the table at ¶ 107.

The 5% rate applicable to Canadian corporations and residents has not been changed.

**[¶ 8-10] Blank.**

#### DEFENSE TAXES FOR FIVE YEARS

**[¶ 11] General nature.**—Title II of the 1940 Act consisting of Sec. 201-216 has the effect of increasing most Federal taxes by 10%, such increase to remain in effect for a period of 5 years.

As to income tax, the defense taxes are imposed by Sec. 15, I.R.C., added by Sec. 201 of the 1940 Act. Sec. 15 provides that in the case of any taxpayer, the amount of tax under Chapter 1, I.R.C., for any taxable year beginning after December 31, 1939 and before January 1, 1945, shall be 10% greater than the amount of tax computed without regard to Sec. 15. Thus, it will be seen that the 10% applies to the tax previously computed—not to the income. The tax to which the 10% applies is the tax before application of the credit for foreign taxes and the credit for taxes withheld at the source. Thus, if the normal and surtax of an individual was \$500 and he was entitled to a credit of \$20 for tax withheld at the source on tax-free covenant bonds, the defense tax would be 10% of \$500, or \$50, and the total tax payable would be \$550 minus \$20, or \$530.

To prevent the defense tax from being confiscatory when applied to the higher brackets, Sec. 15 contains a cushion which prevents the defense tax from being greater than 10% of the net income in excess of the tax computed without regard to the defense tax provisions. This cushion begins to operate where the tax so computed is in excess of 50% of the net income, which, in the case of a married

person, is around \$200,000. For example, the total normal tax and surtax on \$200,000, in the case of a married man with no dependents, is \$102,444. Since this tax is in excess of 50% of the net income, the cushion applies. Accordingly, the defense tax is computed by applying the 10% against \$97,556 (the amount of the net income less ordinary tax) instead of against \$102,444. This makes the defense tax \$9,755.60, instead of \$10,244.40.

**[¶ 12] Individual income taxes.**—In the case of individuals, estates and trusts, the 10% increase provided by Sec. 15 is applied to the tax computed by applying the normal and surtax rates described in ¶ 101 and, in certain cases of taxpayers having net long-term capital gains or losses, the alternative tax applicable thereto. For a simple illustration of the application of the defense tax on individuals the case may be taken of a married man with no dependents having an earned net income of \$10,000. The total normal and surtax on such income is \$480. The defense tax is 10% of this amount, or \$48, making a total tax payable of \$528.

As to nonresident alien individuals who are subject to normal tax and surtax, the defense tax applies in the same manner as above described. With respect to those who are subject to withholding, however, the application of the defense tax is accomplished through the increased withholding rates shown at ¶ 107.

**[¶ 13] Corporation income taxes.**—The 10% defense tax described at ¶ 11 also applies to the ordinary income taxes on corporations, including banks and trust companies, and insurance companies, and to the surtax on corporations improperly accumulating surplus, and the tax on mutual investment companies.

For example, the ordinary income tax on a corporate normal tax net income of \$100,000 is 19% thereof, or \$19,000. The defense tax is 10% of the last mentioned amount, or \$1,900, making the total tax payable \$20,900.

Sec. 203 of the 1940 Act, amends Sec. 500, I.R.C., to apply a 10% defense tax to the surtax on personal holding companies in the same manner as in the case of the defense tax on individuals and ordinary corporations.

**[¶ 14] Excess-profits tax.**—The 10% defense tax is applied to the excess-profits tax on corporations by Sec. 204 of the 1940 Act, amending Sec. 600, I.R.C., which makes the defense tax applicable for any income tax taxable year ending after June 30, 1940, and before July 1, 1945. Thus, a corporation with an excess-profits tax year ending July 31, 1940, will be subject to the 10% increase on its excess-profits tax. If the excess-profits tax payable is \$1,000, the defense tax will be \$100, and the corporation will pay a total excess-profits tax of \$1100.

**[¶ 15] Capital stock tax.**—The defense tax is made applicable to the capital stock tax through Sec. 205 of the 1940 Act, amending Sec. 1200, I.R.C., to provide that for the year ending June 30, 1940, and for the four succeeding years ending June 30, the rate shall be \$1.10 instead of \$1.00.

**[¶ 16] Transfers to avoid income tax.**—Sec. 208 of the 1940 Act, amending Sec. 1250, I.R.C., has the effect of making the 10% defense tax applicable to the excise tax imposed upon the transfer of stocks or securities by a citizen or resident of the U. S. to a foreign corporation, by increasing the rate of tax from 25% to 27½%.

**[¶ 17] Miscellaneous excise taxes.**—The defense tax in connection with miscellaneous excise taxes is provided for in Sec. 210 of the 1940 Act, which adds a new Sec. 1650, I.R.C., increasing the rates as therein stated, with respect to the period after June 30, 1940, and before July 1, 1945. The new rates are shown in the tables at ¶ 113-114.

Sec. 1650(b), I.R.C., added by Sec. 210 of the 1940 Act, is to the effect that articles subject to manufacturers' excise taxes which, prior to July 1, 1940, were delivered under leases, contracts of sale, or conditional sales, shall be subject to tax with respect to payments made after June 30, 1940, on the basis of the rates in effect prior to July 1, 1940, and not at the increased rates.

【¶ 18】 **Distilled spirits.**—The defense tax on distilled spirits is made effective through Sec. 213 of the 1940 Act, amending Sec. 2800, I.R.C., to increase the rates, as therein provided, for the period after June 30, 1940, and before July 1, 1945. The new rates are shown in the table at ¶ 118.

【¶ 19】 **Wines and fermented malt liquors.**—The defense tax on wines and fermented malt liquors is effected through Sec. 214 of the 1940 Act, adding a new Sec. 3190, I.R.C., which increases the rates, as therein provided, for the period after June 30, 1940, and before July 1, 1945. The new rates are shown in the table at ¶ 118.

【¶ 20】 **Admissions tax.**—The defense tax is made applicable to the tax on admissions by Sec. 211 of the 1940 Act, amending Sec. 1700(a)(1), I.R.C., to tax admissions of 21 cents and more, for the period after June 30, 1940 and before July 1, 1945; see the table at ¶ 112. Prior to this change, admissions of 40 cents and less were exempt.

【¶ 21】 **Playing cards.**—Sec. 215 of the 1940 Act, amending Sec. 1807, I.R.C., increases the tax on playing cards from 10 cents to 11 cents per pack, for the period after June 30, 1940, and before July 1, 1945.

【¶ 22】 **Estate tax.**—Sec. 206 of the 1940 Act, adding a new Sec. 951, I.R.C., makes a 10% increase in the amount of estate tax payable in the case of estates of decedents dying within a period of five years after the date of the enactment of the 1940 Act. The Report of the Ways and Means Committee explains the computation as follows:

Such increase will be computed upon the amount of tax as determined by the Rate Schedule or schedules of existing law after subtracting from the amount so obtained the amount of credit for gift taxes paid, as provided for in sections 813(a) and 936(b) of the Internal Revenue Code, and also the amount of any State, inheritance, legacy, or succession taxes paid to any State, Territory, the District of Columbia, or possession of the United States (not exceeding 80 per centum of the basic estate tax of 1926—Subchapter A of Chapter 3 of the Internal Revenue Code), as provided for in section 813(b).

Thus, if the basic estate tax (Subchapter A of Chapter 3), computed in accordance with the Rate Schedule set out in section 810, amounts to \$1,500, and the additional estate tax (Subchapter B of Chapter 3), computed as prescribed in section 935, amounts to \$8,100, and the credit against the amount of basic estate tax on account of the payment of any such estate, inheritance, legacy, or succession taxes amounts to \$1,200, and the gift tax credit amounts to \$100, the operation of the proposed super-tax is illustrated in the following table:

|  |         |
|--|---------|
| Basic estate tax (Chapter 3A of Code).....       | \$1,500 |
| Additional estate tax (Chapter 3B of Code).....  | 8,100   |
|  | 9,600   |
| Total tax under existing law before credits..... | 9,600   |

## Credits under existing law:

|   |         |
|---|---------|
| Gift tax credit .....                       | \$100   |
| Credit for State taxes .....                | 1,200   |
|   | <hr/>   |
| Total .....                                 | \$1,300 |
|   | <hr/>   |
| Total estate tax under existing law .....   | 8,300   |
| 10 per centum of \$8,300.....               | 830     |
|   | <hr/>   |
| Total estate tax under bill [1940 Act]..... | 9,130   |

¶ 23] **Gift tax.**—Sec. 207 of the 1940 Act, amending Sec. 1001, I.R.C., provides for an increase of 10% in the gift tax, effective for a period of five years. The explanation of Sec. 207, as given in the Ways and Means Committee Report, is as follows:

This section provides for each of the calendar years 1941 to 1945, both inclusive, an increase of 10 per centum in the gift tax computed according to the Rate Schedule set forth in section 1001 of the Code.

The following example illustrates the computation of the tax for the year 1943. Assume the taxpayer made net gifts of \$50,000 in 1943, and aggregate net gifts of \$100,000 for preceding calendar years, and that no specific exemption has been claimed, or is claimed for 1943.

|  |             |
|--|-------------|
| <i>Gift tax under existing [prior] law</i>               |             |
| 1942 and prior year gifts .....                          | \$100,000   |
| 1943 gifts .....   | 50,000      |
|  | <hr/>       |
| Total .....  | 150,000     |
|  | <hr/>       |
| Tax under section 1001(a)(1) .....                       | 13,575      |
| Tax under section 1001(a)(2) .....                       | 7,200       |
|  | <hr/>       |
| 1943 gift tax payable under existing law.....            | 6,375       |
|  | <hr/>       |
| <i>Tax under bill [1940 Act]</i>                         |             |
| 110 per centum of tax under 1001(a)(1), or \$13,575..... | \$14,932.50 |
| 110 per centum of tax under 1001(a)(2), or \$7,200 ..... | 7,920.00    |
|  | <hr/>       |
| Total 1943 gift tax .....                                | 7,012.50    |

For the calendar year 1940, in order to prevent the injustice that would be caused by applying the increase over the whole year if some of the gifts were made before the enactment of the act, it is provided that only that portion of the 10 per centum increase shall be applied which corresponds to the ratio which the amount of the 1940 gifts made after the enactment of the act bears to the total amount of 1940 gifts. For the purpose of this proration the first \$4,000 of gifts to each donee is not counted as a gift, and charitable, etc., gifts allowed as a deduction under existing law are not counted. The specific exemption of \$40,000 granted by section 1004(a)(1) is not to be taken into account (whether claimed in whole or in part for 1940) in ascertaining the ratio to be applied.

The following example will illustrate the computation of the tax for 1940. Assume the taxpayer has made (from 1932 to 1939, inclusive) net gifts of \$1,040,000 and before 1940 has claimed no part of the specific exemption of \$40,000. In 1940 he makes gifts to charity: \$100,000 to X charity in March, and \$75,000 to Y charity in August. He also gives \$60,000 to John Smith in April and \$40,000 to him in September. The tax will be computed as follows:

|                                     |             |
|-------------------------------------|-------------|
| 1939 and prior year gifts .....     | \$1,040,000 |
| 1940 gifts before enactment of act: |             |
| (1) Gifts to John Smith .....       | 60,000      |
| (2) Gifts to X charity .....        | 100,000     |

1940 gifts after enactment of act:

|                               |          |
|-------------------------------|----------|
| (1) Gifts to John Smith ..... | \$49,000 |
| (2) Gifts to Y charity .....  | 75,000   |

*Gift tax under existing [prior] law*

|  |             |
|--|-------------|
| 1939 and prior year gifts .....                                | \$1,040,000 |
| 1940 gifts to John Smith (\$100,000 minus first \$4,000) ..... | 96,000      |
| 1940 gifts to charity .....                                    | 175,000     |

|                               |           |
|-------------------------------|-----------|
| Total .....                   | 1,311,000 |
| Deduct gifts to charity ..... | 175,000   |

|  |           |
|--|-----------|
|  | 1,136,000 |
| Deduct \$40,000 specific exemption claimed ..... | 40,000    |

1,096,000

|                                     |         |
|-------------------------------------|---------|
| Tax under section 1001(a) (1) ..... | 189,990 |
|-------------------------------------|---------|

|                                     |         |
|-------------------------------------|---------|
| Tax under section 1001(a) (2) ..... | 176,550 |
|-------------------------------------|---------|

|  |        |
|--|--------|
| Gift tax payable for 1940 under existing law ..... | 13,440 |
|--|--------|

*Tax under bill [1940 Act]*

|  |                                     |
|--|-------------------------------------|
| Ratio of 1940 taxable gifts after enactment to total 1940 tax-<br>able gifts ..... | } = $\frac{40,000}{96,000}$ or 5/12 |
| 10 per centum of \$13,440 .....  |                                     |

\$1,344

|                       |     |
|-----------------------|-----|
| 5/12 of \$1,344 ..... | 560 |
|-----------------------|-----|

|                             |        |
|-----------------------------|--------|
| Plus regular 1940 tax ..... | 13,440 |
|-----------------------------|--------|

|                           |        |
|---------------------------|--------|
| Total 1940 gift tax ..... | 14,000 |
|---------------------------|--------|

¶ 24] **Cigarette tax.**—Sec. 212 of the 1940 Act adds a new Sec. 2004, I.R.C., increasing the rates of tax on cigarettes for the period after June 30, 1940, and before July 1, 1945, from \$3.00 and \$7.20 per 1,000 to \$3.25 and \$7.80, respectively.

¶ 25-30] Blank.

### FLOOR STOCKS TAXES

¶ 31] **Floor stocks tax on distilled spirits.**—Sec. 2800, I.R.C. as amended by Sec. 213 of the 1940 Act, imposes a floor stocks tax of 75 cents per proof gallon on distilled spirits upon which the internal revenue tax has been paid, and which on July 1, 1940, are held and intended for sale or use in the manufacture or production of any article intended for sale. An exemption of 100 wine gallons is allowed retail liquor dealers who have incurred the occupational tax for the period beginning on July 1, 1940. Every retail dealer in liquors (even though not liable to pay the floor stocks tax) must make a return, however.

Return and payment of the tax must be made on or before August 1, 1940, but the Commissioner may extend the time for payment to a date not later than February 1, 1941.

¶ 32] **Floor stocks tax on fermented malt liquors.**—A floor stocks tax is imposed, by Sec. 3191, I.R.C. added by Sec. 214 of the 1940 Act, on fermented malt liquors upon which the internal revenue tax has been paid, and which on July 1, 1940, are held by manufacturers and wholesalers, and intended for sale. The rate of this tax is \$1.00 per barrel. Return and payment are required on or before August 1, 1940, but the Commissioner is authorized to extend the date for payment to not later than February 1, 1941.

¶ 33] **Floor stocks tax on cigarettes.**—Sec. 2005, I.R.C., added by Sec. 212 of the 1940 Act, provides for a floor stocks tax on cigarettes held on July 1, 1940, by

any person for sale. The rate of the tax is the difference between the old rates and the new rates. Returns and payment of the tax are required on or before August 1, 1940. The Commissioner is given authority to collect the tax with respect to articles to which tax stamps have not been affixed, by making an assessment with respect to unattached tax stamps on July 1, 1940, instead of by a return.

¶ 34] Blank.

#### OTHER CHANGES

¶ 35] Continuation of excise taxes.—Sec. 209 of the 1940 Act amends provisions of the I.R.C relating to certain excise taxes and increased rates of excise taxes which were due to expire in 1941. The expiration date is extended to 1945. The taxes so extended by Sec. 209 are as follows:

Stamp taxes: issues of securities, bond transfers, and deeds of conveyance; stock transfers.

Manufacturers' excise taxes: lubricating oils; gasoline, electrical energy; tires and inner tubes; toilet preparations; automobile trucks; passenger automobiles and motorcycles; parts and accessories for automobiles; radio sets; mechanical refrigerators; matches.

Miscellaneous taxes: telegraph, telephone, radio and cable facilities, leased wires, etc.; transportation of oil by pipe lines; admissions to theaters, concerts, cabarets, etc.; import taxes on petroleum, coal, lumber, and copper.

¶ 36] Credit of tax on automobiles, etc.—Sec. 216 of the 1940 Act, amends Sec. 3403(e) I.R.C., with respect to the amount of the credit against the automobile, truck and motorcycle tax on account of the sale in connection with the vehicle of tires and tubes with respect to which the tax on tires and tubes has been paid. This credit is increased from 2% in the case of automobile trucks and 3% in the case of automobiles and motorcycles, to 2½% and 3½%, respectively, with respect to such vehicles sold after June 30, 1940, and before July 1, 1945. These increases correspond to the increase made by Sec. 210 of the 1940 Act, in the rate of tax on automobiles, etc. The credit is allowable at 2½% and 3½% regardless of the rate of the tax paid on the tires and tubes or their date of acquisition.

¶ 37-39] Blank.

#### LIST OF AMENDMENTS

¶ 40] I.R.C. sections amended by Revenue Act of 1940.—

| <i>I. E. C.<br/>Sec.<br/>Amended</i> | <i>Subject</i>  | <i>Amended by<br/>1940 Act, Sec.</i> |
|--------------------------------------|---|--------------------------------------|
| 12(b)                                | Suratx on individuals .....   | 2                                    |
| 13(b)                                | Imposition of tax on corporations in general .....                                  | 3(a)                                 |
| 14(b)                                | Corporations with normal-tax net incomes of not more than \$25,000 .....            | 3(b)                                 |
| 14(c) (1)                            | Tax on foreign corporations .....   | 3(b)                                 |
| 15(New)                              | Defense tax for five years .....  | 201                                  |
| 25(b) (1)                            | Personal exemption .....  | 6(a)                                 |
| 51(a)                                | Requirements for filing individual returns .....                                    | 7(a)                                 |
| 142(a)                               | Requirements for filing fiduciary returns .....                                     | 7(b)                                 |
| 143                                  | Withholding of tax at source .....  | 5(a)                                 |
| 143(h) (New)                         | Rates of withholding until January 1945 .....                                       | 202                                  |
| 144                                  | Payment of corporation income tax at source .....                                   | 5(b)                                 |
| 147(a)                               | Information at source—payments of \$1,000 or more...                                | 7(c)                                 |
| 211(a) (1) (A)                       | Imposition of tax on nonresident alien individuals ...                              | 4(a)                                 |
| 211(a) (2)                           | Tax on nonresident alien individuals—aggregate receipts more than \$24,000 .....    | 4(b)                                 |
| 211(c)                               | Tax on nonresident alien individuals where gross income of more than \$24,000 ..... | 4(c)                                 |

| <i>I. E. O.</i><br><i>Sec.</i><br><i>Amended</i> | <i>Subject</i>  | <i>Amended by</i><br><i>1940 Act, Sec.</i> |
|--|---|--|
| 214  | Credits of nonresident aliens against net income . . . .  | 6(b)                                       |
| 231(a) (1)                                       | Tax on nonresident foreign corporations . . . . .   | 3(c)                                       |
| 251(f)   | Income from sources within possessions of U. S.—<br>credits against net income . . . . .  | 6(c)                                       |
| 362(b)   | Imposition of tax on mutual investment companies . .  | 3(d)                                       |
| 500(b) (New)                                     | Personal holding companies—defense tax for five years   | 203  |
| 600(b) (New)                                     | Excess-profits tax—defense tax for five years . . . . .   | 204  |
| 951(New)   | Estate tax—defense tax for five years . . . . .   | 206  |
| 1001(d) (New)                                    | Gift tax—defense tax for five years . . . . .   | 207  |
| 1200(c) (New)                                    | Capital stock tax—defense tax for five years . . . . .  | 205  |
| 1250(b) (New)                                    | Tax on transfers to avoid income tax—defense tax for<br>five years . . . . .  | 208  |
| 1650(New)  | Miscellaneous taxes—defense tax rates . . . . .   | 210  |
| 1700(a) (1)                                      | Admissions tax . . . . .  | 211  |
| 1700(b)  | Admissions tax—defense tax rate on box seats . . . . .  | 210  |
| 1700(c)  | Admissions tax—defense tax rate on sales outside box<br>office . . . . .  | 210  |
| 1700(e)  | Admissions tax—defense tax rate on cabarets . . . . .   | 210  |
| 1710(a) (1)                                      | Dues tax—defense tax rate on dues or membership fees  | 210  |
| 1710(a) (2)                                      | Initiation fees . . . . .   | 210  |
| 1801   | Continuation of stamp tax on corporate securities until<br>1945 . . . . .   | 209  |
| 1801   | Stamp tax on corporate securities—defense tax rate..  | 210  |
| 1802   | Continuation of stamp tax on capital stock issues . . . .   | 209  |
| 1802(a)  | Stamp tax—capital stock issues—defense tax rates..  | 210  |
| 1802(b)  | Stamp tax—capital stock transfers—defense tax rates   | 210  |
| 1804   | Stamp tax on insurance policies—defense tax rate . . . .  | 210  |
| 1806   | Stamp tax on passage tickets—defense tax rates . . . .  | 210  |
| 1807(b) (New)                                    | Tax on playing cards—defense tax for five years . . . . .   | 215  |
| 1850(a)  | Tax on safe-deposit boxes—defense tax rate . . . . .  | 210  |
| 2004(New)  | Cigarettes—defense tax for five years . . . . .   | 212  |
| 2005(New)  | Floor stocks tax on cigarettes . . . . .  | 212  |
| 2700(a)  | Pistols and revolvers—defense tax rate . . . . .  | 210  |
| 2800(a) (1)                                      | Tax on distilled spirits generally and brandy—defense<br>tax rate . . . . .   | 213(a)                                     |
| 2800(a) (3)                                      | Imported perfumes containing distilled spirits—defense<br>tax rate . . . . .  | 213(a)                                     |
| 2800(g) (h) (New)                                | Defense tax for five years and floor stocks tax—distilled<br>spirits . . . . .  | 213(a)                                     |
| 2887   | Drawback on spirits . . . . .   | 213(b)                                     |
| 3030(a) (1) (A), (2)                             | Still wines, sparkling wines, liqueurs, and cordials—<br>defense tax rates . . . . .  | 214  |
| 3031(a)  | Fortification of wines—defense tax rate . . . . .   | 214  |
| 3150(a)  | Fermented malt liquors—defense tax rate . . . . .   | 214  |
| 3190(New)  | Defense tax for five years—table of rates on still wines,<br>sparkling wines, liqueurs, cordials, fortification of<br>wines, and fermented malt liquors . . . . . | 214  |
| 3191(New)  | Floor stocks tax on fermented malt liquors . . . . .  | 214  |
| 3250(a) (1)                                      | Wholesalers in liquor—defense tax rate . . . . .  | 210  |
| 3250(b)  | Retail dealers in liquors—defense tax rate . . . . .  | 210  |
| 3250(c)  | Brewers—defense tax rates . . . . .   | 210  |
| 3250(d)  | Wholesale dealers in malt liquors—defense tax rate... .   | 210  |
| 3250(e)  | Retail dealers in malt liquors—defense tax rate.....  | 210  |
| 3250(e) (3)                                      | Retailers in malt liquors—special cases—defense tax<br>rate . . . . .   | 210  |
| 3250(f) (1)                                      | Rectifiers—defense tax rates . . . . .  | 210  |

| <i>I. R. C.</i><br><i>Sec.</i><br><i>Amended</i>    | <i>Subject</i>  | <i>Amended by</i><br><i>1940 Act, Sec.</i> |
|---|---|--|
| 3250(j)   | Manufacturers of stills—defense tax rates .....   | 210  |
| 3400(1)(2)  | Tax on tires and inner tubes—defense tax rates .....  | 210  |
| 3401  | Tax on toilet preparations—defense tax rate .....   | 210  |
| 3403(a)(b)  | Tax on automobile truck chassis, etc., and automobile chassis, etc.—defense tax rates ..... | 210  |
| 3403(c)   | Tax on automobiles—parts or accessories—defense tax rate .....                              | 210  |
| 3403(e)   | Credits on tax on automobiles, etc. ....  | 216  |
| 3403(f)(1)  | Continuation of tax on tires and inner tubes .....  | 209  |
| 3404  | Tax on radio receiving sets—defense tax rate .....  | 210  |
| 3405  | Tax on mechanical refrigerators—defense tax rate ...  | 210  |
| 3407  | Tax on firearms—defense tax rate .....  | 210  |
| 3409  | Tax on matches—defense tax rate .....   | 210  |
| 3411  | Tax on electrical energy—defense tax rate .....   | 210  |
| 3412  | Tax on gasoline—defense tax rate .....  | 210  |
| 3413  | Tax on lubricating oils—defense tax rate .....  | 210  |
| 3441(c)   | Excise tax rates—articles delivered before July 1, 1940                                     | 210  |
| 3452  | Continuation of excise taxes—automobiles, etc., tires and inner tubes .....                 | 209  |
| 3460(a)   | Continuation of excise taxes—transportation of oil by pipe line .....                       | 209  |
| 3460(a)(1)-(3)                                      | Transportation of oil by pipe line—defense tax rate..                                       | 210  |
| 3465  | Continuation of excise taxes—telegraph, telephone, radio, and cable facilities .....        | 209  |
| 3481(a)   | Stamp tax on transfer of bonds—defense tax rate ....  | 210  |
| 3481(b)   | Continuation of stamp tax on transfer of bonds .....  | 209  |
| 3482  | Continuation of stamp tax on conveyances .....  | 209  |
| 3482  | Stamp tax on conveyances—defense tax rate .....   | 210  |
| Sec. 205 of the Public Salary Tax Act of 1939 ..... |   | 401  |

## FEDERAL TAX CHARTS

A list of all Federal taxes now in effect under the  
Internal Revenue Code as amended by the  
Revenue Acts of 1939 and 1940

(The rates shown are the total rates and include any increases  
by the Revenue Act of 1940)

**[¶ 101]**

### INDIVIDUAL INCOME TAXES

(I.R.C. § 11, 12, 15, 25; 1940 Act § 2, 6, 201)

Under the Revenue Act of 1940, individuals are subject to a normal tax, a surtax and a defense tax.

| Basis   | Rate                                 |
|---|--------------------------------------|
| <p><b>Normal tax on citizens and residents</b></p> <p>Net income minus the following credits:</p> <ol style="list-style-type: none"> <li>1. Personal exemption (single person \$800; married persons \$2,000; head of family \$2,000).</li> <li>2. Credit for dependents (\$400 for each).</li> <li>3. Earned income credit.</li> <li>4. Credit for interest on obligations of the U. S. and its instrumentalities.</li> </ol>  | <p>4%</p>                            |
| <p><b>Surtax on citizens and residents</b></p> <p>Surtax net income which is net income minus the following credits:</p> <ol style="list-style-type: none"> <li>1. Personal exemption (single person \$800; married persons \$2,000; head of family \$2,000).</li> <li>2. Credit for dependents (\$400 for each).</li> </ol>  | <p>See Surtax Table on next page</p> |
| <p><b>Defense tax for five years</b></p> <p>Tax computed without regard to defense tax<sup>1</sup></p> <p>(The defense tax means simply that after the taxpayer has computed his tax in the regular way, 10% is added)</p> <p><i>Exception:</i> Defense tax may not exceed 10% of amount by which net income exceeds tax computed without regard to defense tax<sup>1</sup></p> <p>See the discussion and illustrations at ¶ 11. Exception applies only in the case of very large incomes</p> | <p>10%</p>                           |

**[Footnote ¶ 101]** (1) Tax computed without regard to the defense tax means the tax before the application of the foreign tax credit and the credit for taxes withheld at the source.

## SURTAX RATES

Each line represents a bracket in the surtax table; Column (A) being the lower limit of the bracket, Column (C) the upper limit, and Column (D) the rate applicable to that bracket, e.g., \$6,000 to \$8,000 is taxed at 6%.

| Surtax Net Income | Surtax on Amount in (A) | Amount in Excess of (A) but not in Excess of (C) is taxed at Rate shown in (D) |     |
|-------------------|-------------------------|--|-----|
| (A)               | (B)                     | (C)  | (D) |
| \$4,000           | \$ 0                    | \$6,000  | 4%  |
| 6,000             | 80                      | 8,000  | 6%  |
| 8,000             | 200                     | 10,000   | 8%  |
| 10,000            | 360                     | 12,000   | 10% |
| 12,000            | 560                     | 14,000   | 12% |
| 14,000            | 800                     | 16,000   | 15% |
| 16,000            | 1,100                   | 18,000   | 18% |
| 18,000            | 1,460                   | 20,000   | 21% |
| 20,000            | 1,880                   | 22,000   | 24% |
| 22,000            | 2,360                   | 26,000   | 27% |
| 26,000            | 3,440                   | 32,000   | 30% |
| 32,000            | 5,240                   | 38,000   | 33% |
| 38,000            | 7,220                   | 44,000   | 36% |
| 44,000            | 9,380                   | 50,000   | 40% |
| 50,000            | 11,780                  | 60,000   | 44% |
| 60,000            | 16,180                  | 70,000   | 47% |
| 70,000            | 20,880                  | 80,000   | 50% |
| 80,000            | 25,880                  | 90,000   | 53% |
| 90,000            | 31,180                  | 100,000  | 56% |
| 100,000           | 36,780                  | 150,000  | 58% |
| 150,000           | 65,780                  | 200,000  | 60% |
| 200,000           | 95,780                  | 250,000  | 62% |
| 250,000           | 126,780                 | 300,000  | 64% |
| 300,000           | 158,780                 | 400,000  | 66% |
| 400,000           | 224,780                 | 500,000  | 68% |
| 500,000           | 292,780                 | 750,000  | 70% |
| 750,000           | 467,780                 | 1,000,000  | 72% |
| 1,000,000         | 647,780                 | 2,000,000  | 73% |
| 2,000,000         | 1,377,780               | 5,000,000  | 74% |
| 5,000,000         | 3,597,780               |  | 75% |

**Surtax limitations.**—The law provides the following limitations upon the rate of surtax:

(a) In the case of a bona fide sale of any oil or gas property, or any interest therein, where the principal value of the property has been demonstrated by prospecting or exploration or discovery work done by the taxpayer, the portion of the surtax on individuals attributable to such sale may not exceed 30% of the selling price of such property or interest [Sec. 105].

(b) In the case of a net long-term capital gain, an alternative tax is provided, the effect of which is to limit the rate of tax on such gain to 30% (in lieu of the normal tax and surtax) [Sec. 117(c)(1)].

(c) A maximum rate of 30% applies in the case of amounts (other than interest) received in payment of certain claims against the United States [Sec. 106].

(d) Under certain limitations, the rate of tax may be doubled in the case of citizens of foreign countries imposing discriminatory taxes against citizens of the United States [Sec. 108].

(e) A special rule is provided for persons who receive in one year compensation for services rendered for a period of five calendar years or more [Sec. 107].

¶ 102

INCOME TAX ON NONRESIDENT ALIENS

(I.R.C. § 211. 1940 Act § 4; § 201)

|  | Basis   | Rate   |
|--|---|--|
| <b>Nonresident aliens having no U. S. business or office and whose gross income from U. S. sources is \$24,000 or less</b>   | Fixed or determinable annual or periodical income from U. S. sources, including interest, dividends, rent, salaries, wages, premiums, annuities and compensation. <sup>1</sup> No deductions, personal exemption or credit for dependents.  | 15% plus 1½% defense tax, except residents of Canada, 5%<br>Tax is withheld by person making the payment. <sup>1</sup>   |
| <b>Nonresident aliens having no U. S. business or office and whose gross income from U. S. sources is more than \$24,000</b> | Fixed or determinable annual or periodical income from U. S. sources, including interest, dividends, rent, salaries, wages, premiums, annuities and compensation <sup>1</sup> less deductions applicable to such income. <sup>2</sup> Personal exemption of \$800 whether single, married or head of family. Credit for dependents (\$400 for each) allowed only to residents of Canada and Mexico. | Normal tax, 4%.<br>Surtax and defense tax same as citizen. See ¶ 101.<br>Minimum tax 16½% of gross income withheld by person making payment.<br>Residents of Canada pay only 5% withheld. <sup>3</sup> |
| <b>Nonresident aliens having U. S. business or office</b>  | Gross income from sources within U. S. less deductions applicable to such income. <sup>4</sup> Personal exemption \$800 whether single, married or head of family. Credit for dependents (\$400 for each) allowed only to residents of Canada and Mexico.   | Normal tax, 4%.<br>Surtax and defense tax same as citizen. See ¶ 101.  |

¶ 102 (1) This is the general rule. There are a few exceptional items.

(2) Exception: contributions to certain U. S. charities.

(3) Residents of Canada or Mexico who enter and leave the United States at frequent intervals file a return and pay a tax on wages or salary earned in this country.

(4) Exception: contributions to certain U. S. charities and certain losses.

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**[ [ 103 ] RATES AND AMOUNTS OF TAX UNDER THE INTERNAL REVENUE CODE AS AMENDED BY THE REVENUE ACT OF 1940.**

| SINGLE PERSON<br>Personal Exemption \$800 |                  |  |              | NET <sup>1</sup><br>INCOME | MARRIED PERSON<br>Personal Exemption \$2,000 |  |                  |                         |
|---|------------------|--|--------------|----------------------------|--|--|------------------|-------------------------|
| Normal<br>Tax<br>Rate %                   | Surtax<br>Rate % | Normal<br>Tax Plus<br>Surtax<br>Rate % | Total Tax *  |                            | Total Tax *                                  | Normal<br>Tax Plus<br>Surtax<br>Rate % | Surtax<br>Rate % | Normal<br>Tax<br>Rate % |
| .....                                     | .....            | .....                                  | .....        | <b>\$800</b>               | .....  | .....                                  | .....            | .....                   |
| 4   | .....            | 4                                      | \$4.40       | <b>1,000</b>               | .....  | .....                                  | .....            | .....                   |
| 4   | .....            | 4                                      | 44.00        | <b>2,000</b>               | .....  | .....                                  | .....            | .....                   |
| 4   | .....            | 4                                      | 83.60        | <b>3,000</b>               | \$30.80                                      | 4                                      | .....            | 4                       |
| 4   | .....            | 4                                      | 123.20       | <b>4,000</b>               | 70.40  | 4                                      | .....            | 4                       |
| 4   | 4                | 8                                      | 171.60       | <b>5,000</b>               | 110.00                                       | 4                                      | .....            | 4                       |
| 4   | 4                | 8                                      | 255.20       | <b>6,000</b>               | 149.60                                       | 4                                      | .....            | 4                       |
| 4   | 6                | 10                                     | 343.20       | <b>7,000</b>               | 233.20                                       | 8                                      | 4                | 4                       |
| 4   | 6                | 10                                     | 448.80       | <b>8,000</b>               | 316.80                                       | 8                                      | 4                | 4                       |
| 4   | 8                | 12                                     | 558.80       | <b>9,000</b>               | 422.40                                       | 10                                     | 6                | 4                       |
| 4   | 8                | 12                                     | 686.40       | <b>10,000</b>              | 528.00                                       | 10                                     | 6                | 4                       |
| 4   | 10               | 14                                     | 818.40       | <b>11,000</b>              | 655.60                                       | 12                                     | 8                | 4                       |
| 4   | 10               | 14                                     | 968.00       | <b>12,000</b>              | 783.20                                       | 12                                     | 8                | 4                       |
| 4   | 12               | 16                                     | 1,122.00     | <b>13,000</b>              | 932.80                                       | 14                                     | 10               | 4                       |
| 4   | 12               | 16                                     | 1,293.60     | <b>14,000</b>              | 1,082.40                                     | 14                                     | 10               | 4                       |
| 4   | 15               | 19                                     | 1,476.20     | <b>15,000</b>              | 1,258.40                                     | 16                                     | 12               | 4                       |
| 4   | 15               | 19                                     | 1,685.20     | <b>16,000</b>              | 1,434.40                                     | 16                                     | 12               | 4                       |
| 4   | 18               | 22                                     | 1,900.80     | <b>17,000</b>              | 1,643.40                                     | 19                                     | 15               | 4                       |
| 4   | 18               | 22                                     | 2,142.80     | <b>18,000</b>              | 1,852.40                                     | 19                                     | 15               | 4                       |
| 4   | 21               | 25                                     | 2,391.40     | <b>19,000</b>              | 2,094.40                                     | 22                                     | 18               | 4                       |
| 4   | 21               | 25                                     | 2,666.40     | <b>20,000</b>              | 2,336.40                                     | 22                                     | 18               | 4                       |
| 4   | 27               | 31                                     | 4,252.60     | <b>25,000</b>              | 3,843.40                                     | 31                                     | 27               | 4                       |
| 4   | 30               | 34                                     | 6,063.20     | <b>30,000</b>              | 5,614.40                                     | 34                                     | 30               | 4                       |
| 4   | 33               | 37                                     | 8,005.80     | <b>35,000</b>              | 7,517.40                                     | 37                                     | 33               | 4                       |
| 4   | 36               | 40                                     | 10,080.40    | <b>40,000</b>              | 9,552.40                                     | 37                                     | 33               | 4                       |
| 4   | 40               | 44                                     | 12,289.20    | <b>45,000</b>              | 11,752.40                                    | 40                                     | 36               | 4                       |
| 4   | 40               | 44                                     | 14,709.20    | <b>50,000</b>              | 14,128.40                                    | 44                                     | 40               | 4                       |
| 4   | 44               | 48                                     | 19,954.00    | <b>60,000</b>              | 19,320.40                                    | 48                                     | 44               | 4                       |
| 4   | 47               | 51                                     | 25,537.60    | <b>70,000</b>              | 24,864.40                                    | 51                                     | 47               | 4                       |
| 4   | 50               | 54                                     | 31,451.20    | <b>80,000</b>              | 30,738.40                                    | 54                                     | 50               | 4                       |
| 4   | 53               | 57                                     | 37,694.80    | <b>90,000</b>              | 36,942.40                                    | 57                                     | 53               | 4                       |
| 4   | 56               | 60                                     | 44,268.40    | <b>100,000</b>             | 43,476.40                                    | 60                                     | 56               | 4                       |
| 4   | 58               | 62                                     | 78,350.80    | <b>150,000</b>             | 77,532.40                                    | 62                                     | 58               | 4                       |
| 4   | 60               | 64                                     | 112,890.80   | <b>200,000</b>             | 112,199.60                                   | 64                                     | 60               | 4                       |
| 4   | 62               | 66                                     | 147,576.40   | <b>250,000</b>             | 146,863.60                                   | 66                                     | 62               | 4                       |
| 4   | 64               | 68                                     | 183,162.00   | <b>300,000</b>             | 182,427.60                                   | 68                                     | 64               | 4                       |
| 4   | 66               | 70                                     | 256,147.60   | <b>400,000</b>             | 255,391.60                                   | 70                                     | 66               | 4                       |
| 4   | 68               | 72                                     | 330,933.20   | <b>500,000</b>             | 330,155.60                                   | 72                                     | 68               | 4                       |
| 4   | 70               | 74                                     | 522,418.80   | <b>750,000</b>             | 521,619.60                                   | 74                                     | 70               | 4                       |
| 4   | 72               | 76                                     | 718,404.40   | <b>1,000,000</b>           | 717,583.60                                   | 76                                     | 72               | 4                       |
| 4   | 73               | 77                                     | 1,511,397.20 | <b>2,000,000</b>           | 1,510,565.60                                 | 77                                     | 73               | 4                       |
| 4   | 74               | 78                                     | 3,917,390.00 | <b>5,000,000</b>           | 3,916,547.60                                 | 78                                     | 74               | 4                       |
| 4   | 75               | 79                                     | .....        | over<br><b>5,000,000</b>   | .....  | 79                                     | 75               | 4                       |

(1) Computations are based on the maximum earned income of \$14,000; incomes of \$14,000 or less are treated as all earned.  
 (2) Includes defense tax imposed by Sec. 15, I.R.C., added by Sec. 201 of 1940 Act.

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¶ 104]

TABLE SHOWING TOTAL TAX INCREASE—

| Net<br>Income<br>\$ | Married Person, All Earned Income |                                  | Increase<br>in Dollars | Increase<br>% <sup>1</sup> |
|---------------------|-----------------------------------|----------------------------------|------------------------|----------------------------|
|                     | Old<br>Law                        | New Law Including<br>Defense tax |                        |                            |
| 2,000               | ....                              | ....                             | ....                   | ....                       |
| 2,500               | ....                              | \$ 11.00                         | \$ 11.00               | over 100                   |
| 3,000               | \$ 8                              | 30.80                            | 22.80                  | over 100                   |
| 4,000               | 44                                | 70.40                            | 26.40                  | 60                         |
| 5,000               | 80                                | 110.00                           | 30.00                  | 38                         |
| 6,000               | 116                               | 149.60                           | 33.60                  | 29                         |
| 7,000               | 172                               | 233.20                           | 61.20                  | 36                         |
| 8,000               | 248                               | 316.80                           | 68.80                  | 28                         |
| 9,000               | 329                               | 422.40                           | 93.40                  | 28                         |
| 10,000              | 415                               | 528.00                           | 113.00                 | 27                         |
| 11,000              | 506                               | 655.60                           | 149.60                 | 30                         |
| 12,000              | 602                               | 783.20                           | 181.20                 | 30                         |
| 13,000              | 703                               | 932.80                           | 229.80                 | 33                         |
| 14,000              | 809                               | 1,082.40                         | 273.40                 | 34                         |
| 15,000              | 924                               | 1,258.40                         | 334.40                 | 36                         |
| 20,000              | 1,589                             | 2,336.40                         | 747.40                 | 47                         |
| 25,000              | 2,489                             | 3,843.40                         | 1,354.40               | 54                         |
| 30,000              | 3,569                             | 5,614.40                         | 2,045.40               | 57                         |
| 40,000              | 5,979                             | 9,552.40                         | 3,573.40               | 60                         |
| 50,000              | 8,869                             | 14,128.40                        | 5,259.40               | 59                         |
| 60,000              | 12,329                            | 19,320.40                        | 6,991.40               | 57                         |
| 70,000              | 16,449                            | 24,864.40                        | 8,415.40               | 51                         |
| 80,000              | 21,269                            | 30,738.40                        | 9,469.40               | 45                         |
| 90,000              | 26,669                            | 36,942.40                        | 10,273.40              | 39                         |
| 100,000             | 32,469                            | 43,476.40                        | 11,007.40              | 34                         |
| 150,000             | 63,394                            | 77,532.40                        | 14,138.40              | 22                         |
| 200,000             | 95,344                            | 112,199.60                       | 16,855.60              | 18                         |
| 250,000             | 128,294                           | 146,863.60                       | 18,569.60              | 14                         |
| 300,000             | 162,244                           | 182,427.60                       | 20,183.60              | 12                         |
| 400,000             | 232,194                           | 255,391.60                       | 23,197.60              | 10                         |
| 500,000             | 304,144                           | 330,155.60                       | 26,011.60              | 9                          |
| 1,000,000           | 679,044                           | 717,583.60                       | 38,539.60              | 6                          |
| 5,000,000           | 3,788,994                         | 3,916,547.60                     | 127,553.60             | 3                          |

¶ 105]

INCOME TAX ON ESTATES AND TRUSTS  
(I.R.C. § 11, 12, 15, 161, 163. 1940 Act § 2, 6, 201)

|                | Basis   | Rate   |
|----------------|---|--|
| <b>Estates</b> | Gross income and deductions generally same as individual, except deduction for amounts "distributed or distributable" to beneficiaries. Personal exemption \$800. No credit for dependents or earned income.                    | Normal tax, 4%.<br>Surtax and defense tax same as individual. See ¶ 101. |
| <b>Trusts</b>  | Gross income and deductions generally same as individual, except deduction for amounts "distributed or distributable" to beneficiaries. Credit in lieu of personal exemption, \$100. No credit for dependents or earned income. | Normal tax, 4%.<br>Surtax and defense tax same as individual. See ¶ 101. |

¶ Footnote ¶ 104] (1) Fraction disregarded unless it amounts to ½% or more, in which case next higher figure is used.

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[¶ 106]

## INCOME TAX ON CORPORATIONS

(I.R.C. § 13, 14, 15, 102, 231, 362, 500, 600, 1200; 1940 Act § 201, 203, 204, 205)

|  | Basis  | Rate  |
|--|--|---|
| Normal tax on corporations with normal-tax net income of \$25,000 or less        | Normal-tax net income <sup>1</sup>                                   | <i>Normal tax:</i><br>Up to \$5,000.....13½%<br>\$5,000 to \$20,000...\$675 plus 15% of amount over \$5,000<br>\$20,000 to \$25,000..\$2,925 plus 17% of amount over \$20,000<br>\$25,000.....\$3,775<br><i>Defense tax:</i><br>10% of normal tax |
| Normal tax on corporations with normal-tax net income of \$25,000 to \$31,964.29 | Normal-tax net income <sup>1</sup>                                   | <i>Normal tax:</i><br>\$3,775 plus 33% of amount over \$25,000 <sup>2</sup><br><i>Defense tax:</i><br>10% of normal tax   |
| Normal tax on corporations with normal-tax net income of more than \$31,964.29   | Normal-tax net income <sup>1</sup>                                   | <i>Normal tax:</i><br>19%<br><i>Defense tax:</i><br>10% of normal tax   |
| Mutual investment companies  | Supplement Q net income  | <i>Normal tax:</i><br>19% (regardless of amount of Supplement Q net income)<br><i>Defense tax:</i><br>10% of normal tax   |
| Resident foreign corporations  | Normal-tax net income <sup>3</sup>                                   | <i>Normal tax:</i><br>19% (regardless of amount of the normal-tax net income)<br><i>Defense tax:</i><br>10% of normal tax   |
| Nonresident foreign corporations   | Fixed or determinable annual or periodical income from U. S. sources | Dividends 15% plus 1.5% defense tax<br>Other income 15% plus 1.5% defense tax<br><i>Exception:</i> Canadian corporations, dividends 5%; other income 15% <sup>5</sup><br>Tax is withheld by person making payment <sup>4</sup>                    |

(Table continued on next page)

[Footnote ¶ 106] (1) Normal-tax net income is computed as follows:

- (a) Start with net income.
- (b) Subtract credit for interest on obligations of U. S. and its instrumentalities. Result is adjusted net income.
- (c) Subtract credit for dividends received (85% of dividends received from taxable domestic corporations or 85% of adjusted net income, whichever is lesser). Result is normal-tax net income.
- (2) The law provides that the tax shall be (A) 19% of the normal-tax net income or (B) an alternative tax of \$3,775 plus 33% of the normal-tax net income in excess of \$25,000, whichever is the lesser. If the normal-tax net income is between \$25,000 and \$31,964.29, the alternative tax is always the same or less. If the net income is in excess of \$31,964.29, the 19% rate is always less.
- (3) Gross income of resident foreign corporations includes only income from U. S. sources.
- (4) Exception: Only 2% withheld on tax-free covenant bonds issued before January 1, 1934, if withholding corporation assumes over 2% of the tax.
- (5) See ¶ 107, Footnote (2).

INCOME TAX ON CORPORATIONS—Continued

|   | Basis  | Rate  |
|---|--|---|
| <b>Surtax on personal holding companies</b>                   | Undistributed Subchapter A net income  | <p><i>Surtax:</i><br/>                     Up to \$2,000..65%<br/>                     Over \$2,000...\$1,300 plus 75% of amount over \$2,000</p> <p><i>Defense tax:</i><br/>                     10% of surtax</p>   |
| <b>Surtax on corporations improperly accumulating surplus</b> | Undistributed Sec. 102 net income  | <p><i>Surtax:</i><br/>                     Up to \$100,000..25%<br/>                     Over \$100,000...\$25,000 plus 35% of amount over \$100,000</p> <p><i>Defense tax:</i><br/>                     10% of surtax</p>  |
| <b>Foreign personal holding companies</b>                     |  | (Each U. S. stockholder is required to include in gross income his pro rata share of the "undistributed Supplement P net income")   |
| <b>Capital stock tax</b>                                      | Adjusted declared value  | \$1.10 for each \$1,000   |
| <b>Excess-profits tax</b>                                     | Net income (before deducting excess-profits tax) less dividends received credit <sup>5</sup> | <p><i>Excess-profits tax:</i><br/>                     6% of that part of basis which is in excess of 10% and not in excess of 15% of the adjusted declared value, plus<br/>                     12% of that part of basis which is in excess of 15% of the adjusted declared value</p> <p><i>Defense tax:</i><br/>                     10% of excess-profits tax</p> |

**[Footnote ¶ 106 continued]**

(5) Dividends received credit is 85% of dividends received from taxable domestic corporations or 85% of adjusted net income, whichever is lesser.

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[1 107]

## WITHHOLDING RATES

(I.R.C. § 143, 144; 1940 Act § 5, 202)

| Classes of taxpayers  | Corporate bond interest                               |  |  |                                     |   | Salary or other compensation for personal services | Other fixed or determinable annual or periodical income from sources within the United States |
|---|---|--|--|-------------------------------------|---|--|---|
|   | With tax-free covenant and issued before Jan. 1, 1934 |  | Without tax-free covenant or issued on or after Jan. 1, 1934, with tax-free covenant | Dividends from domestic corporation | Dividends from foreign corporation mentioned in Sec. 19.143-1, Reg. 103 |  |   |
|   | If corporation assumes over 2 percent of the tax      | If corporation assumes not over 2 percent of the tax |  |                                     |   |  |   |
|   | Percent   | Percent  | Percent  | Percent                             | Percent   | Percent  | Percent   |
| 1. Citizen or resident individual, fiduciary, or partnership                                | 2   | 2  | ....   | ....                                | ....  | ....   | ....  |
| 2. Nonresident individual, fiduciary, or partnership (except as stated in item 5 below).... | 2   | 16½  | 16½  | 16½                                 | 16½   | 16½  | 16½   |
| 3. Domestic corporation or resident foreign corporation                                     | ....  | ....   | ....   | ....                                | ....  | ....   | ....  |
| 4. Nonresident foreign corporation (except as stated in item 6 below)..                     | 2   | 16½  | 16½  | 16½                                 | 16½   | 16½  | 16½   |
| 5. Individual, fiduciary, or partnership, resident of Canada .....                          | 2   | 5  | 5  | 5                                   | 5   | (2)  | 5   |
| 6. Nonresident corporation organized under laws of Canada .....                             | 2   | 15 <sup>a</sup>                                      | 15 <sup>a</sup>  | 5                                   | 5   | 15 <sup>a</sup>                                    | 15 <sup>a</sup>   |
| 7. Unknown owner..  | 2   | 16½  | 16½  | ....                                | ....  | ....   | ....  |

**[Footnote ¶ 107]** (1) Salary or compensation for personal services rendered in the United States is not subject to withholding in the case of nonresident aliens, residents of Canada or Mexico, who enter and leave the United States at frequent intervals.

(2) I.R.C. Sec. 143 (h) added by Sec. 202 of the Revenue Act of 1940 provides that the increase from 15% to 16½% "shall not apply in any case where its operation would be contrary to any treaty obligation of the United States, nor to a resident of, or a corporation organized under the laws of, a contiguous country so long as there is in effect with such country a treaty, ratified prior to August 26, 1937, relating to rates of income tax." While there is, of course, no ruling on the subject, it would seem that under this provision the 15% rate applicable to a nonresident corporation organized under the laws of Canada is retained.

[¶ 108]

ESTATE TAX

**Table I**  
**For Computation of**  
**Total Gross Tentative Estate Tax**  
**Maximum Estate Tax**  
**and**  
**Additional Estate Tax**

**I.R.C. Sec. 935.**—The following table indicates the total gross tax where death occurred on or after August 31, 1935, and prior to the effective date of the Revenue Act of 1940. The same rates will also apply where death occurs five years after that date.

**Rev. Act of 1940, Sec. 206.**—Where death occurs within the five-year period following the date of enactment of the Revenue Act of 1940, the net tax shall be 10 per cent greater than the net tax indicated below.

*For date of enactment of the Revenue Act of 1940, see Title Page.*

| Amount of net estate (after all deductions and exemptions) | Tax on amount in (A) | Amount of net estate in excess of (A) but not in excess of (C) is taxed at rate shown in (D) |     |
|--|----------------------|--|-----|
| (A)  | (B)                  | (C)  | (D) |
| \$0  | \$0                  | \$10,000   | 2%  |
| 10,000   | 200                  | 20,000   | 4%  |
| 20,000   | 600                  | 30,000   | 6%  |
| 30,000   | 1,200                | 40,000   | 8%  |
| 40,000   | 2,000                | 50,000   | 10% |
| 50,000   | 3,000                | 70,000   | 12% |
| 70,000   | 5,400                | 100,000  | 14% |
| 100,000  | 9,600                | 200,000  | 17% |
| 200,000  | 26,600               | 400,000  | 20% |
| 400,000  | 66,600               | 600,000  | 23% |
| 600,000  | 112,600              | 800,000  | 26% |
| 800,000  | 164,600              | 1,000,000  | 29% |
| 1,000,000  | 222,600              | 1,500,000  | 32% |
| 1,500,000  | 382,600              | 2,000,000  | 35% |
| 2,000,000  | 557,600              | 2,500,000  | 38% |
| 2,500,000  | 747,600              | 3,000,000  | 41% |
| 3,000,000  | 952,600              | 3,500,000  | 44% |
| 3,500,000  | 1,172,600            | 4,000,000  | 47% |
| 4,000,000  | 1,407,600            | 4,500,000  | 50% |
| 4,500,000  | 1,657,600            | 5,000,000  | 53% |
| 5,000,000  | 1,922,600            | 6,000,000  | 56% |
| 6,000,000  | 2,482,600            | 7,000,000  | 59% |
| 7,000,000  | 3,072,600            | 8,000,000  | 61% |
| 8,000,000  | 3,682,600            | 9,000,000  | 63% |
| 9,000,000  | 4,312,600            | 10,000,000   | 65% |
| 10,000,000   | 4,962,600            | 20,000,000   | 67% |
| 20,000,000   | 11,662,600           | 50,000,000   | 69% |
| 50,000,000   | 32,382,600           | .....  | 70% |

Column (A) shows the amount of the net estate; that is, the total gross estate less all deductions and an exemption of \$40,000.

Column (B) shows the total gross tentative estate tax on the corresponding net estate in Column (A). The tax shown in Column (B) is also the maximum Federal estate tax for the corresponding net estate shown in Column (A).

Column (D) shows the rate applicable to any amount in excess of the net estate shown in Column (A) but not in excess of the net estate shown in Column (C).

The tax computed by use of this table is the total of both the Basic Estate Tax and the Additional Estate Tax without allowance for any credit for gift tax, or for inheritance taxes paid to the States; it is therefore the maximum Federal estate tax payable by any estate.

To obtain the Additional Estate Tax, subtract from the tax obtained by use of the above table the gross tax obtained by use of Table II, below.

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**Table II**  
**For Computation of**  
**The Basic Estate Tax**  
**and**  
**The Maximum Credit for Inheritance**  
**Taxes Paid to the States**

**I.R.C., Sec. 810.**—The following table indicates the basic estate tax and the maximum credit in estates where death occurred on or after February 26, 1926, and prior to the effective date of the Revenue Act of 1940. The same rates will also apply where death occurs five years after that date.

**Rev. Act of 1940, Sec. 206.**—Where death occurs within the five-year period following the date of enactment of the Revenue Act of 1940, the net tax (i.e., the difference between amount in Column (B) over amount in Column (E)) is increased 10 per cent. The amount of credit for State taxes, Column (E), remains unchanged.

*For date of enactment of the Revenue Act of 1940, see Title Page.*

| Amount of net estate (after all deductions and exemptions) | Basic Estate Tax on amount in (A) | Amount of net estate in excess of (A) but not in excess of (C) is taxed at rate shown in (D) | Maximum Credit for State Taxes Deductible from Tax Shown in (B) | Maximum Credit for State Taxes on Amount in excess of (A) but not in excess of (C) is product of such excess and rate shown in (F) |       |
|--|-----------------------------------|--|---|--|-------|
| (A)  | (B)                               | (C)  | (D)   | (E)  | (F)   |
| \$0  | \$0                               | \$50,000   | 1%  | \$0  | 0.8%  |
| 50,000   | 500                               | 100,000  | 2%  | 400  | 1.6%  |
| 100,000  | 1,500                             | 200,000  | 3%  | 1,200  | 2.4%  |
| 200,000  | 4,500                             | 400,000  | 4%  | 3,600  | 3.2%  |
| 400,000  | 12,500                            | 600,000  | 5%  | 10,000   | 4.0%  |
| 600,000  | 22,500                            | 800,000  | 6%  | 18,000   | 4.8%  |
| 800,000  | 34,500                            | 1,000,000  | 7%  | 27,600   | 5.6%  |
| 1,000,000  | 48,500                            | 1,500,000  | 8%  | 38,800   | 6.4%  |
| 1,500,000  | 88,500                            | 2,000,000  | 9%  | 70,800   | 7.2%  |
| 2,000,000  | 133,500                           | 2,500,000  | 10%   | 106,800  | 8.0%  |
| 2,500,000  | 183,500                           | 3,000,000  | 11%   | 146,800  | 8.8%  |
| 3,000,000  | 238,500                           | 3,500,000  | 12%   | 190,800  | 9.6%  |
| 3,500,000  | 298,500                           | 4,000,000  | 13%   | 238,800  | 10.4% |
| 4,000,000  | 363,500                           | 5,000,000  | 14%   | 290,800  | 11.2% |
| 5,000,000  | 503,500                           | 6,000,000  | 15%   | 402,800  | 12.0% |
| 6,000,000  | 653,500                           | 7,000,000  | 16%   | 522,800  | 12.8% |
| 7,000,000  | 813,500                           | 8,000,000  | 17%   | 650,800  | 13.6% |
| 8,000,000  | 983,500                           | 9,000,000  | 18%   | 786,800  | 14.4% |
| 9,000,000  | 1,163,500                         | 10,000,000   | 19%   | 930,800  | 15.2% |
| 10,000,000   | 1,353,500                         | up   | 20%   | 1,082,800  | 16.0% |

Column (A) shows the amount of the net estate under the Basic Estate Tax; that is, the total gross estate less all deductions and an exemption of \$100,000.

Column (B) shows the gross Basic Estate Tax.

Column (D) shows the tax rate applicable to any amount in excess of the net estate shown in Column (A) but not in excess of Column (C).

Column (E) shows the maximum credit for inheritance taxes paid to the States. This credit is deductible from the tax shown in Column (B).

Column (F) is used to compute the maximum credit for state inheritance taxes to be applied against the gross tax on the excess over the amount in column (A).

[ 109 ]

GIFT TAX

GIFT TAX APPLICABLE TO GIFTS MADE IN 1936 AND SUBSEQUENT YEARS

**I.R.C., Sec. 1001.**—The following table indicates the gift tax applicable on gifts made during years 1936-1939 inclusive. The same rates will also apply where gifts are made in 1946 and subsequent years unless the statute is further amended.

**Rev. Act of 1940, Sec. 207.**—On gifts made during years 1940-1945 inclusive, the gift tax is increased 10 per cent over the amount shown on the table below.

For the calendar year 1940 the increase is in effect applied only to gifts made after date of enactment. This is accomplished by prorating the 10 per cent increase in the ratio which the total of gifts made after the enactment of the amendment bears to the total amount of gifts made during the entire year.

*For date of enactment of the Revenue Act of 1940, see Title Page.*

*Amount of net gifts (after all exemptions and deductions)*

*Tax on amount in (A)*

*Amount of net gifts in excess of (A) but not in excess of (C) is taxed at rate shown in (D)*

| (A)        | (B)        | (C)        | (D)<br>per cent |
|------------|------------|------------|-----------------|
| \$0        | \$0        | \$10,000   | 1½              |
| 10,000     | 150        | 20,000     | 3               |
| 20,000     | 450        | 30,000     | 4½              |
| 30,000     | 900        | 40,000     | 6               |
| 40,000     | 1,500      | 50,000     | 7½              |
| 50,000     | 2,250      | 70,000     | 9               |
| 70,000     | 4,050      | 100,000    | 10½             |
| 100,000    | 7,200      | 200,000    | 12¾             |
| 200,000    | 19,950     | 400,000    | 15              |
| 400,000    | 49,950     | 600,000    | 17¼             |
| 600,000    | 84,450     | 800,000    | 19½             |
| 800,000    | 123,450    | 1,000,000  | 21¾             |
| 1,000,000  | 166,950    | 1,500,000  | 24              |
| 1,500,000  | 286,950    | 2,000,000  | 26¼             |
| 2,000,000  | 418,200    | 2,500,000  | 28½             |
| 2,500,000  | 560,700    | 3,000,000  | 30¾             |
| 3,000,000  | 714,450    | 3,500,000  | 33              |
| 3,500,000  | 879,450    | 4,000,000  | 35¼             |
| 4,000,000  | 1,055,700  | 4,500,000  | 37½             |
| 4,500,000  | 1,243,200  | 5,000,000  | 39¾             |
| 5,000,000  | 1,441,950  | 6,000,000  | 42              |
| 6,000,000  | 1,861,950  | 7,000,000  | 44¼             |
| 7,000,000  | 2,304,450  | 8,000,000  | 45¾             |
| 8,000,000  | 2,761,950  | 9,000,000  | 47½             |
| 9,000,000  | 3,234,450  | 10,000,000 | 48¾             |
| 10,000,000 | 3,721,950  | 20,000,000 | 50¼             |
| 20,000,000 | 8,746,950  | 50,000,000 | 51¾             |
| 50,000,000 | 24,271,950 | .....      | 52½             |

**[¶ 110] EXCISE TAX ON TRANSFERS TO AVOID INCOME TAX**  
(I.R.C. § 1250; 1940 Act § 208)

|  | <b>Basis</b>   | <b>Rate</b>  |
|--|--|--|
|  | Transfer of stocks or securities by a citizen or resident of the U. S., or by a domestic corporation or partnership or by a trust which is not a foreign trust, to a foreign corporation as paid-in surplus or as a contribution to capital, or to a foreign trust or to a foreign partnership | 27½% of excess of value of securities over a d j u s t e d basis |

**[¶ 111] TAX ON UNJUST ENRICHMENT (Windfall Tax)**  
(I.R.C. § 700-706)

|  | <b>Basis</b>   | <b>Rate</b> |
|--|--|-------------|
|  | Net income from sale of articles with respect to which a Federal excise tax was imposed but not paid (not exceeding net income for entire year from sale of such articles and not exceeding tax burden shifted to taxpayer's vendees). | 80%         |
|  | Reimbursements from vendors of Federal excise or processing taxes included in prices taxpayer paid vendors (not exceeding tax burden shifted to taxpayer's vendees).   | 80%         |
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[112]

ADMISSIONS AND DUES TAX

|   | Basis   | Rate  | Law   |
|---|---|---|---|
| <b>Admissions—single or season ticket<sup>1</sup></b>           | Charge under 21¢ .....  | No tax  | <i>I.R.C.</i><br>§ 1700(a)<br>1940 Act<br>§ 211   |
|   | Charge 21¢ or more .....  | 1¢ for each 10¢ or fraction <sup>2</sup>  |   |
| <b>Admissions—charge in excess of established price</b>         | Sales outside box office.....   | Regular tax plus 11% of excess charge   | <i>I.R.C.</i><br>§ 1700(c)<br>§ 1650<br>1940 Act<br>§ 210<br><i>I.R.C.</i><br>§ 1700(d) |
|   | Sales by proprietors.....   | Regular tax plus 50% of excess charge   |   |
| <b>Admissions—roof garden, cabaret or similar entertainment</b> | Admission 50¢ or less.....  | No tax  | <i>I.R.C.</i><br>§ 1700(e)<br>§ 1650<br>1940 Act<br>§ 210                               |
|   | Admission more than 50¢.....<br>(20% of amount paid for refreshment, service and merchandise deemed to be admission charge)   | 2¢ for each 10¢ or fraction (equivalent to 2¢ for each 50¢ of full amount of check) |   |
| <b>Dues tax</b>   | Amount paid as dues or membership fees to any social, athletic, or sporting club or organization, if dues or fees of active resident annual member exceed \$25 per year   | 11%   | <i>I.R.C.</i><br>§ 1710<br>§ 1650<br>1940 Act<br>§ 210                                  |
| <b>Initiation fee</b>   | Initiation fees paid to any social, athletic, or sporting club or organization, if such fees amount to more than \$10, or if dues or membership fees, not including initiation fees, of active resident annual member exceed \$25 per year. | 11%   | <i>I.R.C.</i><br>§ 1710<br>§ 1650<br>1940 Act<br>§ 210                                  |

**[Footnote 112]** (1) If box or seat is owned or leased, tax is equivalent to 11% of amount for which a similar box or seat is sold for each performance at which box or seat is used or reserved [I.R.C. § 1700(b), 1650; 1940 Act, § 210].

(2) Thus if charge is 20¢ there is no tax. If it is 21¢ to 30¢, tax is 3¢. If it is 31¢ to 40¢, tax is 4¢, and so on.

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[ 113 ]

## STAMP TAXES

|  | Basis  | Rate  | Law  |
|--|--|---|--|
| <b>Bond issue</b>  | Each \$100 of face value or fraction .....   | 11¢   | <i>I.R.C.</i><br>§ 1801<br>§ 1650<br>1940 Act<br>§ 210 |
| <b>Bond transfer</b>   | Each \$100 of face value or fraction .....   | 5¢  | <i>I.R.C.</i><br>§ 3481<br>§ 1650<br>1940 Act<br>§ 210 |
| <b>Stock issue</b>   | Par value—each \$100 of face value or fraction .....   | 11¢   | <i>I.R.C.</i><br>§ 1808<br>§ 1650<br>1940 Act<br>§ 210 |
|  | No par value (actual value \$100 or more per share) each \$100 of actual value or fraction.....  | 11¢   |  |
|  | No par value (actual value less than \$100 per share) each \$20 of actual value or fraction..... | 3¢  |  |
| <b>Stock transfer</b>  | Par value—each \$100 of face value or fraction   | 5¢ unless selling price \$20 or more, then 6¢ | <i>I.R.C.</i><br>§ 1808<br>§ 1650<br>1940 Act<br>§ 210 |
|  | No par value—each share  | 5¢ unless selling price \$20 or more, then 6¢ |  |
| <b>Deeds (real estate conveyances)</b>   | Consideration exceeding \$100 but not \$500 .....  | 55¢   | <i>I.R.C.</i><br>§ 3483<br>§ 1650<br>1940 Act<br>§ 210 |
|  | Each additional \$500 or fraction..  | 55¢   |  |
| <b>Passage tickets (to any place not in U. S., Canada, Mexico, Cuba, or Puerto Rico)</b> | Costing \$10 or less, exempt   |   | <i>I.R.C.</i><br>§ 1806<br>§ 1650<br>1940 Act<br>§ 210 |
|  | Over \$10 but not more than \$30..   | \$1.10  |  |
|  | Over \$30 but not more than \$60..   | 3.30  |  |
|  | Over \$60 .....  | 5.50  |  |
| <b>Playing cards</b>   | Pack of not more than 54 cards..   | 11¢   | <i>I.R.C.</i><br>§ 1807<br>1940 Act<br>§ 215           |
| <b>Foreign insurance policies</b>  | On each \$1 or fraction of premium charged .....   | 4¢  | <i>I.R.C.</i><br>§ 1804<br>§ 1650<br>1940 Act<br>§ 210 |
| <b>Silver bullion</b>  | Excess of price for which interest is transferred over cost and allowed expenses                 | 50%   | <i>I.R.C.</i><br>§ 1805                                |

[114]

MANUFACTURERS' EXCISE TAXES

|   | Basis   | Rate              | Law  |
|---|---|-------------------|--|
| <b>Automobiles<br/>(chassis-body)</b>   | Passenger <sup>1</sup> .....                              | 3½% of sale price | <i>I.R.C.</i><br>§ 3403  |
|   | Trucks <sup>1</sup> .....                                 | 2½% of sale price | § 1650   |
|   | Tractors (highway) including trailer and semitrailer..... | 2½% of sale price | 1940 Act<br>§ 210  |
| <b>Automobile parts and accessories</b> |   | 2½% of sale price | <i>I.R.C.</i><br>§ 3403<br>§ 1650<br>1940 Act<br>§ 210           |
| <b>Firearms, shells and cartridges</b>  |   | 11% of sale price | <i>I.R.C.</i><br>§ 3407<br>§ 1650<br>1940 Act<br>§ 210           |
| <b>Gasoline</b>                         |   | 1½¢ per gallon    | <i>I.R.C.</i><br>§ 3412<br>§ 1650<br>1940 Act<br>§ 210           |
| <b>Lubricating oils</b>                 |   | 4½¢ per gallon    | <i>I.R.C.</i><br>§ 3413<br>§ 1650<br>1940 Act<br>§ 210           |
| <b>Matches</b>                          | Fancy wooden .....  | 5½¢ per 1,000     | <i>I.R.C.</i><br>§ 3409<br>§ 1650<br>§ 2650<br>1940 Act<br>§ 210 |
|   | White phosphorus .....                                    | 2¢ per 100        |  |
| <b>Motorcycles</b>                      |   | 3½% of sale price | <i>I.R.C.</i><br>§ 3403<br>§ 1650<br>1940 Act<br>§ 210           |
| <b>Pistols and revolvers</b>            |   | 11% of sale price | <i>I.R.C.</i><br>§ 2700<br>§ 1650<br>1940 Act<br>§ 210           |
| <b>Radio receiving sets and parts</b>   |   | 5½% of sale price | <i>I.R.C.</i><br>§ 3404<br>§ 1650<br>1940 Act<br>§ 210           |

(Table continued on next page)

[Footnote 114] (1) A sale of an automobile or an automobile truck is considered to be a sale of the chassis and of the body.

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## MANUFACTURERS' EXCISE TAXES—Continued

|   | Basis  | Rate              | Law  |
|---|--|-------------------|--|
| <b>Refrigerators, household, mechanical</b> |  | 5½% of sale price | <i>I.R.C.</i><br>§ 3405<br>§ 1650<br>1940 Act<br>§ 210 |
| <b>Tires and tubes</b>                      | Tires .....  | 2½¢ per pound     | <i>I.R.C.</i><br>§ 3400<br>§ 1650<br>1940 Act<br>§ 210 |
|   | Inner tubes .....  | 4½¢ per pound     |  |
| <b>Toilet preparations</b>                  | Including perfumes, essences, extracts, toilet waters, cosmetics, petroleum jellies, hair oils, pomades, hair dressings, hair restoratives, hair dyes, aromatic cachous, toilet powders, and similar articles. Not including soaps, tooth and mouth washes, tooth pastes and dentifrices.... |                   | <i>I.R.C.</i><br>§ 3401<br>§ 1650<br>1940 Act<br>§ 210 |
|   |  | 11% of sale price |  |

## [115]

## COMMUNICATION AND SERVICES

|  | Basis                                       | Rate         | Law  |
|--|---|--------------|--|
| <b>Telephone, telegraph, radio, and cable facilities</b> | Telephone conversations:<br>50¢ to 99¢..... | 10¢          | <i>I.R.C.</i><br>§ 3465                                |
|  | \$1.00 to \$1.99.....                       | 15¢          |  |
|  | \$2.00 or over.....                         | 20¢          |  |
|  | Telegraph messages .....                    | 5% of charge |  |
|  | Cable messages .....                        | 10¢          |  |
|  | Radio messages .....                        | 10¢          |  |
| <b>Transportation of oil by pipe line</b>                | Amount paid for transportation..            | 4½%          | <i>I.R.C.</i><br>§ 3460<br>§ 1650<br>1940 Act<br>§ 210 |
| <b>Safe deposit boxes</b>                                | Amount collected for use of.....            | 11%          | <i>I.R.C.</i><br>§ 1850<br>§ 1650<br>1940 Act<br>§ 210 |
| <b>Electrical energy</b>                                 | Price for which sold.....                   | 3½%          | <i>I.R.C.</i><br>§ 3411<br>§ 1650<br>1940 Act<br>§ 210 |

[¶ 116]

**IMPORT TAXES**

(See also "Oil Taxes"—¶ 117)

|   | <b>Basis</b>                     | <b>Rate</b>                  | <b>Law</b>              |
|---|----------------------------------|------------------------------|-------------------------|
| <b>Coal, coke and briquettes</b>            |                                  | 10¢ per 100 lbs.             | <i>I.R.C.</i><br>§ 3423 |
| <b>Copper bearing ores and concentrates</b> |                                  | 4¢ per lb. on copper content | <i>I.R.C.</i><br>§ 3425 |
| <b>Lumber</b>                               |                                  | \$3 per 1,000 feet           | <i>I.R.C.</i><br>§ 3424 |
| <b>Petroleum and derivatives</b>            | Crude petroleum .....            | ½¢ per gal.                  | <i>I.R.C.</i><br>§ 3422 |
|   | Fuel oil derived from petroleum. | ½¢ per gal.                  |                         |
|   | Gas oil derived from petroleum.. | ½¢ per gal.                  |                         |
|   | Gasoline and motor fuel.....     | 2½¢ per gal.                 |                         |
|   | Lubricating oil .....            | 4¢ per gal.                  |                         |
|   | Paraffin and other wax prod..... | 1¢ per lb.                   |                         |

[¶ 117]

**OIL TAXES**

|  | <b>Basis</b>   | <b>Rate</b>   | <b>Law</b>              |
|--|--|---------------|-------------------------|
| <b>Processing tax (first domestic processing)</b>  | Coconut oil, palm oil, palm-kernel oil, fatty acids derived from any of foregoing, salts of any of foregoing, or any combination or mixture containing a substantial quantity of any or more of such oils, fatty acids, or salts.....                          | 3¢ per lb.    | <i>I.R.C.</i><br>§ 2470 |
|  | Coconut oil (additional tax unless oil is of Philippine origin).....   | 2¢ per lb.    |                         |
| <b>Import tax<sup>1</sup>—fish and animal oils</b> | Whale oil (except sperm oil), fish oil (except cod oil, cod-liver oil, and halibut-liver oil), marine-animal oil, tallow, inedible animal fats, inedible animal greases, fatty acids derived from any of the foregoing, and salts of any of the foregoing..... | 3¢ per lb.    | <i>I.R.C.</i><br>§ 2491 |
| <b>Import tax<sup>1</sup>—vegetable oils</b>       | Sesame oil, sunflower oil, rapeseed oil (except where imported for manufacture of rubber substitutes or lubricating oil), kapok oil, hempseed oil, perilla oil, fatty acids derived from any of foregoing or from linseed oil, and salts from any of foregoing | 4½¢ per lb.   | <i>I.R.C.</i><br>§ 2491 |
| <b>Import tax<sup>1</sup>—seeds</b>                | Hempseed .....   | 1.24¢ per lb. | <i>I.R.C.</i><br>§ 2491 |
|  | Perilla seed .....   | 1.38¢ per lb. |                         |
|  | Kapok seed .....   | 2¢ per lb.    |                         |
|  | Rapeseed .....   | 2¢ per lb.    |                         |
|  | Sesame seed .....  | 1.18¢ per lb. |                         |

[Footnote ¶ 117] (1) Oil import taxes do not apply to any article, merchandise, or combination by reason of the presence therein of any coconut oil produced in Guam or American Samoa, or any direct or indirect derivative of such oil.

[¶ 118]

## LIQUOR TAXES

(See also "Occupational Taxes"—¶ 120)

|  | Basis   | Rate                                 | Law   |
|--|---|--------------------------------------|---|
| <b>Distilled spirits</b>   | Distilled spirits (except brandy) produced in or imported into the U. S.  | \$3.00 per proof gallon <sup>1</sup> | <i>I.R.C.</i><br>§ 2800<br>1940 Act<br>§ 213              |
|  | Brandy produced in or imported into the U. S.   | \$2.75 per proof gallon <sup>1</sup> |   |
|  | Perfumes containing distilled spirits imported into the U. S.   | \$3.00 per wine gallon               |   |
|  | Additional tax on rectified spirits and wines   | 30¢ per proof gallon                 |   |
| <b>Wines</b>   | Still wines, including vermouth, and all artificial or imitation wines or compounds sold as still wine produced in or imported into U. S. containing: |                                      | <i>I.R.C.</i><br>§ 3030(a)<br>§ 3190<br>1940 Act<br>§ 214 |
|  | Up to 14% alcohol by volume....   | 6¢ per wine gal.                     |   |
|  | More than 14% and up to 21%....   | 18¢ per wine gal.                    |   |
|  | More than 21% and up to 24%....   | 30¢ per wine gal.                    |   |
|  | Exceeding 24% .....   | Taxed as distilled spirits           |   |
|  | Sparkling wines, liqueurs, and cordials:  |                                      | <i>I.R.C.</i><br>§ 3030(a)<br>§ 3190<br>1940 Act<br>§ 214 |
| Each bottle of champagne or sparkling wine.....  | 3¢ per ½ pt.  |                                      |   |
| Each bottle artificially carbonated wine .....   | 1½¢ per 1 pt.   |                                      |   |
| Each bottle of liqueurs, cordials, or similar compounds containing fortified sweet wine..... | 1½¢ per ½ pt.   |                                      |   |
| (Any of foregoing containing more than 24% of alcohol by volume taxed as distilled spirits.) |   |                                      |   |
| <b>Beer and other fermented liquors</b>  | Beer, lager beer, ale, porter, and other similar fermented liquor containing ½% or more of alcohol.   | \$6.00 per bbl. of 31 gals.          | <i>I.R.C.</i><br>§ 3150<br>§ 3190<br>1940 Act<br>§ 214    |

[Footnote ¶ 118] (1) Or wine gallon when below proof.

[119] TOBACCO, CIGARS AND CIGARETTES

|                          | Basis  | Rate              | Law  |
|--------------------------|--|-------------------|--|
| <b>Cigars</b>            | Weighing up to 3 lbs. per 1,000...   | 75¢ per 1,000     | <i>I.R.C.</i><br>§ 2000                                |
|                          | Weighing more than 3 lbs. per 1,000 if manufactured or imported to retail at:  |                   |  |
|                          | Not more than 5¢ each.....   | \$ 2.00 per 1,000 |  |
|                          | More than 5¢ and up to 8¢.....   | 3.00 per 1,000    |  |
|                          | More than 8¢ and up to 15¢.....  | 5.00 per 1,000    |  |
|                          | More than 15¢ and up to 20¢.....   | 10.50 per 1,000   |  |
|                          | More than 20¢.....   | 13.50 per 1,000   |  |
| <b>Tobacco and snuff</b> |  | 18¢ per lb.       | <i>I.R.C.</i><br>§ 2000                                |
| <b>Cigarettes</b>        | Weighing up to 3 lbs. per 1,000...   | \$3.25 per 1,000  | <i>I.R.C.</i><br>§ 2000<br>§ 2004<br>1940 Act<br>§ 212 |
|                          | Weighing more than 3 lbs. per 1,000 .....<br>(except if more than 6½ inches in length, taxable at \$3.25 rate, counting each 2¼ inches or fraction as one cigarette) | \$7.80 per 1,000  |  |
| <b>Cigarette paper</b>   | Package or books containing:   |                   | <i>I.R.C.</i><br>§ 2000                                |
|                          | More than 25 and up to 50 papers   | ½¢ per pkg.       |  |
|                          | More than 50 and up to 100 papers .....  | 1¢ per pkg.       |  |
|                          | More than 100 papers—for each 50 or fraction.....  | ½¢                |  |
|                          | Tubes—for each 50 or fraction....  | 1¢                |  |

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## [ 120 ]

## OCCUPATIONAL TAXES

|   | Basis   | Annual Rate        | Law  |
|---|---|--------------------|--|
| <b>Filled cheese (see also "Miscellaneous Taxes"—¶ 121)</b>                               | Manufacturer .....  | \$400              | <i>I.R.C.</i><br>§ 3210                                |
|   | Wholesale dealer .....  | 250                |  |
|   | Retail dealer .....   | 12                 |  |
| <b>Fire arms (see also "Miscellaneous Taxes"—¶ 121)</b>                                   | Importers or manufacturers.....   | \$500              | <i>I.R.C.</i><br>§ 3260                                |
|   | Dealers other than pawnbrokers..  | 200                |  |
|   | Pawnbrokers .....   | 300                |  |
|   | Guns with two attached barrels from which only a single discharge can be made from either barrel without manual reloading:<br>Manufacturers ..... | \$ 25              |  |
|   | Dealers .....   | 1                  |  |
| <b>Liquor (see also "Liquor Taxes"—¶ 118)</b>   | Brewers of less than 500 bbls....   | \$ 55.00           | <i>I.R.C.</i><br>§ 3250<br>§ 1650<br>1940 Act<br>§ 210 |
|   | Brewers of 500 bbls. or more....  | 110.00             |  |
|   | Rectifiers of less than 500 bbls....  | 110.00             |  |
|   | Rectifiers of 500 bbls. or more....   | 220.00             |  |
|   | Retail dealers in liquors.....  | 27.50              |  |
|   | Retail dealers in malt liquors....  | 22.00              |  |
|   | Wholesale dealers in liquors.....   | 110.00             |  |
|   | Wholesale dealers in malt liquors   | 55.00              |  |
|   | Manufacturers of stills and worms   | 55.00              |  |
|   | Stills manufactured—each still..  | 22.00              |  |
|   | Worms manufactured—each worm  | 22.00              |  |
|   | Persons selling to entertainments and outings (for each calendar month sales made—\$2.20)   |                    |  |
|   | <b>Mixed flour (see also "Miscellaneous Taxes"—¶ 121)</b>   | Manufacturer ..... |  |
|   |   |                    |  |
| <b>Narcotics (Opium or coca leaves) (see also "Miscellaneous Taxes"—¶ 121)</b>            | Importers, manufacturers, or producers .....  | \$24               | <i>I.R.C.</i><br>§ 3220                                |
|   | Wholesale dealers .....   | 12                 |  |
|   | Retail dealers .....  | 3                  |  |
|   | Physicians, dentists, veterinary surgeons, other practitioners...   | 1                  |  |
|   | Other persons for laboratory use  | 1                  |  |
|   |   |                    |  |
| <b>Marihuana (see also "Miscellaneous Taxes"—¶ 121)</b>                                   | Importers, manufacturers, and compounders .....   | \$24               | <i>I.R.C.</i><br>§ 3230                                |
|   | Producers .....   | 1                  |  |
|   | Physicians, dentists, veterinary surgeons, other practitioners...   | 1                  |  |
|   | Other persons for laboratory use  | 1                  |  |
|   | Other persons dealing in.....   | 3                  |  |
|   |   |                    |  |
| <b>Oleomargarine (see also "Miscellaneous Taxes"—¶ 121)</b>                               | Manufacturer .....  | \$600              | <i>I.R.C.</i><br>§ 3200                                |
|   | Wholesale dealers—colored .....   | 480                |  |
|   | Wholesale dealers—uncolored .....   | 200                |  |
|   | Retail dealers—colored .....  | 48                 |  |
|   | Retail dealers—uncolored .....  | 6                  |  |
| <b>Adulterated and process or renovated butter (see also "Miscellaneous Taxes"—¶ 121)</b> | Manufacturers of process or renovated butter .....  | \$ 50              | <i>I.R.C.</i><br>§ 3206                                |
|   | Manufacturers of adulterated butter .....   | 600                |  |
|   | Wholesale dealers in adulterated butter .....   | 480                |  |
|   | Retail dealers in adulterated butter .....  | 48                 |  |
|   |   |                    |  |

[¶ 121]

MISCELLANEOUS TAXES

(Not included above)

|   | Basis   | Rate                          | Law                     |
|---|---|-------------------------------|-------------------------|
| Sugar   | Manufactured in U. S.   |                               | <i>I.R.C.</i><br>§ 3490 |
|   | 92 sugar degrees.....   | 0.465¢ per lb.                |                         |
|   | Each additional sugar degree...<br>(fractions in proportion)                        | 0.00875¢ per lb. <sup>1</sup> |                         |
|   | Less than 92 sugar degrees.....   | 0.5144¢ per lb.               |                         |
| Oleomargarine<br>(see also "Occupational Taxes"—¶ 120)            | Manufactured and sold or removed for consumption or use:                            |                               | <i>I.R.C.</i><br>§ 2301 |
|   | Colored .....   | 10¢ per lb.                   |                         |
|   | Uncolored .....   | ¼¢ per lb.                    |                         |
| Adulterated butter (see also "Occupational Taxes"—¶ 120)          | Manufactured or sold or removed for consumption or use.....                         | 10¢ per lb. <sup>2</sup>      | <i>I.R.C.</i><br>§ 2321 |
| Process or renovated butter (see also "Occupational Taxes"—¶ 120) | Manufactured or sold or removed for consumption or use.....                         | ¼¢ per lb. <sup>2</sup>       | <i>I.R.C.</i><br>§ 2321 |
| Filled cheese (see also "Occupational Taxes"—¶ 120)               | Manufacture .....   | 1¢ per lb. <sup>2</sup>       | <i>I.R.C.</i><br>§ 2351 |
| Mixed flour (see also "Occupational Taxes"—¶ 120)                 | Manufactured or sold:   |                               | <i>I.R.C.</i><br>§ 2381 |
|   | Bbl. or pkg. containing 196 lbs. or more than 98 lbs.....                           | 4¢ per bbl.                   |                         |
|   | Half bbl. or pkg. containing 98 lbs. or more than 49 lbs.....                       | 2¢ per bbl.                   |                         |
|   | Quarter bbl. or pkg. containing 49 lbs. or more than 24½ lbs.                       | 1¢ per bbl.                   |                         |
|   | One-eighth bbl. or pkg. containing 24½ lbs. or less.....                            | ½¢ per bbl.                   |                         |
|   |   |                               |                         |
| Opium and coca leaves (see also "Occupational Taxes"—¶ 120)       | Produced in or imported into U. S. and sold or removed for consumption or sale..... | 1¢ per oz. <sup>3</sup>       | <i>I.R.C.</i><br>§ 2550 |
| Opium for smoking (see also "Occupational Taxes"—¶ 120)           | Manufactured in U. S.....   | \$300 per lb.                 | <i>I.R.C.</i><br>§ 2567 |
| Marihuana (see also "Occupational Taxes"—¶ 120)                   | Transfer:   |                               | <i>I.R.C.</i><br>§ 2590 |
|   | To person who has paid occupational tax and registered                              | \$1 per oz. or fraction       |                         |
|   | To person who has not paid occupational tax and registered                          | \$100 per oz. or fraction     |                         |

(Table continued on next page)

[Footnote ¶ 121] (1) This is a tax of one-half cent per pound on manufactured sugar testing 96 sugar degrees.

(2) Any fractional part of a pound is treated as a pound.

(3) Any fractional part of an ounce is treated as an ounce.

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## MISCELLANEOUS TAXES—Continued

|  | Basis   | Rate  | Law              |
|--|---|---|------------------|
| Machine guns and short barreled firearms (see also "Occupational Taxes"—¶ 120) | Transfer:   |   | I.R.C.<br>§ 2780 |
|  | Guns with 2 attached barrels, 12 inches or more in length, with discharge from either barrel without manual reloading ..... | \$1 per firearm   |                  |
|  | All others .....  | \$200 per firearm   |                  |
| Cotton futures   | Contract of sale for future delivery .....  | 2¢ per lb.  | I.R.C.<br>§ 1920 |
|  | (No tax on spot cotton or if contract complies with certain conditions)   |   |                  |
| Bituminous coal  | Basic tax:  |   | I.R.C.<br>§ 3520 |
|  | Sale or other disposal of bit. coal produced within U. S. ....  | 1¢ per ton of 2,000 lbs.                                    |                  |
|  | Additional tax:   |   |                  |
|  | Sale or other disposal of bit. coal produced within U. S. ....  | 19½% of sale price or fair market value if not sold at mine |                  |
|  | (No additional tax if producer is code member)  |   |                  |
| Circulation other than of national banks                                       | Average circulation outstanding:  |   | I.R.C.<br>§ 1900 |
|  | Entire circulation .....  | 1/12% per month   |                  |
|  | Circulation exceeding 90% of capital .....  | 1/6% per month additional                                   |                  |
|  | Circulation paid out:   |   |                  |
|  | Own circulation .....   | 10%   |                  |
|  | Other circulation .....   | 10%   |                  |
|  | (Full exemption from above taxes provided if certain conditions met)  |   |                  |

【¶ 122】 EXCESS PROFITS ON ARMY AND NAVY CONTRACTS  
(Vinson Act)

The amount of profit involved on contracts or sub-contracts exceeding \$10,000 for the construction or manufacture of any naval vessel or aircraft or portion thereof for Army or Navy use is limited by the Vinson Act. Where a sub-contract involving a sum less than \$10,000 is part of an aggregate purchase order of more than \$10,000, the sub-contract is subject to the limitation. Exemptions are provided where the contract or sub-contract is for scientific equipment used for communication, target detection, navigation and fire control.

The cost of completed contracts involves the calculation of direct charges for labor, materials and supplies, indirect factory, engineering or production expenses and an allocation of general or administration overhead expenses. The computation of the excess profit on contracts or sub-contracts for naval vessels and for aircraft differs.

*Naval vessels:*

1. Net profit—excess of aggregate prices on all contracts completed in taxable year over aggregate costs of completion.
2. Excess profit payable to Government—difference between net profit and sum of (a) 10% of aggregate prices of contracts completed in taxable year, and (b) any loss sustained on similar contracts in preceding year<sup>1</sup>. Credit

【Footnote ¶ 122】 (1) The net losses on completed contracts may be carried over for one year in the case of naval vessels and four years in the case of aircraft contracts.

allowed for any Federal income tax or excess-profits tax paid or payable on such profits.

**Aircraft:**

1. Net profit—excess of aggregate prices of contracts completed in taxable year over aggregate cost of completion.
2. Excess profit payable to Government—difference between the net profit and the sum of (a) 12% of aggregate contract prices, (b) net loss sustained on similar contracts in prior years,<sup>1</sup> and (c) any deficiency in profit on similar contracts in prior years.<sup>2</sup> Credit allowed for any Federal income tax or excess-profits tax paid or payable on such profits.

**[¶ 123]**

**SOCIAL SECURITY TAXES**

|                                       | Basis   | Rate   | Law  |
|---------------------------------------|---|--|--|
| <b>Old age and survivor insurance</b> | Employers of one or more persons in non exempt employment, on first \$3,000 of wages to each employee for employment during a calendar year   | <i>Employer:</i><br>1937-1942, incl. .... 1%<br>1943, 1944, 1945 ..... 2%<br>1946, 1947, 1948 ..... 2½%<br>1949 and thereafter ..... 3%<br><br><i>Employee:</i><br>Same rates as employer. Tax withheld by employer. | <i>I.R.C.</i><br>§ 1410<br><br><br><br><br><br><br><i>I.R.C.</i><br>§ 1400 |
| <b>Unemployment insurance</b>         | Employers of 8 or more in non exempt employment on each of 20 or more calendar days during a calendar year, each day being in a different calendar week, on first \$3,000 <sup>1</sup> to each employee for employment during a calendar year | <i>Employer:</i><br>1936 ..... 1%<br>1937 ..... 2%<br>1938 and thereafter .... 3%  | <i>I.R.C.</i><br>§ 1600  |

**[Footnote ¶ 122 continued]**

(2) If the actual profit on aircraft contracts does not equal 12% of the total contracts completed, the difference is called a "deficiency in profit". This credit may be carried over for four years.

**[Footnote ¶ 123]** (1) In 1936 to 1939, inclusive, basis was total wages.

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# REVENUE ACT OF 1940

## TITLE I

### SEC. 1. SHORT TITLE.

This Act may be cited as the Revenue Act of 1940.

### SEC. 2. SURTAX ON INDIVIDUALS.

Section 12(b) of the Internal Revenue Code is amended to read as follows:

**"(b) Rates of Surtax.**—There shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual a surtax as follows:

"Upon a surtax net income of \$4,000 there shall be no surtax; upon surtax net incomes in excess of \$4,000 and not in excess of \$6,000, 4 per centum of such excess.

"\$80 upon surtax net incomes of \$6,000; and upon surtax net incomes in excess of \$6,000 and not in excess of \$8,000, 6 per centum in addition of such excess.

"\$200 upon surtax net incomes of \$8,000; and upon surtax net incomes in excess of \$8,000 and not in excess of \$10,000, 8 per centum in addition of such excess.

"\$360 upon surtax net incomes of \$10,000; and upon surtax net incomes in excess of \$10,000 and not in excess of \$12,000, 10 per centum in addition of such excess.

"\$560 upon surtax net incomes of \$12,000; and upon surtax net incomes in excess of \$12,000 and not in excess of \$14,000, 12 per centum in addition of such excess.

"\$800 upon surtax net incomes of \$14,000; and upon surtax net incomes in excess of \$14,000 and not in excess of \$16,000, 15 per centum in addition of such excess.

"\$1,100 upon surtax net incomes of \$16,000; and upon surtax net incomes in excess of \$16,000 and not in excess of \$18,000, 18 per centum in addition of such excess.

"\$1,460 upon surtax net incomes of \$18,000; and upon surtax net incomes in excess of \$18,000 and not in excess of \$20,000, 21 per centum in addition of such excess.

"\$1,880 upon surtax net incomes of \$20,000; and upon surtax net incomes in excess of \$20,000 and not in excess of \$22,000, 24 per centum in addition of such excess.

"\$2,360 upon surtax net incomes of \$22,000; and upon surtax net incomes in excess of \$22,000 and not in excess of \$26,000, 27 per centum in addition of such excess.

"\$3,440 upon surtax net incomes of \$26,000; and upon surtax net incomes in excess of \$26,000 and not in excess of \$32,000, 30 per centum in addition of such excess.

"\$5,240 upon surtax net incomes of \$32,000; and upon surtax net incomes in excess of \$32,000 and not in excess of \$38,000, 33 per centum in addition of such excess.

"\$7,220 upon surtax net incomes of \$38,000; and upon surtax net incomes in excess of \$38,000 and not in excess of \$44,000, 36 per centum in addition of such excess.

"\$9,380 upon surtax net incomes of \$44,000; and upon surtax net incomes in excess of \$44,000 and not in excess of \$50,000, 40 per centum in addition of such excess.

"\$11,780 upon surtax net incomes of \$50,000; and upon surtax net incomes in excess of \$50,000 and not in excess of \$60,000, 44 per centum in addition of such excess.

"\$16,180 upon surtax net incomes of \$60,000; and upon surtax net incomes in excess of \$60,000 and not in excess of \$70,000, 47 per centum in addition of such excess.

"\$20,880 upon surtax net incomes of \$70,000; and upon surtax net incomes in excess of \$70,000 and not in excess of \$80,000, 50 per centum in addition of such excess.

"\$25,880 upon surtax net incomes of \$80,000; and upon surtax net incomes in excess of \$80,000 and not in excess of \$90,000, 53 per centum in addition of such excess.

"\$31,180 upon surtax net incomes of \$90,000; and upon surtax net incomes in excess of \$90,000 and not in excess of \$100,000, 56 per centum in addition of such excess.

"\$36,780 upon surtax net incomes of \$100,000; and upon surtax net incomes in excess of \$100,000 and not in excess of \$150,000, 58 per centum in addition of such excess.

"\$65,780 upon surtax net incomes of \$150,000; and upon surtax net incomes in excess of \$150,000 and not in excess of \$200,000, 60 per centum in addition of such excess.

"\$95,780 upon surtax net incomes of \$200,000; and upon surtax net incomes in excess of \$200,000 and not in excess of \$250,000, 62 per centum in addition of such excess.

"\$126,780 upon surtax net incomes of \$250,000; and upon surtax net incomes in excess of \$250,000 and not in excess of \$300,000, 64 per centum in addition of such excess.

"\$158,780 upon surtax net incomes of \$300,000; and upon surtax net incomes in excess of \$300,000 and not in excess of \$400,000, 66 per centum in addition of such excess.

"\$224,780 upon surtax net incomes of \$400,000; and upon surtax net incomes in excess of \$400,000 and not in excess of \$500,000, 68 per centum in addition of such excess.

"\$292,780 upon surtax net incomes of \$500,000; and upon surtax net incomes in excess of \$500,000 and not in excess of \$750,000, 70 per centum in addition of such excess.

"\$467,780 upon surtax net incomes of \$750,000; and upon surtax net incomes in excess of \$750,000 and not in excess of \$1,000,000, 72 per centum in addition of such excess.

"\$647,780 upon surtax net incomes of \$1,000,000; and upon surtax net incomes in excess of \$1,000,000 and not in excess of \$2,000,000, 73 per centum in addition of such excess.

"\$1,377,780 upon surtax net incomes of \$2,000,000; and upon surtax net incomes in excess of \$2,000,000 and not in excess of \$5,000,000, 74 per centum in addition of such excess.

"\$3,597,780 upon surtax net incomes of \$5,000,000; and upon surtax net incomes in excess of \$5,000,000, 75 per centum in addition of such excess."

### SEC. 3. CORPORATION TAX.

(a) **Tax on Corporations in General.**—Section 13 (b) of the Internal Revenue Code is amended to read as follows:

"(b) **Imposition of Tax.**—There shall be levied, collected, and paid for each taxable year upon the normal-tax net income of every corporation the normal-tax net income of which is more than \$25,000 (except a corporation subject to the tax imposed by section 14, section 231(a), Supplement G, or Supplement Q) whichever of the following taxes is the lesser:

"(1) **General rule.**—A tax of 19 per centum of the normal-tax net income; or

"(2) **Alternative tax (corporations with normal-tax net income slightly more than \$25,000).**—A tax of \$3,775, plus 33 per centum of the amount of the normal-tax net income in excess of \$25,000."

(b) **Tax on Special Classes of Corporations.**—Sections 14(b) and (c) (1) of the Internal Revenue Code are amended to read as follows:

"(b) **Corporations With Normal-Tax Net Incomes of Not More Than \$25,000.**—If the normal-tax net income of the corporation is not more than \$25,000, and if the corporation does not come within one of the classes specified in subsection (c), (d), or (e) of this section, the tax shall be as follows:

"Upon normal-tax net incomes not in excess of \$5,000, 13½ per centum.

"\$675 upon normal-tax net incomes of \$5,000, and upon normal-tax net incomes in excess of \$5,000 and not in excess of \$20,000, 15 per centum in addition of such excess.

"\$2,925 upon normal-tax net incomes of \$20,000, and upon normal-tax net incomes in excess of \$20,000, 17 per centum in addition of such excess.

"(c) **Foreign Corporations.**—

"(1) In the case of a foreign corporation engaged in trade or business within the United States or having an office or place of business therein, the tax

shall be an amount equal to 19 per centum of the normal-tax net income, regardless of the amount thereof."

(c) **Tax on Nonresident Foreign Corporations.**—Section 231 (a) (1) of the Internal Revenue Code is amended by striking out "except that in the case of dividends the rate shall be 10 per centum, and" and by striking out "of 10 per centum".

(d) **Tax on Mutual Investment Companies.**—Section 362(b) of the Internal Revenue Code is amended to read as follows:

"(b) **Imposition of Tax.**—There shall be levied, collected, and paid for each taxable year upon the Supplement Q net income of every mutual investment company a tax equal to 19 per centum of the amount thereof."

#### SEC. 4. TAX ON NONRESIDENT ALIEN INDIVIDUALS.

(a) **Tax in General.**—Section 211 (a) (1) (A) of the Internal Revenue Code (relating to tax on nonresident alien individuals not engaged in trade or business within the United States and not having an office or place of business therein) is amended by striking out "10 per centum" and inserting in lieu thereof "15 per centum".

(b) **Aggregate Receipts More Than \$24,000.**—Section 211(a)(2) of the Internal Revenue Code is amended to read as follows:

"(2) **Aggregate more than \$24,000.**—The tax imposed by paragraph (1) shall not apply to any individual if the aggregate amount received during the taxable year from the sources therein specified is more than \$24,000."

(c) **Tax Where Gross Income of More Than \$24,000.**—Section 211(c) of the Internal Revenue Code (relating to tax on certain nonresident alien individuals) is amended by striking out "\$21,600" wherever occurring therein and inserting in lieu thereof "\$24,000"; and by striking out "10 per centum" and inserting in lieu thereof "15 per centum".

#### SEC. 5. WITHHOLDING OF TAX AT SOURCE.

(a) Section 143 of the Internal Revenue Code is amended by striking out "10 per centum" wherever occurring therein and inserting in lieu thereof "15 per centum".

(b) Section 144 of the Internal Revenue Code is amended by striking out "except that in the case of dividends the rate shall be 10 per centum, and" and by striking out "of 10 per centum".

(c) The amendments made by this section shall take effect on June 26, 1940.

#### SEC. 6. PERSONAL EXEMPTION.

(a) Section 25 (b) (1) of the Internal Revenue Code is amended to read as follows:

"(1) **Personal exemption.**—In the case of a single person or a married person not living with husband or wife, a personal exemption of \$800; or in the case of the head of a family or a married person living with husband or wife, a personal exemption of \$2,000. A husband and wife living together shall receive but one personal exemption. The amount of such personal exemption shall be \$2,000. If such husband and wife make separate returns, the personal exemption may be taken by either or divided between them."

(b) Section 214 of the Internal Revenue Code (relating to personal exemption of nonresident alien individuals) is amended by striking out "\$1,000" and inserting in lieu thereof "\$800".

(c) Section 251 (f) of the Internal Revenue Code (relating to personal exemption of citizens entitled to benefits of section 251) is amended by striking out "\$1,000" and inserting in lieu thereof "\$800".

#### SEC. 7. RETURNS OF INCOME TAX.

(a) **Individual Returns.**—Section 51 (a) of the Internal Revenue Code is amended to read as follows:

“(a) Requirement.—The following individuals shall each make under oath a return stating specifically the items of his gross income and the deductions and credits allowed under this chapter and such other information for the purpose of carrying out the provisions of this chapter as the Commissioner with the approval of the Secretary may by regulations prescribe—

“(1) Every individual who is single or who is married but not living with husband or wife, if having a gross income for the taxable year of \$800 or over.

“(2) Every individual who is married and living with husband or wife, if no joint return is made under subsection (b) and if—

“(A) Such individual has for the taxable year a gross income of \$2,000 or over, and the other spouse has no gross income; or

“(B) Such individual and his spouse each has for the taxable year a gross income and the aggregate gross income is \$2,000 or over.”

(b) **Fiduciary Returns.**—Section 142(a) of the Internal Revenue Code is amended to read as follows:

“(a) Requirement of Return.—Every fiduciary (except a receiver appointed by authority of law in possession of part only of the property of an individual) shall make under oath a return for any of the following individuals, estates, or trusts for which he acts, stating specifically the items of gross income thereof and the deductions and credits allowed under this chapter and such other information for the purpose of carrying out the provisions of this chapter as the Commissioner with the approval of the Secretary may by regulations prescribe—

“(1) Every individual having a gross income for the taxable year of \$800 or over, if single, or if married and not living with husband or wife;

“(2) Every individual having a gross income for the taxable year of \$2,000 or over, if married and living with husband or wife;

“(3) Every estate the gross income of which for the taxable year is \$800 or over;

“(4) Every trust the net income of which for the taxable year is \$100 or over, or the gross income of which for the taxable year is \$800 or over, regardless of the amount of the net income; and

“(5) Every estate or trust of which any beneficiary is a nonresident alien.”

(c) **Information Returns.**—Section 147(a) of the Internal Revenue Code (relating to information at the source) is amended by striking out “\$1,000” wherever occurring therein and inserting in lieu thereof “\$800”.

## SEC. 8. TREATY OBLIGATIONS.

No amendment made by this title shall apply in any case where its application would be contrary to any treaty obligation of the United States.

## SEC. 9. TAXABLE YEARS TO WHICH APPLICABLE.

The amendments made by this title, except the amendments made by section 5, shall be applicable only with respect to taxable years beginning after December 31, 1939.

# TITLE II

## SEC. 201. INCOME TAX.

Chapter 1 of the Internal Revenue Code is amended by inserting after section 14 the following new section:

### “SEC. 15. DEFENSE TAX FOR FIVE YEARS.

“In the case of any taxpayer, the amount of tax under this chapter for any taxable year beginning after December 31, 1939, and before January 1, 1945, shall be 10 per centum greater than the amount of tax computed without regard to this section. In no case shall the effect of this section be to increase the tax computed without regard to this section by more than 10 per centum of the amount by which the net income exceeds such tax. For the purposes of this section, the tax computed without regard to this section shall be such tax before the application of the

credit provided in section 31 ('foreign tax credit'), and the credit provided in section 32 (taxes withheld at the source)."

#### **SEC. 202. RATES OF WITHHOLDING.**

Section 143 of the Internal Revenue Code is amended by inserting at the end thereof the following new subsection:

"(h) **Rates Until January 1945.**—For the period after June 25, 1940, and before January 1, 1945, the rate provided in this section and section 144, of 15 per centum shall be 16½ per centum. This subsection or section 15 shall not apply in any case where its operation would be contrary to any treaty obligation of the United States, nor to a resident of, or a corporation organized under the laws of, a contiguous country so long as there is in effect with such country a treaty, ratified prior to August 26, 1937, relating to rates of income tax."

#### **SEC. 203. PERSONAL HOLDING COMPANIES.**

Section 500 of the Internal Revenue Code is amended by inserting "(a) **General Rule.**—" before the first paragraph and inserting at the end thereof the following new subsection:

"(b) **Defense Tax for Five Years.**—In the case of every personal holding company, the amount of surtax under this subchapter for any taxable year beginning after December 31, 1939, and before January 1, 1945, shall be 10 per centum greater than the amount of surtax computed without regard to this subsection."

#### **SEC. 204. EXCESS-PROFITS TAX.**

Section 600 of the Internal Revenue Code is amended by inserting "(a) **General Rule.**—" before the first paragraph and by inserting at the end of such section the following new subsection:

"(b) **Defense Tax for Five Years.**—In the case of any taxpayer, the amount of tax payable under this section for any income-tax taxable year ending after June 30, 1940, and before July 1, 1945, shall be 10 per centum greater than the amount of tax which would be payable if computed without regard to this subsection."

#### **SEC. 205. CAPITAL STOCK TAX.**

Section 1200 of the Internal Revenue Code is amended by inserting at the end thereof the following new subsection:

"(c) **Defense Tax for Five Years.**—For the year ending June 30, 1940, and for the four succeeding years ending June 30, the rates provided in subsections (a) and (b) shall be \$1.10 in lieu of \$1."

#### **SEC. 206. ESTATE TAX.**

Chapter 3 of the Internal Revenue Code is amended by inserting at the end thereof the following new subchapter:

### **"SUBCHAPTER C—DEFENSE TAX FOR FIVE YEARS**

#### **"SEC. 951. DEFENSE TAX FOR FIVE YEARS.**

"In the case of a decedent dying after the date of the enactment of the Revenue Act of 1940 and before the expiration of five years after such date, the total amount of tax payable under this chapter shall be 10 per centum greater than the amount of tax which would be payable if computed without regard to this section. For the purposes of this section, the tax computed without regard to this section

shall be such tax after the application of the credits provided for in section 813 and section 936."

#### SEC. 207. GIFT TAX.

Section 1001 of the Internal Revenue Code is amended by adding at the end thereof the following new subsection:

"(d) **Defense Tax for 1940-1945.**—Despite the provisions of subsection (a)—

"(1) The tax for each of the calendar years 1941 to 1945, both inclusive, shall be an amount equal to the excess of—

"(A) 110 per centum of a tax, computed in accordance with the Rate Schedule hereinbefore set forth, on the aggregate sum of the net gifts for such calendar year and for each of the preceding calendar years, over

"(B) 110 per centum of a tax, computed in accordance with the said Rate Schedule, on the aggregate sum of the net gifts for each of the preceding calendar years.

"(2) The tax for the calendar year 1940 shall be the sum of (A) the tax computed under subsection (a), plus (B) an amount which bears the same ratio to 10 per centum of the tax so computed as the amount of gifts made after the date of the enactment of the Revenue Act of 1940 bears to the total amount of gifts made during the year. For the purposes of this paragraph, the term 'gifts' does not include gifts which, under section 1003 (b) (2), are not to be included in computing the total amount of gifts made during the calendar year 1940, or gifts which, in the case of a citizen or resident, are allowed as a deduction by section 1004 (a) (2), or gifts which, in the case of a nonresident not a citizen of the United States, are allowed as a deduction by section 1004 (b)."

#### SEC. 208. TAX ON TRANSFERS TO AVOID INCOME TAX.

Section 1250 of the Internal Revenue Code is amended by inserting "(a) **General Rule.**—" before the first paragraph and inserting at the end thereof the following new subsection:

"(b) **Defense Tax for Five Years.**—In the case of any transfer during the period after the date of the enactment of the Revenue Act of 1940 and before July 1, 1945, the rate provided in subsection (a) shall be 27½ per centum in lieu of 25 per centum."

#### SEC. 209. CONTINUATION OF EXCISE TAXES.

Sections 1801, 1802, 3403(f)(1), 3452, 3460(a), 3465, 3481(b), and 3482 of the Internal Revenue Code are amended by striking out "1941" wherever appearing therein and inserting in lieu thereof "1945".

#### SEC. 210. MISCELLANEOUS EXCISES.

The Internal Revenue Code is amended by inserting at the end of chapter 9 the following new chapter:

### "CHAPTER 9A — DEFENSE TAX FOR FIVE YEARS

#### "SEC. 1650. DEFENSE TAX FOR FIVE YEARS.

"(a) In lieu of the rates of tax specified in such of the sections of this title as are set forth in the following table, the rates applicable with respect to the period after June 30, 1940, and before July 1, 1945, shall be the rates set forth under the heading 'Defense-Tax Rate':

| "Section                    | Description of tax             | Old rate   | Defense-tax rate |
|-----------------------------|--------------------------------|------------|------------------|
| 1700(b)                     | Box seats                      | 10 percent | 11 percent.      |
| 1700(c)                     | Sales outside box office       | 10 percent | 11 percent.      |
| 1700(e)                     | Cabaret                        | 1½ cents   | 2 cents.         |
| 1710(a)(1)                  | Dues                           | 10 percent | 11 percent.      |
| 1710(a)(2)                  | Initiation fees                | 10 percent | 11 percent.      |
| 1801                        | Corporate securities           | 10 cents   | 11 cents.        |
| 1802(a)                     | Capital stock issues           | 10 cents   | 11 cents.        |
| 1802(a)                     | Capital stock issues           | 2 cents    | 3 cents.         |
| 1802(b)                     | Capital stock transfers        | 4 cents    | 5 cents.         |
| 1802(b)                     | Capital stock transfers        | 5 cents    | 6 cents.         |
| 1804                        | Insurance policies             | 3 cents    | 4 cents.         |
| 1806                        | Passage tickets                | \$1        | \$1.10.          |
| 1806                        | Passage tickets                | \$3        | \$3.30.          |
| 1806                        | Passage tickets                | \$5        | \$5.50.          |
| 1850(a)                     | Safe-deposit boxes             | 10 percent | 11 percent.      |
| 2700(a)                     | Pistols and revolvers          | 10 percent | 11 percent.      |
| 3250(a)(1)                  | Wholesalers in liquor          | \$100      | \$110.           |
| 3250(b)                     | Retailers in liquor            | \$25       | \$27.50.         |
| 3250(c)                     | Brewers                        | \$100      | \$110.           |
| 3250(c)                     | Brewers                        | \$50       | \$55.            |
| 3250(d)                     | Wholesalers in malt liquors    | \$50       | \$55.            |
| 3250(e)                     | Retailers                      | \$20       | \$22.            |
| 3250(e)(3)                  | Special cases                  | \$2        | \$2.20.          |
| 3250(f)(1)                  | Rectifiers                     | \$200      | \$220.           |
| 3250(f)(1)                  | Rectifiers                     | \$100      | \$110.           |
| 3250(j)                     | Stills                         | \$50       | \$55.            |
| 3250(j)                     | Stills                         | \$20       | \$22.            |
| 3400(1)                     | Tires                          | 2¼ cents   | 2½ cents.        |
| 3400(2)                     | Tubes                          | 4 cents    | 4½ cents.        |
| 3401                        | Toilet preparations            | 10 percent | 11 percent.      |
| 3403(a)                     | Automobile truck chassis, etc. | 2 percent  | 2½ percent.      |
| 3403(b)                     | Automobiles, etc.              | 3 percent  | 3½ percent.      |
| 3403(c)                     | Parts                          | 2 percent  | 2½ percent.      |
| 3404                        | Radios                         | 5 percent  | 5½ percent.      |
| 3405                        | Mechanical refrigerators       | 5 percent  | 5½ percent.      |
| 3407                        | Firearms                       | 10 percent | 11 percent.      |
| 3409                        | Matches                        | 5 cents    | 5½ cents.        |
| 3411                        | Electrical energy              | 3 percent  | 3½ percent.      |
| 3412                        | Gasoline                       | 1 cent     | 1½ cents.        |
| 3413                        | Lubricating oils               | 4 cents    | 4½ cents.        |
| 3460(a)(1), (2),<br>and (3) | Transportation of oil          | 4 percent  | 4½ percent.      |
| 3481(a)                     | Transfer of bonds              | 4 cents    | 5 cents.         |
| 3482                        | Conveyances                    | 50 cents   | 55 cents.        |

"(b) In the application of section 3441 (c) to the articles with respect to which the rate of tax is increased by this section, where the lease, contract of sale, or conditional sale, and delivery thereunder, was made before July 1, 1940, the total tax referred to in such section shall be the tax at the rate in force on June 30, 1940, and not at the increased rate."

#### SEC. 211. ADMISSIONS TAX.

Section 1700(a)(1) of the Internal Revenue Code is amended by striking out "until July 1, 1941, is less than 41 cents" and inserting in lieu thereof "until July 1, 1940, is less than 41 cents, and after June 30, 1940, and before July 1, 1945, is less than 21 cents" and by striking out "is less than 41 cents, until July 1, 1941" and inserting in lieu thereof "is less than 41 cents until July 1, 1940, and is less than 21 cents after June 30, 1940, and before July 1, 1945".

#### SEC. 212. CIGARETTES.

Subchapter A of chapter 15 of the Internal Revenue Code is amended by inserting at the end thereof the following new sections:

**"SEC. 2004. DEFENSE TAX FOR FIVE YEARS.**

"In lieu of the rates of tax specified in section 2000(c) (2), the rates of tax for the period after June 30, 1940, and before July 1, 1945, shall be \$3.25 and \$7.80, respectively.

**"SEC. 2005. FLOOR STOCKS TAX.**

"(a) **Floor Stocks Tax.**—Upon cigarettes subject to tax under section 2000(c) (2) which on July 1, 1940, are held by any person for sale, there shall be levied, assessed, collected, and paid a floor stocks tax at a rate equal to the increase in rate of tax made applicable to such articles by section 2004.

"(b) **Returns.**—Every person required by this section to pay any floor stocks tax shall, on or before August 1, 1940, under such regulations as the Commissioner with the approval of the Secretary shall prescribe, make a return and pay such tax, except that in the case of articles held by manufacturers and importers the Commissioner may collect the tax with respect to all or part of such articles by means of stamp rather than return, and in such case may make an assessment against such manufacturer or importer having tobacco tax stamps on hand July 1, 1940, for the difference between the amount paid for such stamps and the increased rates specified in section 2004.

"(c) **Laws Applicable.**—All provisions of law, including penalties, applicable in respect of the taxes imposed by section 2000 shall, insofar as applicable and not inconsistent with this section, be applicable with respect to the floor stocks tax imposed by subsection (a)."

**SEC. 213. DISTILLED SPIRITS.**

(a) Section 2800 of the Internal Revenue Code is amended by inserting at the end thereof the following new subsections:

"(g) **Defense Tax for Five Years.**—In lieu of the rates of tax specified in such of the sections of this title as are set forth in the following table, the rates applicable with respect to the period after June 30, 1940, and before July 1, 1945, shall be the rates set forth under the heading 'Defense-Tax Rate':

| "Section               | Description of tax                    | Old rate         | Defense-tax rate |
|------------------------|---------------------------------------|------------------|------------------|
| 2800 (a) (1) . . . . . | Distilled spirits generally . . . . . | \$2.25 . . . . . | \$3.             |
| 2800 (a) (1) . . . . . | Brandy . . . . .                      | \$2 . . . . .    | \$2.75.          |
| 2800 (a) (3) . . . . . | Imported perfumes . . . . .           | \$2.25 . . . . . | \$3.             |

**"(h) Floor Stocks Tax.**

"(1) Upon all distilled spirits produced in or imported into the United States upon which the internal-revenue tax imposed by law has been paid, and which on July 1, 1940, are held and intended for sale or for use in the manufacture or production of any article intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax of 75 cents on each proof-gallon, and a proportionate tax at a like rate on all fractional parts of such proof-gallon. The tax imposed by this subsection shall not apply to 100 wine gallons of the retail stocks of distilled spirits held by a person on premises as to which such person has incurred occupational tax as a retail dealer in liquors for the period beginning on July 1, 1940, and as to which no other occupational tax with respect to dealing in distilled spirits has been incurred by such person for a period beginning on such date.

"(2) Every person required by this subsection to pay any floor stocks tax shall, on or before August 1, 1940, under such regulations as the Commissioner, with the approval of the Secretary, shall prescribe, make a return and pay such tax. Payment of the tax shown to be due may be extended to a date not later than February 1, 1941, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Commissioner, with the approval of the Secretary, may prescribe. Every retail dealer in liquors (even though not liable to pay such tax) shall make the return required by this paragraph.

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"(3) All provisions of law, including penalties, applicable in respect of internal-revenue taxes on distilled spirits shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the floor stocks tax imposed hereunder."

(b) The third paragraph of section 2887 of the Internal Revenue Code (relating to drawback on distilled spirits) is amended by striking out "but shall not exceed a rate of \$2.25 (or, in the case of brandy, \$2)" and inserting in lieu thereof "but shall not exceed a rate of \$3 (or, in the case of brandy, \$2.75)".

#### SEC. 214. WINES AND FERMENTED MALT LIQUORS.

Chapter 26 of the Internal Revenue Code is amended by inserting at the end thereof the following new subchapter:

### "SUBCHAPTER F—DEFENSE TAX FOR FIVE YEARS

#### "SEC. 3190. DEFENSE TAX FOR FIVE YEARS.

"In lieu of the rates of tax specified in such of the sections of this title as are set forth in the following table, the rates applicable with respect to the period after June 30, 1940, and before July 1, 1945, shall be the rates set forth under the heading 'Defense-tax Rate':

| "Section          | Description of tax           | Old rate      | Defense-tax rate |
|-------------------|------------------------------|---------------|------------------|
| 3030(a)(1)(A) ... | Still wines.....             | 5 cents.....  | 6 cents.         |
| 3030(a)(1)(A) ... | Still wines.....             | 15 cents..... | 18 cents.        |
| 3030(a)(1)(A) ... | Still wines.....             | 25 cents..... | 30 cents.        |
| 3030(a)(2) .....  | Sparkling wines.....         | 2½ cents..... | 3 cents.         |
| 3030(a)(2) .....  | Sparkling wines.....         | 1¼ cents....  | 1½ cents.        |
| 3030(a)(2) .....  | Liqueurs, cordials, etc..... | 1¼ cents....  | 1½ cents.        |
| 3150(a) .....     | Fermented malt liquors.....  | \$5 .....     | \$6.             |

#### "SEC. 3191. FLOOR STOCKS TAX ON FERMENTED MALT LIQUORS.

"(a) **Floor Stocks Tax.**—Upon all fermented malt liquors upon which the internal-revenue tax imposed by law has been paid, and which on July 1, 1940, are held by any person and intended for sale there shall be levied, assessed, collected, and paid a floor stocks tax at a rate equal to the increase in rate of tax made applicable to such articles by section 3190. The tax imposed by this subsection shall not apply to the retail stocks of fermented malt liquors held by a person on premises as to which such person has incurred occupational tax as a retail dealer in liquors or a retail dealer in malt liquors for the period beginning on July 1, 1940, and as to which no other occupational tax with respect to dealing in distilled spirits, wines, or malt liquors, has been incurred by such person for a period beginning on such date.

"(b) **Returns.**—Every person required by subsection (a) to pay any floor stocks tax shall, on or before August 1, 1940, under such regulations as the Commissioner with the approval of the Secretary shall prescribe, make a return and pay such tax. Payment of the tax shown to be due may be extended to a date not later than February 1, 1941, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Commissioner, with the approval of the Secretary, may prescribe.

"(c) **Laws Applicable.**—All provisions of law, including penalties, applicable in respect of the taxes imposed by section 3150 (a) shall, insofar as applicable and not inconsistent with this subsection, be applicable with respect to the floor stocks tax imposed by subsection (a)."

**SEC. 215. PLAYING CARDS.**

Section 1807 of the Internal Revenue Code is amended by inserting "(a) **General Rule.**—" before the first paragraph and inserting at the end thereof the following new subsection:

"(b) **Defense Tax for Five Years.**—In lieu of the rate of tax specified in subsection (a), the rate of tax for the period after June 30, 1940, and before July 1, 1945, shall be 11 cents."

**SEC. 216. CREDITS ON TAX ON AUTOMOBILES, ETC.**

Section 3403 (e) of the Internal Revenue Code is amended by adding at the end thereof the following new sentence: "With respect to the period after June 30, 1940, and before July 1, 1945, the rates of the credits above provided shall, in lieu of 2 per centum and 3 per centum, be 2½ per centum and 3½ per centum, respectively."

**TITLE III**

**SEC. 301.** The Secretary of the Treasury shall, as soon as practicable after the end of each quarter, determine the additional amount of taxes collected attributable to the increases in taxes made, and to the floor stocks taxes imposed, by the amendments to the Internal Revenue Code in title II of this Act (not including the amount of taxes attributable solely to section 209 and not including any amount collected under section 1700(a)(1) of the Internal Revenue Code attributable to a basic admission charge of more than 40 cents), and the amounts so determined shall be set aside as a special fund which shall be available only for the retirement of any of the obligations issued pursuant to the authority contained in section 21(b) of the Second Liberty Bond Act, as amended. If at any time the amounts in the fund are not sufficient for such purpose, the Secretary of the Treasury is authorized and directed to transfer to the fund moneys out of the general fund of the Treasury. Any amounts in the special fund not necessary for the retirement of such obligations shall be deposited in the general fund of the Treasury.

**SEC. 302.** Section 21 of the Second Liberty Bond Act, as amended, is hereby further amended by inserting "(a)" after "21." and by adding at the end of such section a new paragraph as follows:

"(b) In addition to the amount authorized by the preceding paragraph of this section, any obligations authorized by sections 5 and 18 of this Act, as amended, not to exceed in the aggregate \$4,000,000,000 outstanding at any one time, less any retirements made from the special fund made available under section 301 of the Revenue Act of 1940, may be issued under said sections to provide the Treasury with funds to meet any expenditures made, after June 30, 1940, for the national defense, or to reimburse the general fund of the Treasury therefor. Any such obligations so issued shall be designated 'National Defense Series'."

**TITLE IV**

**SEC. 401.** Section 205 of the Public Salary Tax Act of 1939 is amended by adding at the end thereof a new sentence to read as follows: "If the amount of the deficiency in income tax for any taxable year beginning before January 1, 1939, attributable to compensation paid indirectly by the United States, or any agency or instrumentality thereof, for personal service as an officer or employee of a State, or any political subdivision thereof, or any agency or instrumentality of any of the foregoing, is paid on or before March 15, 1941, then with respect to failure to pay such amount or make return of such compensation: (a) No criminal penalty shall apply; and (b) the additions to tax provided in sections 291 and 293 of the Internal Revenue Code shall not apply."

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