The Revenue Act of 1935 and digest of new provisions.

Chase National Bank of the City of New York.
[New York, 1935]

https://hdl.handle.net/2027/nnc1.cu04284607

CHASE NATIONAL BANK

REVENUE ACT OF 1935

The Revenue Act of 1935

and
Digest of New Provisions

THE
CHASE NATIONAL BANK
of the City of New York

The Revenue Act of 1935

and

Digest of New Provisions

THE

CHASE NATIONAL BANK

of the City of New York

The Revenue Act of 1935

Approved 6 P. M., Eastern Standard Time, August 30, 1935.

CONTENTS

HIGHLIGHTS

of the

REVENUE ACT OF 1935

Increased individual surtax rates beginning with $50,000 incomes.

Graduated corporation tax rates—12½ per cent to 15 per cent.

Deductibility of charitable, etc., contributions by corporations up to 5 per cent of their income.

Taxing of 10 per cent of dividends received by corporations at regular corporation rates.

Income tax changes effective for taxable years beginning after December 31, 1935.

Capital stock tax of $1.40 per $1,000. New declared value allowed for June 30, 1936.

Imposes new excess profits tax rates—6 per cent of net income in excess of 10 per cent and not in excess of 15 per cent of adjusted declared value; 12 per cent of net income in excess of 15 per cent of adjusted declared value. (The old 1934 excess profits tax law applies with respect to income tax years ending on or before June 30, 1936.)

Increased surtax rates on personal holding companies (up to 60 per cent).

No gain or loss to corporation on liquidation of controlled subsidiaries.

Estate tax exemption decreased to $40,000, and estate tax rates increased to graduate from 2% on net estates of $10,000 or less, to 70% on net estates in excess of $50,000,000 (applicable to estates of decedents dying after date of enactment of the new law).

Estate tax deduction allowed for shrinkage in value of estate within one year of death.

Increase of gift tax on donors. Rates ¾ of estate tax rates. Increase effective January 1, 1936.

Gift tax specific exemption decreased to $40,000 effective January 1, 1936.

Reduced penalty for failure in future to file tax return on time.

Internal revenue taxes excluded from relief under the Declaratory Judgment Act, effective on all proceedings pending in the courts at the present time [affects many pending processing tax suits].

Interest rate on delinquent Federal tax payments reduced to 6 per cent per annum.

Interest allowed on overpayments of excise taxes on sales after September 30, 1935.

Crude petroleum tax reduced from 1/10 of one cent a barrel to 1/25 of one cent a barrel.

Banks and insurance companies allowed to deduct dividend payments made to the United States on their preferred stocks [in separate amendatory act].

See the following pages for table of effective dates and comprehensive explanation of new provisions.

EXPLANATION OF NEW PROVISIONS

of the

REVENUE ACT OF 1935

By Permission of Commerce Clearing House, Inc.

Structure of the Law.—The Revenue Act of 1935 is not, like its predecessors, a complete taxing Act in itself. It consists of less than 30 sections. Some sections amend Sections of the Revenue Act of 1934, some amend the Revenue Act of 1926 (which forms the basis of the present estate tax), some amend the Revenue Act of 1932 (gift tax and excise taxes) and a few, such as Sections 105 and 106 imposing new taxes (the new capital stock and excess profits taxes), supersede similar sections in the Revenue Act of 1934 instead of amending the old provisions.

Acts in Effect.—The basic law as it pertains to income tax provisions is the Revenue Act of 1934 as amended by the Revenue Act of 1935.

The basic law as it pertains to estate tax and stamp taxes is contained in the Revenue Act of 1926, as amended by the Revenue Acts of 1928, 1932, 1934, and 1935.

The basic law as it pertains to excise taxes on sales and facilities and to gift taxes is contained in the Revenue Act of 1932 as amended by the National Industrial Recovery Act and the Revenue Acts of 1934 and 1935.

Table of Effective Dates

Revenue Act of 1935

New Provisions	Effective Date
Income tax	Taxable years beginning after December 31, 1935
Capital stock tax	Year ended June 30, 1936
Excess profits tax	First income tax taxable year ending after June 30, 1936
Surtax on personal holding companies	Taxable years beginning after December 31, 1935
Estate tax	After date of enactment
Gift tax	January 1, 1936
Excise taxes on sales—Amendments	October 1, 1935
Import tax on oil products	After thirtieth day after enactment date
Discontinuance of $1,000 excise tax on liquor business	After June 30, 1935
6% interest rate on delinquent taxes	Enactment date
Nonapplication of Declaratory Judgment Act to Federal taxes	Retroactive
Penalty for late filing—Amendment	After enactment date
Crude petroleum tax reduction	September 1, 1935

Amendatory Act approved in August, 1935

Exemption of income of employees of foreign governments	Retroactive
Deduction of dividends paid to U. S. by banking corporations and insurance companies on preferred stock	Taxable years beginning after Dec. 31, 1934

INCOME TAX

In General.—As stated above, the basic law as it pertains to income tax is the Revenue Act of 1934 as amended by the Revenue Act of 1935 and by a special amendatory Act approved in August, 1935. All of Title I of the Revenue Act of 1934, the income tax title, continues to be applicable to years covered by the Revenue Act of 1935 except as the 1934 Act is amended by the later Act. *The provisions of the 1934 Act, before amendment, are applicable to all taxable years beginning before December 31, 1935*—therefore, to all 1935 calendar years and to all full fiscal years ended in 1935 and in 1936.

The income tax and surtax rates in the Revenue Act of 1934 which have not been changed in the new Act are (1) the normal tax on individuals (which remains at 4 per cent on net incomes in excess of the personal exemption and allowable credits), (2) the income tax rate on consolidated returns of railroads, which remains at 15¾ per cent (in lieu of the new graduated corporation income tax rates) and (3) the surtax on improper accumulations of surplus.

Surtaxes on Individuals.—No change is made from the Revenue Act of 1934 in the surtax rates on individuals on brackets of surtax net income up to $50,000. On all brackets in excess of $50,000 the rates have been increased, the maximum rate being 75 per cent instead of the maximum of 59 per cent in the Revenue Act of 1934. Three new brackets have been added—one, splitting up the income between $200,000 and $300,000 into two brackets instead of one, and the other two, adding new brackets up to $5,000,000. The following table shows the new rate increases over the rates in the 1934 Act:

Comparative Surtax Rate Table

Surtax net income (highest amount in bracket)	1935 Act rate *Per cent*	Increase in rate on bracket over 1934 Act rate *Per cent*	Surtax net income (highest amount in bracket)	1935 Act rate *Per cent*	Increase in rate on bracket over 1934 Act rate *Per cent*
$ 56,000	31	1	$ 250,000	62	8
62,000	35	2	300,000	64	10
68,000	39	3	400,000	66	11
74,000	43	4	500,000	68	12
80,000	47	5	750,000	70	13
90,000	51	6	1,000,000	72	14
100,000	55	5	2,000,000	73	14
150,000	58	6	5,000,000	74	15
200,000	60	7	Over $5,000,000	75	16

The definition of surtax net income remains the same as in the 1934 Act: the amount of the net income in excess of the personal exemption and the credit for dependents.

Example: For the calendar year 1936, an individual has a net income of $65,280. He is married and has two children under 18 years of age. His surtax is computed as follows:

Net income		$65,280
Less:		
Personal exemption	$2,500	
Credit for dependents ($400 for each dependent)	800	3,300
Surtax net income		$61,980
Surtax on $56,000 (as shown in Table B and in Section 101 of 1935 Act)		$ 9,560
Surtax on next $5,980 at 35% (as in Table B and Sec. 101)		2,093
Total surtax		$11,653

—Sec. 101

Income Tax Rates: Corporations.—The new income tax rates on corporations in the Revenue Act of 1935, applicable to taxable years beginning after December 31, 1935, will result in lower income tax than the rates in the 1934 Act for all corporations having net incomes of less than $44,800. It is only on net incomes in excess of $44,800 that there will be an increased income tax under the new Act. Instead of the flat 13¾ per cent rate in the 1934 Act, the Act of 1935 contains the following schedule of rates:

Upon net incomes not in excess of $2,000, 12½ per cent.

$250 upon net incomes of $2,000; and upon net incomes in excess of $2,000 and not in excess of $15,000, 13 per cent in addition on such excess.

$1,940 upon net incomes of $15,000; and upon net incomes in excess of $15,000 and not in excess of $40,000, 14 per cent in addition on such excess.

$5,440 upon net incomes of $40,000; and upon net incomes in excess of $40,000, 15 per cent in addition on such excess.

Examples.—If a corporation had a net income of $44,000 for the calendar year 1935, its income tax, computed under the Revenue Act of 1934 would be 13¾ per cent of $44,000, or $6,050.

If a corporation had a net income of $44,000 for the calendar year 1936, its income tax, computed under the Revenue Act of 1935, would be:

On the first $40,000	$5,440
On the remaining $4,000 at 15 per cent	600
Total	$6,040

Thus the tax under the later Act would be $10 less than the tax on the same income under the 1934 Act. On $2,000 net income the tax under the 1935 Act is $25 less than under the 1934 Act. On net incomes of $15,000 the tax under the new Act is $122.50 less than under the 1934 Act.—**Sec. 102 (a).**

Income Tax Rates: Consolidated Returns.—A flat income tax rate of 15¾ per cent is provided in the case of consolidated returns of railroad corporations instead of the regular graduated corporation income tax rates in Section 102(a) of the 1935 Act. This 15¾ per cent rate is the same as is provided in the 1934 Act for railroad corporations filing consolidated returns. Section 141(c) of the 1934 Act is amended to make clerical changes in this respect.—**Sec. 102 (b).**

Withholding provisions have been amended to conform with the above change in corporation income tax rates. All withholding from corporations required to be made under the 1934 Act shall be at the rate of 15 per cent with respect to all payments of income made after December 31, 1935, except that the Commissioner may authorize withholding under the provisions of the 1934 Act before amendment in the case of taxable years beginning in 1935.—**Sec. 102 (f).**

Insurance Companies: Income Tax Rates.—The income tax rates on all insurance companies, including life insurance companies, mutual insurance companies, and insurance companies other than life or mutual, will be at the same graduated rates as for all other corporations. Under Section 207 of the 1934 Act, mutual insurance companies other than life are taxable at the same rates as other corporations. By amendment in the Revenue Act of 1935, the rates on life insurance companies and insurance companies other than life or mutual are changed to the regular graduated corporation rates instead of the flat 13¾ per cent rate in the 1934 Act.—**Secs. 103, 104.**

Deductions from Gross Income: Corporations: Charitable and Other Contributions.—An amendment of Section 23 of the 1934 Act permits the deduction by corporations of contributions or gifts made to or for the use of a domestic corporation, or domestic trust, or domestic community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, or the prevention of cruelty to children (but in the case of contributions to a trust, chest, fund or foundation, only if such contributions are to be used within the United States exclusively for such purposes). No part of the net earnings of the donee may inure to the benefit of any private shareholder or individual, and no substantial part of its activities may consist of carrying on propaganda, or otherwise attempting to influence legislation, in order that the contributions may be deductible. As compared with the 15 per cent limitation on deduction by individuals in the 1934 Act, the deduction by corporations is limited to 5 per cent of their net incomes computed without the contributions deduction. Before this amendment, corporations were not allowed to deduct any part of their charitable, etc., contributions unless they resulted in a direct business benefit. The new provision corresponds somewhat with Section 23 (o) (2) of the 1934 Act, relating to charitable and other contributions by individuals, except that the latter does not contain any limitation similar to that in the parenthetical phrase at the end of the first sentence of this paragraph.

The deduction for charitable and other contributions is much more limited in the case of corporations than in the case of individuals. Corporations may not deduct contributions to or for the use of any of the following organizations (unless the organizations also come within the scope of the provisions described in the paragraph immediately preceding):

(1) the United States, States, Territories, or political subdivisions or the District of Columbia for public purposes.

(2) vocational rehabilitation fund, authorized by the World War Veterans' Act of 1924.

(3) posts or organizations of war veterans or auxiliary units thereof.

(4) fraternal societies operating under the lodge system if used for charitable, religious, scientific, literary, etc., purposes.

All the above classes of contributions are deductible by individuals.

There is no provision for unlimited deduction of contributions by corporations under exceptional circumstances such as is outlined in the case of individuals in Section 120 of the 1934 Act.—**Sec. 102 (c).**

Charitable and Other Contributions by Insurance Companies: Deductibility.—Insurance companies other than life or mutual are permitted to deduct charitable and other contributions to the same extent as other corporations as outlined above, under an amendment in the 1935 Act. Without such an amendment, mutual insurance companies also will be permitted the same deduction, as, under Section 207(c) of the 1934 Act, they are allowed all deductions allowed to corporations by section 23. Life insurance companies are not allowed any deduction for charitable and other contributions. Their taxable net income is computed under special statutory rules.—**Sec. 102 (d).**

Charitable and Other Contributions by Foreign Corporations.—Foreign corporations are allowed the same contributions deduction as is allowed domestic corporations. The deduction is allowable whether or not the contributions are connected with income from sources within the United States.—**Sec. 102 (e).**

Dividends Received by Corporations from other corporations subject to income tax, not including corporations taxable under Section 251 of the 1934 Act (income from U. S. possessions) or China Trade Act corporations, may be deducted only to the extent of 90 per cent of the amount of such dividends, leaving 10 per cent thereof taxable at the regular corporation tax rates. This would have the effect of taxing dividends received by corporations at a rate of from 1¼ to 1½ per cent. Under the 1934 Act and prior revenue acts, the entire amount of such dividends has been deductible, and, therefore, no part thereof has been taxable. This change would apply only in the case of taxable years *beginning* after December 31, 1935, and would be applicable to all taxable corporations including all insurance companies, except life insurance companies. The latter are entitled to a deduction of the full amount of dividends received from a taxable corporation other than one taxable under Section 251 of the 1934 Act (income from U. S. possessions) and other than a China Trade Act corporation.

Withholding, when required from a foreign corporation under the 1934 Act, shall apply also to 10 per cent of the amount of dividends of the class described above, when received by such foreign corporation.

Nonrecognition of Gain or Loss on Liquidation of Subsidiaries.—No gain or loss upon the receipt by a corporation of property (other than money) distributed in complete liquidation of another corporation shall be recognized if the corporation receiving the property was in control of such other corporation on the date of the enactment of the Revenue Act of 1935 and continued to be in control until the time such liquidation or liquidations took place. "Complete liquidation" includes any one of a series of distributions which may be made in complete cancellation or redemption of all of a corporation's stock, provided that the period of liquidation does not extend beyond five years from the close of the taxable year during which the first of the series of distributions was made.

In the event a plan of liquidation has been developed but the transfer of property is not completed within the taxable year the Commissioner may require the taxpayer claiming the benefit of these provisions to give a bond, or waiver of the statute of limitations on assessment and collection, or both, as he may deem necessary to insure assessment and collection of the tax if the transfer of property is not completed in accordance with the plan. A corporation is in control of another corporation when it owns at least 80 per cent of the voting stock and at least 80 per cent of the total number of shares of all other classes of stock of the other corporation. This condition must exist on the date of the enactment of the Revenue Act of 1935 and continue to exist at all times until the exchange takes place to entitle the owning corporation to make such exchange without the recognition of gain or loss. If money is received upon a liquidation, gain will be recognized only up to the amount of money received.

These liquidations being treated as tax-free exchanges, the basic provisions of Sec. 113(a)(6) of the Revenue Act of 1934 will be applicable upon the subsequent sale or other disposition for the purpose of determining gain or loss to the controlling corporation. The following examples taken from the Conference Report on the Revenue Act of 1935 illustrate how the basis is determined in the case of liquidations under the above provisions:

Case No. 1

Corporation A paid $100,000 for the stock of Corporation B. It liquidates Corporation B and receives on liquidation property worth $200,000 at the date of liquidation. Corporation A has realized a gain of $100,000 from the liquidation, which under the amendment is not recognized. However, the basis of Corporation B's property in the hands of Corporation A will be not $200,000, the value at the time of liquidation, but $100,000, the amount Corporation A paid for Corporation B's stock. Corporation A subsequently sells the property it acquired from Corporation B on liquidation for $200,000. Corporation A will be required to pay a tax in the year of sale on a $100,000 gain.

Case No. 2

Corporation A paid $100,000 for the stock of Corporation B. It liquidates Corporation B and receives on liquidation the following:

Property	$150,000
Cash	50,000
Total	$200,000

The gain of $100,000 realized upon liquidation will be recognized only up to the amount of the cash, namely, $50,000. The basis of the property is $100,000 computed as follows:

($100,000 cost of Corporation B's stock to Corporation A, decreased in the amount of money received, $50,000, and increased in the amount of gain recognized to Corporation A at the time of liquidation, $50,000.)

Effective Date.—The above-described provisions apply only to distributions in liquidation made during taxable years beginning after December 31, 1935. They do not apply to any liquidation if any distribution in pursuance thereof was made before the date of the enactment of the Revenue Act of 1935.—**Sec. 110.**

Effective Dates.—The above-described income tax provisions are applicable only in the case of taxable years beginning after December 31, 1935.—**Sec. 107.**

Surtax Rates: Personal Holding Companies.—The new rates, applicable to taxable years beginning after December 31, 1935, on the undistributed adjusted net income (as defined in Section 351 of the Revenue Act of 1934) are:

20 per cent of the amount thereof not in excess of $2,000; plus

30 per cent of the amount thereof in excess of $2,000 and not in excess of $100,000; plus

40 per cent of the amount thereof in excess of $100,000 and not in excess of $500,000; plus

50 per cent of the amount thereof in excess of $500,000 and not in excess of $1,000,000; plus

60 per cent of the amount thereof in excess of $1,000,000.—**Sec. 109.**

The definition of the term "undistributed adjusted net income" has been amended. One of the deductions allowed from the adjusted net income in determining the undistributed adjusted net income under the 1934 Act is the amount of dividends paid during the taxable year. The amendment permits the deduction of dividends paid during the taxable year and distributions (not in complete or partial liquidation and not a dividend as defined in Section 115 of the 1934 Act) made during the taxable year out of earnings or profits of such year. This would have reference to a distribution of earnings or profits of the current taxable year when it could not be regarded as a dividend because of the existence of operating deficits of prior years which must be made good before true dividends (distributions of earnings or profits accumulated after February 28, 1913) may be made.—**Sec. 109(b).**

A personal holding company and undistributed adjusted net income are clearly defined in the 1934 Act. Briefly stated a "personal holding company" means any corporation if at least 80 per cent of its gross income is derived from royalties, dividends, interest, annuities and (except in the case of regular dealers in stock or securities) gain from the sale of stock or securities and at any time during the last half of the taxable year more than 50 per cent in value of its outstanding stock is owned, directly or indirectly, by or for not more than five individuals. The meaning of the term "undistributed adjusted net income" is clearly indicated in the example given below showing the computation of the surtax on a personal holding company.

Example:—The following example shows the method of computing the undistributed adjusted net income for a corporation which is subject to the surtax on personal holding companies under the rates in the 1935 Act together with a computation of the tax thereon for the calendar year 1936 giving effect to the new provisions of the 1935 Act which affect the determination of adjusted net income.

ADJUSTED NET INCOME

1.	Net income (as defined in Title I of the Revenue Act of 1934 as amended by the Revenue Act of 1935)		$2,600,000
2.	Dividends received on stocks of domestic corporations	$ 400,000	
	Less amount subject to tax under Sec. 102 (h) of the Revenue Act of 1935	40,000	360,000
3.	Total of items 1 and 2		$2,960,000
4.	Deduct: Federal income, war profits, and excess profits taxes	$ 389,440	
5.	Contributions or gifts in excess of 5 per cent of net income not allowed as a deduction under Sec. 102 (d) of the Revenue Act of 1935	31,560	
6.	Losses from sale or exchange of capital assets (disallowed by Sec. 117 (d) of the Revenue Act of 1934	29,000	
7.	Income tax paid to a foreign country or U. S. possession, not deducted in computing net income	2,000	
8.	Total of items 4 to 7		452,000
9.	*Adjusted net income* (Item 3 minus item 8)		$2,508,000

UNDISTRIBUTED ADJUSTED NET INCOME

10.	Adjusted net income (Item 9 above)	2,508,000	2,508,000
11.	Less: Dividends from personal holding companies	90,000	
12.	Balance	$2,418,000	
13.	20% of item 12	483,600	
14.	Amount used or set aside to retire indebtedness	300,000	
15.	Dividends paid during the year	598,000	
16.	Total of items 13 to 15		1,381,600
17.	*Undistributed adjusted net income* (Item 10 minus item 16)		$1,126,400

COMPUTATION OF TAX

18.	Undistributed adjusted net income:		Surtax
19.	Amount taxable at rate of 20 per cent	2,000	400
20.	Amount taxable at rate of 30 per cent	98,000	29,400
21.	Amount taxable at rate of 40 per cent	400,000	160,000
22.	Amount taxable at rate of 50 per cent	500,000	250,000
23.	Amount taxable at rate of 60 per cent	126,400	75,840
	Total undistributed adjusted net income	$1,126,400	
	Total Surtax		$ 515,640

CAPITAL STOCK AND EXCESS PROFITS TAXES

Capital Stock Tax: Corporations.—For each year ended June 30, beginning with the year ended June 30, 1936, the capital stock tax rate will be $1.40 for each $1,000 of the adjusted declared value of the capital stock of every domestic corporation with respect to doing business for any part of such year. For a foreign corporation doing business in the United States for any part of such year the rate is $1.40 per $1,000 of the adjusted declared value of capital employed in the transaction of its business in the United States.—**Sec. 105 (a), (b).**

Exempt from the capital stock tax are corporations enumerated in Section 101 of the Revenue Act of 1934 as being exempt from income tax, and all insurance companies. —**Sec. 105 (c).**

New declaration of value is allowed every corporation for the year ended June 30, 1936. For subsequent years the adjustments required are to be computed in the same manner as was provided in the Revenue Act of 1934.—**Sec. 105 (f).**

The same general administrative provisions relative to the capital stock tax are contained in the Revenue Act of 1935 as were in the 1934 Act except that the rate of interest collectible if the tax is not paid when due is 6 per cent per annum in the 1935 Act instead of 1 per cent a month as in the 1934 Act. This conforms with the new general provision in the 1935 Act that no interest on any internal revenue tax shall exceed 6 per cent per annum.—**Sec. 105 (d), (e).**

China Trade Act corporations are allowed a credit against the adjusted declared value of their capital stock in an amount equal to the proportion of such adjusted declared value which the par value of the shares owned on the last day of the taxable year by (1) residents of China, the United States, or its possessions, and (2) individual citizens of the United States or China, wherever residing, bears to the par value of the whole number of shares outstanding on such date. This is for the purpose of putting such corporations on an equal competitive basis with corporations of foreign countries doing business in China.—**Sec. 105 (g).**

The capital stock tax under the 1934 Act shall not apply with respect to any year after the year ending June 30, 1935, for which returns were due to be filed in July, 1935. —**Sec. 105 (h).**

Excess Profits Tax: Corporations.—Under the Revenue Act of 1935, the new excess profits tax rates upon the net income of every corporation for each income-tax taxable year ending after the close of the first year in respect of which it is subject to the new $1.40 per $1,000 capital stock tax, are as follows:

6 per cent of such portion of its net income for such income-tax taxable year as is in excess of 10 per cent and not in excess of 15 per cent of the adjusted declared value.

12 per cent of such portion of its net income for such income-tax taxable year as is in excess of 15 per cent of the adjusted declared value.

The exemptions are based on the new declared values under the Revenue Act of 1935, and the above new rates are applicable only to income-tax taxable years ending *after* June 30, 1936.

The above rates would not be applicable for any taxable year ending *on or before* June 30, 1936. For such years the rate of 5 per cent on net income in excess of 12½ per cent of the old adjusted declared value would apply.

The excess profits taxes in the N. I. R. A. and the Revenue Act of 1934 have been imposed for the principal purpose of inducing corporations to declare adequate values of their capital stock for the purpose of the capital stock tax. This is equally true of the new excess profits tax. If the original declaration of the value of the stock for capital stock purposes is judiciously made, the excess profits tax in most cases will not be incurred.

Example: In July, 1936, when a corporation is about to file its first capital stock tax return under the Revenue Act of 1935 for the year ended June 30, 1935, it estimates its earnings from January 1, 1936 to June 30, 1936 and finds that they are about $25,000. The corporation keeps its books on the basis of a calendar year. An annual profit of $50,000 is greater than the corporation has earned for any of the past four years, and therefore, the corporation believes that a declared value of its capital stock of $500,000 should be ample. It pays $700 capital stock tax, $1.40 for each $1,000 of the $500,000 declared value. If, at the end of the calendar year 1936, it finds that its net income for the calendar year does not exceed $50,000, it will have no excess profits tax to pay. But what if the operations for the last half of the year were so successful as to result in a net income of, say, $80,000 for the calendar year 1936 after deduction of the 1936 income tax? Only $50,000 would be exempt from the excess profits tax. The excess profits tax would be computed in the following manner:

Per cent of declared value	Income bracket	Tax *Per Cent*	Amount of tax
10	$50,000	None	None
5	25,000	6	$ 1,500
Balance	5,000	12	600
Total	$80,000		$2,100

The corporation would have to pay $2,100 excess profits tax. Its capital stock tax and excess profits tax would total $2,800. If it had declared $800,000 for capital stock purposes its tax would have been $1,120 ($1.40 × 800), a saving of $1,680. If it had declared a value of $1,000,000 its tax the first year would have been $1,400 but there would have been a margin of safety for the realization of generous profits in future years with a reduced risk of paying excess profits taxes.—**Sec. 106.**

The amount of the income tax imposed by section 13 (1934 Act as amended) for the taxable year is deductible from the net income subject to income tax in arriving at the amount of income subject to the new excess profits tax.—**Sec. 106 (b).**

China Trade Act corporations are allowed a credit for the excess profits tax under the 1935 Act, similar to the credit allowed for income tax under Section 261 (a) of the 1934 Act.—**Sec. 108.**

ESTATE TAX

Exemption and Rates.—The Revenue Act of 1935 imposes no tax on the receipt of inheritances. Instead, it increases the estate tax rates in the Revenue Act of 1932 and decreases the specific exemption to $40,000 by amendment of the 1932 Act. The $100,000 exemption in the 1926 Act and the rates in that Act remain unchanged for the purpose of the computation of the 80 per cent credit for State death taxes.

The rates in the 1935 Act (as set forth in Table G of the Tax Rate Tables) are just twice as high as rates in the 1934 Act in all the brackets up to $50,000. In the brackets in excess of $50,000 and up to $200,000, each bracket is 5 per cent higher than in the 1934 Act. In the brackets in excess of $200,000 and up to $4,500,000 each bracket is 4 per cent higher than in the 1934 Act. In the bracket in excess of $4,500,000 up to $5,000,000 the increase is 5 per cent. In the next bracket, up to $6,000,000, the increase is 6 per cent. In the remaining brackets in the 1934 Act, the increase is 7 per cent. Two new brackets, with rates of 69 and 70 per cent, are added by the 1935 Act.—**Sec. 201.**

The changes in exemption and rates will be applicable only with respect to transfers of estates of decedents dying after the date of enactment of the new Act.—**Sec. 201 (d).**

Example of computation of the estate tax is furnished in the Tax Rate tables, immediately following Table G.

Estate Taxes: Valuations.—An amendment of Section 302 of the Revenue Act of 1926 gives the executor an election with respect to the time as of which the property included in the gross estate is to be valued, the election to be made upon his return, provided it is filed within the time prescribed by law or by the Commissioner in pursuance of law. Under the Act before amendment, he could value the estate only as of the date of death. Under the amendment, he may value the estate as of the date of death or as of the date one year after the decedent's death, except that (1) property included in the gross estate on the date of death and distributed, sold, exchanged, or otherwise disposed of, within the year, shall be included at its value at the time of such distribution, sale, exchange, or other disposition, and (2) any interest or estate, the value of which is affected by mere lapse of time, should be included at its value at the time of death, adjusted for any difference in value as of its later date not due to mere lapse of time. Double deduction is not allowed. No deduction may be allowed, *for estate tax purposes,* if allowance for the item is in effect given by the revaluation provision herein. For example, deductions for losses from fire, other casualties, etc., are disallowed if reflected in the later valuation of the property.

Property transferred to charities, etc., shall be valued as of the date of death with adjustment for any difference in value (not due to mere lapse of time or the occurrence or nonoccurrence of a contingency) of the property as of the date one year after the decedent's death (substituting the date of sale or exchange in the case of property sold or exchanged during such one-year period).—**Sec. 202 (a).**

Example: The Conference Report gives the following example of the operation of this new provision:

A decedent dies owning real estate of the value of $100,000, corporate stock of the value of $60,000, bonds of the value of $20,000, foreign government bonds maturing 9 months after date of death of a face value of $10,000, but of a value of $9,550, and cash amounting to $5,000. These values are as of the date of death. The gross estate at date of death amounted, therefore, to $194,550. The decedent had debts of $15,000 and the administration expenses were $25,000, which debts and expenses were promptly paid by the executor. The value of the net estate as of date of death was, therefore (after taking off the specific exemption), $114,550. Six months after the decedent's death the executor distributed the bonds to a legatee under the will, at which time they were worth $18,000, and he sold all the corporate stock owned by the decedent for a fair market value of $50,000 in order to raise cash to pay the debts and expenses. The foreign bonds were paid in full at maturity. During the first year after the decedent's death the value of his real estate appreciated $5,000. The executor elects to take advantage of the new provision of the bill. The value will be arrived at in this way:

		Value
Assets:		
Real estate (as of 1 year after death)		$105,000
Corporate stock (as of date of sale)		50,000
Bonds (as of date of distribution)		18,000
Foreign bonds (as of date of disposition, i. e., maturity)		10,000
Cash		5,000
Gross estate		$188,000
Deduct:		
Debts	$15,000	
Administration expenses	25,000	
Specific exemption	40,000	
		80,000
Net estate		$108,000

Effective Date: The above provision applies only to the estates of decedents dying after the date of the enactment of the 1935 Act.—**Sec. 202 (b).**

Estate Taxes: Payment of Tax.—Under the 1934 Act, the estate tax was due and payable one year after decedent's death. Under the 1935 Act the tax is due and payable 15 months after the decedent's death.

Under the 1934 Act, in the case of an extension of time, interest at 6 per cent begins to run six months after the due date of the tax. Under the 1935 Act it begins three months after the new due date of the tax.

The above new payment provisions apply only to the estates of decedents dying after enactment of the new Act.—**Sec. 203.**

Effective Date.—The above-described new estate tax provisions are applicable only to estates of decedents dying after enactment of the new Act.

GIFT TAX

Rates and Application.—Gift-tax rates on donors are increased in the 1935 Revenue Act. The Act does not provide for any tax on donees as originally proposed by the House bill. The 25 per cent differential between estate-tax rates and gift-tax rates which existed in the 1934 Revenue Act has been retained. The gift-tax rates under the 1934 and 1935 Acts are shown in Tables H and I. The new rates apply to all gifts made after December 31, 1935.—**Sec. 301.**

Exemption.—The specific exemption of $50,000 has been reduced to $40,000.—**Sec. 301.**

Computation of Tax.—The tax on gifts made during the calendar year 1936 or any calendar year thereafter is to be computed under the rates contained in the Revenue Act of 1935. Where gifts have been made during the calendar years 1933 to 1935, (or during the part of the calendar year 1932 after enactment of the 1932 Act) the tax to be paid on gifts made in 1936 or thereafter will be computed by determining the tax on the total of net gifts made during the prior years using the 1935 Act rates, then the tax is computed on the total net gifts including the 1936 gifts also using the 1935 Act rates, the difference represents the gift tax for the calendar year 1936. A similar computation will be followed on gifts made in any year after 1936.

Examples: (1) An individual makes gifts in 1936 for the first time as follows:

To A	$35,000	
To B	50,000	
To C	50,000	
To X University	75,000	
Total amount of gifts		$210,000
Deduct:		
Exclusions not exceeding $5000 as to each gift to A, B, and C	$15,000	
Gift to X University	75,000	
Specific exemption	40,000	
Total deductions		$130,000
Amount of net gifts for year		$ 80,000

Computation of tax

Tax on $70,000 (from Table I)	$4,050
Tax on $10,000 at 10½ per cent	1,050
Tax on net gifts of $80,000	$5,100

(2) An individual made net gifts after all deductions including the $5,000 for gifts made to individuals in each calendar year (but not including $40,000 exemption) as follows:

1933	$200,000
1934	250,000
1935	100,000
1936	300,000

The tax on the gifts of $300,000 in 1936 is computed under the rates in the 1935 Act as follows:

Total aggregate gifts 1933 to 1936	$850,000
Deduct specific exemption	40,000
Net gifts	$810,000
Tax on $800,000 (Table I)	$123,450
Tax on $10,000 at 21¾ per cent	2,175
Total tax	$125,625
Total aggregate gifts 1933 to 1935	$550,000
Deduct specific exemption	40,000
Net gifts	$510,000
Tax on $400,000 (Table I)	49,950
Tax on $110,000 at 17¼ per cent	18,975
Total tax	$68,925
Tax on net gifts 1933 to 1936	125,625
Tax on net gifts 1933 to 1935	68,925
Tax on 1936 gifts of $300,000	$56,700

MISCELLANEOUS PROVISIONS

Excise Taxes on Sales: Tax-Free Sales.—The Revenue Act of 1935 amends Section 620 of the 1932 Act, (excise tax on sales) to permit tax-free sales in the case of sales for the use of the United States, any State or territory or political subdivision, or the District of Columbia, regardless of whether the use is of a proprietary or governmental nature. Under prior law exemption was allowed in the case of such sales only if sold for use to a State or political subdivision in the exercise of an essential governmental function.—**Sec. 401 (a).**

Credits and refunds of excise taxes on sales are allowed under the new law upon proof that after October 1, 1935, the article was—

(1) Resold for the exclusive use of the United States, any State, Territory, or political subdivision thereof, or the District of Columbia; or

(2) Used or resold for use on certain vessels; or

(3) In the case of gasoline products, not commonly or commercially known or sold as gasoline, not including casinghead and natural gasoline, used or resold for use otherwise than as fuel for the propulsion of motor vehicles, motor boats, or airplanes, and otherwise than in the production of such fuel;

(4) In the case of lubricating oils, used or resold for nonlubricating purposes.

As in prior law, to be entitled to the refund or credit the manufacturer, producer or importer must have repaid or agreed to repay the tax to the ultimate vendor or obtained the latter's consent to the allowance of the credit or refund.—**Sec. 401 (b).**

Interest on Overpayments.—The Revenue Act of 1932 contains no provision for the allowance of any interest on overpayments of the excise tax on sales. The Act of 1935 amends the 1932 Act in this particular by allowing interest at 6 per cent per annum, but no interest will be allowed for any period prior to October 1, 1935. Neither will interest be allowed on sales for the exclusive use of the United States, any State, Territory of the United States, or any political subdivision of the foregoing or the District of Columbia.—**Sec. 401 (c).**

The effective date of all the above amendments in the case of excise tax on sales is October 1, 1935.

Compensatory taxes on importation of products of certain oils specified in Section 602½ of the Revenue Act of 1934 (coconut oil, sesame oil, palm oil, palm kernel oil, or sunflower oil) and Section 601 (c) (8) of the 1932 Act (imported fish oils) are imposed in the new Act at the same rates as in the sections of the Revenue Acts mentioned, effective after the thirtieth day after date of enactment of the new Act.—**Sec. 402.**

The special excise tax of $1,000 imposed by Section 701 of the Revenue Act of 1926 for carrying on a liquor business contrary to State or local laws will not apply with respect to carrying on business after June 30, 1935. This is the provision that has been held unconstitutional by many courts, injunction against collection being granted on the grounds that it is a penalty and not a tax.—**Sec. 403.**

Penalty for Late Filing of Returns Ameliorated.—Instead of the flat 25 per cent penalty imposed under prior law for failure to file a return on time, the penalty under the 1935 Act will be 5 per cent if the failure is for not more than 30 days, with an additional 5 per cent for each additional 30 days or fraction thereof, not to exceed 25 per cent in the aggregate. This new provision is applicable to returns due after the date of enactment of the 1935 Act.—**Sec. 406.**

High Interest Rate Reduced on Delinquency in Payment.—The Revenue Act of 1935 eliminates the 1 per cent a month interest rate on delinquency in payment of Federal taxes. Notwithstanding any provision of law to the contrary, interest accruing *after* the date of enactment of the new Act upon any internal revenue tax or customs duty shall be at the rate of 6 per cent per annum.—**Sec. 404.**

Declaratory Judgment Act (Section 274D of the Judicial Code) is amended to specifically exclude internal revenue taxes from its application so that a suit to recover such taxes may not be filed under that Act in any Court. The amendment applies also to all proceedings pending in the Courts at the time of enactment of the new Act.

The Declaratory Judgment Act has been invoked in many actions for recovery of taxes paid under the Agricultural Adjustment Act and related Agricultural relief measures.—**Sec. 405.**

Crude Petroleum Tax Rate Reduced.—The tax on production and refining of crude petroleum in the Revenue Act of 1934 is reduced to 1/25 of 1 cent a barrel instead of 1/10 of 1 cent a barrel, effective September 1, 1935.—**Sec. 407.**

Effective Date of Act.—*Except as otherwise provided,* the Revenue Act of 1935 shall take effect upon its enactment.—**Sec. 503.**

TAX-RATE COMPARISON TABLES

INDIVIDUALS—NORMAL INCOME TAX—Table A

	1934 Act	1935 Act
Personal exemptions		
Single	$1,000	$1,000
Family head or married	2,500	2,500
Tax rates	Per Cent	Per Cent
Normal tax	4	4

INDIVIDUALS—COMPARATIVE TABLES OF SURTAXES—Table B

Surtaxes under 1934 and 1935 Acts

			1934 Act		1935 Act	
Brackets of net income Married [1]	Brackets of net income Single [2]	Surtax net income [3]	Per cent	Surtax on highest amount	Per cent	Surtax on highest amount
First $6,500	First $5,000	First $4,000	none	none	none	none
$ 6,500 to $ 8,500	$ 5,000 to $ 7,000	$ 4,000 to $ 6,000	4	$ 80	4	$ 80
8,500 to 10,500	7,000 to 9,000	6,000 to 8,000	5	180	5	180
10,500 to 12,500	9,000 to 11,000	8,000 to 10,000	6	300	6	300
12,500 to 14,500	11,000 to 13,000	10,000 to 12,000	7	440	7	440
14,500 to 16,500	13,000 to 15,000	12,000 to 14,000	8	600	8	600
16,500 to 18,500	15,000 to 17,000	14,000 to 16,000	9	780	9	780
18,500 to 20,500	17,000 to 19,000	16,000 to 18,000	11	1,000	11	1,000
20,500 to 22,500	19,000 to 21,000	18,000 to 20,000	13	1,260	13	1,260
22,500 to 24,500	21,000 to 23,000	20,000 to 22,000	15	1,560	15	1,560
24,500 to 28,500	23,000 to 27,000	22,000 to 26,000	17	2,240	17	2,240
28,500 to 34,500	27,000 to 33,000	26,000 to 32,000	19	3,380	19	3,380
34,500 to 40,500	33,000 to 39,000	32,000 to 38,000	21	4,640	21	4,640
40,500 to 46,500	39,000 to 45,000	38,000 to 44,000	24	6,080	24	6,080
46,500 to 52,500	45,000 to 51,000	44,000 to 50,000	27	7,700	27	7,700
52,500 to 58,500	51,000 to 57,000	50,000 to 56,000	30	9,500	31	9,560
58,500 to 64,500	57,000 to 63,000	56,000 to 62,000	33	11,480	35	11,660
64,500 to 70,500	63,000 to 69,000	62,000 to 68,000	36	13,640	39	14,000
70,500 to 76,500	69,000 to 75,000	68,000 to 74,000	39	15,980	43	16,580
76,500 to 82,500	75,000 to 81,000	74,000 to 80,000	42	18,500	47	19,400
82,500 to 92,500	81,000 to 91,000	80,000 to 90,000	45	23,000	51	24,500
92,500 to 102,500	91,000 to 101,000	90,000 to 100,000	50	28,000	55	30,000
102,500 to 152,500	101,000 to 151,000	100,000 to 150,000	52	54,000	58	59,000
152,500 to 202,500	151,000 to 201,000	150,000 to 200,000	53	80,500	60	89,000
202,500 to 252,500	201,000 to 251,000	200,000 to 250,000	54	107,500	62	120,000
252,500 to 302,500	251,000 to 301,000	250,000 to 300,000	54	134,500	64	152,000
302,500 to 402,500	301,000 to 401,000	300,000 to 400,000	55	189,500	66	218,000
402,500 to 502,500	401,000 to 501,000	400,000 to 500,000	56	245,500	68	286,000
502,500 to 752,500	501,000 to 751,000	500,000 to 750,000	57	388,000	70	461,000
752,500 to 1,002,500	751,000 to 1,001,000	750,000 to 1,000,000	58	533,000	72	641,000
1,002,500 to 2,002,500	1,001,000 to 2,001,000	1,000,000 to 2,000,000	59	1,123,000	73	1,371,000
2,002,500 to 5,002,500	2,001,000 to 5,001,000	2,000,000 to 5,000,000	59	1,693,000	74	3,591,000
Over $5,002,500	Over $5,001,000	Over $5,000,000	59	....	75	....

[1] Or head of family, no dependents.
[2] No dependents.
[3] Surtax net income is the amount of net income in excess of the personal exemption and the credit for dependents.

CORPORATIONS—INCOME TAXES—Table C

Comparison 1934 and 1935 Acts

	1934 Act		*1935 Act*[1]	
Brackets of net income	Per Cent	Total Tax	Per Cent	Total Tax
First $2,000	13¾	$ 275.00	12½	$ 250.00
$2,000 to $15,000	13¾	2,062.50	13	1,940.00
$15,000 to $40,000	13¾	5,500.00	14	5,440.00
Over $40,000	13¾	....	15	....
Exemption	....	None	....	None
Tax on consolidated returns[2]	15¾	....	15¾	....
Surtax on improper accumulations of surplus				
$100,000	25	25,000	25	25,000
Over $100,000	35	....	35	....

Surtax on personal holding companies Amount of undistributed adjusted net income.	Per Cent	Total Tax	Per Cent	Total Tax
First $2,000	30	$ 600	20	$ 400
$ 2,000 to $ 100,000	30	30,000	30	29,800
100,000 to 500,000	40	190,000	40	189,800
500,000 to 1,000,000	40	390,000	50	439,800
Over $1,000,000	40	......	60	......

[1] See text of new provisions following.
[2] Only railroads are permitted to file consolidated returns under the 1934 and 1935 Acts.

CORPORATIONS—CAPITAL STOCK AND EXCESS PROFITS TAXES—Table D

	1934 Act	*1935 Act*
Capital stock tax		
Rate per $1,000 of adjusted declared value of capital stock[1]	$1.00	$1.40

Rate—1934 Act

Excess Profits Tax....... 5 per cent of net income in excess of 12½ per cent of adjusted declared value of capital stock.

Rate—1935 Act

6 per cent of such portion of net income as is in excess of 10 per cent and not in excess of 15 per cent of adjusted declared value.

12 per cent of such portion of its net income as is in excess of 15 per cent of its adjusted declared value.[2]

[1] Law provides for a new adjusted declared value for the year ended June 30, 1936 to be adjusted for each subsequent year.
[2] These rates are not applicable to any taxable year ending on or before June 30, 1936. The provision relating to the declaration of a new adjusted declared value also applies.

ESTATE TAXES

ESTATE TAX RATES UNDER ACT OF 1926—Table E

Net estate (before deducting exemption)	Net estate (After deducting the $100,000 exemption) From	To	Block	Rate of tax On block	Amount of tax On block	On total estate
$ 100,000	....	....	....	....	....	None
150,000	....	$ 50,000	$ 50,000	1%	$ 500	$ 500
200,000	$ 50,000	100,000	50,000	2%	1,000	1,500
300,000	100,000	200,000	100,000	3%	3,000	4,500
500,000	200,000	400,000	200,000	4%	8,000	12,500
700,000	400,000	600,000	200,000	5%	10,000	22,500
900,000	600,000	800,000	200,000	6%	12,000	34,500
1,100,000	800,000	1,000,000	200,000	7%	14,000	48,500
1,600,000	1,000,000	1,500,000	500,000	8%	40,000	88,500
2,100,000	1,500,000	2,000,000	500,000	9%	45,000	133,500
2,600,000	2,000,000	2,500,000	500,000	10%	50,000	183,500
3,100,000	2,500,000	3,000,000	500,000	11%	55,000	238,500
3,600,000	3,000,000	3,500,000	500,000	12%	60,000	298,500
4,100,000	3,500,000	4,000,000	500,000	13%	65,000	363,500
5,600,000	4,000,000	5,000,000	1,000,000	14%	140,000	503,500
6,100,000	5,000,000	6,000,000	1,000,000	15%	150,000	653,500
7,100,000	6,000,000	7,000,000	1,000,000	16%	160,000	813,500
8,100,000	7,000,000	8,000,000	1,000,000	17%	170,000	983,500
9,100,000	8,000,000	9,000,000	1,000,000	18%	180,000	1,163,500
10,100,000	9,000,000	10,000,000	1,000,000	19%	190,000	1,353,500
......	Over $10,000,000	....	Remainder	20%	....	....

AGGREGATE ESTATE TAX RATES UNDER 1932 ACT, AS AMENDED BY 1934 ACT—Table F

Net estate (before deducting exemption)	Net estate (After deducting the $50,000 exemption) Over	Not over	Block	1932 Act After Amendment by 1934 Act Rate of tax	Amount of tax On block	On total estate
$ 50,000	....	....	None	None	....	....
60,000	....	$ 10,000	$ 10,000	1%	$ 100	$ 100
70,000	$ 10,000	20,000	10,000	2%	200	300
80,000	20,000	30,000	10,000	3%	300	600
90,000	30,000	40,000	10,000	4%	400	1,000
100,000	40,000	50,000	10,000	5%	500	1,500
120,000	50,000	70,000	20,000	7%	1,400	2,900
150,000	70,000	100,000	30,000	9%	2,700	5,600
250,000	100,000	200,000	100,000	12%	12,000	17,600
450,000	200,000	400,000	200,000	16%	32,000	49,600
650,000	400,000	600,000	200,000	19%	38,000	87,600
850,000	600,000	800,000	200,000	22%	44,000	131,600
1,050,000	800,000	1,000,000	200,000	25%	50,000	181,600
1,550,000	1,000,000	1,500,000	500,000	28%	140,000	321,600
2,050,000	1,500,000	2,000,000	500,000	31%	155,000	476,600
2,550,000	2,000,000	2,500,000	500,000	34%	170,000	646,600
3,050,000	2,500,000	3,000,000	500,000	37%	185,000	831,600
3,550,000	3,000,000	3,500,000	500,000	40%	200,000	1,031,600
4,050,000	3,500,000	4,000,000	500,000	43%	215,000	1,246,600
4,550,000	4,000,000	4,500,000	500,000	46%	230,000	1,476,600
5,050,000	4,500,000	5,000,000	500,000	48%	240,000	1,716,600
6,050,000	5,000,000	6,000,000	1,000,000	50%	500,000	2,216,600
7,050,000	6,000,000	7,000,000	1,000,000	52%	520,000	2,736,600
8,050,000	7,000,000	8,000,000	1,000,000	54%	540,000	3,276,600
9,050,000	8,000,000	9,000,000	1,000,000	56%	560,000	3,836,600
10,050,000	9,000,000	10,000,000	1,000,000	58%	580,000	4,416,600
....	10,000,000	....	Remainder	60%	....	....

AGGREGATE ESTATE TAX RATES UNDER 1932 ACT, AS AMENDED BY 1935 ACT—Table G

Net estate (before deducting exemption)	Net estate (After deducting the $40,000 exemption) Over	Not over	Block	Rate of tax	1932 Act After Amendment by 1935 Act — Amount of tax On block	On total estate
$ 40,000	....	....	None	None	....	....
50,000	....	$ 10,000	$ 10,000	2%	$ 200	$ 200
60,000	$ 10,000	20,000	10,000	4%	400	600
70,000	20,000	30,000	10,000	6%	600	1,200
80,000	30,000	40,000	10,000	8%	800	2,000
90,000	40,000	50,000	10,000	10%	1,000	3,000
110,000	50,000	70,000	20,000	12%	2,400	5,400
140,000	70,000	100,000	30,000	14%	4,200	9,600
240,000	100,000	200,000	100,000	17%	17,000	26,600
440,000	200,000	400,000	200,000	20%	40,000	66,600
640,000	400,000	600,000	200,000	23%	46,000	112,600
840,000	600,000	800,000	200,000	26%	52,000	164,600
1,040,000	800,000	1,000,000	200,000	29%	58,000	222,600
1,540,000	1,000,000	1,500,000	500,000	32%	160,000	382,600
2,040,000	1,500,000	2,000,000	500,000	35%	175,000	557,600
2,540,000	2,000,000	2,500,000	500,000	38%	190,000	747,600
3,040,000	2,500,000	3,000,000	500,000	41%	205,000	952,600
3,540,000	3,000,000	3,500,000	500,000	44%	220,000	1,172,600
4,040,000	3,500,000	4,000,000	500,000	47%	235,000	1,407,600
4,540,000	4,000,000	4,500,000	500,000	50%	250,000	1,657,600
5,040,000	4,500,000	5,000,000	500,000	53%	265,000	1,922,600
6,040,000	5,000,000	6,000,000	1,000,000	56%	560,000	2,482,600
7,040,000	6,000,000	7,000,000	1,000,000	59%	590,000	3,072,600
8,040,000	7,000,000	8,000,000	1,000,000	61%	610,000	3,682,600
9,040,000	8,000,000	9,000,000	1,000,000	63%	630,000	4,312,600
10,040,000	9,000,000	10,000,000	1,000,000	65%	650,000	4,962,600
20,040,000	10,000,000	20,000,000	10,000,000	67%	6,700,000	11,662,600
50,040,000	20,000,000	50,000,000	30,000,000	69%	20,700,000	32,362,600
....	50,000,000	....	Remainder	70%	....	....

ILLUSTRATION—ESTATE TAX COMPUTATION UNDER 1926 AND 1932 ACTS AS AMENDED BY THE 1935 ACT

(1)	Amount of estate	$100,000	$250,000	$1,250,000
(2)	Tentative tax—1932 Act as amended	4,200	28,600	289,800
(3)	Total tax under 1926 Act	....	3,000	60,500
(4)	Net additional tax—1932 Act........	4,200	25,600	229,300
(5)	Net 1926 tax—less 80% credit for state inheritance taxes	....	600	12,100
(6)	Total estate tax—net 1932 additional tax (4) plus net 1926 tax (5)....	4,200	26,200	241,400

Item 1 is the amount of the estate after deducting allowable deductions but prior to allowance of the specific exemption.

Item 2 (tentative tax—1932 Act as amended) is based on item 1 after deducting the $40,000 specific exemption allowed by the 1932 Act as amended.

Item 3 (total tax under 1926 Act) is based on the net estate under item 1 after deducting the $100,000 exemption provided under the 1926 Act.

Item 4 (net additional tax—1932 Act as amended) is found by deducting item 3 from item 2.

Item 5 is the net 1926 tax less the 80% credit for state inheritance taxes. This assumes that the entire 80% credit is absorbed. (No credit for state taxes is allowed for the purpose of the computation under the 1932 Act.)

Item 6 is the total present tax which consists of the net 1932 additional tax (item 4) plus the net 1926 tax (item 5).

GIFT TAX RATE SCHEDULES

GIFT TAX RATES UNDER ACT OF 1932, AS AMENDED BY THE 1934 ACT, AFTER APPLICATION OF EXEMPTIONS—Table H

Net gifts			Rate of tax	Amount of tax	
Over	Not over	Block	on block	On block	On total gifts
....	$ 10,000	$ 10,000	¾%	$ 75	$ 75
$ 10,000	20,000	10,000	1½%	150	225
20,000	30,000	10,000	2¼%	225	450
30,000	40,000	10,000	3 %	300	750
40,000	50,000	10,000	3¾%	375	1,125
50,000	70,000	20,000	5¼%	1,050	2,175
70,000	100,000	30,000	6¾%	2,025	4,200
100,000	200,000	100,000	9 %	9,000	13,200
200,000	400,000	200,000	12 %	24,000	37,200
400,000	600,000	200,000	14¼%	28,500	65,700
600,000	800,000	200,000	16½%	33,000	98,700
800,000	1,000,000	200,000	18¾%	37,500	136,200
1,000,000	1,500,000	500,000	21 %	105,000	241,200
1,500,000	2,000,000	500,000	23¼%	116,250	357,450
2,000,000	2,500,000	500,000	25½%	127,500	484,950
2,500,000	3,000,000	500,000	27¾%	138,750	623,700
3,000,000	3,500,000	500,000	30 %	150,000	773,700
3,500,000	4,000,000	500,000	32¼%	161,250	934,950
4,000,000	4,500,000	500,000	34½%	172,500	1,107,450
4,500,000	5,000,000	500,000	36 %	180,000	1,287,450
5,000,000	6,000,000	1,000,000	37½%	375,000	1,662,450
6,000,000	7,000,000	1,000,000	39 %	390,000	2,052,450
7,000,000	8,000,000	1,000,000	40½%	405,000	2,457,450
8,000,000	9,000,000	1,000,000	42 %	420,000	2,877,450
9,000,000	10,000,000	1,000,000	43½%	435,000	3,312,450
10,000,000	....	....	45 %	450,000	....

GIFT TAX RATES UNDER ACT OF 1932, AS AMENDED BY THE 1935 ACT, AFTER APPLICATION OF EXEMPTIONS[1]—Table I

Net gifts			Rate of tax	Amount of tax	
Over	Not over	Block	on block	On block	On total net gift
.....	$ 10,000	$ 10,000	1½%	$ 150	$ 150
$ 10,000	20,000	10,000	3 %	300	450
20,000	30,000	10,000	4½%	450	900
30,000	40,000	10,000	6 %	600	1,500
40,000	50,000	10,000	7½%	750	2,250
50,000	70,000	20,000	9 %	1,800	4,050
70,000	100,000	30,000	10½%	3,150	7,200
100,000	200,000	100,000	12¾%	12,750	19,950
200,000	400,000	200,000	15 %	30,000	49,950
400,000	600,000	200,000	17¼%	34,500	84,450
600,000	800,000	200,000	19½%	39,000	123,450
800,000	1,000,000	200,000	21¾%	43,500	166,950
1,000,000	1,500,000	500,000	24 %	120,000	286,950
1,500,000	2,000,000	500,000	26¼%	131,250	418,200
2,000,000	2,500,000	500,000	28½%	142,500	560,700
2,500,000	3,000,000	500,000	30¾%	153,750	714,450
3,000,000	3,500,000	500,000	33 %	165,000	879,450
3,500,000	4,000,000	500,000	35¼%	176,250	1,055,700
4,000,000	4,500,000	500,000	37½%	187,500	1,243,200
4,500,000	5,000,000	500,000	39¾%	198,750	1,441,950
5,000,000	6,000,000	1,000.000	42 %	420,000	1,861,950
6,000,000	7,000,000	1,000,000	44¼%	442,500	2,304.450
7,000,000	8,000.000	1,000,000	45¾%	457,500	2,761,950
8,000,000	9,000,000	1,000,000	47¼%	472,500	3,234,450
9,000,000	10,000,000	1,000,000	48¾%	487,500	3,721,950
10,000,000	20,000,000	10,000,000	50¼%	5,025,000	8,746,950
20,000,000	50,000,000	30,000,000	51¾%	15,525,000	24,271,950
Over $50,000,000	....	....	52½%	....	....

[1] After deduction of specific exemption of $40,000. The rates are three-fourths of the estate tax rates of the 1932 Act as amended by the 1935 Act reported in a preceding table. These rates apply to gifts made after December 31, 1935.

REVENUE ACT OF 1935

TABLE OF CONTENTS

TITLE I

Income and Excess-Profits Taxes

TITLE II

Amendments to Estate Tax

TITLE III

Amendments to Gift Tax

TITLE IV

Miscellaneous Provisions

TITLE V

General Provisions

AN ACT

To provide revenue, equalize taxation, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Revenue Act of 1935."

TITLE I—INCOME AND EXCESS-PROFITS TAXES

SEC. 101. SURTAXES ON INDIVIDUALS

Section 12(b) of the Revenue Act of 1934 is amended by striking out all after the bracket

"$6,080 upon surtax net incomes of $44,000; and upon surtax net incomes in excess of $44,000 and not in excess of $50,000, 27 per centum in addition of such excess."

and inserting in lieu thereof the following:

"$7,700 upon surtax net incomes of $50,000; and upon surtax net incomes in excess of $50,000 and not in excess of $56,000, 31 per centum in addition of such excess.

"$9,560 upon surtax net incomes of $56,000; and upon surtax net incomes in excess of $56,000 and not in excess of $62,000, 35 per centum in addition of such excess.

"$11,660 upon surtax net incomes of $62,000; and upon surtax net incomes in excess of $62,000 and not in excess of $68,000, 39 per centum in addition of such excess.

"$14,000 upon surtax net incomes of $68,000; and upon surtax net incomes in excess of $68,000 and not in excess of $74,000, 43 per centum in addition of such excess.

"$16,580 upon surtax net incomes of $74,000; and upon surtax net incomes in excess of $74,000 and not in excess of $80,000, 47 per centum in addition of such excess.

"$19,400 upon surtax net incomes of $80,000; and upon surtax net incomes in excess of $80,000 and not in excess of $90,000, 51 per centum in addition of such excess.

"$24,500 upon surtax net incomes of $90,000; and upon surtax net incomes in excess of $90,000 and not in excess of $100,000, 55 per centum in addition of such excess.

"$30,000 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.

"$59,000 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.

"$89,000 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.

"$120,000 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.

"$152,000 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.

"$218,000 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.

"$286,000 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.

"$461,000 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.

"$641,000 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.

"$1,371,000 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.

"$3,591,000 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."

That portion of Sec. 12(b) of the 1934 Act relating to the surtax rates on individuals on brackets of surtax net income up to $50,000 which were not increased by the above amendment reads 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, 5 per centum in addition of such excess.

"$180 upon surtax net incomes of $8,000; and upon surtax net incomes in excess of $8,000 and not in excess of $10,000, 6 per centum in addition of such excess.

"$300 upon surtax net incomes of $10,000; and upon surtax net incomes in excess of $10,000 and not in excess of $12,000, 7 per centum in addition of such excess.

"$440 upon surtax net incomes of $12,000; and upon surtax net incomes in excess of $12,000 and not in excess of $14,000, 8 per centum in addition of such excess.

"$600 upon surtax net incomes of $14,000; and upon surtax net incomes in excess of $14,000 and not in excess of $16,000, 9 per centum in addition of such excess.

"$780 upon surtax net incomes of $16,000; and upon surtax net incomes in excess of $16,000 and not in excess of $18,000, 11 per centum in addition of such excess.

"$1,000 upon surtax net incomes of $18,000; and upon surtax net incomes in excess of $18,000 and not in excess of $20,000, 13 per centum in addition of such excess.

"$1,260 upon surtax net incomes of $20,000; and upon surtax net incomes in excess of $20,000 and not in excess of $22,000, 15 per centum in addition of such excess.

"$1,560 upon surtax net incomes of $22,000; and upon surtax net incomes in excess of $22,000 and not in excess of $26,000, 17 per centum in addition of such excess.

"$2,240 upon surtax net incomes of $26,000; and upon surtax net incomes in excess of $26,000 and not in excess of $32,000, 19 per centum in addition of such excess.

"$3,380 upon surtax net incomes of $32,000; and upon surtax net incomes in excess of $32,000 and not in excess of $38,000, 21 per centum in addition of such excess.

"$4,640 upon surtax net incomes of $38,000; and upon surtax net incomes in excess of $38,000 and not in excess of $44,000, 24 per centum in addition of such excess.

"$6,080 upon surtax net incomes of $44,000; and upon surtax net incomes in excess of $44,000 and not in excess of $50,000, 27 per centum in addition of such excess."

SEC. 102. INCOME TAXES ON CORPORATIONS

(a) Section 13 (a) of the Revenue Act of 1934 is amended to read as follows:

"(a) RATE OF TAX.—There shall be levied, collected, and paid for each taxable year upon the net income (in excess of the credit against net income provided in section 26) of every corporation, a tax as follows:

"Upon net incomes not in excess of $2,000, 12½ per centum.

"$250 upon net incomes of $2,000; and upon net incomes in excess of $2,000 and not in excess of $15,000, 13 per centum in addition of such excess.

"$1,940 upon net incomes of $15,000; and upon net incomes in excess of $15,000 and not in excess of $40,000, 14 per centum in addition of such excess.

"$5,440 upon net incomes of $40,000; and upon net incomes in excess of $40,000, 15 per centum in addition of such excess."

(b) Section 141 (c) of the Revenue Act of 1934 is amended by striking out "except that there shall be added to the rate of tax prescribed by section 13 (a) a rate of 2 per centum, but the tax at such increased rate shall be considered as imposed by section 13 (a)" and by inserting in lieu thereof the following: "except that the rate of tax shall be 15¾ per centum, in lieu of the rates prescribed by section 13 (a), but the tax at such rate of 15¾ per centum shall be considered as imposed by section 13 (a)".

Sec. 141(c) of the Revenue Act of 1934 reads in full text as follows (amendments in italics): "(c) COMPUTATION AND PAYMENT OF TAX.—In any case in which a consolidated return is made the tax shall be determined, computed, assessed, collected, and adjusted in accordance with the regulations under subsection (b) (or, in case such regulations are not prescribed prior to the making of the return, then the regulations prescribed under section 141 (b) of the Revenue Act of 1932 in so far as not inconsistent with this Act) prescribed prior to the date on which such return is made; *except that the rate of tax shall be 15¾ per centum, in lieu of the rates prescribed by section 13(a), but the tax at such rate of 15¾ per centum shall be considered as imposed by section 13(a).*"

(c) Section 23 of the Revenue Act of 1934 (relating to deductions from gross income) is amended by adding at the end thereof a new subsection as follows:

"(r) CHARITABLE AND OTHER CONTRIBUTIONS BY CORPORATIONS.—In the case of a corporation, contributions or gifts made within the taxable year to or for the use of a domestic corporation, or domestic trust, or domestic community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes or the prevention of cruelty to children (but in the case of contributions or gifts to a trust, chest, fund, or foundation, only if such contributions or gifts are to be used within the United States exclusively for such purposes), no part of the net earnings of which inures to the benefit of any private shareholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation; to an amount which does not exceed 5 per centum of the taxpayer's net income as computed without the benefit of this subsection. Such contributions or gifts shall be allowable as deductions only if verified under rules and regulations prescribed by the Commissioner, with the approval of the Secretary."

(d) Section 204 (c) of the Revenue Act of 1934 (relating to deductions from gross income by insurance companies other than life or mutual) is amended by adding at the end thereof a new paragraph as follows:

"(10) Charitable, and so forth, contributions, as provided in section 23 (r)."

(e) Section 232 of the Revenue Act of 1934 (relating to deductions allowed foreign corporations) is amended by inserting "(a) IN GENERAL.—" before the beginning of the section and by inserting at the end thereof the following new subsection:

"(b) CHARITABLE, AND SO FORTH, CONTRIBUTIONS.—The so-called 'charitable contribution' deduction allowed by section 23 (r) shall be allowed whether or not connected with income from sources within the United States."

(f) Section 144 of the Revenue Act of 1934 (relating to payment of corporation income tax at source) is amended by inserting after the words "a tax equal to 13¾ per centum" the following: "thereof with respect to all payments of income made before January 1, 1936, and equal to 15 per centum thereof with respect to all payments of income made after December 31, 1935".

Sec. 144 of the Revenue Act of 1934 reads in full text as follows (amendments in italics): "In the case of foreign corporations subject to taxation under this title not engaged in trade or business within the United States and not having any office or place of business therein, there shall be deducted and withheld at the source in the same manner and upon the same items of income as is provided in section 143 a tax equal to 13¾ per centum *thereof with respect to all payments of income made before January 1, 1936, and equal to 15 per centum thereof with respect to all payments of income made after December 31, 1935,* and such tax shall be returned and paid in the same manner and subject to the same conditions as provided in that section: Provided, That in the case of interest described in subsection (a) of that section (relating to tax-free covenant bonds) the deductions and withholding shall be at the rate specified in such subsection: *Provided further, That in the case of the payment, after December 31, 1935, of dividends of the class with respect to which a deduction is allowed by section 23 (p), the deduction and withholding provided for in this section shall also apply to 10 per centum of the amount of the payment: Provided further, That the Commissioner, under rules and regulations prescribed by him with the approval of the Secretary, may authorize withholding under this section and section 143 (a) (1) (B), in cases where the taxpayer has a taxable year ending on any other date than December 31, at the rate of 13¾ per centum (and, in the case of payments of dividends with respect to which withholding is required, may authorize such payments to be made without withholding) until the beginning of the taxpayer's first taxable year which begins after December 31, 1935."*

(g) Section 143 (a) (1) of the Revenue Act of 1934 (relating to withholding of interest on tax-free covenant bonds) is amended by striking out clause (B) thereof and inserting in lieu thereof the following:

"(B) in the case of such a foreign corporation, 13¾ per centum with respect to all payments of interest made before January 1, 1936, and 15 per centum with respect to all payments of interest made after December 31, 1935, and".

Sec. 143 (a) (1) of the Revenue Act of 1934 reads in full text as follows (amendment in italics): "(a) TAX-FREE COVENANT BONDS.—

"(1) REQUIREMENT OF WITHHOLDING.—In any case where bonds, mortgages, or deeds of trust, or other similar obligations of a corporation, issued before January 1, 1934, contain a contract or provision by which the obligor agrees to pay any portion of the tax imposed by this title upon the obligee, or to reimburse the obligee for any portion of the tax, or to pay the interest without deduction for any tax which the obligor may be required or permitted to pay thereon, or to retain therefrom under any law of the United States, the obligor shall deduct and withhold a tax equal to 2 per centum of the interest upon such bonds, mortgages, deeds of trust, or other obligations, whether such interest is payable annually or at shorter or longer periods, if payable to an individual, a partnership, or a foreign corporation not engaged in trade or business within the United States and not having any office or place of business therein: Provided, That if the liability assumed by the obligor does not exceed 2 per centum of the interest, then the deduction and withholding shall be at the following rates: (A) 4 per centum in the case of a nonresident alien individual, or of any partnership not engaged in trade or business within the United States and not having any office or place of business therein and composed in whole or in part of nonresident aliens, *(B) in the case of such a foreign corporation, 13¾ per centum with respect to all payments of interest made before January 1, 1936, and 15 per centum with respect to all payments of interest made after December 31, 1935,* and (C) 2 per centum in the case of other individuals and partnerships: Provided further, That if the owners of such obligations are not known to the withholding agent the Commissioner may authorize such deduction and withholding to be at the rate of 2 per centum, or if the liability assumed by the obligor does not exceed 2 per centum of the interest, then at the rate of 4 per centum."

(h) Section 23 (p) of the Revenue Act of 1934 (relating to the deduction of dividends received by corporations) is amended by striking out the words "the amount" and inserting in lieu thereof the following: "90 per centum of the amount".

Sec. 23 (p) of the Revenue Act of 1934 reads in full text as follows (amendment in italics): "(p) DIVIDENDS RECEIVED BY CORPORATIONS.—In the case of a corporation, *90 per centum of the amount* received as dividends from a domestic corporation which is subject to taxation under this title. The deduction allowed by this subsection shall not be allowed in respect of dividends received from a corporation organized under the China Trade Act, 1922, or from a corporation which under section 251 is taxable only on its gross income from sources within the United States by reason of its receiving a large percentage of its gross income from sources within a possession of the United States."

(i) Section 144 of the Revenue Act of 1934 is amended by striking out the period at the end thereof and inserting a colon and the following: "Provided further, That in the case of the payment, after December 31, 1935, of dividends of the class with respect to which a deduction is allowed by section 23 (p), the deduction and withholding provided for in this section shall also apply to 10 per centum of the amount of the payment: Provided further, That the Commissioner, under rules and regulations prescribed by him with the approval of the Secretary, may authorize withholding under this section and section 143 (a) (1) (B), in cases where the taxpayer has a taxable year ending on any other date than December 31, at the rate of 13¾ per centum (and, in the case of payments of dividends with respect to which withholding is required, may authorize such payments to be made without withholding) until the beginning of the taxpayer's first taxable year which begins after December 31, 1935."

For full text of Sec. 144 of the Revenue Act of 1934 as amended see paragraph (f) above.

SEC. 103. INCOME TAX ON LIFE INSURANCE COMPANIES

Sections 201 (b) (1) and (2) of the Revenue Act of 1934 are amended by striking out "13¾ per centum of" and inserting in lieu thereof "a tax at the rates specified in section 13 upon".

Secs. 201 (b) (1) and (2) of the Revenue Act of 1934 read in full text as follows (amendment in italics): "(b) RATE OF TAX.—In lieu of the tax imposed by section 13, there shall be levied, collected, and paid for each taxable year upon the net income of every life insurance company a tax as follows:

"(1) In the case of a domestic life insurance company, *a tax at the rates speci-*

fied in section 13 upon the amount of its net income in excess of the credit provided in subsection (c) of this section;

"(2) In the case of a foreign life insurance company, *a tax at the rate specified in section 13 upon* the amount of its net income from sources within the United States in excess of the credit provided in subsection (c) of this section."

SEC. 104. INCOME TAX ON INSURANCE COMPANIES OTHER THAN LIFE OR MUTUAL

Sections 204 (a) (1) and (2) of the Revenue Act of 1934 are amended by striking out "13¾ per centum of" and inserting in lieu thereof "a tax at the rates specified in section 13 upon".

Secs. 204 (a) (1) and (2) of the Revenue Act of 1934 read in full text as follows (amendments in italics): "(a) IMPOSITION OF TAX.—In lieu of the tax imposed by section 13 of this title, there shall be levied, collected, and paid for each taxable year upon the net income of every insurance company (other than a life or mutual insurance company) a tax as follows:

"(1) In the case of such a domestic insurance company, *a tax at the rates specified in section 13 upon* the amount of its net income in excess of the credit provided in subsection (f) of this section;

"(2) In the case of such a foreign insurance company, *a tax at the rates specified in section 13 upon* the amount of its net income from sources within the United States in excess of the credit provided in subsection (f) of this section."

SEC. 105. CAPITAL STOCK TAX

(a) For each year ending June 30, beginning with the year ending June 30, 1936, there is hereby imposed upon every domestic corporation with respect to carrying on or doing business for any part of such year an excise tax of $1.40 for each $1.000 of the adjusted declared value of its capital stock.

(b) For each year ending June 30, beginning with the year ending June 30, 1936, there is hereby imposed upon every foreign corporation with respect to carrying on or doing business in the United States for any part of such year an excise tax equivalent to $1.40 for each $1,000 of the adjusted declared value of capital employed in the transaction of its business in the United States.

(c) The taxes imposed by this section shall not apply—

(1) to any corporation enumerated in section 101 of the Revenue Act of 1934, as amended;

(2) to any insurance company subject to the tax imposed by section 201, 204, or 207 of such Act, as amended.

(d) Every corporation liable for tax under this section shall make a return under oath within one month after the close of the year with respect to which such tax is imposed to the collector for the district in which is located its principal place of business or, if it has no principal place of business in the United States, then to the collector at Baltimore, Maryland. Such return shall contain such information and be made in such manner as the Commissioner with the approval of the Secretary may by regulations prescribe. The tax shall, without assessment by the Commissioner or notice from the collector, be due and payable to the collector before the expiration of the period for filing the return. If the tax is not paid when due, there shall be added as part of the tax interest at the rate of 6 per centum per annum from the time when the tax became due until paid. All provisions of law (including penalties) applicable in respect of the taxes imposed by section 600 of the Revenue Act of 1926 shall, insofar as not inconsistent with this section, be applicable in respect of the taxes imposed by this section. The Commissioner may extend the time for making the returns and paying the taxes imposed by this section, under such rules and regulations as he may prescribe with the approval of the Secretary, but no such extension shall be for more than sixty days.

(e) Returns required to be filed for the purpose of the tax imposed by this section shall be open to inspection in the same manner, to the same extent, and subject to the same provisions of law, including penalties, as returns made under Title II of the Revenue Act of 1926.

(f) For the first year ending June 30 in respect of which a tax is imposed by this section upon any corporation, the adjusted declared value shall be the value, as declared by the corporation in its first return under this section (which declaration of value cannot be amended), as of the close of its last income-tax taxable year ending at or prior to the close of the year for which the tax is imposed by this section (or as of the date of organization in the case of a corporation having no income-tax taxable year ending at or prior to the close of the year for which the tax is imposed by this section). For any subsequent year ending June 30, the adjusted declared value in the case of a domestic corporation shall be the original declared value plus (1) the cash and fair market value of property paid in for stock or shares, (2) paid in surplus and contributions to capital, (3) its net income, (4) the excess of its income wholly exempt from the taxes imposed by Title I of the Revenue Act of 1934, as amended, over the amount disallowed as a deduction by section 24 (a) (5) of such title, and (5) the amount of the dividend deduction allowable for income tax purposes, and minus (A) the value of property distributed in liquidation to shareholders, (B) distributions of earnings or profits, and (C) the excess of the deductions allowable for income tax purposes over its gross income; adjustment being made for each income-tax taxable year included in the period from the date as of which the original declared value was declared to the close of its last income-tax taxable year ending at or prior to the close of the year for which the tax is imposed by this section. The amount of such adjustment for each such year shall be computed (on the basis of a separate return) according to the income tax law applicable to such year. For any subsequent year ending June 30, the adjusted declared value in the case of a foreign corporation shall be the original declared value adjusted (for the same income-tax taxable years as in the case of a domestic corporation), in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, to reflect increases or decreases in the capital employed in the transaction of its business in the United States.

(g) For the purpose of the tax imposed by this section there shall be allowed in the case of a corporation organized under the China Trade Act, 1922, as a credit against the adjusted declared value of its capital stock, an amount equal to the proportion of such adjusted declared value which the par value of the shares of stock of the corporation, owned on the last day of the taxable year by (1) persons resident in China, the United States, or possessions of the United States, and (2) individual citizens of the United States or China wherever resident, bears to the par value of the whole number of shares of stock of the corporation outstanding on such date. For the purposes of this subsection shares of stock of a corporation shall be considered to be owned by the person in whom the equitable right to the income from such shares is in good faith vested; and as used in this subsection the term "China" shall have the same meaning as when used in the China Trade Act, 1922.

(h) The capital stock tax imposed by section 701 of the Revenue Act of 1934 shall not apply to any taxpayer with respect to any year after the year ending June 30, 1935.

SEC. 106. EXCESS-PROFITS TAX

(a) There is hereby imposed upon the net income of every corporation for each income-tax taxable year ending after the close of the first year in respect of which it is taxable under section 105, an excess-profits tax equal to the sum of the following:

6 per centum of such portion of its net income for such income-tax taxable year as is in excess of 10 per centum and not in excess of 15 per centum of the adjusted declared value;

12 per centum of such portion of its net income for such income-tax taxable year as is in excess of 15 per centum of the adjusted declared value.

(b) The adjusted declared value shall be determined as provided in section 105 as of the close of the preceding income-tax taxable year (or as of the date of organization if it had no preceding income-tax taxable year). If the income-tax taxable year in respect of which the tax under this section is imposed is a period of less than 12 months, such adjusted declared value shall be reduced to an amount which bears the same ratio thereto as the number of months in the period bears to 12 months. For the purposes of this section the net income shall be the same as the net income for income tax purposes for the year in respect of which the tax under this section is imposed, except that there shall be deducted the amount of income tax imposed for such year by section 13 of the Revenue Act of 1934, as amended.

(c) All provisions of law (including penalties) applicable in respect of the taxes imposed by Title I of the Revenue Act of 1934, as amended, shall, insofar as not inconsistent with this section, be applicable in respect of the tax imposed by this section, except that the provisions of section 131 of that title shall not be applicable.

(d) The excess-profits tax imposed by section 702 of the Revenue Act of 1934 shall not apply to any taxpayer with respect to any income-tax taxable year ending after June 30, 1936.

SEC. 107. TAXABLE YEARS TO WHICH APPLICABLE

The amendments made by sections 101, 102 (except subsections (f), (g), and (i) thereof), 103 and 104, shall apply only in the case of taxable years beginning after December 31, 1935.

SEC. 108. CREDIT ALLOWED CHINA TRADE ACT CORPORATIONS

(a) Section 261 (a) of the Revenue Act of 1934 is amended to read as follows:

"(a) ALLOWANCE OF CREDIT.—For the purpose only of the taxes imposed by section 13 of this Act and section 106 of the Revenue Act of 1935 there shall be allowed, in the case of a corporation organized under the China Trade Act, 1922, in addition to the credit provided in section 26, a credit against the net income of an amount equal to the proportion of the net income derived from sources within China (determined in a similar manner to that provided in section 119) which the par value of the shares of stock of the corporation owned on the last day of the taxable year by (1) persons resident in China, the United States, or possessions of the United States, and (2) individual citizens of the United States or China wherever resident, bears to the par value of the whole number of shares of stock of the corporation outstanding on such date: Provided, That in no case shall the diminution, by reason of such credit, of the tax imposed by such section 13 (computed without regard to this section) exceed the amount of the special dividend certified under subsection (b) of this section; and in no case shall the diminution, by reason of such credit, of the tax imposed by such section 106 (computed without regard to this section) exceed the amount by which such special dividend exceeds the diminution permitted by this section in the tax imposed by such section 13."

(b) The amendment made by subsection (a) shall apply, with respect to the tax imposed by section 13 of the Revenue Act of 1934, as amended, only in the case of taxable years beginning after December 31, 1935.

SEC. 109. PERSONAL HOLDING COMPANIES

(a) Section 351 (a) of the Revenue Act of 1934 is amended to read as follows:

"(a) IMPOSITION OF TAX.—There shall be levied, collected, and paid, for each taxable year, upon the undistributed adjusted net income of every personal holding company a surtax equal to the sum of the following:

"(1) 20 per centum of the amount thereof not in excess of $2,000; plus

"(2) 30 per centum of the amount thereof in excess of $2,000 and not in excess of $100,000; plus

"(3) 40 per centum of the amount thereof in excess of $100,000 and not in excess of $500,000; plus

"(4) 50 per centum of the amount thereof in excess of $500,000 and not in excess of $1,000,000; plus

"(5) 60 per centum of the amount thereof in excess of $1,000,000."

(b) Section 351 (b) (2) (C) of such Act is amended by striking out the period at the end thereof and inserting in lieu thereof a comma and the following: "and distributions (not in complete or partial liquidation and not a 'dividend' as defined in section 115) made during the taxable year out of earnings or profits of such year."

Sec. 351(b)(2) of the Revenue Act of 1934 reads in full text as follows (amendment in italics): "(b) DEFINITIONS.—As used in this title—

"(2) The term 'undistributed adjusted net income' means the adjusted net income minus the sum of:

"(A) 20 per centum of the excess of the adjusted net income over the amount of dividends received from personal holding companies which are allowable as a deduction for the purposes of the tax imposed by section 13 or 204;

"(B) Amounts used or set aside to retire indebtedness incurred prior to January 1, 1934, if such amounts are reasonable with reference to the size and terms of such indebtedness; and

"(C) Dividends paid during the taxable year, *and distributions (not in complete or partial liquidation and not a 'dividend' as defined in section 115) made during the taxable year out of earnings or profits of such year.*"

(c) The amendments made by this section shall apply only in the case of taxable years beginning after December 31, 1935.

SEC. 110. CORPORATE LIQUIDATIONS

(a) Section 112 (b) of the Revenue Act of 1934 is amended by adding after paragraph (5) a new paragraph reading as follows:

"(6) EXCHANGE IN LIQUIDATION.—No gain or loss shall be recognized upon the receipt by a corporation of property (other than money) distributed in complete liquidation of another corporation, if the corporation receiving such property on such exchange was on the date of the enactment of the Revenue Act of 1935 and has continued to be at all times until the exchange, in control of such other corporation. As used in this paragraph 'complete liquidation' includes any one of a series of distributions by a corporation in complete cancelation or redemption of all of its stock in accordance with a plan of liquidation under which the transfer of the property under the liquidation is to be completed within a time specified in the plan, not exceeding five years from the close of the taxable year during which is made the first of the series of distributions under the plan. If such transfer of property is not completed within the taxable year the Commissioner may require of the taxpayer, as a condition to the non-recognition of gain under this paragraph, such bond, or waiver of the statute of limitations on assessment and collection, or both, as he may deem necessary to insure the assessment and collection of the tax if the transfer of the property is not completed in accordance with the plan. This paragraph shall not apply to any liquidation if any distribution in pursuance thereof has been made before the date of the enactment of the Revenue Act of 1935."

(b) Section 112 (c) (1) of the Revenue Act of 1934 is amended by striking out "or (5)" and inserting in lieu thereof "(5), or (6)".

(c) Section 112 (e) of the Revenue Act of 1934 is amended by striking out "subsection (b) (1) to (5)" and inserting in lieu thereof "subsection (b) (1) to (6)".

(d) Section 112 (i) of the Revenue Act of 1934 is amended by striking out "(4), or (5)" and inserting in lieu thereof "(4), (5), or (6)", and by striking out "(3) or (5)" and inserting in lieu thereof "(3), (5), or (6)".

(e) The amendments made by this section shall apply only in the case of taxable years beginning after December 31, 1935.

Sections 112 (c) (1), (e), and (i) of the Revenue Act of 1934, as amended, read as follows, amendments being indicated by italics:

"(c) GAIN FROM EXCHANGES NOT SOLELY IN KIND.—

"(1) If an exchange would be within the provisions of subsection (b) (1), (2), (3), (5), or *(6)* of this section if it were not for the fact that the property received in exchange consists not only of property permitted by such paragraph to be received without the recognition of gain, but also of other property or money, then the gain, if any, to the recipient shall be recognized, but in an amount not in excess of the sum of such money and the fair market value of such other property."

(e) LOSS FROM EXCHANGES NOT SOLELY IN KIND.—If an exchange would be within the provisions of subsection (b) (1) to *(6)*, inclusive, of this section if it were not for the fact that the property received in exchange consists not only of property permitted by such paragraph to be received without the recognition of gain or loss, but also of other property or money, then no loss from the exchange shall be recognized.

(*i*) FOREIGN CORPORATIONS.—In determining the extent to which gain shall be recognized in the case of any of the exchanges (made after the date of the enactment of this Act) described in subsection (b) (3), (4), (5), or *(6)*, or described in so much of subsection (c) as refers to subsection (b) (3), (5), or *(6)*, or described in subsection (d), a foreign corporation shall not be considered as a corporation unless, prior to such exchange, it has been established to the satisfaction of the Commissioner that such exchange is not in pursuance of a plan having as one of its principal purposes the avoidance of Federal income taxes.

That part of the text of Sec. 112 of the Revenue Act of 1934 relating to the recognition of gain or loss which is introductory to the above addition reads as follows:

"(a) GENERAL RULE.—Upon the sale or exchange of property the entire amount of the gain or loss, determined under section 111, shall be recognized, except as hereinafter provided in this section.

"(b) EXCHANGES SOLELY IN KIND.—"

TITLE II—AMENDMENTS TO ESTATE TAX

SEC. 201. ESTATE TAX RATES

(a) Section 401(b) of the Revenue Act of 1932, as amended, is amended to read as follows:

"(b) The tentative tax referred to in subsection (a) (1) of this section shall equal the sum of the following percentages of the value of the net estate:

"Upon net estates not in excess of $10,000, 2 per centum.

"$200 upon net estates of $10,000; and upon net estates in excess of $10,000 and not in excess of $20,000, 4 per centum in addition of such excess.

"$600 upon net estates of $20,000; and upon net estates in excess of $20,000 and not in excess of $30,000, 6 per centum in addition of such excess.

"$1,200 upon net estates of $30,000; and upon net estates in excess of $30,000 and not in excess of $40,000, 8 per centum in addition of such excess.

"$2,000 upon net estates of $40,000; and upon net estates in excess of $40,000 and not in excess of $50,000, 10 per centum in addition of such excess.

"$3,000 upon net estates of $50,000; and upon net estates in excess of $50,000 and not in excess of $70,000, 12 per centum in addition of such excess.

"$5,400 upon net estates of $70,000; and upon net estates in excess of $70,000 and not in excess of $100,000, 14 per centum in addition of such excess.

"$9,600 upon net estates of $100,000; and upon net estates in excess of $100,000 and not in excess of $200,000, 17 per centum in addition of such excess.

"$26,600 upon net estates of $200,000; and upon net estates in excess of $200,000 and not in excess of $400,000, 20 per centum in addition of such excess.

"$66,600 upon net estates of $400,000; and upon net estates in excess of $400,000 and not in excess of $600,000, 23 per centum in addition of such excess.

"$112,600 upon net estates of $600,000; and upon estates in excess of $600,000 and not in excess of $800,000, 26 per centum in addition of such excess.

"$164,600 upon net estates of $800,000; and upon net estates in excess of $800,000 and not in excess of $1,000,000, 29 per centum in addition of such excess.

"$222,600 upon net estates of $1,000,000; and upon net estates in excess of $1,000,000 and not in excess of $1,500,000, 32 per centum in addition of such excess.

"$382,600 upon net estates of $1,500,000; and upon net estates in excess of $1,500,000 and not in excess of $2,000,000, 35 per centum in addition of such excess.

"$557,600 upon net estates of $2,000,000; and upon net estates in excess of $2,000,000 and not in excess of $2,500,000, 38 per centum in addition of such excess.

"$747,600 upon net estates of $2,500,000; and upon net estates in excess of $2,500,000 and not in excess of $3,000,000, 41 per centum in addition of such excess.

"$952,600 upon net estates of $3,000,000; and upon net estates in excess of $3,000,000 and not in excess of $3,500,000, 44 per centum in addition of such excess.

"$1,172,600 upon net estates of $3,500,000; and upon net estates in excess of $3,500,000 and not in excess of $4,000,000, 47 per centum in addition of such excess.

"$1,407,600 upon net estates of $4,000,000; and upon net estates in excess of $4,000,000 and not in excess of $4,500,000, 50 per centum in addition of such excess.

"$1,657,600 upon net estates of $4,500,000; and upon net estates in excess of $4,500,000 and not in excess of $5,000,000, 53 per centum in addition of such excess.

"$1,922,600 upon net estates of $5,000,000; and upon net estates in excess of $5,000,000 and not in excess of $6,000,000, 56 per centum in addition of such excess.

"$2,482,600 upon net estates of $6,000,000; and upon net estates in excess of $6,000,000 and not in excess of $7,000,000, 59 per centum in addition of such excess.

"$3,072,600 upon net estates of $7,000,000; and upon net estates in excess of $7,000,000 and not in excess of $8,000,000, 61 per centum in addition of such excess.

"$3,682,600 upon net estates of $8,000,000; and upon net estates in excess of $8,000,000 and not in excess of $9,000,000, 63 per centum in addition of such excess.

"$4,312,600 upon net estates of $9,000,000; and upon net estates in excess of $9,000,000 and not in excess of $10,000,000, 65 per centum in addition of such excess.

"$4,962,600 upon net estates of $10,000,000; and upon net estates in excess of $10,000,000 and not in excess of $20,000,000, 67 per centum in addition of such excess.

"$11,662,600 upon net estates of $20,000,000; and upon net estates in excess of $20,000,000 and not in excess of $50,000,000, 69 per centum in addition of such excess.

"$32,362,600 upon net estates of $50,000,000; and upon net estates in excess of $50,000,000, 70 per centum in addition of such excess."

Sec. 401 (a) of the Revenue Act of 1932 reads as follows: "(a) In addition to the estate tax imposed by section 301 (a) of the Revenue Act of 1926, there is hereby imposed upon the transfer of the net estate of every decedent dying after the enactment of this Act, whether a resident or nonresident of the United States, a tax equal to the excess of—

"(1) the amount of a tentative tax computed under subsection (b) of this section, over

"(2) the amount of the tax imposed by section 301 (a) of the Revenue Act of 1926, computed without regard to the provisions of this title."

(b) Section 401(c) of the Revenue Act of 1932 (relating to the exemption for the purposes of the additional estate tax) is amended by striking out "$50,000" and inserting in lieu thereof "$40,000".

Sec. 401 (c) of the Revenue Act of 1932 reads in full text as follows (amendment in italics): "(c) For the purposes of this section the value of the net estate shall be determined as provided in Title III of the Revenue Act of 1926, as amended, except that in lieu of the exemption of $100,000 provided in section 303 (a) (4) of such Act, the exemption shall be *$40,000.*"

(c) Section 403 of the Revenue Act of 1932, as amended, (relating to the requirement for filing return under such additional estate tax) is amended by striking out "$50,000" and inserting in lieu thereof "$40,000".

Sec. 403 of the Revenue Act of 1932 as amended reads in full text as follows (amendment in italics): "Except as provided in section 402, the tax imposed by section 401 of this Act shall be assessed, collected, and paid, in the same manner, and shall be subject to the same provisions of law (including penalties) as the tax imposed by section 301 (a) of the Revenue Act of 1926, except that in the case of a citizen or resident of the United States a return shall be required if the value of the gross estate at the time of the decedent's death exceeds *$40,000.*"

(d) The amendments made by this section shall be effective only with respect to transfers of estates of decedents dying after the date of the enactment of this Act.

SEC. 202. ESTATE TAX—VALUATION

(a) Section 302 of the Revenue Act of 1926, as amended, is amended by adding a new subdivision as follows:

"(j) If the executor so elects upon his return (if filed within the time prescribed by law or prescribed by the Commissioner in pursuance of law), the value of the gross estate shall be determined by valuing all the property included therein on the date of the decedent's death as of the date one year after the decedent's death, except that (1) property included in the gross estate on the date of death and, within one year after the decedent's death, distributed by the executor (or, in the case of property included in the gross estate under subdivision (c), (d), or (f) of this section, distributed by the trustee under the instrument of transfer), or sold, exchanged, or otherwise disposed of, shall be included at its value as of the time of such distribution, sale, exchange, or other disposition, whichever first occurs, instead of its value as of the date one year after the decedent's death, and (2) any interest or estate which is affected by mere lapse of time shall be included at its value as of the time of death (instead of the later date) with adjustment for any difference in its value as of the later date not due to mere lapse of time. No deduction under this title of any item shall be allowed if allowance for such item is in effect given by the valuation under this subdivision. Wherever in any other subdivision or section of this title or in Title II of the Revenue Act of 1932, reference is made to the value of property at the time of the decedent's death, such reference shall be deemed to refer to the value of such property used in determining the value of the gross estate. In case of an election made by the executor under this subdivision, then for the purposes of the deduction under section 303(a)(3) or section 303(b)(3), any bequest, legacy, devise, or transfer enumerated therein shall be valued as of the date of decedent's death with adjustment for any difference in value (not due to mere lapse of time or the occurrence or nonoccurrence of a contingency) of the property as of the date one year after the decedent's death (substituting the date of sale or exchange in the case of property sold or exchanged during such one-year period)."

(b) The amendment made by this section shall be effective only with respect to transfers of estates of decedents dying after the date of the enactment of this Act.

SEC. 203. ESTATE TAX—DUE DATE

(a) Section 305(a) of the Revenue Act of 1926 is amended to read as follows:

"(a) The tax imposed by this title shall be due and payable fifteen months after the decedent's death, and shall be paid by the executor to the collector."

(b) Section 305(c) of the Revenue Act of 1926 is amended to read as follows:

"(c) If the time for the payment is thus extended there shall be collected, as a part of such amount, interest thereon at the rate of 6 per centum per annum from the expiration of three months after the due date of the tax to the expiration of the period of the extension."

(c) The amendments made by this section shall be effective only with respect to transfers of estates of decedents dying after the date of the enactment of this Act.

TITLE III—AMENDMENTS TO GIFT TAX

SEC. 301. GIFT TAX RATES

(a) The gift-tax schedule set forth in section 502 of the Revenue Act of 1932, as amended, is amended to read as follows:

"Upon net gifts not in excess of $10,000, 1½ per centum.

"$150 upon net gifts of $10,000; and upon net gifts in excess of $10,000 and not in excess of $20,000, 3 per centum in addition of such excess.

"$450 upon net gifts of $20,000; and upon net gifts in excess of $20,000 and not in excess of $30,000, 4½ per centum in addition of such excess.

"$900 upon net gifts of $30,000; and upon net gifts in excess of $30,000 and not in excess of $40,000, 6 per centum in addition of such excess.

"$1,500 upon net gifts of $40,000; and upon net gifts in excess of $40,000 and not in excess of $50,000, 7½ per centum in addition of such excess.

"$2,250 upon net gifts of $50,000; and upon net gifts in excess of $50,000 and not in excess of $70,000, 9 per centum in addition of such excess.

"$4,050 upon net gifts of $70,000; and upon net gifts in excess of $70,000 and not in excess of $100,000, 10½ per centum in addition of such excess.

"$7,200 upon net gifts of $100.000; and upon net gifts in excess of $100,000 and not in excess of $200,000, 12¾ per centum in addition of such excess.

"$19,950 upon net gifts of $200,000; and upon net gifts in excess of $200,000 and not in excess of $400,000, 15 per centum in addition of such excess.

"$49,950 upon net gifts of $400,000; and upon net gifts in excess of $400,000 and not in excess of $600,000, 17¼ per centum in addition of such excess.

"$84,450 upon net gifts of $600.000; and upon net gifts in excess of $600,000 and not in excess of $800,000, 19½ per centum in addition of such excess.

"$123,450 upon net gifts of $800,000; and upon net gifts in excess of $800,000 and not in excess of $1,000,000, 21¾ per centum in addition of such excess.

"$166,950 upon net gifts of $1,000,000; and upon net gifts in excess of $1,000,000, and not in excess of $1,500,000, 24 per centum in addition of such excess.

"$286,950 upon net gifts of $1,500,000; and upon net gifts in excess of $1,500,000 and not in excess of $2,000,000, 26¼ per centum in addition of such excess.

"$418,200 upon net gifts of $2,000,000; and upon net gifts in excess of $2,000,000 and not in excess of $2,500,000, 28½ per centum in addition of such excess.

"$560,700 upon net gifts of $2,500,000; and upon net gifts in excess of $2,500,000 and not in excess of $3,000,000, 30¾ per centum in addition of such excess.

"$714,450 upon net gifts of $3,000,000; and upon net gifts in excess of $3,000,000 and not in excess of $3,500,000, 33 per centum in addition of such excess.

"$879,450 upon net gifts of $3,500,000; and upon net gifts in excess of $3,500,000 and not in excess of $4,000,000, 35¼ per centum in addition of such excess.

"$1,055,700 upon net gifts of $4,000,000; and upon net gifts in excess of $4,000,000 and not in excess of $4,500,000, 37½ per centum in addition of such excess.

"$1,243,200 upon net gifts of $4,500,000; and upon net gifts in excess of $4,500,000 and not in excess of $5,000,000, 39¾ per centum in addition of such excess.

"$1,441,950 upon net gifts of $5,000,000; and upon net gifts in excess of $5,000,000 and not in excess of $6,000,000, 42 per centum in addition of such excess.

"$1,861,950 upon net gifts of $6,000,000; and upon net gifts in excess of $6,000,000 and not in excess of $7,000,000, 44¼ per centum in addition of such excess.

"$2,304,450 upon net gifts of $7,000,000; and upon net gifts in excess of $7,000,000 and not in excess of $8,000,000, 45¾ per centum in addition of such excess.

"$2,761,950 upon net gifts of $8,000,000; and upon net gifts in excess of $8,000,000 and not in excess of $9,000,000, 47¼ per centum in addition of such excess.

"$3,234,450 upon net gifts of $9,000,000; and upon net gifts in excess of $9,000,000 and not in excess of $10,000,000, 48¾ per centum in addition of such excess.

"$3,721,950 upon net gifts of $10,000,000; and upon net gifts in excess of $10,000,000 and not in excess of $20,000,000, 50¼ per centum in addition of such excess.

"$8,746,950 upon net gifts of $20,000,000; and upon net gifts in excess of $20,000,000 and not in excess of $50,000,000, 51¾ per centum in addition of such excess.

"$24,271,950 upon net gifts of $50,000,000; and upon net gifts in excess of $50,000,000, 52½ per centum in addition of such excess."

Following is the text of Sec. 502 of the Revenue Act of 1932 which precedes the gift tax rate schedule which is amended above: "The tax for each calendar year shall be an amount equal to the excess of—

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

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

(b) Section 505 (a) (1) of the Revenue Act of 1932 (relating to the specific exemption for gift-tax purposes) is amended by striking out "$50,000" and inserting in lieu thereof "$40,000".

Sec. 505 (a) (1) of the Revenue Act of 1932 as amended reads in full text as follows (amendment in italics): "In computing net gifts for any calendar year there shall be allowed as deductions:

"(a) Residents.—In the case of a citizen or resident—

"(1) Specific exemption.—An exemption of *$40,000,* less the aggregate of the amounts claimed and allowed as specific exemption for preceding calendar years."

(c) The amendments made by subsections (a) and (b) of this section shall be applied in computing the tax for the calendar year 1936 and each calendar year thereafter (but not the tax for the calendar year 1935 or a previous calendar year), and such amendments shall be applied in all computations in respect of the calendar year 1935 and previous calendar years for the purpose of computing the tax for the calendar year 1936 or any calendar year thereafter.

TITLE IV—MISCELLANEOUS PROVISIONS

SEC. 401. AMENDMENTS TO TITLE IV OF REVENUE ACT OF 1932

(a) Section 620 (3) of the Revenue Act of 1932, as amended, is amended to read as follows:

"(3) for the exclusive use of the United States, any State, Territory of the United States, or any political subdivision of the foregoing, or the District of Columbia."

That portion of Section 620 of the Revenue Act of 1932 as amended which is introductory to the above amendment reads as follows: "Under regulations prescribed by the Commissioner with the approval of the Secretary, no tax under this title shall be imposed with respect to the sale of any article—"

(b) Section 621 (a) (3) of the Revenue Act of 1932, as amended, is amended to read as follows:

"(3) to a manufacturer, producer, or importer, in the amount of tax paid by him under this title with respect to the sale of any article to any vendee, if the manufacturer, producer, or importer has in his possession such evidence as the regulations may prescribe that on or after the first day of the second month following the date of the enactment of the Revenue Act of 1935—

"(A) such article was, by any person—

"(i) resold for the exclusive use of the United States, any State, Territory of the United States, or any political subdivision of the foregoing, or the District of Columbia;

"(ii) used or resold for use as fuel supplies, ship's stores, sea stores. or legitimate equipment on vessels of war of the United States or of any foreign nation, vessels employed in the fisheries or in the whaling business, or actually engaged in foreign trade or trade between the Atlantic and Pacific ports of the United States or between the United States and any of its possessions;

"(iii) in the case of products embraced in paragraph (2) of section 617 (c), as amended, used or resold for use otherwise than as fuel for the propulsion of motor vehicles, motor boats, or airplanes, and otherwise than in the production of such fuel: Provided, however, That no credit or refund shall be allowed or made under this paragraph in the case of sales or uses of products commonly or commercially known or sold as gasoline, including casinghead and natural gasoline.

"(iv) in the case of lubricating oils, used or resold for nonlubricating purposes.

"(B) The manufacturer, producer. or importer has repaid or agreed to repay the amount of such tax to the ultimate vendor or has obtained the consent of the ultimate vendor to the allowance of the credit or refund."

That portion of Section 621 (a) of the Revenue Act of 1932 which is introductory to the above amendment reads as follows: "(a) A credit against tax under this title, or a refund, may be allowed or made—"

(c) Section 621 (c) of the Revenue Act of 1932, as amended, is amended to read as follows:

"(c) Interest shall be allowed at the rate of 6 per centum per annum with respect to any amount of tax under this title credited or refunded, except that no interest shall be allowed with respect to any amount of tax credited or refunded under the provisions of subsection (a) hereof, and except that no interest shall be allowed for any period prior to the first day of the second month following the date of the enactment of the Revenue Act of 1935."

(d) The amendments made by this section shall become effective on the 1st day of the second month following the date of the enactment of this Act.

SEC. 402. COMPENSATORY TAX ON PRODUCTS OF CERTAIN OILS

During any period after the thirtieth day after the date of the enactment of this Act when—

(1) a processing tax is in effect under section 602½ of the Revenue Act of 1934, or

(2) an import tax is in effect under section 601(c) (8) of the Revenue Act of 1932, as amended,

there is hereby imposed upon any article (not within the scope of either such tax) manufactured or produced wholly or in chief value from any one or more of the oils subject to either such tax, when such article is imported into the United States from any foreign country or from any possession of the United States or from the high seas, a compensatory tax equivalent to the tax which would be payable under such section 602½ or 601(c) (8) upon such oil or oils if imported into the United States or if processed in the United States. The tax imposed by this section shall be levied, collected, and paid in the same manner as a duty imposed by the Tariff Act of 1930, and shall be treated, for the purposes of all provisions of law (except section 336 of such Act) not inconsistent with this section, as a duty imposed by such Act. All taxes collected under this section on account of coconut oil produced from materials wholly of Philippine growth or production, shall be held as a separate fund and paid to the Treasury of the Philippine Islands, but if at any time the Philippine Government provides by any law for any subsidy to be paid to the producers of copra, coconut oil, or allied products, no further payments to the Philippine Treasury shall be made under this section.

SEC. 403. SPECIAL EXCISE TAX ON CARRYING ON LIQUOR BUSINESS

The special excise tax imposed by section 701 of the Revenue Act of 1926 (U. S. C., title 26, sec. 206) shall not apply with respect to carrying on business after June 30, 1935.

Section 701 of the Revenue Act of 1926 reads as follows: "On and after July 1, 1926, there shall be levied, collected, and paid annually, in lieu of the tax imposed by Section 701 of the Revenue Act of 1924, a special excise tax of $1,000, in the case of every person carrying on the business of a brewer, distiller, wholesale liquor dealer, retail liquor dealer, wholesale dealer in malt liquor, retail dealer in malt liquor, or manufacturer of stills, as defined in section 3244 as amended and section 3247 of the Revised Statutes, in any State, Territory, or District of the United States contrary to the laws of such State, Territory, or District, or in any place therein in which carrying on such business is prohibited by local or municipal law.

The payment of the tax imposed by this section shall not be held to exempt any person from any penalty or punishment provided for by the laws of any State, Territory, or District for carrying on such business in such State, Territory, or District, or in any manner to authorize the commencement or continuance, of such business contrary to the laws of such State, Territory, or District, or in places prohibited by local or municipal law.

"Any person who carries on any business or occupation for which a special tax is imposed by this section, without having paid such special tax, shall, besides being liable for the payment of such special tax, be subject to a penalty of not more than $1,000 or to imprisonment for not more than one year, or both."

SEC. 404. INTEREST ON DELINQUENT TAXES

Notwithstanding any provision of law to the contrary, interest accruing during any period of time after the date of the enactment of this Act upon any internal-revenue tax (including amounts assessed or collected as a part thereof) or customs duty, not paid when due, shall be at the rate of 6 per centum per annum.

SEC. 405. DECLARATORY JUDGMENTS AS TO TAXES

(a) Paragraph (1) of section 274D of the Judicial Code (Public, Numbered 343, Seventy-third Congress) is amended by adding after the words "actual controversy" the following: "(except with respect to Federal taxes)".

Section 274 D (1) of the Judicial Code, as amended, reads as follows, italics indicating the amendment by the Revenue Act of 1935:

"In cases of actual controversy *except with respect to Federal taxes* the courts of the United States shall have power upon petition, declaration, complaint, or other appropriate pleadings to declare rights and other legal relations of any interested party petitioning for such declaration, whether or not further relief is or could be prayed, and such declaration shall have the force and effect of a final judgment or decree and be reviewable as such."

(b) The amendment made by subsection (a) of this section shall apply to any proceeding now pending in any court of the United States.

SEC. 406. FAILURE TO FILE RETURNS

In the case of a failure to make and file an internal-revenue tax return required by law, within the time prescribed by law or prescribed by the Commissioner in pursuance of law, if the last date so prescribed for filing the return is after the date of the enactment of this Act, if a 25 per centum addition to the tax is prescribed by existing law, then there shall be added to the tax, in lieu of such 25 per centum: 5 per centum if the failure is for not more than 30 days, with an additional 5 per centum for each additional 30 days or fraction thereof during which failure continues, not to exceed 25 per centum in the aggregate.

SEC. 407. TAXES ON CRUDE PETROLEUM

Effective on the first day of the first calendar month following the date of the enactment of this Act, sections 604 and 605 of the Revenue Act of 1934 (relating to taxes on production and refining of crude petroleum) are amended by striking out "1/10 of 1 cent per barrel" wherever appearing therein and inserting in lieu thereof "1/25 of 1 cent per barrel".

Section 604 (a) of the Revenue Act of 1934 as amended by the 1935 Act reads in full text as follows (amendment in italics) "(a) There is hereby imposed on crude petroleum sold by the producer thereof, a tax of *one-twenty-fifth* of 1 cent per barrel of 42 gallons, to be paid by the producer."

Section 605 (a) of the Revenue Act of 1934 as amended by the 1935 Act reads in full text as follows (amendments in italics): "(a) There is hereby imposed (1) on crude petroleum refined or processed in the United States, a tax of *one-twenty-fifth* of one cent per barrel of forty-two gallons, to be paid by the refiner or processor, and (2) on gasoline produced or recovered in the United States from natural gas a tax of *one-twenty-fifth* of one cent per barrel of forty-two gallons, to be paid by the person producing or recovering such gasoline."

TITLE V—GENERAL PROVISIONS

SEC. 501. DEFINITIONS

(a) When used in this Act—

(1) The term "person" means an individual, a trust or estate, a partnership, or a corporation.

(2) The term "corporation" includes associations, joint-stock companies, and insurance companies.

(3) The term "domestic" when applied to a corporation or partnership means created or organized in the United States or under the law of the United States or of any State or Territory.

(4) The term "foreign" when applied to a corporation or partnership means a corporation or partnership which is not domestic.

(5) The term "stock" includes the share in an association, joint-stock company, or insurance company.

(6) The term "shareholder" includes a member in an association, joint-stock company, or insurance company.

(7) The term "United States" when used in a geographical sense includes only the States, the Territories of Alaska and Hawaii, and the District of Columbia.

(8) The term "Secretary" means the Secretary of the Treasury.

(9) The term "Commissioner" means the Commissioner of Internal Revenue.

(10) The term "collector" means collector of internal revenue.

(b) The terms "includes" and "including" when used in a definition contained in this Act shall not be deemed to exclude other things otherwise within the meaning of the term defined.

SEC. 502. SEPARABILITY CLAUSE

If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provisions to other persons or circumstances, shall not be affected thereby.

SEC. 503. EFFECTIVE DATE OF ACT

Except as otherwise provided, this Act shall take effect upon its enactment.

AN ACT

[Approved August 27, 1935.]

To exempt from taxation official compensation of certain foreign representatives and to provide for the deductibility from income of certain dividends on preferred stock owned by the United States or instrumentalities thereof.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 116 of the Revenue Act of 1934 relating to exclusions from gross income is amended by adding at the end thereof a new subsection reading as follows:

"(h) COMPENSATION OF EMPLOYEES OF FOREIGN GOVERNMENTS.—Wages, fees, or salary of an employee of a foreign government (including a consular or other officer, or a nondiplomatic representative) received as compensation for official services to such government—

"(1) If such employee is not a citizen of the United States; and

"(2) If the services are of a character similar to those performed by employees of the Government of the United States in foreign countries; and

"(3) If the foreign government whose employee is claiming exemption grants an equivalent exemption to employees of the Government of the United States performing similar services in such foreign country.

"The Secretary of State shall certify to the Secretary of the Treasury the names of the foreign countries which grant an equivalent exemption to the employees of the Government of the United States performing services in such foreign countries, and the character of the services performed by employees of the Government of the United States in foreign countries."

SEC. 2. The provisions of section 1 shall be retroactively applied in computing income under the provisions of the Revenue Act of 1934 and prior revenue Acts, or any of such Acts as amended, subject to the statutory period of limitations properly applicable to such Acts.

SEC. 3. Title I of the Revenue Act of 1934, relating to income tax, is amended by adding after section 120 a new section reading as follows:

"SEC. 121. DEDUCTION OF DIVIDENDS PAID ON CERTAIN PREFERRED STOCK OF CERTAIN CORPORATIONS.—In computing the net income, for any taxable year beginning after December 31, 1934, of any national banking association, or of any bank or trust company organized under the laws of any State, Territory, possession of the United States, or the Canal Zone, or of any other banking corporation engaged in the business of industrial banking and under the supervision of a State banking department or of the Comptroller of the Currency, or of any incorporated domestic insurance company, there shall be allowed as a deduction from gross income, in addition to deductions otherwise provided for in this title, any dividend (not including any distribution in liquidation) paid within such taxable year, to the United States or to any instrumentality thereof exempt from Federal income taxes, on the preferred stock of the corporation owned by the United States or such instrumentality."

INDEX

References are to section numbers

—L—

—M—

—N—

—O—

—P—

—R—

—S—

—T—

—U—

—V—

—W—

—Y—