FORM 1120 L
Treasury Department
Internal Revenue Service

UNITED STATES
INSURANCE COMPANY INCOME AND DEFENSE TAX RETURN 1940

(Auditor's Stamp)

FOR COMPANIES ISSUING LIFE AND ANNUITY CONTRACTS, INCLUDING COMBINED LIFE, HEALTH, AND ACCIDENT INSURANCE

FOR CALENDAR YEAR 1940

File This Return With the Collector of Internal Revenue for Your District on or Before March 15, 1941

PRINT PLAINLY COMPANY'S NAME AND ADDRESS

(Name)

(Street and number)

(Post office) (County) (State)

Do Not Write in These Spaces

File Code

Serial Number

District

(Cashier's Stamp)

Cash Check M. O. Cert. of Ind.

(First Payment)

$

Item and Instruction No.	GROSS INCOME	1. Life Department	2. Other Departments	3. Total
1.	Interest on:			
	(a) Obligations of a State, Territory, or political subdivision thereof, or the District of Columbia, or United States possessions	$	$	
	(b) Obligations issued under Federal Farm Loan Act, or under such Act as amended			
	(c) Obligations of the United States issued on or before September 1, 1917			
	(d) Treasury Notes, Treasury Bills, and Treasury Certificates of Indebtedness			
	(e) United States Savings Bonds and Treasury Bonds owned in the principal amount of $5,000 and under			
	(f) United States Savings Bonds and Treasury Bonds owned in the principal amount of over $5,000			
	(g) Obligations of instrumentalities of the United States (other than obligations to be reported in line (b) above)			
	(h) Loans, notes, mortgages, bank deposits, etc			
2.	Dividends on stock of:			
	(a) Domestic corporations subject to taxation under chapter 1 of the Internal Revenue Code*			
	(b) Foreign corporations			
	(c) Other corporations			
3.	Rents. (Attach schedule)			
4.	Total Income in Items 1 to 3 (extend total to column 3)	$	$	$
	DEDUCTIONS			
5.	Interest wholly exempt from tax	$	$	
6.	...... percent of the mean of the reserve funds (line 6, Schedule A)			
7.	Two percent of the reserve held for deferred dividends			
8.	Investment expenses. (Attach schedule)			
9.	Taxes			
10.	Real estate expenses			
11.	Depreciation. (Attach schedule)			
12.	Interest on indebtedness			
13.	Net operating loss deduction. (Attach statement; see Instruction 13)			
14.	Total Deductions in Items 5 to 13 (extend total to column 3)	$	$	
15.	Net income (item 4 minus item 14)			$
16.	Less: Interest partially exempt from tax. (See Instruction 16)			
17.	Adjusted net income			$
18.	Less: Dividends received credit (85 percent of item 2(a), but not in excess of 85 percent of item 17)			
19.	Normal-tax net income			$
20.	Foreign company normal-tax net income (........ percent of item 19). (See Schedule A, line 8)			$

* Except dividends received from corporations organized under the China Trade Act, 1922, and corporations entitled to the benefits of section 251 of the Internal Revenue Code, which dividends should be included in item 2(c).

COMPUTATION OF TAX

	CORPORATIONS WITH NORMAL-TAX NET INCOMES OF NOT MORE THAN $25,000. (See Instruction 21-(e))	Column 1	Col. 2 Rate	Column 3 Amount of Tax
21.	Normal-tax net income (item 19 or 20, whichever is applicable)	$		
22.	Portion of item 21 (not in excess of $5,000); and tax at 13.5 percent	$	13.5%	$
23.	Portion of item 21 (in excess of $5,000 and not in excess of $20,000); and tax at 15 percent		15%	
24.	Portion of item 21 (in excess of $20,000); and tax at 17 percent		17%	
25.	Total income tax in items 22, 23, and 24			$
26.	Income defense tax (10 percent of item 25)			$
	CORPORATIONS WITH NORMAL-TAX NET INCOMES OF MORE THAN $25,000 AND LESS THAN $38,565.89. (See Instruction 21-(d))			
27.	Normal-tax net income (item 19 or 20, whichever is applicable)	$		
28.	Portion of item 27 in the amount of $25,000; and tax	$ 25 000 00		3 775 00
29.	Portion of item 27 (in excess of $25,000); and tax at 35 percent		35%	
30.	Total income tax (total tax in column 3 of items 28 and 29)			$
31.	Income defense tax:			
	(a) If item 27 is less than $31,964.30 ($377.50 plus 3.3 percent of item 29, column 1)			$
	(b) If item 27 is $31,964.30 or more (1.9 percent of item 27)			$
	CORPORATIONS WITH NORMAL-TAX NET INCOMES OF $38,565.89 OR MORE. (See Instruction 21 (c))			
32.	Normal-tax net income (item 19 or 20, whichever is applicable)	$		
33.	Income tax (22.1 per cent of item 32)		22.1%	$
34.	Income defense tax (1.9 percent of item 32)			$
35.	Total income tax (item 25, 30, or 33, above, whichever is applicable)			$
36.	Total income defense tax (item 26, 31(a), 31(b), or 34, above, whichever is applicable)			
37.	Total income and income defense taxes			$
38.	Less: Credit for income taxes paid to a foreign country or United States possession allowed a domestic corporation. (See Instruction 38)			
39.	Balance of income and income defense taxes due			$

NOTE.—In order that this return may be accepted as meeting the requirements of the Internal Revenue Code, the data called for herein must be set forth FULLY and CLEARLY.

16—19098

Schedule A.—RESERVE FUNDS

	1. Beginning of Taxable Year	2. End of Taxable Year
1. Reserve for outstanding policies and annuities	$	$
2. Other reserve funds (itemize)		
3. Totals of lines 1 and 2	$	$

4. Total of columns 1 and 2, as shown in line 3 above .... $
5. Mean of the reserve funds for the taxable year (one-half of line 4) .... $
6. ...... percent of the mean of the reserve funds, as shown in line 5. (See Instruction 6) .... $
7. Total reserve funds of foreign companies at end of taxable year upon business within the United States. (Attach statement) $
8. Percentage which line 7 is of line 3, column 2 (compute a fraction of 1 percent to three decimal figures) .... %

Schedule B.—INVESTED ASSETS BOOK VALUES

	Life Department		Other Departments	
	1. Beginning of Taxable Year	2. End of Taxable Year	3. Beginning of Taxable Year	4. End of Taxable Year
1. Real estate	$	$	$	$
2. Mortgage loans				
3. Collateral loans				
4. Policy loans, including premium notes				
5. Bonds of domestic corporations				
6. Stocks of domestic corporations				
7. Wholly and partially tax-exempt obligations:				
(a) Obligations of a State, Territory, or political subdivision thereof, or the District of Columbia, or United States possessions				
(b) Obligations issued under Federal Farm Loan Act, or under such Act as amended				
(c) Obligations of the United States issued on or before September 1, 1917				
(d) Treasury Notes, Treasury Bills, and Treasury Certificates of Indebtedness				
(e) United States Savings Bonds and Treasury Bonds owned in the principal amount of $5,000 and under				
(f) United States Savings Bonds and Treasury Bonds owned in the principal amount of over $5,000				
(g) Obligations of instrumentalities of the United States (other than obligations to be reported in line (b) above)				
8. Bank deposits bearing interest				
9. Other interest-bearing assets (attach statement)				
10. Totals of Lines 1 to 9	$	$	$	$

11. Total of columns 1 to 4, inclusive, as shown in line 10 above .... $
12. Mean of the invested assets for the taxable year (one-half of line 11) .... $
13. One-fourth of 1 percent of the mean of the invested assets .... $

EXCESS PROFITS TAX (Second Revenue Act of 1940). (See Instructions for Form 1121)

(a) Is an excess profits tax return on Form 1121 being filed for the taxable period covered by this return? ....

(b) A corporation joining in the making of a consolidated excess profits tax return should indicate below the name and address of the corporation which filed the consolidated excess profits tax return for the entire affiliated group, and the internal revenue district in which the consolidated return is filed ....

(c) If an excess profits tax return is not being filed for the reason that it is claimed that the excess profits net income computed under the invested capital method is not greater than $5,000, the following Schedule C should be filled in. The completion of Schedule C does not constitute the filing of an excess profits tax return.

Schedule C.—EXCESS PROFITS NET INCOME COMPUTATION

1. Normal-tax net income (item 19 or 20, first page)	$	4. Dividends received credit adjustment (item 2, first page, excluding dividends received from personal holding companies, minus item 18, first page)	$
2. 50 percent of interest on borrowed capital		5. Income and income defense taxes (item 39, first page)	
3. Total of lines 1 and 2	$	6. Total of lines 4 and 5	$

7. Excess profits net income (for purpose of determining necessity for filing return) (line 3 minus line 6) .... $

QUESTIONS

1. Date of incorporation ....

2. State or country ....

3. Did the company file a return under the same name for the preceding taxable year? ....

4. State the amount of deferred dividend funds at the end of the taxable year, exclusive of any amount held for payments during the following taxable year: $..........

5. Did (a) you own at any time during the taxable year 50 percent or more of the voting stock of another corporation, either domestic or foreign? ....; or (b) did any corporation, individual, partnership, trust, or association own at any time during the taxable year 50 percent or more of your voting stock? .... If either answer is "yes," attach separate schedule showing: (1) Name and address; (2) percentage of stock owned; (3) date stock was acquired; and (4) the collector's office in which the income tax return of such corporation, individual, partnership, trust, or association for the last taxable year was filed.

6. Did the company make a return of information on Forms 1096 and 1099 for the calendar year 1940 (see General Instruction H)? .... (Answer "yes" or "no")

7. Did the company at any time during the taxable year own directly or indirectly any stock of a foreign corporation? .... (If answer is "yes," attach statement required by General Instruction J.)

8. Did the company pay to any officer or employee of the company, salary, commission, bonus, or other compensation for personal services rendered, in an aggregate amount in excess of $75,000? .... (If answer is "yes," attach Schedule F–1.) (See General Instruction I–3.)

AFFIDAVIT. (See Instruction E)

We, the undersigned, president (or vice president, or other principal officer) and treasurer (or assistant treasurer, or chief accounting officer) of the corporation for which this return is made, being severally duly sworn, each for himself deposes and says that this return (including any accompanying schedules and statements) has been examined by him and is, to the best of his knowledge and belief, a true, correct, and complete return, made in good faith, for the taxable year stated, pursuant to the Internal Revenue Code and the regulations issued thereunder.

Subscribed and sworn to before me this .... day of ...., 194....

.... (President or other principal officer) (State title)

NOTARIAL SEAL

.... (Signature of officer administering oath), ... (Title)

CORPORATE SEAL

.... (Treasurer, Assistant Treasurer, or Chief Accounting Officer) (State title)

AFFIDAVIT. (See Instruction E)

I/we swear (or affirm) that I/we prepared this return for the person named herein and that the return (including any accompanying schedules and statements) is a true, correct, and complete statement of all the information respecting the tax liability of the person for whom this return has been prepared of which I/we have any knowledge.

Subscribed and sworn to before me this .... day of ...., 194....

.... (Signature of person preparing the return)

.... (Signature of person preparing the return)

NOTARIAL SEAL

.... (Signature of officer administering oath), ... (Title)

.... (Name of firm or employer, if any)

U. S. GOVERNMENT PRINTING OFFICE 16—19098

1940 INSTRUCTIONS FOR FORM 1120 L 1940

UNITED STATES INSURANCE COMPANY INCOME AND DEFENSE TAX RETURN

(References are to the Internal Revenue Code, unless otherwise noted)

Taxpayers will find it helpful to read the General Instructions A to L before commencing to fill in their returns

GENERAL INSTRUCTIONS

A. COMPANIES REQUIRED TO FILE A RETURN

Every domestic life insurance company and every foreign life insurance company carrying on an insurance business within the United States or holding reserve funds upon business transacted within the United States, issuing life insurance and annuity contracts (including contracts of combined life, health, and accident insurance), the reserve funds of which held for the fulfillment of such contracts comprise more than 50 percent of its total reserve funds, shall file a return on this form. (See sections 201 to 203.)

Receivers, trustees in dissolution, trustees in bankruptcy, and assignees, operating the property or business of corporations, must make returns of income for such corporations. If a receiver has full custody of and control over the business or property of a corporation, he shall be deemed to be operating such business or property, whether he is engaged in carrying on the business for which the corporation was organized or only in marshaling, selling, and disposing of its assets for purposes of liquidation.

B. PERIOD COVERED

The return shall be for the calendar year ended December 31, 1940, and the net income computed on the calendar year basis in accordance with the State laws regulating insurance companies.

C. BASIS OF RETURN

A return on this form shall be rendered on a cash receipts and disbursements basis in conformity with the annual statement made to the State Insurance Department, instead of the accrual basis.

D. TIME AND PLACE FOR FILING

The return must be sent to the collector of internal revenue for the district in which the company's principal place of business or principal office or agency is located, so as to reach the collector's office on or before March 15, 1941.

E. AFFIDAVITS

The return shall be sworn to by the president, vice president, or other principal officer, and by the treasurer, assistant treasurer, or chief accounting officer.

Where the return is actually prepared by some person or persons other than officers or employees of the company, such person or persons must execute the affidavit at the foot of the second page.

F. PAYMENT OF TAX

The tax should be paid by sending with the return a check or money order drawn to the order of "Collector of Internal Revenue." Do not send cash by mail, nor pay it in person except at the collector's office.

The tax must be paid in full when the return is filed, or in four equal installments, as follows: The first installment shall be paid on or before March 15, 1941; the second installment on or before June 15, 1941; the third installment on or before September 15, 1941; and the fourth installment on or before December 15, 1941.

If any installment is not paid on or before the date fixed for its payment, the whole amount of the tax unpaid shall be paid upon notice and demand by the collector.

G. PENALTIES

For failure to make and file a return on time.—Five percent to 25 percent of the amount of the tax, unless such failure is due to reasonable cause, and, in addition, where failure is willful, a fine of not more than $10,000, or imprisonment for not more than 1 year, or both, together with the costs of prosecution.

For willfully attempting to evade or defeat payment of the tax.—Not more than $10,000, or imprisonment for not more than 5 years, or both, together with the costs of prosecution.

For deficiency due to negligence or fraud.—Five percent of the amount of the deficiency if due to negligence or intentional disregard of rules and regulations without intent to defraud, or 50 percent of the amount of the deficiency if due to fraud.

H. INFORMATION AT SOURCE

Every insurance company shall make a return on Forms 1096 and 1099 with respect to amounts paid, credited, or distributed during the calendar year (*a*) as salaries or other compensation for personal services, totaling $800 or more in the case of a citizen or resident who is not married or whose marital status is unknown, or $2,000 or more in the case of a married citizen or resident, or (*b*) as interest, rent, premiums, annuities, or other fixed or determinable income totaling $800 or more to a fiduciary, a domestic or resident partnership, or a citizen or resident. The return on Forms 1096 and 1099 shall also include dividend payments amounting to $100 or more during the calendar year to each shareholder who is an individual (citizen or resident of the United States), a resident fiduciary, or a resident partnership any member of which is a citizen or resident. The forms will be furnished by any collector of internal revenue upon request. Such returns of information covering the calendar year 1940 must be forwarded to the Commissioner of Internal Revenue, Returns Distribution Section, Washington, D. C., in time to be received not later than February 15, 1941.

I. INFORMATION BY CORPORATIONS

I–1. **Contemplated dissolution or liquidation.**—Every corporation shall, within 30 days after the adoption by the corporation of a resolution or plan for the dissolution of the corporation or for the liquidation of the whole or any part of its capital stock, render a correct return on Form 966 to the Commissioner, verified under oath, setting forth the terms of such resolution or plan. (See section 148(d).)

I–2. **Distributions in liquidation.**—Every corporation shall, when required by the Commissioner, render a correct return, duly verified under oath, of its distributions in liquidation, stating the name and address of each shareholder, the number and class of shares owned by him, and the amount paid to him or, if the distribution is in property other than money, the fair market value (as of the date the distribution is made) of the property distributed to him. (See section 148(e).)

I–3. **Compensation of officers and employees.**—If the company paid to any officer or employee during the taxable year compensation for personal services in excess of $75,000, Schedule F–1 (copies of which may be obtained from the collector of internal revenue) must be filed, IN DUPLICATE, with and as part of the return.

J. STOCK OWNERSHIP IN FOREIGN CORPORATIONS

If the company owned any stock of a foreign corporation (including less than 5 percent of the stock of a foreign personal holding company), it should attach to its return a statement setting forth the name and address of each such company and the total number of shares of each class of outstanding stock owned by it during the taxable year. This statement should be furnished in addition to the schedule required by Specific Instruction 2. If the company owned stock at any time during the taxable year in a foreign personal holding company, as defined in section 331, it must include in its return as a dividend the amount required to be included in its gross income by section 337. If the company owned 5 percent or more in value of the outstanding stock of such foreign personal holding company, it should set forth in an attached statement in complete detail the information required by section 337 (d).

K. ANNUAL STATEMENT

A copy of the annual statement for life insurance companies adopted by the National Convention of Insurance Commissioners for the year 1940, as filed with the Insurance Department of the State, Territory, or District of Columbia, which shows the reserves used in computing the net income reported on the return, together with copies of Schedule A (real estate) and Schedule D (bonds and stocks), must accompany the return. Similar copies for the preceding year must also be furnished, if not filed with the return for the previous year.

L. LIST OF ATTACHED SCHEDULES

Attach a list of the schedules accompanying the return, giving for each a brief title and the schedule number. Place name and address of company on each schedule.

SPECIFIC INSTRUCTIONS

The following instructions are numbered to correspond with item numbers on the first page of the return

1. INTEREST

Enter as item 1 interest received from all sources during the taxable year. Interest on bonds is considered income when due and payable.

2. DIVIDENDS

Enter as item 2(*a*) the amount received as dividends from a domestic corporation which is subject to taxation under chapter 1 other than a corporation entitled to the benefits of section 251 and other than a corporation organized under the China Trade Act, 1922. Enter as item 2(*b*) dividends from foreign corporations. Enter as item 2(*c*) dividends from all other corporations. Submit schedule, itemizing all dividends received during the year, stating the names and addresses of the corporations declaring the dividends and amounts received from each.

3. RENTS

Enter as item 3 rents received from tenants.

5. INTEREST WHOLLY EXEMPT FROM TAX

Enter as item 5 the amount of interest which is **wholly** exempt from taxation under the provisions of section 22(b) (4).

See Specific Instruction 16 with respect to **partially** tax-exempt interest which is allowed as a credit against net income.

6. PERCENTAGE OF THE MEAN OF THE RESERVE FUNDS

Enter as item 6 the amount reported on line 6, Schedule A. There may be deducted from gross income an amount equal to 4 percent of the mean of the reserve funds required by law and held at the beginning and end of the taxable year, except that in the case of any such reserve fund which is computed at a lower interest assumption rate, the rate of 3¾ percent shall be substituted for 4 percent. Life insurance companies issuing policies covering life, health, and accident insurance combined in one policy issued on the weekly premium payment plan, continuing for life and not subject to cancelation, shall be allowed, in addition to the above, a deduction of 3¾ percent of the mean of such reserve funds (not required by law) held at the beginning and end of the taxable year, as the Commissioner finds to be necessary for the protection of the holders of such policies only. (See section 203(a) (2).)

7. TWO PERCENT OF THE RESERVE HELD FOR DEFERRED DIVIDENDS

Enter as item 7 an amount equal to 2 percent of the reserve held at the end of the taxable year for deferred dividends the payment of which is deferred for a period of not less than 5 years from the date of the policy contract. Do not include in such reserve dividends payable during the following taxable year.

8. INVESTMENT EXPENSES

Enter as item 8 expenses paid which are properly chargeable to investment expenses, the total amount of which, if there be any allocation of general expenses to investment expenses, should not exceed one-fourth of

1 percent of the mean of the invested assets reported on line 11, Schedule B. Submit a schedule showing the nature and amount of the items included herein, the minor items being grouped in one amount. (See section 203 (a) (4).)

9. TAXES

Enter as item 9 taxes paid exclusively upon real estate owned by the company and taxes assessed against individual shareholders and paid by the company without reimbursement as provided in section 203(a) (5). Do not include taxes assessed against local benefits of a kind tending to increase the value of the property assessed as for paving, sewers, etc. For limitation on deduction, see section 203(b).

10. REAL ESTATE EXPENSES

Enter as item 10 all ordinary and necessary building expenses, such as fire insurance, heat, light, labor, etc., and the cost of incidental repairs which neither materially add to the value of the property nor appreciably prolong its life, but keep it in an ordinarily efficient operating condition. Do not include any amount paid out for new buildings or for permanent improvements or betterments made to increase the value of any property or any amount expended on foreclosed property before such property is held forth for rental purposes. For limitation on deduction, see section 203(b).

11. DEPRECIATION

The amount deductible on account of depreciation in item 11 is an amount reasonably measuring the portion of the investment in depreciable property by reason of exhaustion, wear and tear, or obsolescence, which is properly chargeable against the operations of the year. In any event the deduction is limited to the depreciation on the property that is used, and to the extent used, for the purpose of producing the income specified in section 202(a). If the property was acquired by purchase on or after March 1, 1913, the amount of depreciation should be determined upon the basis of the original cost (not replacement cost) of the property, and the probable number of years remaining of its expected useful life. In case the property was purchased prior to March 1, 1913, the amount of depreciation will be determined in the same manner, except that it will be computed on its original cost, less depreciation sustained prior to March 1, 1913, or its fair market value as of that date, whichever is greater. If the property was acquired in any other manner than by purchase, see section 114. The capital sum to be recovered should be charged off ratably over the useful life of the property. Whatever plan or method of apportionment is adopted must be reasonable, must have due regard to operating conditions during the taxable year, and should be described in the return.

If a deduction is claimed on account of depreciation, a schedule should be filed with the return showing: (1) Kind of property; (2) date acquired; (3) cost or other basis; (4) assets fully depreciated in use at end of taxable year; (5) depreciation allowed (or allowable) in prior years; (6) remaining cost or other basis to be recovered; (7) estimated life used in accumulating depreciation; (8) estimated remaining life from beginning of year; and (9) depreciation allowable for the taxable year. In case obsolescence is included, state separately amount claimed and basis upon which it is computed. Cost or value of land must not be included in the schedule, and where land and buildings were purchased for a lump sum the cost of the building subject to depreciation must be established.

The adjusted property accounts and the accumulated depreciation shown in the schedule should be reconciled with those accounts as reflected on the books of the taxpayer.

Stocks, bonds, and like securities are not subject to depreciation within the meaning of the law. (See sections 23(l), 114, and 203(a) (6).)

For limitation on deduction, see section 203(b).

12. INTEREST ON INDEBTEDNESS

Enter as item 12 the amount of interest paid during the taxable year on the company's indebtedness, except on indebtedness incurred or continued to purchase or carry obligations (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest upon which is wholly exempt from taxation. Interest paid on dividends held on deposit and surrendered during the taxable year should be included in this item. Do not include any interest paid on deferred dividends on which a deduction was allowed under item 7.

If a life insurance company pays interest on the proceeds of life insurance policies left with it pursuant to the provisions of supplementary contracts not involving life contingencies, or similar contracts, the interest so paid shall be allowed as a deduction from gross income, except that such deduction shall not be allowed in respect of interest accrued in any prior taxable year to the extent that the company has had the benefit of a deduction of 4 percent or 3¾ percent, as the case may be, of the mean of the company's liability on such contracts, by the inclusion of such liability in its reserve funds.

13. NET OPERATING LOSS DEDUCTION

Net operating loss.—A net operating loss is sustained by a corporation if and to the extent that, for the preceding taxable year, there is an excess of deductions allowed by chapter 1 over gross income, both computed with the following exceptions and limitations:

(1) The deduction for depletion shall not exceed the amount which would be allowable if computed without reference to discovery value or to percentage depletion under section 114(b) (2), (3), or (4);

(2) There shall be included in computing gross income the amount of interest received which is wholly exempt from taxes imposed by chapter 1, decreased by the amount which is not allowed as a deduction by section 23(b), relating to interest on indebtedness incurred or continued to purchase or carry certain tax-exempt obligations;

(3) No net operating loss deduction shall be allowed; and

(4) The amount deductible on account of long-term capital losses shall not exceed the amount includible on account of the long-term capital gains, and the amount deductible on account of short-term capital losses shall not exceed the amount includible on account of the short-term capital gains.

Net operating loss deduction in the case of life insurance companies.—In computing a net operating loss of an insurance company subject to tax imposed by section 201, "gross income" shall mean gross income as defined in section 202(a) and the allowable deductions shall be those allowed by section 203, with the following exceptions and limitations:

(1) The deduction for tax-free interest provided by section 203(a) shall not be allowed in excess of the amount of interest paid which is not allowed as a deduction by section 23(b), relating to interest on indebtedness incurred or continued to purchase or carry certain tax-exempt obligations;

(2) No net operating loss deduction shall be allowed; and

(3) The deduction under section 203(a) (3) on account of the sums held as a reserve for dividends shall not be allowed.

Net operating loss carry-over.—Since the first taxable year from which a net operating loss may be carried over is one beginning after December 31, 1938, ordinarily the carry-over to a taxable year beginning after December 31, 1939, and before January 1, 1941, will be only a 1-year carry-over.

Net operating loss deduction.—The net operating loss deduction for a taxable year is the net operating loss carry-over to such year, computed as prescribed in section 19.122–4, Regulations 103, reduced by the excess of the net income for such taxable year (computed in accordance with the same limitations and exceptions as are applicable in the computation of a net operating loss) over the normal-tax net income computed without regard to the exceptions and limitations specified in sections 19.122–2 and 19.208–1, Regulations 103, except that no net operating loss deduction shall be allowed.

Every taxpayer claiming a net operating loss deduction for any taxable year shall file with its return for such year a concise statement setting forth the amount of the net operating loss deduction claimed and all material and pertinent facts relative thereto, including a detailed schedule showing the computation of the net operating loss deduction.

14. TOTAL DEDUCTIONS

(*a*) Enter as item 14, the total of items 5 to 13, inclusive.

(*b*) **Rental value of real estate.**—The deduction included in items 9 to 11 on account of real estate owned and occupied in whole or in part by the company shall be limited to an amount which bears the same ratio to such deduction (computed without regard to subsection (b) of section 203) as the rental value of the space not so occupied bears to the rental value of the entire property. (Submit detailed schedule.)

(*c*) **Items not deductible.**—No deduction is allowable for the amount of any item or part thereof allocable to a class of exempt income, other than interest. Items directly attributable to such exempt income shall be allocated thereto, and items directly attributable to any class of taxable income shall be allocated to such taxable income. If an item is indirectly attributable to both taxable income and exempt income, a reasonable proportion thereof, determined in the light of all the facts and circumstances in each case, shall be allocated to each. Apportionments must in all cases be reasonable. A taxpayer receiving any exempt income, other than interest, or holding any property or engaging in any activity the income from which is exempt shall submit with its return as a part thereof an itemized statement, in detail, showing (1) the amount of each class of exempt income, and (2) the amount of items allocated to each such class (the amount allocated by apportionment being shown separately).

16 and 18. CREDITS AGAINST NET INCOME

Enter as item 16 the amount of interest included in gross income which is partially exempt from taxation under the provisions of section 22(b) (4).

Enter as item 18, 85 percent of the amount received as dividends from a domestic corporation which is subject to taxation under chapter 1, except dividends received from corporations organized under the China Trade Act, 1922, or from corporations entitled to the benefits of section 251. The amount claimed as a credit (item 18) shall be limited to an amount not in excess of 85 percent of the adjusted net income. (See section 26 (b).)

21 to 34. TAX COMPUTATION

(*a*) **General.**—All life insurance companies (including foreign life insurance companies carrying on an insurance business within the United States or holding reserve funds upon business transacted within the United States) are subject to the tax imposed by section 201(b) (1).

(*b*) The tax shall, under section 201(b), be at the rate prescribed in section 13, if the company has a normal-tax net income of more than $25,000, or at the rate prescribed in section 14(b), if it has a normal-tax net income of not more than $25,000.

(*c*) **General rule.**—Section 13(b) (1) provides under what is termed the "general rule" for a tax equal to 22.1 percent of the normal-tax net income.

(*d*) **Alternative tax.**—Section 13(b) (2) provides in the case of corporations having normal-tax net incomes of slightly more than $25,000, for an alternative tax of $3,775, plus 35 percent of the amount of normal-tax net income in excess of $25,000. The alternative tax is applicable in case of corporations having normal-tax net incomes of more than $25,000 and less than $38,565.89.

(*e*) **Special corporations.**—Section 14(b) imposes a tax at graduated rates (specified in items 22, 23, and 24, first page of return) on corporations which do not have normal-tax net incomes of more than $25,000.

(*f*) **Normal-tax net income.**—The term "normal-tax net income" means the adjusted net income minus the credit for dividends received provided in section 26(b).

The normal-tax net income of a foreign life insurance company carrying on an insurance business within the United States or holding reserve funds upon business transacted within the United States consists of that proportion of its net income from all sources, within and without the United States, computed under the provisions of sections 202 and 203, minus the credits provided in section 26(a) and (b) which the reserve funds required by law and held by it at the end of the taxable year upon business transacted in the United States bear to the reserve funds held by it at the end of the taxable year upon all business transacted.

38. CREDIT FOR TAXES

If credit is claimed in item 38 for income, war-profits, and excess-profits taxes paid to a foreign country or possession of the United States, Form 1118, together with the receipt for each such tax payment, must be submitted with the return. A foreign company is not entitled to claim this credit.

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