Statistics of Income for 1953

FARMERS' COOPERATIVE INCOME TAX RETURNS

U. S. TREASURY DEPARTMENT

Internal Revenue Service

Statistics of Income *1953*

Farmers' Cooperative INCOME TAX RETURNS *FOR 1953*

Prepared under the direction of the
Commissioner of Internal Revenue
by the Statistics Division

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LETTER OF TRANSMITTAL

TREASURY DEPARTMENT,
OFFICE OF THE COMMISSIONER OF INTERNAL REVENUE,
Washington, D. C., June 18, 1957.

SIR: In accordance with the provisions of section 6108 of the Internal Revenue Code of 1954, requiring the publication of statistics with respect to the operation of the Federal income tax laws, I have the honor to transmit herewith a report entitled *Statistics of Income . . . 1953, Farmers' Cooperative Income Tax Returns* presenting data relative to income, deductions, assets, liabilities, and organizational characteristics of farmers' cooperatives as reported on Exempt Cooperative Association Income Tax Returns and U. S. Corporation Income Tax Returns for 1953, filed during 1954.

Respectfully,

RUSSELL C. HARRINGTON,
Commissioner of Internal Revenue.

HONORABLE G. M. HUMPHREY,
Secretary of the Treasury.

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Farmers' Cooperative Associations

FARMERS' COOPERATIVE INCOME TAX RETURNS FOR 1953

CHARACTERISTICS OF THE YEAR

The year 1953 was the second for which all farmers' cooperatives were required to file income tax returns. Before 1952 all income of an association which qualified as an exempt farmers' cooperative under section 101 (12) of the Internal Revenue Code of 1939 was nontaxable. Under the Revenue Act of 1951, certain income of exempt farmers' cooperatives for tax years beginning in 1952 and for all tax years thereafter was made subject to income tax at the corporate rates but was not subject to the excess profits tax. The criteria for qualifying as exempt organizations remained unchanged. In general, a farmers' cooperative, owned and operated on a cooperative basis for the purpose of marketing or purchasing farm goods for patrons at cost, could qualify as an exempt farmers' cooperative.

For the year 1953, tax returns were filed by 8,311 farmers' cooperatives, of which 5,141 filed as being exempt and 3,170 filed as nonexempt cooperatives on corporation income tax returns. Total compiled receipts shown by all reporting cooperatives amounted to $7.4 billion, but because of the distribution of income to patrons on the basis of patronage, particularly in the case of exempt farmers' cooperatives, the taxable net income was $15 million. The tax was reported as being less than $10 million.

Exempt cooperatives reported total compiled receipts of $4.9 billion, or double the amount shown by nonexempt cooperatives. For the group of exempt cooperatives as a whole, the returns show a net deficit. Actually, the total tax liability for the group was reported to be $639,000.

The number of farmers' cooperatives which filed returns for 1953 was about the same as 1946, for which year the Internal Revenue Service also published data. There was, however, a substantial shift from exempt to nonexempt status over this period. For 1953 the number of exempt returns filed was about 1,000 smaller and the number of nonexempt returns filed was approximately 1,000 larger than the corresponding figure for 1946. (See table A.)

Table A.—EXEMPT AND NONEXEMPT RETURNS—NUMBER, TOTAL COMPILED RECEIPTS, AND TAX, 1953 AND 1946

Items	1953	1946
Number of returns	8,311	8,447
Exempt	5,141	6,103
Nonexempt	3,170	2,344
	(Thousand dollars)	
Total compiled receipts	7,418,858	6,507,366
Exempt[1]	4,931,106	5,616,586
Nonexempt	2,487,752	890,780
Net income or deficit	15,128	([2])
Exempt	[3]6,958	([2])
Nonexempt	22,086	([2])
Income tax	9,835	2,552
Exempt	639	-
Nonexempt	9,196	2,552

[1]For exempt organizations, total compiled receipts is defined differently for 1953 and 1946. For 1953, total compiled receipts excludes tax-exempt interest, and is before the deduction for loss from the sale of property other than capital assets.
[2]Not available.
[3]Deficit.

Total compiled receipts for 1953, amounting to $7.4 billion, represented an increase of approximately $1 billion over 1946. As shown in table A, total compiled receipts of nonexempt cooperatives amounted to nearly $2.5 billion, which was an increase of $1.6 billion over the earlier year. Corresponding receipts reported by tax-exempt cooperatives for 1953 in the amount of $4.9 billion were $685 million less than the amount reported for 1946.

Total assets reported by 7,720 farmers cooperatives showing balance sheet data amounted to $2.6 billion. Over two-thirds of these assets were reported by 4,713 exempt cooperatives. Farmers' cooperative returns showing less than $500 thousand of total assets accounted for 90 percent of the number of returns with balance sheets but only 33 percent of the total assets.

Distributions of patronage dividends reported by exempt farmers' cooperatives amounted to $161 million in 1953. Of this total, $67 million was paid out in the form of cash or merchandise, $87 million in noncash other than merchandise, and $7 million in unspecified forms of value. A total of $9.5 million in dividends on capital stock was paid by 1,474 of these cooperatives in 1953. Also, nonpatronage income consisting of such items as interest, rent, capital gains, or income from business done with the Federal Government in the amount of $5.7 million was distributed to patrons by 464 exempt farmers' cooperatives.

Exempt cooperatives engaged in marketing alone filed 1,140 returns while those providing both marketing and purchasing services with marketing as the source of over half of their receipts, filed 1,831 returns. Purchasing alone and a combination of both marketing and purchasing with purchasing predominant were reported on only 1,195 of the exempt returns. Other services were reported on 963 of the exempt returns.

PROVISIONS OF THE LAW

To secure the advantages of exempt status, farmers', fruitgrowers', or similar associations must be organized and operated on a cooperative basis for the purpose of marketing the products of members or other producers and turning over to them the proceeds after deducting necessary costs, or selling supplies and equipment to members or other persons at actual cost plus necessary expenses. Other tests involve capital stock, business done for nonmembers, and the accumulation of reserve funds.

Exempt farmers' cooperative associations filed returns for 1953 on Form 990–C. Nonexempt associations filed

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corporation returns, Form 1120. Returns for exempt farmers' cooperatives must be filed on or before the 15th day of the ninth month following the close of the year covered by the return. This allows up to six months longer for an exempt farmers' cooperative beyond the filing date set for nonexempts.

While exempt farmers' cooperatives must file a separate return for each association in a group of affiliates, nonexempt farmers' cooperatives may file consolidated returns. Associations included as affiliates must be connected through stock ownership with a common parent which owns stock of at least one member of the group equal to at least 95 percent of the voting power of all classes of stock and of each class of nonvoting stock (except stock which is limited and preferred as to dividends). In addition, these same proportions of the stock of each other member must be owned by one or more of the related cooperatives. An additional tax, equal to 2 percent of the surtax net income, is imposed on cooperatives electing to file a consolidated return.

Only retained earnings of a farmers' cooperative, unallocated to patrons, are taxable. Under long established practice, cooperative associations and other corporations may exclude from gross income patronage dividends allocated to patrons. Exempt farmers' cooperatives are also allowed special deductions for dividends paid on capital stock and allocations to patrons of nonpatronage income. Nonpatronage income includes income from rents, interest, dividends, capital gains, or business done with the Federal Government. No credit is allowed organizations for patronage dividends received.

An exempt cooperative association may issue capital stock if the dividend rate is limited to 8 percent or the maximum rate allowed by the State in which the organization was incorporated. Substantially all of the stock, except nonvoting preferred stock without rights to participate in profits beyond the fixed dividend rate, must be owned by producers marketing products or purchasing supplies through the association.

Amounts allocated as patronage dividends must be allocated on the basis of business done with or for such patrons. An exempt farmers' cooperative must allocate patronage dividends to each patron in proportion to the business done with the patron whether they are members or not. Although a nonexempt organization may allocate dividends to members out of income from business done with nonmembers, such patronage dividends must be included in gross income and are taxable. Allocations must be made under a legal obligation existing prior to the receipt by the cooperative of the amount to be allocated. Income allocated as patronage dividends must be earned before the close of the year indicated on the return but may be considered by exempt cooperatives as distributed during the year if the allocation is made on or before the due date for filing the return. Also, an allocation as a patronage dividend must be revealed to each patron as well as recorded on the books of the cooperative.

While patrons of a cooperative may be either members or nonmembers, the value of products marketed or purchases made for nonmembers by an exempt cooperative must not exceed the value of products marketed or purchased for all members. However, the value of purchases made by an exempt farmers' cooperative for persons who are neither members nor producers cannot be greater than 15 percent of the value of purchases made for all patrons.

PRESENTATION OF DATA TABULATED

Sources of Data

Returns used in preparing this report were those filed on Form 990–C, "United States Exempt Cooperative Association Income Tax Return," by exempt farmers' cooperative associations and Form 1120, "United States Corporation Income Tax Return," by nonexempt farmers' cooperative associations for the calendar year 1953, fiscal years ended in the period July 1953 through June 1954, and part years with the greater part of the accounting period in 1953.

Forms 990–C and 1120 were income tax returns showing detailed sources of income and deductions and balance sheet items. Form 990–C also provided space for a detailed exhibit of special deductions allowed exempt organizations. Facsimiles of Forms 990–C and 1120 are shown on pages 18–39.

Data were tabulated from the returns as filed, prior to revisions resulting from audit by the Internal Revenue Service and carryback of subsequent operating losses to tax year 1953. Inactive returns were excluded from all tables.

Description of Tables

Financial data from returns of farmers' cooperative associations are presented in 9 basic tables. Detailed items of receipts and deductions and net income or loss are shown by exempt and nonexempt status in table 1.

Table 2 presents detailed data on assets and liabilities by exemption status for associations submitting balance sheets. A distribution of returns and total assets by size of total assets is shown in table 3.

Distributions by States and Territories are included in tables 4, 5, and 6. Table 4 relates to returns with business receipts showing total business receipts, gross sales, and gross receipts from operations by exempt and nonexempt returns. Tables 5 and 6 are classified by returns with net income and returns with no net income and include, for each classification, amounts of net income or deficit and tax. Table 5 presents data from exempt returns and table 6 from nonexempt returns.

The last three basic tables are based on exempt returns only. Number of returns, total business receipts, and amounts of gross sales and gross receipts from operations are classified by size of business receipts in table 7. Table 8 shows a distribution of returns by type

of service performed within each size of business receipts classification.

A tabulation of special deductions and adjustments allowed exempt farmers' cooperatives is presented for all returns, returns with net income, returns with neither net income nor deficit, and returns with deficit in table 9.

EXPLANATION OF TERMS

Assets and liabilities in tables 2 and 3 are as of the end of the income year. Amounts shown are net after certain adjustments, such as reserves.

Business receipts in tables 4, 7, and 8 are the sum of gross sales and gross receipts from operations.

Capital assets.—See "Net capital assets."

Cost of goods sold and cost of operations.—Cost of goods sold is applicable if inventories were an income-producing factor. Cost of operations is applicable in other instances. When identifiable amounts of taxes, depreciation, depletion, amortization, advertising, and contributions to pension and other benefit plans were included, they were transferred to deductions. For marketing associations, cost of goods sold may include all or only a portion of the patronage dividends allocated to patrons. (See "Patronage dividends.")

Deficit.—See "Net income" or "Paid-in or capital surplus and undivided profits."

Dividends paid on capital stock are allowed as a special deduction from the gross income of exempt farmers' cooperatives under section 101 (12) (B) of the Internal Revenue Code of 1939 and are the amounts actually or constructively paid as dividends during the taxable year upon common or preferred stock, capital retain certificates, or other documentary evidence of a proprietary interest in the cooperative association.

Dues, assessments, etc., received by exempt farmers' cooperatives from members and affiliated organizations are excluded from "Total compiled receipts." Those paid by exempt organizations to affiliated corporations are excluded from "Total compiled deductions." Such amounts were not reported separately on Form 1120 by nonexempt cooperatives and may be included in either "Other income" or "Other deductions" in table 1.

Exempt returns.—Farmers' cooperatives filing on Form 990–C are classified as exempt organizations. See "Provisions of law" section.

Gross receipts from operations consist of amounts received from transactions in which inventories are not an income-determining factor. For a purchasing or service cooperative, gross receipts may be reduced by the amount of patronage dividends allocated to patrons. (See "Patronage dividends.") Cost of operations is shown as a deduction.

Gross sales consist of amounts received for goods, less returns and allowances, in transactions where inventories are an income-determining factor. Cost of goods sold is shown as a deduction.

Income tax consists of normal tax, surtax, and the alternative tax payable under section 117 of the 1939 Code. The income tax tabulated is before credit for foreign taxes paid.

Liabilities.—See "Assets and liabilities."

Net capital assets shown in table 2 are depreciable and depletable assets after deduction for reserves for depreciation and depletion. Reserves for depreciation and depletion, reported under liabilities, were transferred to the appropriate asset reserve accounts.

Net income or deficit (before net operating loss deduction) is the difference between the total income and the sum of the total deductions and, for exempt associations, deductions and adjustments under section 101 (12) (B), reported on the return.

Net operating loss deduction shown in table 1 consists of the net operating loss carryover reported on the return and does not take into account a carryback of net operating loss from a succeeding tax year which may subsequently be made. The net operating loss is the excess of the deductions allowed by chapter 1 of the 1939 Code over the gross income after certain adjustments. Beginning in 1950, this loss may be carried back 1 year and forward 5 years as an offset against taxable income. For exempt cooperatives, the carryback and carryover provisions did not apply to years beginning before January 1, 1952. For nonexempt cooperatives, the amount reported for 1953 may include a small prorated loss carryover from years beginning in 1949 and ending in 1950. Prior to 1950 the maximum carryover period was 3 years.

Nonexempt returns.—Farmers' cooperatives filing on Form 1120 are classified as nonexempt organizations. See "Provisions of law" section.

Nonpatronage income allocated to patrons of exempt farmers' cooperatives, shown in tables 1 and 9, consists of incidental income not directly related to the marketing, purchasing, or service activities (e. g., rent, interest and dividends from temporary investments in securities, capital gains, and income from business done with the United States), allocated insofar as is practicable in proportion to the amount of business done by or for patrons during the period to which the income is attributable. Allocations must be made by the 15th day of the ninth month after the end of the year. This item is included in "Other deductions" in table 1.

Such nonpatronage income of nonexempt associations is taxable and not separately shown on Form 1120.

Number of returns excludes returns of inactive organizations. There were 98 returns of inactive exempt farmers' cooperatives filing on Form 990–C. No determination was made as to the number of inactive nonexempt farmers' cooperatives filing Form 1120.

Exempt farmers' cooperatives are prohibited from filing a consolidated return for the parent cooperative and its affiliates. Similarly, the privilege allowed other types of exempt organizations of filing group returns for the subsidiaries only, is denied exempt farmers' cooperatives.

Affiliated nonexempt cooperatives may file a consolidated return. The number of nonexempt farmers' coop-

eratives, if any, filing consolidated returns was not tabulated separately.

Other assets in table 2 consist of cash, notes and accounts receivable less reserve for bad debts, investments, and "Other assets" not reported separately on the return, such as sinking funds and other funds, deferred charges, organization expenses, prepaid and suspense items; interest, discount (except capital stock discount), coupons, and dividends receivable; and guaranty deposits.

Other deductions shown in table 1 consist of compensation of officers, salaries and wages not deducted elsewhere on the return, rent paid on business property, repairs, bad debts, interest and taxes paid, contributions or gifts paid; losses by fire, storm, shipwreck, or other casualty, or theft; depreciation, depletion, amortization of emergency and grain storage facilities, advertising, amounts contributed under employee benefit plans, net loss from sales other than capital assets, a portion of the patronage dividends paid or allocated (see "Patronage dividends"); expenses for development and exploration of mines, and oil and gas wells; amounts not itemized on the return form, such as administrative, general, and office expenses, bonuses and commissions, delivery charges, freight and shipping expenses, payments in connection with lawsuits, research expenses, sales discount, selling costs, travel expenses, unrealized profits on installment sales; for nonexempt cooperatives, deductible dues and assessments paid affiliated organizations, and, for exempt cooperatives, dividends paid on capital stock and nonpatronage income allocated to patrons.

Other income in table 1 consists of dividends, taxable and partially tax-exempt interest, rents, royalties, net gain from sales of capital assets and other property, and amounts not elsewhere reported on the return, such as profits from sales of commodities other than the principal commodity in which the association deals, income from minor operations, bad debts recovered, cash discounts; income from claims, license rights, judgments, and joint ventures; net amount under operating agreements, net profit from commissaries, profit on dealing in futures, profit on prior years' collections (installment basis), profit on purchase of cooperative's own bonds; recoveries of bonds, stocks, and other securities; refunds for cancellation of contracts, for insurance, management expenses, and processing taxes; income from sales of scrap, salvage, or waste; certain war loss recoveries; and, for nonexempt cooperatives, patronage dividends, dues and assessments received from members and affiliated organizations, and tax-exempt interest on certain Government obligations. (Such interest was not tabulated for exempt cooperatives.)

Other liabilities in table 2 consist of accounts payable, accrued expenses, and amounts not elsewhere reported on the return, such as deferred and suspense items, dividends payable, funds held in trust, borrowed securities, outstanding coupons and certificates, overdrafts, unrealized profit (installment trading), memberships, members' advances, certificates of beneficial interest, certificates of participation, and revolving fund credits.

Other services in table 8 are those not directly associated with marketing or purchasing activities, such as breeding associations.

Paid-in or capital surplus and undivided profits also includes earned surplus, donated surplus, surplus by appreciation, and premiums on capital stock. **Deficit** consists of negative amounts of paid-in or capital surplus and undivided profits. Capital stock discount either reduces paid-in or capital surplus or increases "Deficit."

Patronage dividends, rebates, and refunds are amounts paid or allocated by a cooperative association to the account of a patron on the basis of the business done with or for such patron. Tables 1 and 9 may not include all patronage dividends paid by reporting farmers' cooperatives.

The amounts shown as "Patronage dividends" are only those taken by exempt cooperatives and only when itemized as "Special deductions and adjustments." Patronage dividends of exempt associations marketing products for patrons are an increase either in cost of goods sold or in "Special deductions and adjustments" and "Other deductions" in table 1. Patronage dividends of exempt associations purchasing supplies and equipment or performing other services for patrons either are a reduction in gross receipts or are included in "Special deductions and adjustments," and "Other deductions" in table 1. When taken as part of cost of goods sold, amounts of patronage dividends are not identifiable on the return. When taken as a reduction of gross receipts, they are not reported.

Patronage dividends allocated by nonexempt cooperative corporations either are excluded from gross income or, if included therein, are deducted as "Cost of goods sold" or "Other deductions" in table 1. In both instances, the amounts are not identifiable on Form 1120 and are not included in tables 1 and 9 as "Patronage dividends."

Patronage dividends, rebates, and refunds received or allocated from exempt or nonexempt cooperative associations are shown for exempt cooperatives only, in table 1, since the item does not appear on Form 1120. Patronage dividends are included in the "Total compiled receipts" of both exempt and nonexempt associations.

Receipts.—See "Gross receipts from operations," "Business receipts," or "Total compiled receipts."

Returns with balance sheets include only returns which reported complete balance sheet data as of the end of the year and had a full year of activity. Part-year returns and returns with incomplete balance sheets are included among returns with "Balance sheets not available." Over 90 percent of the returns tabulated provided usable balance sheet data.

Returns with neither net income nor deficit.—Data from returns with neither net income nor deficit are shown in tables 5 and 9 for exempt cooperatives. These are returns with gross income completely distributed (before net operating loss deduction) in the form of costs, expenses, income allocated to patrons, dividends paid on capital stock, and other allowable deductions.

Returns with no net income are returns with deficit and returns with neither net income nor deficit. Data from returns with no net income for nonexempt cooperatives by States and Territories are shown in table 6. Also see "Net income or deficit."

Special deductions and adjustments are the deductions and adjustments of exempt cooperative associations under section 101 (12) (B) of the 1939 Code and consist of dividends paid on capital stock, nonpatronage income allocated to patrons, and patronage dividends. These items appear in tables 1 and 9. For the extent to which patronage dividends may be included, see "Patronage dividends." "Other deductions" and "Total compiled deductions" include these "Special deductions and adjustments."

States and Territories.—The classification, States and Territories, in tables 4, 5, and 6, is determined by the district in which the tax return is filed and may not represent a consistent geographic distribution of the data tabulated. An exempt or a nonexempt farmers' cooperative, or a nonexempt association filing a consolidated return for an affiliated group of associations, may file its return either in the district in which it has its principal place of business or in the district in which it has its principal office or agency. Therefore, a tabulation for a given State may not be a complete coverage of all cooperatives whose principal place of business is located therein and, on the other hand, may include data for cooperatives having their principal place of business in another State.

Surplus.—See "Paid-in or capital surplus and undivided profits."

Total compiled deductions in table 1 consist of cost of goods sold, cost of operations, and other items of deductions listed as "Other deductions" in this section, including, for exempt cooperatives, special deductions and adjustments under section 101 (12) (B) of the 1939 Code.

Total compiled receipts in table 1 consist of gross sales, gross receipts from operations; patronage dividends, rebates, and refunds; and other items of income listed in "Other income" in this section. Nontaxable income is excluded except that, for nonexempt cooperatives, tax-exempt interest of certain Government obligations is included.

SELECTION OF RETURNS AND LIMITATIONS OF DATA

Sources of Data

The data were derived from two types of returns processed by the Internal Revenue Service during calendar year 1954. The first type of return was that filed by farmers' cooperatives on Form 990–C. This form is used by farmers' cooperatives which have been ruled tax exempt by the Internal Revenue Service. The second type of return was that filed by farmers' cooperatives on a regular corporation income tax Form 1120. This form is used by nonexempt farmers' cooperatives.

Exempt Farmers' Cooperatives Filing Form 990–C

Specifications required that all Forms 990–C, processed during calendar year 1954 and which showed accounting years ended in the period July 1953 through June 1954, be included in the tabulation. The total number of such returns was 5,141. Since these returns were not sampled, the data derived from them are not subject to sampling error. However, the data are subject to various sources of nonsampling errors or bias, as follows: (1) the data are derived from unaudited returns, (2) coverage may have been incomplete, and (3) there may be errors resulting from processing operations, such as sorting, editing, coding, and tabulating.

The Sampling of Nonexempt Farmers' Cooperatives Filing Form 1120

The sample plan.—The farmers' cooperative filing corporation income tax returns, Form 1120, were selected from the sample of corporation income tax returns used to derive data for *Statistics of Income for 1953, Part 2*. The population of corporation returns was stratified into large, medium, and small, as well as into taxable and nontaxable, within each Internal Revenue district. Large, medium, and small returns were defined as follows:

1. Large: Gross sales, gross receipts, or total income of $500,000 or more
2. Medium: Gross sales, gross receipts, or total income—each one of these characteristics less than $500,000, but at least one between $100,000 and $500,000
3. Small: Gross sales, gross receipts, and total income—each one less than $100,000

The total sample of about 186,000 corporation returns was searched for any return which indicated that it was a farmers' cooperative. The number of such returns, the sampling rates, and the estimated population, by strata, are as follows:

Strata	*Number in sample*	*Sampling rate (Percent)*	*Estimated population*
Large	920	100	920
Medium	222	20	1, 110
Small	114	10	1, 140
Total	1, 256	--------	3, 170

The weights used to derive data from this sample were the inverses of the sampling rates.

Sources of error.—The major sources of error in the data are the following: (1) the data are derived from unaudited returns, (2) coverage may have been incomplete, (3) there may be errors resulting from processing operations such as sorting, editing, coding, and tabulating,

and (4) there is sampling variability which arises from the fact that farmers' cooperatives filing Form 1120 were sampled.

There is no sampling error in data derived solely from the 920 large returns. Furthermore, where these returns account for a large proportion of the total value of the item, the sampling error for this total may be quite small. For example, these large returns account for 80 percent of the gross sales of all nonexempt returns. The maximum sampling variability (95 percent level) in basic items for nonexempt returns only and for all farmers' cooperatives are as follows. These limits will be exceded in the long run in about 5 out of 100 similar samples of these 1953 nonexempt returns.

Class	*Item*	*Sampling variability (Percent)*	
		Nonexempt returns only	*All farmers' cooperatives*
All returns	Gross sales	±4.9	±1.6
All returns	Net income	±6.2	±5.5
All returns	Deficit income	±24.2	±5.0
All returns	Income tax	±6.5	±6.1
All returns	Assets	±7.6	±2.4
Returns with total assets under $50,000.	Assets	±21.0	±9.5

Errors in the Combined Data (Exempt and Nonexempt Returns)

Coverage.—The coverage of the present data for all farmers' cooperatives differs from data published by the Department of Agriculture in two respects: Number of farmers' cooperatives and volume of business.

The present tabulation shows 8,311 returns compared with 10,058 associations reported by the Department of Agriculture. This difference is attributed to several factors: Some organizations, considered farmers' cooperatives by the Department of Agriculture, are not farmers' cooperatives according to the Internal Revenue Service. It is likely that all farmers' cooperatives filing on Form 1120 and falling in the Statistics of Income sample were not identified. Some farmers' cooperatives may not file with Internal Revenue Service and yet report to the Department of Agriculture. A cooperative with local, regional, and national organizations may be reporting to the Internal Revenue Service on a different basis from that used in reporting to the Department of Agriculture.

The present tabulation shows a much lower volume of business than does the report issued by the Department of Agriculture. This is because a number of cooperatives report a volume of business to the Department of Agriculture which includes sales in transactions in which the cooperatives acted only as agents for their members in closing sales or in securing price agreements. This volume of business is not reported by the cooperatives for tax purposes.

Sampling errors.—The data for all farmers' cooperatives, in which data from exempt returns are added to weighted data from nonexempt returns, are subject to both sampling and nonsampling errors. The sampling errors in these combined figures for selected items are shown in the preceding section.

Tables

Table 1.—EXEMPT AND NONEXEMPT RETURNS—RECEIPTS, DEDUCTIONS, AND NET INCOME OR DEFICIT

Items	Total	Exempt	Nonexempt
	(1)	(2)	(3)
Number of returns	8,311	5,141	3,170
	(Thousand dollars)		
Receipts:			
Gross sales	7,028,212	4,613,889	2,414,323
Gross receipts from operations	308,648	262,365	46,283
Patronage dividends, rebates, and refunds	[1]19,815	19,815	([1])
Other income	62,183	35,037	27,146
Total compiled receipts	7,418,858	4,931,106	2,487,752
Deductions:			
Cost of goods sold	6,324,198	4,108,501	2,215,697
Cost of operations	165,534	154,256	11,278
Other deductions	913,998	675,307	238,691
Total compiled deductions	7,403,730	4,938,064	2,465,666
Special deductions and adjustments:[2]			
Dividends paid on capital stock	9,532	9,532	-
Nonpatronage income allocated to patrons	5,733	5,733	-
Patronage dividends:			
Cash or merchandise	[1]66,656	66,656	([1])
Noncash	[1]86,898	86,898	([1])
Not segregated	[1]7,442	7,442	([1])
Total special deductions	176,261	176,261	-
Net income or deficit	15,128	[3]6,958	22,086
Net operating loss deduction	2,347	960	1,387
Dues, assessments, etc.:			
From members and affiliated organizations	[1]1,063	1,063	([1])
To affiliated organizations	[1]316	316	([1])

[1]Patronage dividends and dues, assessments, etc., received, paid, or allocated by nonexempt farmers' cooperatives are not required to be separately reported on Form 1120. For treatment of each item, see "Explanation of Terms" in the text.
[2]The special deductions are included in "Other deductions" shown in the table.
[3]Deficit.
NOTE: See text for explanation of terms and for reliability of the data.

Table 2.—EXEMPT AND NONEXEMPT RETURNS WITH BALANCE SHEETS—ASSETS AND LIABILITIES

Items	Total	Exempt	Nonexempt
	(1)	(2)	(3)
Number of returns with balance sheets	7,720	4,713	3,007
	(Thousand dollars)		
Assets:			
Inventories	607,478	429,909	177,569
Net capital assets (except land)	833,181	563,748	269,433
Land	31,061	20,586	10,475
Other assets	1,166,439	791,395	375,044
Total assets	2,638,159	1,805,638	832,521
Liabilities:			
Bonds, notes, mortgages payable:			
Maturity less than 1 year	127,527	87,120	40,407
Maturity 1 year or more	453,830	304,396	149,434
Other liabilities	1,209,958	909,632	300,326
Capital stock, preferred	219,495	156,895	62,600
Capital stock, common	379,926	224,826	155,100
Paid-in or capital surplus and undivided profits	126,988	15,162	111,826
Less: Deficit	11,747	5,445	6,302
Surplus reserves	132,182	113,052	19,130
Total liabilities	2,638,159	1,805,638	832,521

NOTE: See text for explanation of terms and for reliability of the data.

Table 3.—EXEMPT AND NONEXEMPT RETURNS—NUMBER AND TOTAL ASSETS BY SIZE OF TOTAL ASSETS

Size of total assets	Total		Exempt		Nonexempt	
	Number of returns	Total assets (Thousand dollars)	Number of returns	Total assets (Thousand dollars)	Number of returns	Total assets (Thousand dollars)
	(1)	(2)	(3)	(4)	(5)	(6)
Under $50,000	2,329	50,014	1,413	27,280	916	22,734
$50,000 under $100,000	1,423	104,739	812	60,886	611	43,853
$100,000 under $250,000	2,171	352,032	1,254	204,864	917	147,168
$250,000 under $500,000	1,033	360,915	662	232,983	371	127,932
$500,000 under $1,000,000	434	302,151	325	225,617	109	76,534
$1,000,000 under $5,000,000	272	519,023	204	388,787	68	130,236
$5,000,000 under $10,000,000	33	220,607	27	176,474	6	44,133
$10,000,000 under $50,000,000	22	507,892	14	320,395	8	187,497
$50,000,000 under $100,000,000	2	102,809	1	50,375	1	52.434
$100,000,000 or more	1	117,977	1	117,977	-	-
Total	7,720	2,638,159	4,713	1,805,638	3,007	832,521
Balance sheets not available	591	-	428	-	163	-
Grand total	8,311	2,638,159	5,141	1,805,638	3,170	832,521

NOTE: See text for explanation of terms and for reliability of the data.

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Table 4.—EXEMPT AND NONEXEMPT RETURNS—NUMBER, GROSS SALES, AND GROSS RECEIPTS FROM OPERATIONS, BY STATES AND TERRITORIES

	States and Territories	Total[1]					Exempt					
		Number of returns	Returns with business receipts		Gross sales	Gross receipts from operations	Number of returns	Returns with business receipts		Gross sales	Gross receipts from operations	
			Total					Total				
			Number of returns	Amount (Thousand dollars)	(Thousand dollars)	(Thousand dollars)		Number of returns	Amount (Thousand dollars)	(Thousand dollars)	(Thousand dollars)	
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
1	Alabama	36	36	18,272	16,924	1,348	36	36	18,272	16,924	1,348	1
2	Alaska	2	1	390	390	-	2	1	390	390	-	2
3	Arizona	14	14	24,742	23,964	778	12	12	6,834	6,056	778	3
4	Arkansas	96	94	57,471	28,629	28,842	61	59	53,391	26,540	26,851	4
5	California	553	535	1,108,934	1,013,272	95,662	484	467	1,020,752	929,308	91,444	5
6	Colorado	57	52	67,147	65,870	1,277	30	25	11,277	10,590	687	6
7	Connecticut	36	34	43,587	42,723	864	31	29	42,436	41,572	864	7
8	Delaware	1	1	10	-	10	1	1	10	-	10	8
9	District of Columbia	2	2	36,784	36,784	-	1	1	35,075	35,075	-	9
10	Florida	107	105	112,644	104,142	8,502	75	73	67,854	62,484	5,370	10
11	Georgia	40	40	21,171	20,970	201	38	38	19,178	18,977	201	11
12	Hawaii	12	12	3,884	3,804	80	12	12	3,884	3,804	80	12
13	Idaho	66	64	58,162	54,517	3,645	46	44	48,120	44,652	3,468	13
14	Illinois	434	415	522,929	513,215	9,714	97	96	116,895	110,673	6,222	14
15	Indiana	162	162	362,071	351,002	11,069	147	147	353,910	342,917	10,993	15
16	Iowa	543	531	382,567	376,086	6,481	164	162	70,891	69,982	909	16
17	Kansas	383	383	202,344	194,350	7,994	85	85	45,638	44,655	983	17
18	Kentucky	37	35	14,512	14,100	412	32	30	13,671	13,259	412	18
19	Louisiana	42	42	22,799	22,191	608	27	27	15,398	14,790	608	19
20	Maine	12	11	3,971	3,865	106	12	11	3,971	3,865	106	20
21	Maryland	37	37	23,937	23,007	930	29	29	10,831	9,986	845	21
22	Massachusetts	40	40	169,748	165,572	4,176	28	28	162,047	158,124	3,923	22
23	Michigan	176	168	191,735	189,680	2,055	130	122	121,087	119,777	1,310	23
24	Minnesota	1,064	1,030	812,611	806,926	5,685	718	684	656,834	651,952	4,882	24
25	Mississippi	45	44	42,261	39,538	2,723	39	38	37,216	34,967	2,249	25
26	Missouri	233	225	302,641	298,243	4,398	144	142	128,042	125,483	2,559	26
27	Montana	125	121	45,075	44,880	195	80	76	29,204	29,015	189	27
28	Nebraska	442	441	205,253	201,954	3,299	156	155	94,753	92,718	2,035	28
29	Nevada	11	11	1,290	1,255	35	(2)	(2)	(2)	(2)	(2)	29
30	New Hampshire	8	8	13,073	12,658	415	5	5	6,441	6,026	415	30
31	New Jersey	44	43	46,706	43,213	3,493	31	30	43,310	39,874	3,436	31
32	New Mexico	18	18	11,684	10,189	1,495	18	18	11,684	10,189	1,495	32
33	New York	291	281	330,124	312,349	17,775	147	147	98,992	87,596	11,396	33
34	North Carolina	78	67	90,598	89,985	613	57	56	88,765	88,152	613	34
35	North Dakota	467	464	139,870	136,582	3,288	290	287	87,855	85,793	2,062	35
36	Ohio	260	256	372,008	363,080	8,928	166	162	262,114	254,224	7,890	36
37	Oklahoma	194	192	85,288	81,740	3,548	121	119	37,613	35,338	2,275	37
38	Oregon	129	119	135,277	128,724	6,553	110	100	117,888	111,395	6,493	38
39	Pennsylvania	157	153	95,727	85,813	9,914	156	152	94,937	85,023	9,914	39
40	Rhode Island	-	-	-	-	-	(2)	(2)	(2)	(2)	(2)	40
41	South Carolina	22	21	4,024	3,851	173	7	6	1,430	1,399	31	41
42	South Dakota	283	280	96,334	95,305	1,029	115	112	38,115	37,521	594	42
43	Tennessee	83	80	32,907	32,176	731	73	70	32,518	32,176	342	43
44	Texas	437	431	201,100	184,199	16,901	423	417	189,891	173,008	16,883	44
45	Utah	35	19	68,395	66,068	2,327	33	17	47,604	45,316	2,288	45
46	Vermont	15	14	21,662	21,172	490	14	13	17,308	16,818	490	46
47	Virginia	106	105	72,184	71,101	1,083	59	58	46,265	45,799	466	47
48	Washington	182	175	259,860	249,060	10,800	153	146	200,319	190,203	10,116	48
49	West Virginia	15	15	3,513	2,013	1,500	15	15	3,513	2,013	1,500	49
50	Wisconsin	669	650	393,656	377,213	16,443	421	413	257,903	243,623	14,280	50
51	Wyoming	10	9	3,928	3,868	60	10	9	3,928	3,868	60	51
52	Total	8,311	8,086	7,336,860	7,028,212	308,648	5,141	4,982	4,876,254	4,613,889	262,365	52

See footnotes at end of table.

Table 4.—EXEMPT AND NONEXEMPT RETURNS—NUMBER, GROSS SALES, AND GROSS RECEIPTS FROM OPERATIONS, BY STATES AND TERRITORIES—Con.

	States and Territories	Nonexempt[1]					
		Number of returns	Returns with business receipts				
			Total		Gross sales	Gross receipts from operations	
			Number of returns	Amount (Thousand dollars)	(Thousand dollars)	(Thousand dollars)	
		(11)	(12)	(13)	(14)	(15)	
1	Alabama	-	-	-	-	-	1
2	Alaska	-	-	-	-	-	2
3	Arizona	2	2	17,908	17,908	-	3
4	Arkansas	35	35	4,080	2,089	1,991	4
5	California	69	68	88,182	83,964	4,218	5
6	Colorado	27	27	55,870	55,280	590	6
7	Connecticut	5	5	1,151	1,151	-	7
8	Delaware	-	-	-	-	-	8
9	District of Columbia	1	1	1,709	1,709	-	9
10	Florida	32	32	44,790	41,658	3,132	10
11	Georgia	2	2	1,993	1,993	-	11
12	Hawaii	-	-	-	-	-	12
13	Idaho	20	20	10,042	9,865	177	13
14	Illinois	337	319	406,034	402,542	3,492	14
15	Indiana	15	15	8,161	8,085	76	15
16	Iowa	379	369	311,676	306,104	5,572	16
17	Kansas	298	298	156,706	149,695	7,011	17
18	Kentucky	5	5	841	841	-	18
19	Louisiana	15	15	7,401	7,401	-	19
20	Maine	-	-	-	-	-	20
21	Maryland	8	8	13,106	13,021	85	21
22	Massachusetts	12	12	7,701	7,448	253	22
23	Michigan	46	46	70,648	69,903	745	23
24	Minnesota	346	346	155,777	154,974	803	24
25	Mississippi	6	6	5,045	4,571	474	25
26	Missouri	89	83	174,599	172,760	1,839	26
27	Montana	45	45	15,871	15,865	6	27
28	Nebraska	286	286	110,500	109,236	1,264	28
29	Nevada	11	11	1,290	1,255	35	29
30	New Hampshire	3	3	6,632	6,632	-	30
31	New Jersey	13	13	3,396	3,339	57	31
32	New Mexico	-	-	-	-	-	32
33	New York	144	134	231,132	224,753	6,379	33
34	North Carolina	21	11	1,833	1,833	-	34
35	North Dakota	177	177	52,015	50,789	1,226	35
36	Ohio	94	94	109,894	108,856	1,038	36
37	Oklahoma	73	73	47,675	46,402	1,273	37
38	Oregon	19	19	17,389	17,329	60	38
39	Pennsylvania	1	1	790	790	-	39
40	Rhode Island	-	-	-	-	-	40
41	South Carolina	15	15	2,594	2,452	142	41
42	South Dakota	168	168	58,219	57,784	435	42
43	Tennessee	10	10	389	-	389	43
44	Texas	14	14	11,209	11,191	18	44
45	Utah	2	2	20,791	20,752	39	45
46	Vermont	1	1	4,354	4,354	-	46
47	Virginia	47	47	25,919	25,302	617	47
48	Washington	29	29	59,541	58,857	684	48
49	West Virginia	-	-	-	-	-	49
50	Wisconsin	248	237	135,753	133,590	2,163	50
51	Wyoming	-	-	-	-	-	51
52	Total	3,170	3,104	2,460,606	2,414,323	46,283	52

[1]For nonexempt returns data are based on a probability sample; therefore, for any single State the frequencies, amounts, or absence of such entries are only approximate indications of actual conditions.

[2]No returns were filed.

NOTE: See text for explanation of terms and for reliability of the data.

Table 5.—EXEMPT RETURNS—NUMBER, NET INCOME OR DEFICIT, AND TAX, BY STATES AND TERRITORIES

	States and Territories	Total number of returns	Returns with net income			Returns with deficit		Number of returns with neither net income nor deficit	
			Net income		Income tax	Number of returns	Deficit		
			Number of returns	Amount (Thousand dollars)	(Thousand dollars)		(Thousand dollars)		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	
1	Alabama	36	4	2	-	9	111	23	1
2	Alaska	2	-	-	-	1	5	1	2
3	Arizona	12	-	-	-	4	17	8	3
4	Arkansas	61	7	9	1	13	34	41	4
5	California	484	12	30	8	78	730	394	5
6	Colorado	30	4	10	3	8	31	18	6
7	Connecticut	31	3	4	1	7	41	21	7
8	Delaware	1	-	-	-	1	(1)	-	8
9	District of Columbia	1	-	-	-	-	-	1	9
10	Florida	75	15	264	85	19	477	41	10
11	Georgia	38	2	2	1	13	335	23	11
12	Hawaii	12	1	1	-	1	(1)	10	12
13	Idaho	46	1	(1)	-	24	139	21	13
14	Illinois	97	55	173	28	27	284	15	14
15	Indiana	147	62	81	6	59	323	26	15
16	Iowa	164	51	110	26	53	144	60	16
17	Kansas	85	13	13	2	23	16	49	17
18	Kentucky	32	-	-	-	21	241	11	18
19	Louisiana	27	1	5	1	6	101	20	19
20	Maine	12	4	5	1	4	43	4	20
21	Maryland	29	6	9	2	14	122	9	21
22	Massachusetts	28	5	9	1	6	123	17	22
23	Michigan	130	17	41	10	40	506	73	23
24	Minnesota	718	143	81	9	171	933	404	24
25	Mississippi	39	3	2	-	5	185	31	25
26	Missouri	144	54	48	4	65	614	25	26
27	Montana	80	35	23	7	10	5	35	27
28	Nebraska	156	45	136	43	30	144	81	28
29	Nevada[2]	-	-	-	-	-	-	-	29
30	New Hampshire	5	1	1	-	-	-	4	30
31	New Jersey	31	5	21	-	11	223	15	31
32	New Mexico	18	1	14	-	4	9	13	32
33	New York	147	22	34	5	39	273	86	33
34	North Carolina	57	12	27	8	25	66	20	34
35	North Dakota	290	84	36	9	21	65	185	35
36	Ohio	166	79	501	170	43	272	44	36
37	Oklahoma	121	85	380	111	20	67	16	37
38	Oregon	110	15	52	8	29	273	66	38
39	Pennsylvania	156	53	111	17	33	43	70	39
40	Rhode Island[2]	-	-	-	-	-	-	-	40
41	South Carolina	7	-	-	-	5	11	2	41
42	South Dakota	115	47	21	3	29	90	39	42
43	Tennessee	73	8	6	1	14	156	51	43
44	Texas	423	69	284	26	112	1,349	242	44
45	Utah	33	11	158	7	16	209	6	45
46	Vermont	14	1	1	-	4	28	9	46
47	Virginia	59	12	36	8	16	67	31	47
48	Washington	153	24	107	14	25	430	104	48
49	West Virginia	15	-	-	-	6	4	9	49
50	Wisconsin	421	97	113	12	128	508	196	50
51	Wyoming	10	2	4	1	4	76	4	51
52	Total	5,141	1,171	2,965	639	1,296	9,923	2,674	52

[1]Less than $500.
[2]No returns were filed.
NOTE: See text for explanation of terms and for reliability of the data.

Table 6.—NONEXEMPT RETURNS—NUMBER, NET INCOME OR DEFICIT, AND TAX, BY STATES AND TERRITORIES

	States and Territories	Total number of returns	Returns with net income			Returns with no net income		
			Net income		Income tax	Number of returns	Deficit	
			Number of returns	Amount (Thousand dollars)	(Thousand dollars)		(Thousand dollars)	
		(1)	(2)	(3)	(4)	(5)	(6)	
1	Alabama	-	-	-	-	-	-	1
2	Alaska	-	-	-	-	-	-	2
3	Arizona	2	1	23	7	1	-	3
4	Arkansas	35	30	129	29	5	-	4
5	California	69	18	1,723	836	51	320	5
6	Colorado	27	14	121	36	13	92	6
7	Connecticut	5	5	13	4	-	-	7
8	Delaware	-	-	-	-	-	-	8
9	District of Columbia	1	-	-	-	1	4	9
10	Florida	32	15	366	58	17	30	10
11	Georgia	2	1	6	2	1	16	11
12	Hawaii	-	-	-	-	-	-	12
13	Idaho	20	20	55	16	-	-	13
14	Illinois	337	315	4,770	1,675	22	193	14
15	Indiana	15	14	155	46	1	4	15
16	Iowa	379	334	2,120	644	45	137	16
17	Kansas	298	239	1,945	575	59	105	17
18	Kentucky	5	-	-	-	5	-	18
19	Louisiana	15	5	157	63	10	-	19
20	Maine	-	-	-	-	-	-	20
21	Maryland	8	7	71	21	1	-	21
22	Massachusetts	12	1	11	3	11	-	22
23	Michigan	46	34	345	111	12	64	23
24	Minnesota	346	216	674	109	130	232	24
25	Mississippi	6	1	7	2	5	-	25
26	Missouri	89	75	481	177	14	88	26
27	Montana	45	45	76	20	-	-	27
28	Nebraska	286	253	747	208	33	67	28
29	Nevada	11	1	3	1	10	63	29
30	New Hampshire	3	2	46	21	1	-	30
31	New Jersey	13	13	37	11	-	-	31
32	New Mexico	-	-	-	-	-	-	32
33	New York	144	75	4,639	2,272	69	348	33
34	North Carolina	21	10	3	1	11	5	34
35	North Dakota	177	135	289	86	42	24	35
36	Ohio	94	86	795	233	8	64	36
37	Oklahoma	73	63	2,608	1,229	10	65	37
38	Oregon	19	18	47	14	1	-	38
39	Pennsylvania	1	1	3	-	-	-	39
40	Rhode Island	-	-	-	-	-	-	40
41	South Carolina	15	10	87	26	5	101	41
42	South Dakota	168	107	340	83	61	299	42
43	Tennessee	10	10	105	31	-	-	43
44	Texas	14	7	52	11	7	2	44
45	Utah	2	1	5	1	1	6	45
46	Vermont	1	-	-	-	1	17	46
47	Virginia	47	29	134	35	18	52	47
48	Washington	29	19	195	72	10	-	48
49	West Virginia	-	-	-	-	-	-	49
50	Wisconsin	248	140	1,295	427	108	194	50
51	Wyoming	-	-	-	-	-	-	51
52	Total	3,170	2,370	24,678	9,196	800	2,592	52

NOTE: For nonexempt returns, data are based on a probability sample; therefore, for any single State, the frequencies, amounts, or absence of such entries are only approximate indications of actual conditions. See text for explanation of terms and for reliability of the data.

Table 7.—EXEMPT RETURNS—NUMBER, GROSS SALES, AND GROSS RECEIPTS FROM OPERATIONS, BY SIZE OF BUSINESS RECEIPTS

Size of business receipts	Number of returns	Business receipts		
		Total (Thousand dollars)	Gross sales (Thousand dollars)	Gross receipts from operations (Thousand dollars)
	(1)	(2)	(3)	(4)
None	159	-	-	-
Under $50,000	989	14,070	5,691	8,379
$50,000 under $75,000	210	12,867	8,957	3,910
$75,000 under $100,000	218	18,870	14,836	4,034
$100,000 under $150,000	425	52,737	44,556	8,181
$150,000 under $200,000	351	61,318	53,878	7,440
$200,000 under $250,000	303	67,522	62,734	4,788
$250,000 under $300,000	266	73,052	64,959	8,093
$300,000 under $400,000	370	127,975	120,034	7,941
$400,000 under $500,000	290	130,265	121,040	9,225
$500,000 under $1,000,000	741	523,632	490,511	33,121
$1,000,000 under $5,000,000	687	1,355,848	1,297,089	58,759
$5,000,000 under $10,000,000	74	518,418	471,728	46,690
$10,000,000 under $25,000,000	36	562,556	558,983	3,573
$25,000,000 or more	22	1,357,124	1,298,893	58,231
Total	5,141	4,876,254	4,613,889	262,365

NOTE: See text for explanation of terms and for reliability of the data.

Table 8.—EXEMPT RETURNS—NUMBER BY SIZE OF BUSINESS RECEIPTS AND BY TYPE OF SERVICE PERFORMED

Size of business receipts	Total	Type of service performed					
		Marketing only	Purchasing only	Both marketing and purchasing		Other services	Not stated
				Marketing predominant	Purchasing predominant		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
None	159	27	12	1	-	110	9
Under $50,000	989	195	98	60	10	625	1
$50,000 under $75,000	210	62	55	34	12	47	-
$75,000 under $100,000	218	58	65	53	10	32	-
$100,000 under $150,000	425	102	148	126	17	32	-
$150,000 under $200,000	351	82	79	132	30	27	1
$200,000 under $250,000	303	77	89	107	22	8	-
$250,000 under $300,000	266	61	61	108	19	17	-
$300,000 under $400,000	370	85	70	176	25	14	-
$400,000 under $500,000	290	49	44	157	31	9	-
$500,000 under $1,000,000	741	143	77	406	85	30	-
$1,000,000 under $5,000,000	687	155	29	405	87	10	1
$5,000,000 under $10,000,000	74	21	4	41	7	1	-
$10,000,000 under $25,000,000	36	15	2	17	2	-	-
$25,000,000 or more	22	8	3	8	2	1	-
Total	5,141	1,140	836	1,831	359	963	12

NOTE: See text for explanation of terms and for reliability of the data.

Facsimiles of Return Forms

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FORM 990-C
U. S. Treasury Department
Internal Revenue Service

UNITED STATES
EXEMPT COOPERATIVE ASSOCIATION INCOME TAX RETURN

1953

(For Farmers' Cooperative Marketing and Purchasing Association
Under Section 101 (12), Internal Revenue Code)
FOR CALENDAR YEAR 1953

or fiscal year beginning _____, 1953, and ending _____, 1954

File Code _____
Serial No. _____
District _____
(Cashier's stamp)

PRINT PLAINLY ASSOCIATION'S NAME AND ADDRESS

_____ (Name)

_____ (Street and number)

_____ (City or town, postal zone number) (State)

Date of letter exempting you under section 101 (12) _____

First Payment $_____

NET INCOME COMPUTATION

Item and Instruction No.			
	GROSS INCOME		
1.	Gross sales (where inventories are an income-determining factor). $_____; Less: Returns and allowances $_____	$_____	
2.	Less: Cost of goods sold. (From Schedule A)		
3.	Gross profit from sales	$_____	
4.	Gross receipts (where inventories are not an income-determining factor)	$_____	
5.	Less: Cost of operations. (From Schedule B)		
6.	Gross profit where inventories are not an income-determining factor		
7.	(*a*) Dividends on capital stock. (From Schedule C-1)		
	(*b*) Patronage dividends, rebates, and refunds. (From Schedule C-2)		
8.	Interest on loans, notes, mortgages, bonds, bank deposits, etc.		
9.	Interest on corporation bonds, etc. (Gross Amount of Interest $_____; Less: Amortizable Bond Premium $_____)		
10.	(*a*) Interest on United States savings bonds and Treasury bonds owned in excess of the principal amount of $5,000 issued prior to March 1, 1941		
	(*b*) Interest on obligations of certain instrumentalities of the United States issued prior to March 1, 1941		
	(*c*) Interest on Treasury notes issued on or after December 1, 1940, and obligations issued on or after March 1, 1941, by the United States or any agency or instrumentality thereof		
11.	Rents		
12.	Royalties		
13.	(*a*) Net short-term capital gain less any net long-term capital loss. (From Schedule D)		
	(*b*) Net long-term capital gain less any net short-term capital loss. (From Schedule D)		
	(*c*) Net gain (or loss) from sale or exchange of property other than capital assets. (From Schedule D)		
14.	Other income. (State nature)		
15.	Total income in items 3, and 6 to 14, inclusive		$_____
	DEDUCTIONS		
16.	Compensation of officers. (From Schedule E)	$_____	
17.	Salaries and wages (not deducted elsewhere)		
18.	Rent		
19.	Repairs (do not include cost of improvements or capital expenditures)		
20.	Bad debts. (From Schedule F)		
21.	Interest		
22.	Taxes. (From Schedule G)		
23.	Contributions or gifts paid. (From Schedule H)		
24.	Losses by fire, storm, shipwreck, or other casualty, or theft. (Submit schedule)		
25.	Depreciation. (From Schedule I)		
26.	Depletion of mines, oil and gas wells, timber, etc. (Submit schedule)		
27.	Amortization of emergency and grain storage facilities. (Submit schedule)		
28.	Advertising		
29.	(*a*) Amounts contributed under a pension, annuity, stock bonus, or profit-sharing plan		
	(*b*) Amounts contributed under other employee benefit plans		
30.	Other deductions authorized by law except items 33 and 35, below		
31.	Total deductions in items 16 to 30, inclusive		
32.	Difference between item 15 and item 31		$_____
33.	Deductions and adjustments under section 101 (12) (B) (From Schedule J-2)		
34.	Net income before net operating loss deduction (item 32 minus item 33)		$_____
35.	Less: Net operating loss deduction. (Submit statement)		
36.	Net income		$_____
	TOTAL INCOME TAX		
37.	Balance of income tax due (line 9, page 3). (For installment payments, see General Instruction D)		$_____

DECLARATION. (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 association for which this return is made, each for himself declares under the penalties of perjury 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.

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

_____ (Date)

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

CORPORATE SEAL

DECLARATION. (See Instruction E)

I/we declare under the penalties of perjury 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.

_____ (Signature of person preparing the return) _____ (Signature of person preparing the return) _____ (Name of firm or employer, if any) _____ (Date)

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Page 2

Schedule A.—COST OF GOODS SOLD. (See Instruction 2)
(Where inventories are an income-determining factor)

Inventory at beginning of year	$
Merchandise bought for manufacture or sale	
Salaries and wages	
Other costs per books. (Submit schedule—see instructions for patronage dividends.)	
Total	$
Less: Inventory at end of year	
Cost of goods sold (enter here and as item 2, page 1)	$

Schedule B.—COST OF OPERATIONS
(Where inventories are not an income-determining factor)

Salaries and wages	$
Other costs (to be detailed—do not include patronage dividends):	
(a)	
(b)	
(c)	
(d)	
(e)	
Total (enter here and as item 5, page 1)	$

Schedule C-1.—INCOME FROM DIVIDENDS ON CAPITAL STOCK. (See Instruction 7(a)) (See note)

1. Name and Address of Paying Corporation or Association	2. *Domestic Corporations (including nonexempt cooperative associations) Taxable Under Chapter 1, Internal Revenue Code	3. Certain Preferred Stock of Public Utilities Taxable Under Chapter 1, Internal Revenue Code	4. Foreign Corporations	5. Other Corporations (including exempt cooperative associations)
	$	$	$	$
Totals	$	$	$	$
Total of columns 2, 3, 4, and 5. (Enter here and as item 7 (a), page 1)				$

*Except dividends on certain preferred stock of public utilities which should be entered in column 3, and dividends received from China Trade Act corporations, corporations entitled to the benefits of section 251 of the Internal Revenue Code, and exempt cooperative associations, which should be entered in column 5.

Dividends on share accounts in Federal savings and loan associations in case of share accounts issued prior to March 28, 1942, should not be listed, but the amount should be included in item 10 (b), page 1; dividends on share accounts issued on or after March 28, 1942, should be reported in column 5.

Schedule C-2.—INCOME FROM PATRONAGE DIVIDENDS, REBATES, AND REFUNDS. (See Instruction 7(b))

1. Name and Address of Paying Association	Amount	Name and Address of Paying Association	Amount
	$		$
		Total. (Enter here and as item 7 (b), page 1)	$

Schedule D.—Separate Schedule D (Form 1120) should be used in reporting sales or exchanges of property and filed with this return. (See Instruction 13)

Schedule E.—COMPENSATION OF OFFICERS

1. Name and Address of Officer	2. Official Title	3. Time Devoted to Business	Percentage of Association's Stock Owned		6. Amount of Compensation
			4. Common	5. Preferred	
					$
Total compensation of officers. (Enter here and as item 16, page 1)					$

Schedule F.—BAD DEBTS. (See Instruction 20) (See note)

1. Taxable Year	Amount of Notes and Accounts Receivable Outstanding at—		4. Net Income Reported	5. Sales on Account	6. Bad Debts of Association If No Reserve Is Carried on Books	If Association Carries a Reserve	
	2. Beginning of Year	3. End of Year				7. Gross Amount Added to Reserve	8. Amount Charged Against Reserve
1949.	$	$	$	$	$	$	$
1950.							
1951.							
1952.							
1953.							

Securities which are capital assets and which became worthless within the taxable year should be reported in separate Schedule D (Form 1120).

Schedule G.—TAXES. (See Instruction 22)

Nature	Amount
	$
Total. (Enter here and as item 22, page 1)	$

Schedule H.—CONTRIBUTIONS OR GIFTS PAID. (See Instruction 23)

Name and Address of Organization	Amount
	$
Total. (Enter here and as item 23, page 1, subject to 5 percent limitation.) (See Instruction 23)	$

Schedule I.—DEPRECIATION. (See Instruction 25)

1. Kind of Property (if buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date Acquired	3. Cost or Other Basis	4. Depreciation Allowed (or allowable) in Prior Years	5. Remaining Cost or Other Basis To Be Recovered	6. Life Used in Accumulating Depreciation	7. Estimated Life From Beginning of Year	8. Depreciation Allowable This Year
		$	$	$			$
Total. (Enter here and as item 25, page 1)							$

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Schedule J-1.—OTHER DEDUCTIONS. (See Instruction 30) Page 3

NOTE: In the case of amounts expensed for development and exploration of mines, and oil and gas wells, show separately: (1) intangible drilling and development costs of oil and gas wells; (2) development expense of mines; and (3) exploration expense subject to limitation. Show separately deductions, if any, computed on ratable basis.

Schedule J-2.—DEDUCTIONS AND ADJUSTMENTS UNDER SECTION 101 (12) (B)

Line No.		
1. Dividends paid on capital stock		$
2. Nonpatronage income allocated to patrons		
3. Patronage dividends:		
(a) Cash or merchandise	$	
(b) Noncash (capital stock, revolving fund certificates, etc.)		
4. Total (enter here and as item 33, page 1)		$

COMPUTATION OF TAX FOR CALENDAR YEAR 1953
(For Other Taxable Years Attach Form 1120 FY)

Line No.		
1. Net income (item 36, page 1)		$
2. Less: Dividends received credit:		
(a) Enter 85 percent of column 2, Schedule C-1	$	
(b) Enter 62 percent of column 3, Schedule C-1		
(c) Enter 85 percent of dividends received from certain foreign corporations		
Total dividends received credit. Enter sum of (a), (b), and (c), above, but not to exceed 85 percent of the excess of item 34, page 1, over the sum of items 10 (a) and 10 (b), page 1		
3. Surtax net income		$
4. Combined normal tax and surtax. If amount of line 3 is: Not over $25,000; enter 30 percent of line 3 / Over $25,000. Compute 52 percent of line 3. Subtract $5,500. Enter difference		$
5. Less: Normal tax adjustment for partially tax-exempt interest; enter 30 percent of the sum of items 10 (a) and 10 (b), page 1, but not in excess of 30 percent of line 3		
6. Normal tax and surtax		$
7. Total tax (line 6, or line 20 of separate Schedule D (Form 1120))		$
8. Less: Credit for income taxes paid to a foreign country or U. S. possession allowed a domestic corporation		
9. Balance of income tax due (enter here and as item 37, page 1)		

Section 54 (f) INFORMATION NOT SHOWN ON PAGE 1

Line No.	
INCOME, RECEIPTS, DUES, ETC.	
1. Dues, assessments, etc., from members, excluding service and other charges reported on page 1	$
2. Dues, assessments, etc., from affiliated organizations	
3. Total of lines 1 and 2	$
DISPOSITION OF INCOME, RECEIPTS, DUES, ETC.	
4. Dues, assessments, etc., to affiliated organizations	$

QUESTIONS

1. What is the legal form of your association (corporation, unincorporated association, etc.)? _____
2. In what year was your association formed? _____ In what State or country? _____
3. If you are successor to previously existing organization(s) give name(s) and address(es) of the predecessor organization(s) _____
4. Have any changes not previously reported to the Commissioner been made in your articles of incorporation or bylaws or other instruments of similar import? _____ (Yes or no) If so, attach a copy of the amendment
5. Have you had any sources of income or engaged in any activities which have not previously been reported to the Commissioner? _____ (Yes or no) If so, attach detailed statement.
6. Number of shares of voting stock owned by—
   (1) producers _____;
   (2) nonproducers _____
7. May persons other than producers acquire voting stock or otherwise become members? _____ (Yes or no)
8. Were nonmembers charged the same as members for marketing and purchasing? _____ (Yes or no)
9. Were patronage dividends paid to nonmembers on the same basis as to members? _____ (Yes or no)
10. Was the allocation of dividends, rebates, or refunds made pursuant to an obligation in existence prior to the receipt for sale of agricultural products from and/or the furnishing of supplies, equipment, and services to the patrons? _____ (Yes or no) If so, attach statement as to nature of preexisting obligation and whether contained in (1) charter, (2) bylaws, (3) other document.
11. Value of agricultural products marketed or handled for members (1) actually produced by such members, $_____; (2) purchased or otherwise acquired by such members, $_____; for nonmembers (1) actually produced by such nonmembers, $_____; (2) purchased or otherwise acquired by such nonmembers, $_____
12. Value of supplies and equipment purchased for or sold to (1) members, $_____; (2) nonmembers who were producers, $_____; (3) nonmembers who were not producers, $_____
13. Amount of business done for United States Government or agencies thereof, $_____
14. The association's books are in care of _____
    Located at _____
15. Check whether this return was prepared on the cash basis ☐ or accrual basis ☐.
16. Check basis of valuing or method of inventorying material or merchandise at the beginning and end of the taxable year—(a) cost ☐; (b) cost or market, whichever is lower ☐; (c) elective method provided in section 22 (d) ☐; (d) other basis or method ☐. If other basis or method is used, explain fully in separate statement, giving date inventory was last reconciled with stock (see Specific Instruction 2).
17. Did the association make a return of information on Forms 1096 and 1099 or Form W-2a for the calendar year 1953? (See General Instruction G-1.) _____
18. Did the association, during the taxable year, have any contracts or subcontracts subject to the Renegotiation Act of 1951? (Answer "yes" or "no") _____. If the answer is "yes," state the approximate aggregate gross dollar amount billed during the taxable year under all such contracts and/or subcontracts. $_____ (See Instructions.)

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Schedule K.—BALANCE SHEETS. (See Instruction H)

ASSETS	Beginning of Taxable Year: Amount	Beginning of Taxable Year: Total	End of Taxable Year: Amount	End of Taxable Year: Total
1. Cash		$		$
2. Notes and accounts receivable	$		$	
Less: Reserve for bad debts				
3. Inventories: (a) Raw materials	$		$	
(b) Work in process				
(c) Finished goods				
(d) Supplies				
4. Investments in governmental obligations:				
(a) Obligations of a State, Territory, or political subdivision thereof, or the District of Columbia, or United States possessions	$		$	
(b) Obligations of the United States:				
(1) Obligations issued on or before September 1, 1917; all postal savings bonds; Treasury notes issued prior to December 1, 1940; and Treasury bills issued prior to March 1, 1941				
(2) United States savings bonds and Treasury bonds issued prior to March 1, 1941				
(3) Treasury notes issued on or after December 1, 1940; and all other obligations of the United States issued on or after March 1, 1941				
(c) Obligations of instrumentalities of the United States:				
(1) Obligations of Federal land banks, joint stock land banks, and Federal intermediate credit banks issued prior to March 1, 1941				
(2) Obligations issued by other instrumentalities of the United States prior to March 1, 1941				
(3) Obligations of all instrumentalities of the United States issued on or after March 1, 1941				
5. Other investments (attach schedule)				
6. Capital assets:				
(a) Depreciable assets (attach schedule)	$		$	
Less: Reserve for depreciation				
(b) Depletable assets	$		$	
Less: Reserve for depletion				
(c) Land				
7. Other assets (attach schedule)				
8. Total Assets		$		$
LIABILITIES				
9. Accounts payable		$		$
10. Bonds, notes, and mortgages payable:				
(a) With original maturity of less than 1 year	$		$	
(b) With original maturity of 1 year or more				
11. Accrued expenses (attach schedule)				
12. Other liabilities (attach schedule)				
13. Capital stock: Enter number as at end of year—(Shares) (Shareholders)				
(a) Preferred stock (____) (____)	$		$	
(b) Common stock (____) (____)				
14. Paid-in or capital surplus				
15. Reserves (attach schedule)				
16. Total Liabilities		$		$

Schedule L.—RECONCILIATION OF NET INCOME AND ANALYSIS OF RESERVES

1. Total distributions to stockholders charged to reserves during taxable year:		17. Reserves at end of preceding taxable year (line 15, Schedule K)	$
(a) Cash	$	18. Net income before net operating loss deduction (item 34, page 1)	
(b) Stock of the corporation		19. Nontaxable interest on:	
(c) Other property		(a) Obligations of a State, Territory, political subdivision thereof, District of Columbia, or U. S. possessions	
2. Contributions in excess of 5% limitation		(b) Obligations of the United States:	
3. Federal income and excess profits taxes		(1) Obligations issued on or before Sept. 1, 1917; all postal savings bonds; Treasury notes issued prior to Dec. 1, 1940; and Treasury bills issued prior to March 1, 1941	
4. Income taxes of foreign countries or United States possessions if claimed as a credit in whole or in part in line 8, page 3		(2) U. S. savings bonds and Treasury bonds owned in the principal amount of $5,000 or less, issued prior to March 1, 1941	
5. Federal taxes paid on tax-free covenant bonds		(c) Obligations of Federal land banks, joint stock land banks, and Federal intermediate credit banks issued prior to March 1, 1941	
6. Special improvement taxes tending to increase value of property assessed		20. Other nontaxable income (itemize):	
7. Capital expenditures charged to expenses on the books		(a)	
8. Insurance premiums paid on life of any officer or employee where association is directly or indirectly a beneficiary		(b)	
9. Unallowable interest incurred to purchase or carry tax-exempt interest obligations		21. Charges against reserves offsetting income in the return (itemize):	
10. Excess of capital losses over capital gains		(a)	
11. Additions to reserves offsetting charges against income (itemize):		(b)	
(a)		22. Adjustments for tax purposes not recorded on books (itemize):	
(b)		(a)	
12. Other unallowable deductions		(b)	
13. Adjustments for tax purposes not recorded on books (itemize):		23. Sundry credits to reserves (itemize):	
(a)		(a)	
(b)		(b)	
14. Sundry debits to reserves (itemize):		24. Total of lines 17 to 23	$
(a)			
(b)			
15. Reserves at end of the taxable year (line 15, Schedule K)			
16. Total of lines 1 to 15	$		

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HOW TO PREPARE YOUR *1953*

References are to the Internal Revenue Code, unless otherwise indicated

Exempt Cooperative Association Income Tax Return ON FORM 990–C

GENERAL INSTRUCTIONS

A. Who Must File Form 990–C.—A return must be filed by every exempt cooperative association described in section 101 (12), whether or not having any net income. If Form 990–C is filed, the exempt cooperative association need not file an information return on Form 990. An exempt cooperative association filing a return on Form 990–C must show on the return, in addition to other required information, the date of the letter exempting the association under section 101 (12).

B. Period to be covered by return.—Returns shall be filed for the calendar year 1953 or fiscal year beginning in 1953 and ending in 1954. A fiscal year is an accounting period of 12 months ending on the last day of a calendar month other than December.

A change in the established accounting period may be made without prior permission if (1) no change in accounting period has been made within the 5 calendar years ending with the calendar year which includes the beginning of the short taxable year required to effect the change and (2) if such short taxable year embraces a period of 3 months or less or a period of 9 months or more and (3) if net income for the short period, computed on an annual basis, is at least 80 percent of net income for the full taxable year immediately preceding the short period. A return filed under these provisions must be filed on or before the 15th day of the third full calendar month following the close of the short taxable year, together with a statement that it is made under the authority of section 39.46–1 of Regulations 118. Further information with respect to these provisions may be obtained from the office of the district director of internal revenue.

If the above conditions are not met, prior approval must be secured in order to change the accounting period. Application for approval should be filed on Form 1128 with the Commissioner of Internal Revenue, Washington 25, D. C., on or before the 15th day following the close of the short taxable year required to effect the change.

C. Basis of return.—A method of accounting recognized under section 41 and utilized in the return of the association filed for the first taxable year beginning after December 31, 1951, shall be deemed to constitute the method of accounting regularly employed by the association.

If your books of account are kept on the accrual basis, report all income accrued, even though it has not been actually received, and expenses incurred instead of expenses paid. If your books are not kept on the accrual basis or if you kept no books, make your return on a cash basis and report all income received or constructively received, such as bank interest credited to your account and coupon bond interest matured, and report expenses actually paid.

D. Filing of return and payment of tax.—Returns of domestic and resident foreign associations must be filed on or before the 15th day of the third month following the close of the taxable year with the district director of internal revenue for the district in which the association's principal place of business or principal office or agency is located.

The tax must be paid in full when the return is filed, or in four installments, as follows: 45 percent on or before the 15th day of the third month; 45 percent on or before the 15th day of the sixth month; 5 percent on or before the 15th day of the ninth month; and 5 percent on or before the 15th day of the twelfth month following the close of the taxable year. 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 district director. The tax may be paid by sending or bringing with the return a check or money order drawn to the order of "District Director of Internal Revenue." Do not send cash by mail, nor pay it in person except at the district director's office.

E. Declaration.—The return must be signed by the president, vice president, or other principal officer, and by the treasurer, assistant treasurer, or chief accounting officer. When the return is actually prepared by some person or persons other than officers or employees of the association, such person or persons must also sign the declaration at the foot of page 1.

F. Penalties.—Severe penalties are imposed for failing to file a return, for late filing, and for filing a false or fraudulent return.

G–(1). Information at the source.—Every association making payments of (1) interest, rents, commissions, or other fixed or determinable income of $600 or more during the calendar year 1953 to an individual, a partnership, or a fiduciary, or (2) salaries or wages of $600 or more shall make a return on Forms 1096 and 1099, except that the making of such return will not be required with respect to salary or wage payments included on Form W–2, provided copies of withholding statements on Form W–2a are furnished. If a portion of such salary or wage payments was reported on a Withholding Statement (Form W–2a), only the remainder must be reported on Form 1099.

The returns on Forms 1096 and 1099 shall also include dividend payments amounting to $100 or more during the calendar year 1953 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 returns on Forms 1096 and 1099 shall also include patronage dividends, rebates, and refunds totaling $100 or more during the calendar year 1953. Include all amounts allocated as patronage dividends, rebates, and refunds, whether in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the amount of such dividends, rebates, and refunds.

G–(2). Information regarding dissolution or liquidation.—Every association shall, within 30 days after the adoption by the association of a resolution or plan for the dissolution of the association or for the liquidation of the whole or any part of its capital stock, render a correct return on Form 966 setting forth the terms of such resolution or plan.

Every association making distributions in liquidation of the whole or any part of its capital stock shall also make returns on Forms 1096 and 1099L, as required by instructions on Form 1096, for the calendar year 1953.

G–(3). Certain transfers of property on or after January 1, 1951.—Under certain circumstances the $25,000 exemption from surtax is not allowed or it may be reduced to a lesser figure. (See section 15 (c).)

G–(4). Information regarding renegotiable contracts.—Every association which held, during the taxable year, contracts or subcontracts which were designated as subject to the Renegotiation Act of 1951, shall, in answer to question 18, page 3, state the actual, or if not accurately determinable, its best estimate of the aggregate gross dollar amount billed during the current taxable year under all contracts and/or subcontracts. The gross contract amount billed on cost-plus-fixed-fee contracts, and not merely the fixed fee, shall be included. The term "subcontract" may be defined as any purchase order or agreement to perform all or any part of the work, or to make or furnish any article, required for the performance of another contract or subcontract.

H. Balance sheets.—The balance sheets, Schedule K, should agree with the books of account or any differences should be reconciled.

In case the balance sheet as at the beginning of the current taxable year does not agree in every respect with the balance sheet which was submitted as at the end of the previous taxable year, the differences should be fully explained.

PAGE 2

SPECIFIC INSTRUCTIONS (Numbered to correspond with item numbers on page 1 of return)

2. Cost of goods sold.—If the production, manufacture, purchase, or sale of merchandise is an income-producing factor in the trade or business, inventories of merchandise on hand should be taken at the beginning and end of the taxable year, which may be valued at (*a*) cost, or (*b*) cost or market, whichever is lower. The basis properly adopted is controlling until permission to change is obtained from the Commissioner. Application for permission to change the basis of valuing inventories shall be made in writing and filed with the Commissioner within 90 days after the beginning of the taxable year in which it is desired to effect a change. Enter the letters "C" or "C or M" immediately before the amount column in Schedule A, if the inventories are valued at either cost, or cost or market, whichever is lower. Indicate in answer to question 16, on page 3, the basis of valuing or method of inventorying merchandise and furnish the information required by such question. In case the inventories reported do not agree with the balance sheet, attach a statement explaining the difference.

An association electing to have applied the method of taking inventory provided for in section 22 (d) should file Form 970 with the return for the first year of the election. Thereafter, attach separate schedule showing: (1) a summary of all inventories; (2) with respect to inventories computed under section 22 (d), if any, the computation of the quantities and cost by acquisition levels.

7 (*a*). Income from dividends on capital stock.—Enter the total of all taxable dividends received from domestic and foreign corporations, except dividends on share accounts in Federal savings and loan associations in case of share accounts issued prior to March 28, 1942, and fill in Schedule C–1.

7 (*b*). Income from patronage dividends, rebates, and refunds.—Enter total of amounts allocated from cooperative associations (whether or not entitled to tax treatment under section 101 (12) (B)) as patronage dividends, rebates, or refunds, regardless of whether allocated in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in other documentary form disclosing to the patron the dollar amount allocated, and fill in Schedule C–2. In general, patronage dividends, rebates, and refunds are includible in the computation of gross income to the following extent:

(a) If the allocation is in cash, in the amount of cash received;

(b) If the allocation is in merchandise, to the extent of the fair market value of such merchandise at the time of receipt by the patron;

(c) If the allocation is in the form of capital stock, revolving fund certificates, letters of advice, retain certificates or similar documents—

(i) To the extent of the face amount of such documents if the allocation was made pursuant to a preexisting contract, otherwise

(ii) To the extent of the cash or merchandise received in redemption or satisfaction of such documents at the time of receipt of such cash or merchandise by such patron.

9. Interest on corporation bonds, etc.—Enter interest on bonds, debentures, notes, or certificates or other evidence of indebtedness, issued by any corporation and bearing interest, with interest coupons or in registered form. Do not include interest on any such obligations which constitute stock in trade of the taxpayer or any such obligations of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or any such obligation held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business. Such interest should be entered in item 8. For provisions relating to amortizable bond premium by the owner of a bond, see sections 23 (v) and 125.

10. Interest on obligations of the United States, etc.—Enter on line 4, Schedule K, the amounts of the various obligations owned. Enter on line 19, Schedule L, all interest received or accrued during the year on the various obligations listed therein. The total amount of interest reported as item 10 (*a*) and (*b*), page 1, is allowable as a credit against net income. The amount of interest received or accrued on obligations issued on or after March 1, 1941, by the United States or any agency or instrumentality thereof should be entered as item 10 (*c*), page 1. For provisions relating to amortizable bond premium by the owner of a bond, see sections 23 (v) and 125.

Non-interest-bearing obligations issued at a discount.—Associations on the cash basis may elect, as to all non-interest-bearing obligations issued at a discount and redeemable for fixed amounts increasing at stated intervals (for example, United States Savings Bonds), to include the increase in redemption price applicable to the current year. For the year of election the total increase in redemption price of such obligations occurring between the date of acquisition and the end of the year must be included. Associations so electing shall report such income as interest in item 8, 9, or 10, page 1, whichever is applicable, and attach statement listing obligations owned and computation of accrued income.

11. Rents.—Enter the gross amount received for the rent of property. Any expenses, including repairs, interest, taxes, and depreciation, should be included in the proper items of deductions on page 1.

12. Royalties.—Enter the gross amount received as royalties. If a deduction is claimed for depletion, it should be reported as item 26, page 1.

13. Gains and losses from sales or exchanges of capital assets and other property.—The computation of gains and losses from sales or exchanges of capital assets and property other than capital assets should be made on separate Schedule D (Form 1120). Every sale or exchange of property, even though no gain or loss is indicated, must be reported in detail. If for any taxable year the net long-term capital gain exceeds the net short-term capital loss, or in case of only a net long-term capital gain, a computation of the alternative tax should be made on separate Schedule D (Form 1120).

The results computed on separate Schedule D (Form 1120) must be shown in appropriate items and line, pages 1 and 3 of Form 990–C, disregarding any references to item and line numbers on Form 1120.

For further information relating to gains and losses from sales or exchanges of property, see instructions on back of separate Schedule D (Form 1120).

14. Other income.—List all other income not reported elsewhere in the return. War loss recoveries received during the year should be determined in accordance with section 127 (c) and the applicable regulations.

18. Rent.—Enter rent paid or accrued for business property in which the association has no equity.

19. Repairs.—Enter the cost of incidental repairs, including labor, supplies, and other items, which do not add to the value or appreciably prolong the life of the property. Expenditures for new buildings, machinery, equipment, or for permanent improvements or betterments which increase the value of the property are chargeable to capital account. Expenditures for restoring or replacing property are not deductible, as such expenditures are chargeable to capital accounts or to depreciation reserve, depending on how depreciation is charged on the books of the association.

20. Bad debts.—Bad debts may be treated in either of two ways—(1) by a deduction from income in respect of debts which become worthless in whole or in part, or (2) by a deduction from income of a reasonable addition to a reserve for bad debts.

An association filing a first return of income (other than an information return) may select either of the two methods, which method must be followed in returns for subsequent years, unless permission is granted by the Commissioner to change to the other method. Application for permission to change the method shall be made in writing at least 30 days prior to the close of the taxable year for which it is desired to effect the change.

21. Interest.—Enter interest paid or accrued on business indebtedness. Do not include in item 21 interest 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.

22. Taxes.—Enter taxes paid or accrued during the taxable year and fill in Schedule G. Do not include Federal income, war-profits, and excess-profits taxes; estate, inheritance, legacy, succession, and gift taxes; foreign or possession income taxes if any credit is claimed on line 8 of the Tax Computation, page 3; taxes assessed against local benefits tending to increase the value of the property assessed; Federal taxes paid on bonds containing a tax-free covenant, nor taxes not imposed upon the taxpayer.

23. Contributions or gifts paid.—Enter contributions or gifts actually paid within the taxable year to or for the use of (1) the United States, any State, Territory, or any political subdivision

thereof or the District of Columbia, or any possession of the United States, for exclusively public purposes; (2) a corporation, trust, or community chest, fund, or foundation, created or organized in the United States or in any possession thereof or under the law of the United States, or of any State or Territory, or of the District of Columbia, or of any possession of the United States, organized and operated exclusively for religious, charitable, scientific, veteran rehabilitation service, 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 payment of which is made within a taxable year beginning after December 31, 1948, only if such contributions or gifts are to be used within the United States or any of its possessions 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; or (3) posts or organizations of war veterans, or auxiliary units of, or trusts or foundations for, any such posts or organizations, if such posts, organizations, units, trusts, or foundations are organized in the United States or any of its possessions, and if no part of their net earnings inures to the benefit of any private shareholder or individual. The amount claimed shall not exceed 5 percent of the association's net income as computed without the benefit of this deduction. In the case of an association on the accrual basis, any contribution or gift will, at the election of the taxpayer, made at the time the return is filed, be considered as paid during the taxable year if payment is actually made on or before the fifteenth day of the third month following the close of the taxable year, and if the contribution or gift has during the taxable year been authorized by the board of directors of the association. Do not deduct as a business expense charitable contributions which come within the above description, but which might be unallowable in whole or in part, because of the limitation contained in section 23 (q). List organizations and amounts contributed to each in Schedule H.

24. Losses by fire, storm, shipwreck, or other casualty, or theft.—Enter losses of property sustained during the year, arising from fire, storm, shipwreck, or other casualty, or from theft. Losses should be explained in an attached schedule setting forth a description of the property, date acquired, cost, subsequent improvements, depreciation allowable since acquisition, insurance, salvage value, and deductible loss.

25. Depreciation.—The amount deductible on account of depreciation is an amount reasonably measuring the portion of the investment in depreciable property (1) used in the trade or business, or (2) held for production of income, by reason of exhaustion, wear and tear, including a reasonable allowance for obsolescence, which is properly chargeable for the year. 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, as adjusted under section 113, and the probable number of years remaining of its expected useful life. The basis (unadjusted) of property is determined under section 113 (a), and the adjusted basis of property is determined under section 113 (b). The determination of the adjusted basis of property is not affected by the fact that the association was exempt from tax for prior taxable years. Proper adjustment must be made under section 113 (b), for the entire period since the acquisition of the property. Thus, adjustment must be made for depreciation for all prior taxable years whether or not the association was exempt from tax for any of such years. 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. Stocks, bonds, and like securities are not subject to depreciation within the meaning of the law.

If a deduction is claimed on account of depreciation, fill in Schedule I. 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 this schedule, and where land and buildings were purchased for a lump sum, the cost of the buildings 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. (See sections 23 (l) and 114.)

For treatment of depreciation allowed (in excess of amount allowable) which did not result in reduction of income or excess profits taxes, see instructions on back of separate Schedule D (Form 1120).

26. Depletion of mines, oil and gas wells, timber, etc.—If a deduction is claimed on account of depletion, procure from the district director Form M (mines and other natural deposits), Form O (oil and gas), or Form T (timber), fill in and file with return. If complete valuation data have been filed with questionnaire in previous years, then file with your return information necessary to bring your depletion schedule up to date, setting forth in full, statement of all transactions bearing on deductions from or addition to value of physical assets during the taxable year with explanation of how depletion deduction for the taxable year has been determined. (See section 23 (m) and section 114 (b).) For any taxable year ending after December 31, 1950, expenditures to be deferred and deducted ratably under the election provided in sections 23 (cc) (2), relating to certain expenditures in the development of mines, and 23 (ff) (2), relating to deductions for mine exploration, are not to be taken into account in determining the adjusted basis for property for the purpose of computing a deduction for depletion under section 114. See note under Schedule J–1 for information to be submitted in the case of amounts expensed for development and exploration of mines, and oil and gas wells.

27. Amortization.—A corporation is entitled, provided an election is made as prescribed in section 124A (b), to a deduction with respect to the amortization of the adjusted basis of an emergency facility, the construction, reconstruction, erection, or installation of which was completed after December 31, 1949, or the acquisition of which occurred after December 31, 1949, and with respect to which a certificate of necessity has been made, as provided by section 124A (e) (1). A corporation is also entitled, provided an election is made as prescribed in section 124B (b), to a deduction with respect to the amortization of the adjusted basis of a grain-storage facility constructed or adapted to such use after December 31, 1952, and before January 1, 1957. A statement of the pertinent facts should be filed with the taxpayer's election to take amortization deductions with respect to such facilities. (See sections 124A and 124B and the regulations thereunder.)

28. Advertising.—Enter in item 28 the total amount paid or incurred during the year for advertising. Expenditures for advertising, to be deductible, must be ordinary and necessary and bear a reasonable relation to the business activities in which the association is engaged.

29 (*a*). Amounts contributed under a pension, annuity, stock bonus, or profit-sharing plan.—Enter in item 29 (*a*) the total amount deductible under section 23 (p). An association claiming a deduction under section 23 (p) must submit with its return, in addition to the information specified in the regulations concerning such deduction, a statement with respect to each plan showing the type of plan, i. e., pension, annuity, profit-sharing, stock bonus, or other plan deferring the receipt of compensation, whether or not the plan is qualified under section 165 (a), and the method of funding, i. e., individual annuity or insurance contracts, group annuity contract, group permanent contract, or self-insured trust. If not funded, so indicate.

29 (*b*). Amounts contributed under other employee benefit plans.—Enter in item 29 (*b*) deductions for contributions to employee benefit plans other than those claimed in item 29 (*a*), such as an insurance, health, or welfare plan. Submit with the return a schedule for each plan showing (1) the nature of benefits, i. e., group term life insurance, group permanent life insurance, noninsured death benefit, hospitalization, surgical, medical, sickness, accident, major medical expense, or other welfare benefits; (2) method of financing, i. e., insured, industry or area wide fund, self-insured fund, or direct benefit payments; (3) the amount of deduction; (4) the amount of employee contributions; (5) the number of employees covered; and (6) if a self-insured plan, the amount of benefits paid during the taxable year. Also show the number of employees employed by the association.

30. Other deductions authorized by law.—Enter in item 30 any other authorized deductions for which no space is provided on the return. Any deduction claimed should be explained in Schedule J–1. See note under Schedule J–1 for information to

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be submitted in case of amounts expensed for development and exploration of mines, and oil and gas wells.

Do not deduct losses incurred in transactions which were neither connected with the association's trade or business nor entered into for profit.

No deduction is allowable for the amount of any item or part thereof allocable to a class of exempt income, other than interest. An association 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 expense items allocated to each such class (the amount allocated by apportionment being shown separately).

33. Deductions and adjustments under section 101 (12) (B).—Enter in item 33 the total amount from Schedule J-2 which is comprised of the following:

Dividends paid on capital stock.—Enter on line 1 the amount actually or constructively paid as dividends during the taxable year upon common stock (whether voting or nonvoting), preferred stock, capital retain certificates, revolving fund certificates, letters of advice, or other documentary evidence of a proprietary interest in the cooperative association.

Nonpatronage income allocated to patrons.—Enter on line 2 amounts allocated on a patronage basis during the taxable year with respect to income of the cooperative association not derived from patrons (whether or not such income was derived during the taxable year) regardless of whether such amounts are paid in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the dollar amount allocated. The term "income not derived from patronage" includes incidental income derived from sources not directly related to marketing, purchasing, or service activities of the association, such as, income derived from the lease of premises, from temporary investments in securities, from the sale or exchange of capital assets, and business done with the Government of the United States.

Allocations made after the close of the taxable year and on or before the 15th day of the ninth month following the close of the taxable year shall be considered to be made on the last day of such taxable year to the extent such allocations are attributable to income derived during the taxable year or prior taxable years.

Patronage dividends.—The term "patronage dividend, rebate, or refund" (line 3 (a) or (b)) includes any amount allocated by a cooperative association, to the account of a patron on the basis of the business done with or for such patron. The following are not patronage dividends, rebates, or refunds:

(a) Amounts distributed in redemption of capital stock, or in redemption or satisfaction of certificates of indebtedness, revolving fund certificates, retain certificates, letters of advice, or other similar documents;

(b) Amounts allocated (whether in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the amount of such dividend, refund, or rebate) by the association for products of members or other patrons to the extent such amounts are fixed without reference to the earnings of the cooperative association. For this purpose, the term "earnings" includes the excess of amounts retained (or assessed) by the association to cover expenses or other items over the amount of such expenses or other items.

Patronage dividends, rebates, or refunds, allocated by a cooperative association entitled to tax treatment under section 101 (12) (B) to a patron shall be taken into account in computing the gross income of such association for the taxable year as an increase in its other cost of goods sold in the case of an association marketing products for patrons, or as a reduction in its gross receipts, in the case of an association purchasing supplies and equipment or performing services for patrons, as the case may be, if:

(a) The allocation is made in fulfillment and satisfaction of a valid obligation of such association to the patron, which obligation was in existence prior to the receipt by the cooperative association of the amount allocated, and

(b) The allocation is made on or before the 15th day of the ninth month following the close of the taxable year in which the amounts allocated were received by the cooperative association.

For the purpose of (a) above, amounts allocated by a cooperative association entitled to tax treatment under section 101 (12) (B) will be deemed allocated in fulfillment and satisfaction of a valid enforceable obligation, if made pursuant to provisions of the by-laws, articles of incorporation, or other contract, whereby the association is obligated to make such allocation after the retention of "reasonable reserves" and after payment of dividends on capital stock or other proprietary capital interests. Notwithstanding the provisions of (a) and (b) above, amounts allocated as patronage dividends, rebates, or refunds during the taxable year, or on or before the 15th day of the ninth month following the close of such year, with respect to patronage for years preceding the taxable year, shall be taken into account as an increase in its other cost of goods sold, or as a reduction in gross receipts, for the taxable year, as the case may be, where retention as "reasonable reserves" of the amounts so allocated beyond the year in which earned was proper in accordance with the provisions of section 101 (12) and where the allocation is made to the patron on a patronage basis in proportion to the amount of business done by such patrons during the taxable year or years in which the retained amounts were received by the cooperative association.

35. Net operating loss deduction.—A net operating loss is the excess of the deductions allowed by Chapter 1 over the gross income, taking into consideration the following adjustments:

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

(b) There shall be included in computing gross income the amount of interest received which is wholly exempt from the taxes imposed by Chapter 1, decreased by the amount of interest paid or accrued 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; and

(c) No net operating loss deductions shall be allowed.

Generally, if the taxable year in which the net operating loss is sustained begins on or after January 1, 1950, the net operating loss is carried back first to the preceding taxable year and to the extent that it exceeds the net income of such year is carried over to the five succeeding taxable years. However, in the case of cooperative associations, the term "preceding taxable year" shall not include any taxable year beginning prior to January 1, 1952, for which the association was exempt from tax under section 101 (12). No net operating loss carry-back or carry-over shall be allowed from a taxable year beginning prior to January 1, 1952, for which the cooperative association was exempt under section 101 (12).

In determining the net operating loss deduction for any taxable year, the aggregate of the net operating loss carry-overs and carry-backs to such year is reduced by the excess of the net income for the year computed with the adjustments described in (a), (b), and (c), above, over the normal-tax net income computed without regard to the net operating loss deduction. The net operating loss deduction claimed on a return is computed without regard to carry-backs from succeeding years. Section 122 provides detailed rules for the computation of the net operating loss deduction.

CREDIT FOR TAXES.—If, in accordance with section 131 (a), a credit is claimed by a domestic association in line 8, TAX COMPUTATION, on account of income, war-profits and excess-profits taxes paid or accrued to a foreign country or a possession of the United States, Form 1118 should be submitted with the return, together with the receipt for each such tax payment. In case credit is sought for taxes accrued but not paid, the form must have attached to it a certified copy of the return on which each such accrued tax was based, and the Commissioner may require a bond on Form 1119 as a condition precedent to the allowance of a credit for such accrued taxes. Foreign associations are not allowed this credit.

U. S. GOVERNMENT PRINTING OFFICE 16—69680-1

FORM 1120
U. S. Treasury Department
Internal Revenue Service

U. S. CORPORATION INCOME TAX RETURN

FOR CALENDAR YEAR 1953

Page 1
1953

or fiscal year beginning ....., 1953, and ending ....., 1954

PRINT PLAINLY CORPORATION'S NAME AND ADDRESS

(Name)

(Street and number)

(City or town, postal zone number) (State)

Date incorporated ..... State or country .....

Principal business activity (See Instruction N) .....

Business group code No. (from Instruction N) ..... No. of places of business ..... FICA employer No. .....

File Code .....

Serial No. .....

District .....

(Cashier's stamp)

First Payment

$.....

NET INCOME COMPUTATION

Item and Instruction No.	GROSS INCOME		
1.	Gross sales (where inventories are an income-determining factor). $.....; Less: Returns and allowances $.....	$.....	
2.	Less: Cost of goods sold. (From Schedule A)		
3.	Gross profit from sales	$.....	
4.	Gross receipts (where inventories are not an income-determining factor) $.....		
5.	Less: Cost of operations. (From Schedule B)		
6.	Gross profit where inventories are not an income-determining factor		
7.	Dividends. (From Schedule C)		
8.	Interest on loans, notes, mortgages, bonds, bank deposits, etc.		
9.	Interest on corporation bonds, etc. (From Schedule C–1)		
10.	Interest on obligations of the United States, etc. (From Schedule C–1)		
11.	Rents		
12.	Royalties		
13.	Gains and losses (From Schedule D):		
	(*a*) Net short-term capital gain reduced by any net long-term capital loss		
	(*b*) Net long-term capital gain reduced by any net short-term capital loss		
	(*c*) Net gain (or loss) from sale or exchange of property other than capital assets		
14.	Other income. (State nature)		
15.	Total income in items 3, and 6 to 14, inclusive		$.....
	DEDUCTIONS		
16.	Compensation of officers. (From Schedule E)	$.....	
17.	Salaries and wages (not deducted elsewhere)		
18.	Rent		
19.	Repairs (do not include cost of improvements or capital expenditures)		
20.	Bad debts. (From Schedule F)		
21.	Interest		
22.	Taxes. (From Schedule G)		
23.	Contributions or gifts paid. (From Schedule H)		
24.	Losses by fire, storm, shipwreck, or other casualty, or theft. (Submit schedule)		
25.	Depreciation. (From Schedule I)		
26.	Depletion of mines, oil and gas wells, timber, etc. (Submit schedule)		
27.	Amortization of emergency and grain storage facilities. (Submit schedule)		
28.	Advertising		
29.	(*a*) Amounts contributed under a pension, annuity, stock bonus, or profit-sharing plan		
	(*b*) Amounts contributed under other employee benefit plans		
30.	Other deductions authorized by law. (From Schedule J)		
31.	Total deductions in items 16 to 30, inclusive		
32.	Net income before net operating loss deduction (item 15 less item 31)		$.....
33.	Less: Net operating loss deduction. (Submit statement)		
34.	Net income		$
	TOTAL INCOME AND EXCESS PROFITS TAX		
35.	Total income tax (line 9, page 3)	$.....	
36.	Less: Credit for income taxes paid to a foreign country or United States possession allowed a domestic corporation. (Submit Form 1118)		
37.	Balance of income tax due	$.....	
38.	Excess profits tax due (line 39, Schedule EP (Form 1120))		
39.	Total income and excess profits tax due (item 37 plus item 38) (For installment payments, see Instructions)		$

DECLARATION. (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, each for himself declares under the penalties of perjury 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.

(President or other principal officer) (State title)

(Date)

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

CORPORATE SEAL

DECLARATION. (See Instruction E)

I/we declare under the penalties of perjury 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.

(Signature of person preparing the return) (Signature of person preparing the return) (Name of firm or employer, if any) (Date)

If separate Schedule EP (Form 1120) is required, obtain it from your District Director

Page 2

Schedule A.—COST OF GOODS SOLD. (See Instruction 2)
(Where inventories are an income-determining factor)

Inventory at beginning of year	$
Merchandise bought for manufacture or sale	
Salaries and wages	
Other costs per books. (Submit schedule)	
Total	$
Less: Inventory at end of year	
Cost of goods sold (enter here and as item 2, page 1)	$

Schedule B.—COST OF OPERATIONS
(Where inventories are not an income-determining factor)

Salaries and wages	$
Other costs (to be detailed):	
(a)	
(b)	
(c)	
(d)	
(e)	
Total (enter here and as item 5, page 1)	$

Schedule C.—INCOME FROM DIVIDENDS

1. Name of Declaring Corporation	2. *Domestic Corporations Taxable Under Chapter 1, Internal Revenue Code	3. Certain Preferred Stock of Public Utilities Taxable Under Chapter 1, Internal Revenue Code	4. Foreign Corporations	5. Other Corporations
	$	$	$	$
Totals	$	$	$	$
Total of columns 2, 3, 4, and 5. (Enter here and as item 7, page 1)				$

*Except dividends on certain preferred stock of public utilities which should be entered in column 3, and dividends received from China Trade Act corporations, and from corporations entitled to the benefits of section 251 of the Internal Revenue Code, which should be entered in column 5.

Dividends on share accounts in Federal savings and loan associations in case of share accounts issued prior to March 28, 1942, should not be listed, but the amount should be included in line (b) of Schedule C-1; dividends on share accounts issued on or after March 28, 1942, should be reported in column 5.

Schedule C-1.—INTEREST ON CORPORATION BONDS AND OBLIGATIONS OF THE UNITED STATES (See Instructions 9 and 10)

	1. Gross Amount of Interest	2. Amortizable Bond Premium	3. Column 1 less Column 2
Interest on corporation bonds, etc. (Enter amount in column 3 as item 9, page 1)	$	$	$
Interest on obligations of the United States, etc.:			
(a) U. S. savings bonds and Treasury bonds owned in excess of the principal amount of $5,000 issued prior to March 1, 1941	$	$	$
(b) Obligations of certain instrumentalities of the U. S. issued prior to March 1, 1941			
(c) Treasury notes issued on or after December 1, 1940, and obligations issued on or after March 1, 1941, by the U. S. or any agency or instrumentality thereof			
Total of lines (a) (b) and (c). (Enter total in column 3 as item 10, page 1)	$	$	$

Schedule D.—Separate Schedule D (Form 1120) should be used in reporting sales or exchanges of property and filed with this return. (See Instruction 13)

Schedule E.—COMPENSATION OF OFFICERS

1. Name and Address of Officer	2. Official Title	3. Time Devoted to Business	Percentage of Corporation's Stock Owned		6. Amount of Compensation
			4. Common	5. Preferred	
					$
					$
Total compensation of officers. (Enter here and as item 16, page 1)					$

Schedule F.—BAD DEBTS. (See Instruction 20)

1. Taxable Year	Amount of notes and accounts receivable outstanding at— 2. Beginning of Year	3. End of Year	4. Net Income Reported	5. Sales on Account	6. Bad Debts of Corporation if No Reserve Is Carried on Books	If Corporation Carries a Reserve 7. Gross Amount Added to Reserve	8. Amount Charged Against Reserve
1949	$	$	$	$	$	$	$
1950							
1951							
1952							
1953							

NOTE: Securities which are capital assets and which became worthless within the taxable year should be reported in separate Schedule D.

Schedule G.—TAXES. (See Instruction 22)

Nature	Amount
	$
Total. (Enter here and as item 22, page 1)	$

Schedule H.—CONTRIBUTIONS OR GIFTS PAID. (See Instruction 23)

Name and Address of Organization	Amount
	$
Total. (Enter here and as item 23, page 1, subject to 5 percent limitation.)	$

Schedule I.—DEPRECIATION. (See Instruction 25)

1. Kind of Property (If buildings, state material of which constructed.) Exclude land and other nondepreciable property	2. Date Acquired	3. Cost or Other Basis	4. Depreciation Allowed (or Allowable) in Prior Years	5. Remaining Cost or Other Basis To Be Recovered	6. Life Used in Accumulating Depreciation	7. Estimated Life From Beginning of Year	8. Depreciation Allowable This Year
		$	$	$			$
Total. (Enter here and as item 25, page 1)							$

Schedule J.—OTHER DEDUCTIONS. (See Instruction 30) Page 3

NOTE: If taking expense deductions for development and exploration of mines, and oil and gas wells, show separately: (1) intangible drilling and development costs of oil and gas wells; (2) development expense of mines; and (3) exploration expense subject to limitation. Show separately deductions, if any, computed on ratable basis.

Schedule K.—COMPUTATION TO DETERMINE NECESSITY FOR FILING EXCESS PROFITS TAX SCHEDULE

Line No.		
1.	Net income before net operating loss deduction (item 32, page 1)	$
	(Taxpayers which have elected under section 455 to accrue income from installment sales or long-term contracts, enter income so adjusted)	
2.	Deductions for interest (item 21, page 1) (banks should exclude interest on deposits)	
3.	Deductions on account of retirement or discharge of bonds, etc.	
4.	Deductions attributable to a grant or loan by a governmental agency to encourage mining of certain minerals	
5.	Deductions attributable to technical services rendered to related foreign corporations	
6.	In the case of banks, the excess of the deduction for bad debts under the reserve method over debts which actually became worthless during the year	
7.	Federal income and excess profits taxes paid by lessee under long-term lease	
8.	Total of lines 1 to 7, inclusive	$
	If line 8 is $25,000 or less, Schedule EP (Form 1120) need not be filed with this return. If line 8 is over $25,000, Schedule EP (Form 1120) must be filed. Schedule EP may be obtained from your District Director.	

TAX COMPUTATION FOR CALENDAR YEAR 1953. (See Tax Computation Instructions)

For other taxable years attach Form 1120FY

Line No.				
1.	Net income (item 34, page 1)			$
2.	Less: Dividends received credit:			
	(a) Enter 85 percent of column 2, Schedule C	$		
	(b) Enter 62 percent of column 3, Schedule C			
	(c) Enter 85 percent of dividends received from certain foreign corporations			
	Total dividends received credit. Enter sum of (a), (b), and (c), above, but not to exceed 85 percent of the excess of item 32, page 1, over the sum of lines (a) and (b) in column 3 of Schedule C-1		$	
3.	Credit for dividends paid on certain preferred stock if taxpayer is a public utility			
4.	Credit for Western Hemisphere trade corporations			
5.	Surtax net income			$
6.	Combined normal tax and surtax. If amount of line 5 is: Not over $25,000; enter 30 percent of line 5 (32 percent if a consolidated return). Over $25,000. Compute 52 percent of line 5 (54 percent if a consolidated return). Subtract $5,500. Enter difference			$
7.	Less: Normal tax adjustment for partially tax-exempt interest; enter 30 percent of the sum of lines (a) and (b) in column 3 of Schedule C-1, but not in excess of 30 percent of line 5			
8.	Normal tax and surtax			$
9.	Total tax (line 8, or line 20 of separate Schedule D). Enter here and as item 35, page 1			$

QUESTIONS

1. If this is the corporation's first return, indicate whether (a) completely new business ☐, or (b) successor to previously existing business, which was organized as (1) corporation ☐, (2) partnership ☐, or (3) sole proprietorship ☐, or (4) other (indicate) ..... If successor to previously existing business, give name and address of the previous business organization .....
2. District Director's office where the corporation's return for the preceding year was filed .....
3. Enter amount of income (or deficit) from item 32, page 1, Form 1120 for 1952 ..... $.....
4. The corporation's books are in care of ..... Located at .....
5. Check if the corporation is a farmers' marketing or a farmers' purchasing cooperative association ☐, a consumers' cooperative association ☐, or other cooperative association ☐.
6. Is the corporation a personal holding company within the meaning of section 501 of the Internal Revenue Code? ..... (If so, an additional return on Form 1120 H must be filed.)
7. Is this a consolidated return? ..... (If so, procure from the District Director of Internal Revenue for your district Form 851, Affiliations Schedule, which shall be filled in and filed as a part of this return; each subsidiary should procure Form 1122 and file in accordance with Instruction I.)
8. If this is not a consolidated return: (a) Did the corporation at any time during the taxable year own 50 percent or more of the voting stock of another corporation either domestic or foreign? .....; (b) did any corporation, individual, partnership, trust, or association at any time during the taxable year own 50 percent or more of the corporation's 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 District Director's office in which the income tax return of such corporation, individual, partnership, trust, or association for the last taxable year was filed.)
9. Check whether this return was prepared on the cash basis ☐ or accrual basis ☐.
10. Check basis of valuing or method of inventorying material or merchandise at the beginning and end of the taxable year—(a) cost ☐; (b) cost or market, whichever is lower ☐; (c) elective method provided in section 22 (d) ☐; (d) other basis or method ☐. If other basis or method is used, explain fully in separate statement, giving date inventory was last reconciled with stock (see Specific Instructions 2).
11. Did the corporation make a return of information on Forms 1096 and 1099 or Form W-2a for the calendar year 1953? (See General Instruction G-(1)) .....
12. Has any transaction described in General Instruction G-(3) occurred on or after October 8, 1940? (Answer "yes" or "no") .....
13. Has any transaction described in General Instruction G-(4) occurred on or after January 1, 1951? (Answer "yes" or "no").....
14. Did the corporation, during the taxable year, have any contracts or subcontracts subject to the Renegotiation Act of 1951? (Answer "yes" or "no") ..... If answer is "yes," state the approximate aggregate gross dollar amount billed during the taxable year under all such contracts and/or subcontracts. $..... (See General Instruction G-5.)
15. Did the corporation at any time during the taxable year own directly or indirectly any stock of a foreign corporation? ..... (If so, attach statement as required by General Instruction K.)

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Schedule L.—BALANCE SHEETS. (See Instruction L)

ASSETS	Beginning of Taxable Year: Amount	Beginning of Taxable Year: Total	End of Taxable Year: Amount	End of Taxable Year: Total
1. Cash		$		$
2. Notes and accounts receivable	$		$	
Less: Reserve for bad debts				
3. Inventories: (a) Raw materials	$		$	
(b) Work in process				
(c) Finished goods				
(d) Supplies				
4. Investments in governmental obligations:				
(a) Obligations of a State, Territory, or political subdivision thereof, or the District of Columbia, or United States possessions	$		$	
(b) Obligations of the United States:				
(1) Obligations issued on or before September 1, 1917; all postal savings bonds; Treasury notes issued prior to December 1, 1940; and Treasury bills issued prior to March 1, 1941				
(2) United States savings bonds and Treasury bonds issued prior to March 1, 1941				
(3) Treasury notes issued on or after December 1, 1940; and all other obligations of the United States issued on or after March 1, 1941				
(c) Obligations of instrumentalities of the United States:				
(1) Obligations of Federal land banks, joint stock land banks, and Federal intermediate credit banks issued prior to March 1, 1941				
(2) Obligations issued by other instrumentalities of the United States prior to March 1, 1941				
(3) Obligations of all instrumentalities of the United States issued on or after March 1, 1941				
5. Other investments (attach schedule)				
6. Capital assets:				
(a) Depreciable assets (attach schedule)	$		$	
Less: Reserve for depreciation				
(b) Depletable assets	$		$	
Less: Reserve for depletion				
(c) Land				
7. Other assets (attach schedule)				
8. Total Assets		$		$
LIABILITIES				
9. Accounts payable		$		$
10. Bonds, notes, and mortgages payable:				
(a) With original maturity of less than 1 year	$		$	
(b) With original maturity of 1 year or more				
11. Accrued expenses (attach schedule)				
12. Other liabilities (attach schedule)				
13. Surplus reserves (attach schedule)				
14. Capital stock: Enter number as at end of year—(Shares) (Shareholders)				
(a) Preferred stock (____) (____)	$		$	
(b) Common stock (____) (____)				
15. Paid-in or capital surplus				
16. Earned surplus and undivided profits				
17. Total Liabilities		$		$

Schedule M.—RECONCILIATION OF NET INCOME AND ANALYSIS OF EARNED SURPLUS AND UNDIVIDED PROFITS

1. Total distributions to stockholders charged to earned surplus during the taxable year:		17. Earned surplus and undivided profits at end of preceding taxable year (Schedule L)	$
(a) Cash	$	18. Net income before net operating loss deduction (item 32, page 1)	
(b) Stock of the corporation		19. Nontaxable interest on:	
(c) Other property		(a) Obligations of a State, Territory, or political subdivision thereof, or the District of Columbia, or U. S. possessions	
2. Contributions in excess of 5% limitation		(b) Obligations of the United States:	
3. Federal income and excess profits taxes		(1) Obligations issued on or before Sept. 1, 1917; all postal savings bonds; Treasury notes issued prior to Dec. 1, 1940; and Treasury bills issued prior to March 1, 1941	
4. Income taxes of foreign countries or United States possessions if claimed as a credit in whole or in part in item 36, page 1		(2) U. S. savings bonds and Treasury bonds owned in the principal amount of $5,000 or less, issued prior to March 1, 1941	
5. Federal taxes paid on tax-free covenant bonds		(c) Obligations of Federal land banks, joint stock land banks, and Federal intermediate credit banks issued prior to March 1, 1941	
6. Special improvement taxes tending to increase the value of the property assessed		20. Other nontaxable income (attach schedule)	
7. Capital expenditures charged to expenses on the books		21. Charges against surplus reserves deducted from income in the return (attach schedule)	
8. Insurance premiums paid on the life of any officer or employee where the corporation is directly or indirectly a beneficiary		22. Adjustments for tax purposes not recorded on books (attach schedule)	
9. Unallowable interest incurred to purchase or carry tax-exempt interest obligations		23. Sundry credits to earned surplus (attach schedule)	
10. Excess of capital losses over capital gains			
11. Additions to surplus reserves (attach schedule)			
12. Other unallowable deductions (attach schedule)			
13. Adjustments for tax purposes not recorded on books (attach schedule)			
14. Sundry debits to earned surplus (attach schedule)			
15. Earned surplus and undivided profits at close of the taxable year (Schedule L)			
16. Total of lines 1 to 15	$	24. Total of lines 17 to 23	$

How To Prepare Your 1952 Corporation Income Tax Return ON FORM 1120

References are to the Internal Revenue Code, unless otherwise indicated

GENERAL INSTRUCTIONS

A. Corporations required to make a return on Form 1120.—Every domestic and every resident foreign corporation not expressly exempt from taxation under chapter 1 (see section 101), whether or not having any net income, must file a return. The term "corporation" is defined by the Code to include associations, joint-stock companies, and insurance companies.

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, disposing of its assets for purposes of liquidation.

Effective for taxable years beginning after December 31, 1951, a mutual savings bank not having capital stock represented by shares; a domestic building and loan association, a domestic savings and loan association, a Federal savings and loan association, substantially all the business of which is confined to making loans to members; and a cooperative bank without capital stock and operated for mutual purposes and without profit are subject to income tax (except excess profits tax) and must file returns.

B. Period to be covered by return.—Returns shall be filed for the calendar year 1952 or fiscal year beginning in 1952 and ending in 1953. A fiscal year is an accounting period of 12 months ending on the last day of a calendar month other than December.

The established accounting period must be adhered to for all years unless permission is received from the Commissioner to make a change. An application for a change should be made on Form 1128 and forwarded to the Commissioner of Internal Revenue, Washington 25, D. C., at least 60 days prior to the close of the fractional part of the year for which a return would be required to effect the change.

C. Basis of return.—If your books of account are kept on the accrual basis, report all income accrued, even though it has not been actually received, and expenses incurred instead of expenses paid. If your books are not kept on the accrual basis or if you kept no books, make your return on a cash basis and report all income received or constructively received, such as bank interest credited to your account and coupon bond interest matured, and report expenses actually paid.

The following limitation on deductions for unpaid expenses and interest are applicable to taxpayers on the accrual basis.

Section 24 (c). Unpaid expenses and interest.—In computing net income no deduction shall be allowed under section 23 (a) relating to expenses incurred, or under section 23 (b), relating to interest accrued—

(1) If such expenses or interest are not paid within the taxable year or within two and one-half months after the close thereof; and

(2) If, by reason of the method of accounting of the person to whom the payment is to be made, the amount thereof is not, unless paid, includible in the gross income of such person for the taxable year in which or with which the taxable year of the taxpayer ends; and

(3) If, at the close of the taxable year of the taxpayer or at any time within two and one-half months thereafter, both the taxpayer and the person to whom the payment is to be made are persons between whom losses would be disallowed under section 24 (b).

D. Filing of return and payment of tax.—Returns of domestic and resident foreign corporations must be filed on or before the 15th day of the third month following the close of the taxable year with the director (formerly collector) of internal revenue for the district in which the corporation's principal place of business or principal office or agency is located.

The tax must be paid in full when the return is filed, or in four installments, as follows: 40 percent on or before the 15th day of the third month; 40 percent on or before the 15th day of the sixth month; 10 percent on or before the 15th day of the ninth month; and 10 percent on or before the 15th day of the twelfth month following the close of the taxable year. 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 director. The tax may be paid by sending or bringing with the return a check or money order drawn to the order of "Director of Internal Revenue." Do not send cash by mail, nor pay it in person except at the director's office.

E. Declaration.—The return must be signed by the president, vice president, or other principal officer, and by the treasurer, assistant treasurer, or chief accounting officer. When the return is actually prepared by some person or persons other than officers or employees of the corporation, such person or persons must also sign the declaration at the foot of page 1.

F. Penalties.—Severe penalties are imposed for failing to file a return, for late filing, and for filing a false or fraudulent return.

G–(1). Information at the source.—Every corporation making payments of (1) interest, rents, commissions, or other fixed or determinable income of $600 or more during the calendar year 1952 to an individual, a partnership, or a fiduciary, or (2) salaries or wages of $600 or more shall make a return on Forms 1096 and 1099, except that the making of such return will not be required with respect to salary or wage payments included on Form W–2, provided copies of withholding statements on Form W–2a are furnished. If a portion of such salary or wage payments was reported on a Withholding Statement (Form W–2a), only the remainder must be reported on Form 1099.

Except as stated below, the returns on Forms 1096 and 1099 shall also include dividend payments amounting to $10 or more during the calendar year 1952 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. In the case of a building and loan association, a cooperative bank, a homestead association, a credit union, a savings and loan association, or a corporation described in section 101 (10), (11), (12), or (13), making a payment of a dividend or a distribution to any shareholder, an information return shall be rendered only in the case of payments totaling $100 or more.

The returns on Forms 1096 and 1099 shall also include (except in the case of insurance companies taxable under Supplement G and corporations exempt under Section 101 (10) or (11)) patronage dividends, rebates, and refunds totaling $100 or more during the calendar year 1952. Include all amounts allocated as patronage dividends, rebates, and refunds, whether in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner.

G–(2). Information regarding 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 setting forth the terms of such resolution or plan.

Every corporation making distributions in liquidation of the whole or any part of its capital stock shall also make returns on Forms 1096 and 1099L, as required by instructions on Form 1096, for the calendar year 1952.

G–(3). Acquisition of interest in or control of a corporation or property after October 8, 1940.—The transactions to which reference is made in question 12 on page 3 are the following:

(*a*) Any acquisition, directly or indirectly, on or after October 8, 1940, by a corporation filing a return, or by any person or interest controlling it, or by any corporation or interest which it controls, of control of a corporation; or

(*b*) Any acquisition, directly or indirectly, on or after October 8, 1940, by a corporation filing a return, or by any corporation or interest which it controls, of property of another corporation not controlled, directly or indirectly, immediately prior to such acquisition, by such acquiring corporation or its stockholders, the basis of which property, in the hands of the acquiring corporation, is determined by reference to the basis in the hands of the transferor corporation.

For the purpose of the above, control means the ownership of stock possessing at least 50 percent of the total combined voting power of all classes of stock entitled to vote or at least 50 percent of the total value of shares of all classes of stock of the corporation.

G–(4). Certain transfers of property on or after January 1, 1951.—Under certain circumstances the $25,000 exemption from surtax and the minimum excess profits credit of $25,000 are not allowed or they may be reduced to a lesser figure.

PAGE 2

Section 15 (c) provides that if a corporation on or after January 1, 1951, transfers all or part of its property (other than money) to another corporation which was created for the purpose of acquiring such property or which was not actively engaged in business at the time of such acquisition and if after such transfer the transferor corporation or its stockholders, or both, are in control of such transferee corporation during any part of the taxable year of such transferee corporation, the transferee corporation shall not for such taxable year be allowed either the $25,000 exemption from surtax or the $25,000 minimum excess profits credit provided in the last sentence of section 431, unless such transferee corporation shall establish by clear preponderance of the evidence that the securing of such exemption or credit was not a major purpose of such transfer. Rules are provided for the determination of the ownership of stock for the purposes of the subsection. For allocation of the surtax exemption and minimum excess profits credit in certain cases, see section 129 (b). For the purposes of the above, control means the ownership of stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of stock of the corporation.

G-(5). **Information regarding renegotiable contracts.**—Every corporation which held, during the taxable year, contracts or subcontracts which were designated as subject to the Renegotiation Act of 1951, shall, in answer to question 14, page 3, state the actual, or if not accurately determinable, its best estimate of the aggregate gross dollar amount billed during the current taxable year under all contracts and/or subcontracts. The gross contract amount billed on cost-plus-fixed-fee contracts, and not merely the fixed fee, shall be included. The term "subcontract" may be defined as any purchase order or agreement to perform all or any part of the work, or to make or furnish any article, required for the performance of another contract or subcontract.

H. **Returns of certain corporations.** *Domestic corporations entitled to benefits of section 251.*—Domestic corporations within the possessions of the United States (except the Virgin Islands) may report as gross income only gross income from sources within the United States, provided (*a*) 80 percent or more of the gross income for the 3-year period immediately preceding the close of the taxable year (or such part thereof as may be applicable) was derived from sources within a possession of the United States, and (*b*) 50 percent or more of the gross income for such period or such part thereof was derived from the active conduct of a trade or business within a possession of the United States. (See section 251.)

Resident foreign corporations.—Foreign corporations which at any time within the taxable year are engaged in trade or business within the United States shall make returns on Form 1120 of income received from sources within the United States.

Nonresident foreign corporations.—Foreign corporations not engaged in trade or business within the United States at any time within the taxable year are subject to tax upon gross income from sources within the United States (determined under the provisions of section 119) which is fixed or determinable, annual or periodical gains, profits, and income, and are required to make returns on Form 1120NB with respect to such income only in the event their tax liability has not been fully satisfied at the source.

Insurance companies.—Life insurance companies subject to tax imposed by section 201 shall make returns on Form 1120L. Mutual insurance companies subject to tax imposed by section 207 shall make returns on Form 1120M. Insurance companies described in section 204 (a) (1) and certain mutual savings banks conducting life insurance business shall make returns on Form 1120, and there should be filed with the return a copy of the 1953 annual statement approved by the National Convention of Insurance Commissioners which contains the underwriting and investment exhibit. A copy of such annual statement for 1952 should also be furnished if not filed for such year.

Regulated investment companies.—An investment company will not satisfy the requirements of section 361 so as to come within the term "regulated investment company" for any taxable year unless it files with its return for the taxable year an irrevocable election to be a regulated investment company. If for any given year the investment company satisfies the other requirements of section 361 it will be considered a regulated investment company.

Personal holding companies.—Section 500 imposes a surtax upon the undistributed subchapter A net income of corporations, classified as personal holding companies. Every personal holding company must file an additional return on Form 1120H.

Section 501 (a) (1) and (2) defines a "personal holding company" as a corporation if at least 80 percent (see modifications in section 501 (a) (1)) of its gross income for the taxable year is personal holding company income as defined in section 502, and at any time during the last half of the taxable year more than 50 percent in value of its outstanding stock is owned, directly or indirectly, by or for not more than five individuals. (See sections 500–511.)

Foreign personal holding companies.—Section 337 (a) requires that the undistributed supplement P net income of a foreign personal holding company, as defined in section 331, shall be included as a dividend in the gross income of the United States shareholders in the amount provided by subsection (b). Form 1120H is not required, but monthly and annual information returns on Forms 957 and 958 must be filed by the officers, directors, and certain United States shareholders as provided by sections 338 and 339.

A foreign corporation which is a personal holding company, as defined in section 501 but not within the definition of section 331, is subject to the surtax imposed by section 500 and must file an additional return on Form 1120H.

I. **Consolidated returns.**—Subject to the provisions of section 141 and the regulations, an affiliated group of corporations may make a consolidated income tax (including excess profits tax) return in lieu of separate returns. The making of a consolidated return shall be upon the condition that all corporations which at any time during the taxable year have been members of the affiliated group making a consolidated return consent to all the consolidated returns regulations prescribed under section 141 (b) prior to the last day prescribed by law for filing such return. The common parent corporation, when filing a consolidated return, shall attach thereto a schedule showing the names and addresses of all the corporations included in the return. Each subsidiary must prepare two duplicate originals of Form 1122 consenting to regulations and authorizing the making of the return on its behalf. One such form shall be attached to the consolidated return as a part thereof, and the other shall be filed, at or before the time the consolidated return is filed, in the office of the District Director for the subsidiary's district.

Supporting schedules shall be filed with the consolidated return. These schedules shall be prepared in columnar form, one column being provided for each corporation included in the consolidation, showing in detail the items of gross income and deductions and the computation of net income; one column for a total of like items before adjustments are made; one column for intercompany eliminations and adjustments; and one column for a total of like items after giving effect to the eliminations and adjustments. The items included in the column for eliminations and adjustments should be symbolized to identify contra items affected, and suitable explanations appended, if necessary. Similar schedules shall also contain in columnar form a reconciliation of surplus for each corporation, together with a reconciliation of the consolidated surplus.

Consolidated balance sheets as of the beginning and close of the taxable year of the group shall accompany the consolidated return in a form similar to that required for reconciliation of surplus.

J. **Surtax on improperly accumulated surplus.**—In order to prevent accumulation of earnings or profits for the purpose of enabling shareholders to avoid the surtax on individuals, section 102 provides an additional tax upon the net income of corporations formed or utilized for the purpose of such tax avoidance. This additional tax is equal to the sum of the following:

Twenty-seven and one-half percent of the amount of the undistributed section 102 net income not in excess of $100,000, plus 38½ percent of such net income in excess of $100,000.

K. **Stock ownership in foreign corporations.**—In addition to the information to be shown in Schedule C of the return, a corporation owning any stock of a foreign corporation must attach a statement showing the name and address of each company and the total number of shares of each class of outstanding stock owned during the taxable year. If the corporation owned 5 percent or more in value of the outstanding stock of a foreign personal holding company, attach a statement setting forth in complete detail the information required by section 337 (d).

L. **Balance sheets.**—The balance sheets, Schedule L, should agree with the books of account or any differences should be reconciled. The balance sheets for a consolidated return of affiliated corporations should be furnished in accordance with Instruction I. All corporations reporting to the Interstate Commerce Commission or to any National, State, municipal, or other public officer, may submit, in lieu of Schedule L, copies of their balance sheets prescribed by said Commission or State and municipal authorities as at the beginning and end of the taxable year.

In case the balance sheet as at the beginning of the current taxable year does not agree in every respect with the balance sheet which was submitted as at the end of the previous taxable year, the differences should be fully explained.

M. **Forms other than prescribed by return.**—Banks, insurance companies, and other corporations required to submit statements of income and expenses to any National, State, municipal, or other public officer may submit with the return a statement of income and expenses in the form furnished to such officer, in lieu of the information requested in items 1 to 34, page 1, except that a railroad company may submit with the return a statement on Form 1090. In such cases the net income will be reconciled by means of Schedule M with the net profit shown by the income and expense statement submitted, and should be entered as item 34, page 1.

N. PRINCIPAL BUSINESS ACTIVITY

In reporting the "Principal business activity," on page 1, give the one business activity that accounts for the largest percentage of "total receipts." "Total receipts" means gross sales (line 1), plus gross receipts (line 4), plus all other income (lines 7 through 14). State the broad field of business activity as well as the specific product or service, such as "Mining copper," "Manufacturing cotton broad woven fabric," "Wholesale food," or "Retail apparel." *Where receipts are derived from two or more of the detailed industry groups listed below, show only one which is the major source of receipts.* Use the appropriate group under the heading "FINANCE" if over 50 percent of "total receipts" consists of investment income.

Enter the "business group code number" on page 1 from the following list. Give the code for the specific industry group from which the largest percentage of "total receipts" is derived.

AGRICULTURE, FORESTRY, AND FISHERIES

Code

011 Farms and agricultural services.
081 Forestry, excluding logging camps.
091 Fisheries.

MINING

Metal mining:
101 Iron ore.
102 Copper, lead, zinc, gold, silver ores.
109 Other metal mining.

Coal mining:
111 Anthracite coal.
121 Bituminous coal and lignite.

Crude petroleum and natural gas extraction:
131 Crude petroleum, natural gas, and natural gasoline.
138 Oil- and gas-field contract services.

Nonmetallic mineral mining:
141 Stone, sand, gravel.
149 Other nonmetallic minerals, except fuels.

CONSTRUCTION

151 General contractors: buildings.
152 General contractors: other.
153 Special trade contractors.
159 Other construction.

MANUFACTURING

Beverages:
191 Bottled soft drinks and carbonated waters.
192 Malt liquors and malt.
194 Wines.
195 Distilled, rectified, blended liquors.

Food and kindred products:
201 Meat products.
202 Dairy products, except market milk dealers.
203 Canning and preserving fruits, vegetables, and seafoods.
204 Grain-mill products, except cereal preparations.
205 Bakery products.
206 Sugar, cane and beet.
207 Confectionery, related products.
208 Cereal preparations.
209 Other, including manufactured ice and flavoring sirups.

Tobacco manufacturers:
212 Cigars.
219 Other.

Textile-mill products:
221 Yarn and thread (cotton, wool, silk, and synthetic fiber).
222 Broad-woven fabric (woolen and worsted).
223 Broad-woven fabric (cotton).
224 Narrow fabrics and other small wares (cotton, wool, silk, and synthetic fiber).
225 Knitting mills.
226 Dyeing and finishing textiles (except knit goods).
227 Carpets, rugs, and other floor coverings.
228 Hats, except cloth and millinery.
229 Other, including rayon and silk broad-woven fabric.

Apparel and other finished products made from fabrics and similar materials:
231 Men's and boys' clothing and furnishings, except fur and rubber.
233 Women's clothing, and children's and infants' wear, except fur and rubber.
235 Millinery.
237 Fur goods.
238 Other apparel and accessories including gloves, robes, and raincoats.
239 Other fabricated textile products including curtains, bags, and awnings.

Lumber and wood products (except furniture):
241 Logging camps, logging contractors, sawmills, and planing mills.
243 Millwork, plywood, and prefabricated structural wood products.
244 Wooden containers.
249 Other wood products.

Furniture and fixtures (wood or metal):
251 Furniture—household, office, public building, and professional.

Code

254 Partitions, shelving, lockers; and office and store fixtures.
256 Window and door screens, shades and venetian blinds.
259 Other, including restaurant furniture.

Paper and allied products:
261 Pulp, paper, and paperboard mills.
266 Paper bags and paperboard containers and boxes.
269 Pulp goods, and other converted paper products.

Printing, publishing, and allied industries:
271 Newspapers.
272 Periodicals.
273 Books.
275 Commercial printing, including lithographing.
279 Other publishing, bookbinding, and service industries for the printing trade.

Chemicals and allied products:
281 Industrial inorganic chemicals.
282 Industrial organic chemicals, including plastic materials, synthetic rubber, and synthetic fibers.
283 Drugs and medicines.
284 Soap and glycerine, cleaning and polishing preparations, etc.
285 Paints, varnishes, lacquers, etc.
286 Perfumes, cosmetics, and other toilet preparations.
287 Fertilizers.
288 Vegetable and animal oils and fats, except edible cooking oils.
289 Other, including gum and wood chemicals.

Products of petroleum and coal:
291 Petroleum refining.
299 Other.

Rubber products:
301 Tires and inner tubes.
309 Other rubber products.

Leather and leather products:
311 Leather: tanned, curried, etc.
314 Footwear (except rubber).
319 Other leather goods.

Stone, clay, and glass products:
321 Glass and glass products.
324 Cement (hydraulic).
325 Structural clay products.
326 Pottery and related products.
327 Concrete, gypsum, and plaster products, including lime.
328 Cut-stone and stone products.
329 Abrasive, asbestos, and other nonmetallic mineral products.

Primary metal industries:
331 Blast furnaces, steel works, and rolling mills.
332 Iron and steel foundries.
333 Primary and secondary smelting, refining, rolling, drawing, and alloying of nonferrous metals and alloys.
336 Nonferrous foundries.
339 Other, including iron and steel forgings and wire drawing.

Fabricated metal products (except ordnance, machinery, and transportation equipment):
341 Tin cans and other tinware.
342 Cutlery, hand tools, and general hardware.
343 Heating apparatus (except electric) and plumbers' supplies.
344 Fabricated structural metal products, including boiler shop products.
346 Metal stamping, coating, and engraving.
347 Lighting fixtures.
348 Fabricated wire products.
349 Other, including screw machine products.

Machinery (except electrical):
351 Engines and turbines, except automotive, aircraft, and railway.
352 Agricultural mchy. and tractors.
353 Construction and mining machinery and equipment.
354 Metalworking machinery including machine tools.
355 Special-industry machinery.
356 General industry machinery and equipment.

Code

357 Office and store machines and devices.
358 Service industry and household machines.
359 Other machinery parts, and machine shops.

Electrical machinery, equipment, and supplies:
361 Electrical generating, transmission, distribution and industrial apparatus.
362 Electrical appliances.
363 Insulated wire and cable.
364 Electrical equipment for motor vehicles, aircraft, and railway locomotives and cars.
365 Electric lamps.
366 Radio, radar, and television equipment, and phonographs (except radio tubes).
367 Other communication equipment and related products.
369 Miscellaneous electrical products including batteries.

Transportation equipment (except electrical and motor vehicle equipment):
372 Aircraft and parts, including aircraft engines.
373 Ship and boat building, repairing.
374 Railroad equipment, including locomotives, and street cars.
375 Motorcycles, bicycles and parts.
379 Other transportation equipment.

Motor vehicles and motor vehicle equipment (except electrical equipment):
381 Motor vehicles, including bodies and truck trailers.
384 Motor vehicle parts and accessories, including engines, and trailers for passenger cars.

Ordnance and accessories:
391 Guns, and related equipment including small arms.
396 Small arms ammunition.
399 Other.

Professional, scientific, and controlling instruments; photographic and optical goods:
401 Professional, scientific, and controlling instruments, including photographic and optical goods.
407 Watches, clocks, and clockwork-operated devices.

Other manufacturing industries:
411 Jewelry (precious metal), silverware and plated ware.
412 Costume jewelry (except precious metal).
413 Fabricated plastic products, except plastic materials.
419 Other, including matches.

TRANSPORTATION, COMMUNICATION, AND OTHER PUBLIC UTILITIES

Transportation:
461 Railroads, railway express.
462 Urban, suburban, and interurban railways (with and without busses).
463 Trucking and warehousing.
464 Other motor vehicle transportation, including taxicabs and busses.
465 Petroleum pipelines.
466 Water transportation.
467 Air transportation.
468 Services, supplementary to transportation.
469 Other transportation.

Communication:
471 Telephone (wire or radio).
472 Telegraph (wire and radio).
473 Radio broadcasting and television.
479 Other communication.

Electric and gas utilities:
481 Electric light and power.
482 Gas production and distribution, except natural gas production.

Other public utilities:
491 Water supply.
499 Other public utilities.

WHOLESALE TRADE

501 Commission merchants.

Other wholesalers:
511 Food, including milk.
512 Alcoholic beverages.
513 Apparel and dry goods.
514 Chemicals, paints, and drugs.
515 Hardware, electrical goods, plumbing and heating equipment, etc.

Code

516 Lumber, millwork, and construction materials.
517 Machinery, equipment, supplies.
518 Farm products—raw materials: cotton, grain, wool, leaf tobacco, livestock, etc.
519 Other wholesalers.

RETAIL TRADE

521 Food, including milk.

General Merchandise:
531 Department stores.
532 Mail-order houses.
533 Variety stores.
539 Other general merchandise.
541 Apparel and accessories.
551 Furniture, home furnishings, etc.

Automotive dealers, dealers in parts and accessories, and filling stations:
561 Automobiles and trucks.
563 Parts, accessories, tires, batteries.
564 Filling stations.
571 Drug stores.
581 Eating and drinking places.

Lumber, building materials, and hardware:
591 Lumber and building materials.
595 Hardware and farm implements.

Other retail trade:
601 Liquor stores.
607 Jewelry stores.
609 Other retail stores.

FINANCE, INSURANCE, AND REAL ESTATE

621 Banks and trust companies.

Credit agencies other than banks:
634 Personal credit agencies.
635 Business credit agencies.
639 Other credit agencies.

Holding and other investment companies:
641 Operating-holding companies (companies which derived less than 90 percent but more than 50 percent of "total receipts" from investments).
642 Other investment and holding companies (companies which derived 90 percent or more of total receipts from investments).
651 Security and commodity brokers, dealers, exchanges, and services.

Insurance carriers:
661 Life insurance.
662 Mutual, except life or marine, and except mutual fire insurance companies issuing perpetual policies.
669 Other.
671 Insurance agents, brokers, and service.

Real estate:
681 Real estate owners and operators, including lessors of buildings (excludes developers of real property and lessors of real property other than buildings).
683 Developers of real property, including traders on own account.
684 Agents, brokers, managers, etc.
685 Title abstract companies.
689 Other real estate.

Lessors of real property, except buildings:
691 Agricultural, forest, and similar properties.
692 Mining, oil, and similar properties.
693 Railroad property.
694 Public-utility property.
699 Other real property except buildings.

SERVICES

701 Hotels, rooming and boarding houses, camps.

Personal services:
721 Laundries, cleaning and dyeing.
723 Photographic studios including commercial photography.
729 Other personal service.

Business services:
731 Advertising.
739 Other business services.
751 Automobile repair services and garages.
761 Other repair services.

Motion pictures:
781 Motion picture production, distribution and service industries.
783 Motion picture theaters.
791 Amusement and recreation services except motion pictures.
801 Other services, including schools.

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SPECIFIC INSTRUCTIONS (Numbered to correspond with item numbers on page 1 of return)

2. Cost of goods sold.—If the production, manufacture, purchase, or sale of merchandise is an income-producing factor in the trade or business, inventories of merchandise on hand should be taken at the beginning and end of the taxable year, which may be valued at (*a*) cost, or (*b*) cost or market, whichever is lower. The basis properly adopted is controlling until permission to change is obtained from the Commissioner. Application for permission to change the basis of valuing inventories shall be made in writing and filed with the Commissioner within 90 days after the beginning of the taxable year in which it is desired to effect a change. Enter the letters "C" or "C or M" immediately before the amount column in Schedule A, if the inventories are valued at either cost, or cost or market, whichever is lower. Indicate in answer to question 10, on page 3, the basis of valuing or method of inventorying merchandise and furnish the information required by such question. In case the inventories reported do not agree with the balance sheet, attach a statement explaining the difference.

A corporation electing to have applied the method of taking inventory provided for in section 22 (d) should file Form 970 with the return for the first year of the election. Thereafter, attach separate schedule showing: (1) a summary of all inventories; (2) with respect to inventories computed under section 22 (d), if any, the computation of the quantities and cost by acquisition levels.

9. Interest on corporation bonds, etc.—Enter net amount of interest from column 3 of Schedule C–1, page 2, on bonds, debentures, notes, or certificates or other evidence of indebtedness, issued by any corporation and bearing interest, with interest coupons or in registered form. Do not include interest on any such obligations which constitute stock in trade of the taxpayer or any such obligations of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or any such obligations held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business. Such interest should be entered in item 8. For provisions relating to amortizable bond premium by the owner of a bond, see sections 23 (v) and 125.

10. Interest on obligations of the United States, etc.—Enter from column 3, Schedule C–1, the total of lines (*a*), (*b*), and (*c*). Also enter on line 4, Schedule L, the amounts of the various obligations owned. Enter on line 19, Schedule M, all interest received or accrued during the year on the various obligations listed therein. The total amount of interest reported on lines (*a*) and (*b*) in column 3 of Schedule C–1, page 2, is allowable as a credit against net income. The amount of interest received or accrued on obligations issued on or after March 1, 1941, by the United States or any agency or instrumentality thereof should be entered on line (*c*), Schedule C–1. For provisions relating to amortizable bond premium by the owner of a bond, see sections 23 (v) and 125.

For special rules applicable, in the case of dealers in securities, with respect to premium attributable to certain tax-exempt securities, see section 22 (o).

Non-interest-bearing obligations issued at a discount.—Taxpayers on the cash basis may elect, as to all non-interest-bearing obligations issued at a discount and redeemable for fixed amounts increasing at stated intervals (for example, United States Saving Bonds), to include the increase in redemption price applicable to the current year. For the year of election the total increase in redemption price of such obligations occurring between the date of acquisition and the end of the year must be included. Taxpayers so electing shall report such income as interest in item 8, 9, or 10, page 1, whichever is applicable, and attach statement listing obligations owned and computation of accrued income.

11. Rents.—Enter the gross amount received for the rent of property. Any expenses, including repairs, interest, taxes, and depreciation, should be included in the proper items of deductions on page 1.

12. Royalties.—Enter the gross amount received as royalties. If a deduction is claimed for depletion, it should be reported as item 26, page 1.

13. Gains and losses from sales or exchanges of capital assets and other property.—The computation of gains and losses from sales or exchanges of capital assets and property other than capital assets should be made on separate Schedule D. Every sale or exchange of property, even though no gain or loss is indicated, must be reported in detail. If for any taxable year the net long-term capital gain exceeds the net short-term capital loss, or in case of only a net-long term capital gain, a computation of the alternative tax should be made on separate Schedule D.

The results computed on separate Schedule D must be shown in appropriate item and line, pages 1 and 3 of Form 1120.

For further information relating to gains and losses from sales or exchanges of property, see instructions on back of separate Schedule D.

14. Other income.—List all other income not reported elsewhere in the return. War loss recoveries received during the year should be determined in accordance with section 127 (c) and the applicable regulations.

18. Rent.—Enter rent paid or accrued for business property in which the corporation has no equity.

19. Repairs.—Enter the cost of incidental repairs, including labor, supplies, and other items, which do not add to the value or appreciably prolong the life of the property. Expenditures for new buildings, machinery, equipment, or for permanent improvements or betterments which increase the value of the property are chargeable to capital account. Expenditures for restoring or replacing property are not deductible, as such expenditures are chargeable to capital accounts or to depreciation reserve, depending on how depreciation is charged on the books of the corporation.

20. Bad debts.—Bad debts may be treated in either of two ways—(1) by a deduction from income in respect of debts which become worthless in whole or in part, or (2) by a deduction from income of a reasonable addition to a reserve for bad debts.

A taxpayer filing a first return of income may select either of the two methods, which method must be followed in returns for subsequent years, unless permission is granted by the Commissioner to change to the other method. Application for permission to change the method shall be made in writing at least 30 days prior to the close of the taxable year for which it is desired to effect the change.

Worthless debts arising from unpaid wages, salaries, rents, and similar items of taxable income, will not be allowed as a deduction unless the income such items represent has been included in the return of income for the year for which the deduction as a bad debt is sought to be made or for a previous year.

For treatment of bad debts of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, and a cooperative bank without capital stock organized and operated for mutual purposes and without profit, see section 23 (k) (1) and the regulations thereunder.

21. Interest.—Enter interest paid or accrued on business indebtedness. Do not include in item 21 interest 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.

22. Taxes.—Enter taxes paid or accrued during the taxable year and fill in Schedule G. Do not include Federal income, war-profits, and excess-profits taxes; estate, inheritance, legacy, succession, and gift taxes; foreign or possession income taxes if any credit is claimed in item 36, page 1; taxes assessed against local benefits tending to increase the value of the property assessed; Federal taxes paid on bonds containing a tax-free covenant, nor taxes not imposed upon the taxpayer.

23. Contributions or gifts paid.—Enter contributions or gifts actually paid within the taxable year to or for the use of (1) the United States, any State, Territory, or any political subdivision thereof or the District of Columbia, or any possession of the United States, for exclusively public purposes; (2) a corporation, trust, or community chest, fund, or foundation, created or organized in the United States or in any possession thereof or under the law of the United States, or of any State or Territory, or of the District of Columbia, or of any possession of the United States, organized and operated exclusively for religious, charitable, scientific, veteran rehabilitation service, 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 or any of its possessions 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; or (3) posts or organizations of war veterans, or auxiliary units of, or trusts or foundations for, any such posts or organizations, if such posts, organizations, units, trusts, or foundations are organized in the United States or any of its possessions, and if no part of their net earnings inure to the

benefit of any private shareholder or individual. The amount claimed shall not exceed 5 percent of the corporation's net income as computed without the benefit of this deduction. In the case of a corporation on the accrual basis, any contribution or gift will, at the election of the taxpayer, made at the time the return is filed, be considered as paid during the taxable year if payment is actually made on or before the fifteenth day of the third month following the close of the taxable year, and if the contribution or gift has during the taxable year been authorized by the board of directors of the corporation. A copy of such authorization must be attached to the return. Do not deduct as a business expense charitable contributions which come within the above description, but which might be unallowable in whole or in part, because of the limitation contained in section 23 (q). List organizations and amounts contributed to each in Schedule H.

24. Losses by fire, storm, shipwreck, or other casualty, or theft.—Enter losses of property sustained during the year, arising from fire, storm, shipwreck, or other casualty, or from theft. Losses should be explained in an attached schedule setting forth a description of the property, date acquired, cost, subsequent improvements, depreciation allowable since acquisition, insurance, salvage value, and deductible loss.

25. Depreciation.—The amount deductible on account of depreciation is an amount reasonably measuring the portion of the investment in depreciable property (1) used in the trade or business, or (2) held for production of income, by reason of exhaustion, wear and tear, including a reasonable allowance for obsolescence, which is properly chargeable for the year. 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 and must have due regard to operating conditions during the taxable year and should be described in the return. Stocks, bonds, and like securities are not subject to depreciation within the meaning of the law.

If a deduction is claimed on account of depreciation, fill in Schedule I. 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 this 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. (See sections 23 (l) and 114.)

For treatment of depreciation allowed (in excess of amount allowable) which did not result in reduction of income or excess profits taxes, see instructions on back of separate Schedule D.

26. Depletion of mines, oil and gas wells, timber, etc.—If a deduction is claimed on account of depletion, procure from the District Director: Form M (mines and other natural deposits), Form O (oil and gas), or Form T (timber), fill in and file with return. If complete valuation data have been filed with questionnaire in previous years, then file with your return information necessary to bring your depletion schedule up to date, setting forth in full statement of all transactions bearing on deductions from or additions to value of physical assets during the taxable year with explanation of how depletion deduction for the taxable year has been determined. (See section 23 (m) and section 114 (b).) For any taxable year ending after December 31, 1950, expenditures to be deferred and deducted ratably under the election provided in sections 23 (cc) (2), relating to certain expenditures in the development of mines, and 23 (ff) (2), relating to deductions for mine exploration, are not to be taken into account in determining the adjusted basis for property for the purpose of computing a deduction for depletion under section 114. See note under Schedule J for information to be submitted in the case of expense deductions for development and exploration of mines, and oil and gas wells.

27. Amortization.—If the corporation elects the deduction with respect to the amortization of the adjusted basis of (*a*) any emergency facility with respect to which the Government has issued a certificate of necessity, or (*b*) a grain storage facility, a statement of the pertinent facts should be filed with its election. (See sections 124A and 124B and the regulations thereunder.)

28. Advertising.—Enter in item 28 the total amount paid or incurred during the year for advertising. Expenditures for advertising, to be deductible, must be ordinary and necessary and bear a reasonable relation to the business activities in which the corporation is engaged.

29 (a). Amounts contributed under a pension, annuity, stock bonus, or profit-sharing plan.—Enter in item 29 (a) the total amount deductible under section 23 (p). A corporation claiming a deduction under section 23 (p) must submit with its return, in addition to the information specified in the regulations concerning such deduction, a statement with respect to each plan showing the type of plan, i. e., pension, annuity, profit-sharing, stock bonus, or other plan deferring the receipt of compensation, whether or not the plan is qualified under section 165 (a), and the method of funding, i. e., individual annuity or insurance contracts, group annuity contract, group permanent contract, or self-insured trust. If not funded, so indicate.

29 (b). Amounts contributed under other employee benefit plans.—Enter in item 29 (b) deductions for contributions to employee benefit plans other than those claimed in item 29 (a), such as insurance, health, or welfare plan. Submit with the return a schedule for each plan showing (1) the nature of benefits, i. e., group term life insurance, group permanent life insurance, non-insured death benefit, hospitalization, surgical, medical, sickness, accident, major medical expense, or other welfare benefits; (2) method of financing, i. e., insured, industry or area wide fund, self-insured fund, or direct benefit payments; (3) the amount of deduction; (4) the amount of employee contributions; (5) the number of employees covered; and (6) if a self-insured plan, the amount of benefits paid during the taxable year. Also show the number of employees employed by the corporation.

30. Other deductions authorized by law.—Enter in item 30 any other authorized deductions for which no space is provided on the return. Any deduction claimed should be explained in Schedule J. See note under Schedule J for information to be submitted in case of expense deductions for development and exploration of mines, and oil and gas wells.

Do not deduct losses incurred in transactions which were neither connected with the corporation's trade or business nor entered into for profit.

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 both to 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 expense items allocated to each such class (the amount allocated by apportionment being shown separately).

In the case of mutual savings banks, cooperative banks, and domestic building and loan associations, any amounts paid or credited to the accounts of depositors or holders of accounts as dividends on their deposits or withdrawable accounts, if such amounts may be withdrawn on demand subject only to customary notice of intention to withdraw, are allowable deductions in computing net income.

A special deduction in computing net income is allowed a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, or a cooperative bank without capital stock organized and operated for mutual purposes and without profit, for repayment during the taxable year of loans made before September 1, 1951, by the United States or its wholly owned agencies, or by a mutual fund established under the authority of State law. (See section 3797 (a) for definition of the term "domestic building and loan association.")

33. Net operating loss deduction.—In determining the net operating loss deduction for any taxable year, the aggregate of the net operating loss carry-overs and carry-backs to such year is reduced by the excess of the net income for the year computed with the adjustments described in (a), (b), and (c), below, over the normal-tax net income computed without regard to the net operating loss deduction, without the credit for dividends paid on certain preferred stock of a public utility and without the credit allowable to Western Hemisphere trade corporations. The net operating loss deduction claimed on a return is computed without regard to carry-backs from succeeding years (a claim must be filed with respect to such carry-backs). Section 122 provides detailed rules for the computation of the net operating loss deduction.

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A net operating loss is the excess of the deductions allowed by chapter 1 over the gross income, taking into consideration the following adjustments:

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

(b) There shall be included in computing gross income the amount of interest received which is wholly exempt from the taxes imposed by chapter 1, decreased by the amount of interest paid or accrued 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; and

(c) No net operating loss deductions shall be allowed.

If the taxable year in which the net operating loss is sustained begins on or after January 1, 1948, and before January 1, 1950, the net operating loss is carried back to the two preceding taxable years and carried over to the three succeeding taxable years. The net operating loss is carried back first to the earliest year to which it may be carried and to the extent that it exceeds the net income of such year is, in general, carried to the next earliest year, etc. If the taxable year in which the net operating loss is sustained begins on or after January 1, 1950, the net operating loss is carried back first to the preceding taxable year and to the extent that it exceeds the net income of such year is carried over to the five succeeding taxable years. If a corporation's first taxable year began in 1949 and ended in 1950, the net operating loss for that year may also be carried over to the five succeeding taxable years, but the amount of the carry-over to the fourth and fifth succeeding taxable years cannot exceed an amount which bears the same ratio to the net operating loss as the number of days in the loss year falling after December 31, 1949, is of the total number of days in the loss year. In other words, the amount of the carry-over to the fourth and fifth succeeding taxable years is limited to such part of the net operating loss as is properly allocable to 1950.

In determining the amount of net operating loss not used in an earlier year but available to be carried to another year, the net income of the earlier year is computed (1) with the adjustments described in (a) and (b), above, and (2) by determining the net operating loss deduction for such earlier year without regard to such net operating loss and without regard to the reduction described in the first paragraph of instruction 33. Only the portion of a net operating loss which is not used as a carry-back may be carried over. For example, a net operating loss sustained in the calendar year 1950 must first be carried back to 1949. The portion unused as a carry-back to 1949 may be carried over to 1951, 1952, 1953, 1954, and 1955.

Section 362 (b) provides that no net operating loss deduction shall be allowed in the case of a regulated investment company.

Every corporation claiming a net operating loss deduction for any taxable year shall file with its return for such year a detailed schedule showing the computation of the net operating loss deduction.

If the corporation desires prompt payment for refund attributable to a net operating loss carry-back an application for a tentative adjustment should be filed on Form 1139 within 12 months after the close of the taxable year in which the net operating loss is sustained.

34. **Net income.**—Under the provisions of section 47 (c) (1), if a corporation changes its accounting period, the net income for the short period between the close of the old accounting period and the date designated as the close of the new period shall be placed on an annual basis by multiplying the amount thereof by 12 and dividing by the number of months in the short period. The tax shall be such part of the tax computed on such annual basis as the number of months in the short period is of 12 months. Section 47 (c) (2) provides, however, that a taxpayer may file an application to reduce the tax by establishing the amount of its actual net income for the period of 12 months beginning with the first day of the short period, computing the tax on such net income, and taking as the tax such part of the tax so computed as the income determined for the short period is of the income for the 12 months, or if a corporation prior to the end of the 12-month period distributed substantially all its assets, then, in order to determine an actual 12-month income experience, there shall be used the 12-month period ending with the last day of the short period. A taxpayer using the 12-month period ending with the last day of the short period may claim in its return the benefits of section 47 (c) (2), provided an application has been filed. The tax cannot be reduced below the amount of tax which would be due if the income for the short period was not placed on an annual basis.

36. **Credit for taxes.**—If, in accordance with section 131 (a) a credit is claimed by a domestic corporation in item 36, page 1 on account of income, war-profits and excess-profits taxes paid or accrued to a foreign country or a possession of the United States, Form 1118 should be submitted with the return, together with the receipt for each such tax payment. In case credit is sought for taxes accrued but not paid, the form must have attached to it a certified copy of the return on which each such accrued tax was based, and the Commissioner may require a bond on Form 1119 as a condition precedent to the allowance of a credit for such accrued taxes. Foreign corporations, domestic corporations entitled to the benefits of section 251, and corporations organized under the China Trade Act, 1922, are not allowed this credit.

TAX COMPUTATION INSTRUCTIONS

1. **Normal-tax income.**—The term "normal-tax net income" means the adjusted net income minus the sum of the following credits:

(a) **The credit for dividends received provided in section 26 (b).** The dividends-received credit is an amount equal to the sum of—

(1) 85 percent of all dividends received from a domestic corporation subject to the income tax, other than dividends received on the preferred stock of a public utility;

(2) 62 percent, for taxable years beginning after December 31, 1952, and prior to April 1, 1954 (59 percent for taxable years beginning on or after April 1, 1954), of the amount received as dividends on the preferred stock of a public utility which is subject to the income tax; and

(3) 85 percent of dividends received from certain foreign corporations. Section 26 (b) provides for a dividends received credit in the case of dividends received from a foreign corporation (other than a foreign personal holding company) which is subject to the income tax if, (1) for an uninterrupted period of not less than 36 months (or the entire period the foreign corporation was in existence if such period is less than 36 months) ending with the close of the foreign corporation's taxable year in which such dividends are paid, the foreign corporation has been engaged in trade or business within the United States, and (2) during such period, 50 percent or more of the gross income of the foreign corporation has been derived from sources within the United States. See section 26 (b) for certain limitations in the amount of this credit.

In no event is the total credit allowed by section 26 (b) to exceed 85 percent of the adjusted net income computed without regard to the net operating loss deduction provided in section 23 (s). For the purpose of computing the dividends-received credit, the whole or any part of a dividend received in property other than money will be considered as a dividend to the extent of the adjusted basis of such property in the hands of the distributing company at the time of distribution increased in the amount of gain or decreased in the amount of loss recognized to the distributing company by reason of such distribution, subject, however, to the applicable limitations provided in section 26 (b). The credit allowed by 26 (b) may 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.

(b) **In the case of a public utility, the credit for dividends paid on its preferred stock provided in section 26 (h).** The credit under section 26 (h) is an amount equal to 27 percent, for taxable years beginning after December 31, 1952, and prior to April 1, 1954 (30 percent for taxable years beginning on or after April 1, 1954), of the lesser of (1) the amount of dividends paid on the preferred stock of a public utility company, or (2) the excess of the adjusted net income of the public utility company over its dividends-received credit provided in section 26 (b).

(c) **In the case of a Western Hemisphere trade corporation (as defined in section 109), the credit provided in section 26 (i).** A credit is allowed equal to 27 percent, for taxable years beginning after December 31, 1952, and prior to April 1, 1954 (30 percent for taxable years beginning on or after April 1, 1954), of the normal-tax net income of the Western Hemisphere trade corporation computed without regard to the credit provided in section 26 (i).

2. **Rates on normal-tax net income.**—Section 13 (b) provides a normal tax of 30 percent, for taxable years beginning after December 31, 1952, and prior to April 1, 1954 (25 percent for taxable years beginning on or after April 1, 1954), upon the

normal-tax net income of every corporation (except (1) those expressly exempt from taxation; (2) insurance companies; (3) nonresident foreign corporations; and (4) regulated investment companies).

3. **Surtax net income.**—The term "corporation surtax net income" means the net income minus the sum of the credits allowable against adjusted net income in computing the normal-tax net income (see paragraph 1 (*a*), (*b*), and (*c*) of this part of instructions).

4. **Rates on surtax net income.**—Section 15 (b) imposes a surtax of 22 percent upon the corporation surtax net income of every corporation (except (1) those expressly exempt from taxation; (2) insurance companies; (3) nonresident foreign corporations; and (4) regulated investment companies).

Section 141 provides that in any case in which a consolidated return is made or required to be made, the surtax imposed under section 15 shall be increased by 2 percent of the consolidated corporation surtax net income of the affiliated group of includible corporations. However, in the case of an affiliated group of corporations including one or more Western Hemisphere trade corporations filing a consolidated return, the 2 percent additional tax is applied on the amount by which the consolidated corporation surtax net income of the affiliated group exceeds the portion of the consolidated corporation surtax net income attributable to the Western Hemisphere trade corporations. If the consolidated corporation surtax net income of the Western Hemisphere trade corporation is less than zero, the 2 percent additional tax is applied against the consolidated corporation surtax net income of the entire affiliated group, including the Western Hemisphere trade corporations.

For disallowance of the $25,000 exemption from surtax in cases in which the major purpose of the transfer of property was to obtain such exemption and the $25,000 minimum excess profits credit, see General Instructions G–(3) and G–(4).

5. **Insurance companies other than life or mutual.**—All insurance companies (other than life or mutual insurance companies or foreign insurance companies not carrying on an insurance business within the United States), including mutual marine insurance companies, and mutual fire insurance companies issuing perpetual policies, are subject to the taxes imposed by section 204 (a) (1) at the rates specified in section 13 (b) and in section 15 (b). The net income of such insurance companies is defined in section 204 (b) (2), and differs from the net income of other corporations. For what constitutes normal-tax net income, see section 13 (a) (2). For the definition of corporation surtax net income, see section 15 (a). In computing the normal-tax net income and corporation surtax net income, the credits provided in section 26 shall be allowed in the manner and to the extent provided in section 13 (a) and section 15 (a).

6. **Life insurance departments of mutual savings banks.**—A mutual savings bank authorized under State law to conduct a life insurance business and which conducts such business in a separate department the accounts of which are maintained separately from the other departments of the bank is taxable under section 110 provided the life insurance department would, if it were treated as a separate corporation, qualify as a life insurance company under section 201 (b).

The tax consists of the sum of—(1) a partial tax computed under sections 13 and 15 upon the net income of the bank determined without regard to any items of income or deductions properly allocable to the life insurance department; and (2) a partial tax upon the net income (computed as provided in section 201 (c)) of the life insurance department determined without regard to any items of income or deductions not properly allocable to such department at the rates and in the manner provided in Supplement G with respect to life insurance companies.

Tax computation.—A mutual savings bank for the purpose of computing the first partial tax should use Form 1120 filling in all applicable items (except items 38 and 39, page 1) and schedules. The first partial tax should be computed by using the Tax Computation schedule on page 3 of Form 1120. For the purpose of computing the second partial tax Form 1120L should be used and the tax so computed should be entered in item 38, page 1, Form 1120, as the second partial tax by striking out the present wording of that item and inserting appropriate identification. The sum of items 37 and 38, page 1, Form 1120, will constitute the tax due. Form 1120L properly filled in should be attached to and made a part of Form 1120 and properly identified as an accompanying schedule. However, any Form 1120L so used need not be separately executed under the penalty of perjury.

7. **Resident foreign corporations.**—Section 231 (b) provides for a tax on foreign corporations engaged in trade or business within the United States computed at the rates provided in sections 13 (b) and 15 (b). See paragraphs 2 and 4 of this part of instructions.

TAX ON REGULATED INVESTMENT COMPANIES

Method of taxation.—An investment company satisfying the requirements of section 361, and filing with its return an election to be a regulated investment company, will be taxable under Supplement Q if it distributes during the taxable year to its shareholders as taxable dividends, other than capital gain dividends, an amount not less than 90 percent of its net income for the taxable year computed without regard to net long-term and net short-term capital gains, and complies for such year with prescribed rules and regulations for the purpose of ascertaining the actual ownership of its outstanding stock.

Supplement Q net income.—The term "Supplement Q net income" means the adjusted net income (computed by excluding the excess, if any, of the net long-term capital gain over the net short-term capital loss, and without the net operating loss deduction provided in section 23 (s)), minus the basic surtax credit (excluding capital gain dividends) computed under section 27 (b) without the application of paragraphs (2) and (3). For the purposes of this paragraph, the net income shall be computed without regard to section 47 (c) (relating to income placed on an annual basis).

Supplement Q surtax net income.—The term "Supplement Q surtax net income" means the net income (computed by excluding the excess, if any, of the net long-term capital gain over the net short-term capital loss, and without the net operating loss deduction provided in section 23 (s)), minus the dividends (other than capital gain dividends) paid during the taxable year increased by the consent dividends credit provided by section 28. For the purposes of this paragraph the amount of dividends paid shall be computed in the same manner as provided in subsections (d), (e), (f), (g), (h), and (i) of section 27 for the purpose of the basic surtax credit provided in section 27; and the net income shall be computed without regard to section 47 (c) (relating to income placed on an annual basis).

Capital gain dividend.—Section 362 (b) (7) defines the term "Capital gain dividend" as any dividend or part thereof which is designated by the company as a capital gain dividend in a written notice mailed to its shareholders at any time prior to the expiration of 30 days after close of its taxable year. If the aggregate amount so designated with respect to a taxable year of the company is greater than the excess of the net long-term capital gain over the net short-term capital loss of the taxable year, the portion of each distribution which shall be a capital gain dividend shall be only that proportion of the amount so designated which such excess of the net long-term capital gain over the net short-term capital loss bears to the aggregate amount so designated. Submit a copy of written notice to stockholders.

When dividends are considered paid.—For the purposes of subsection (b) of section 362, any dividend or portion thereof which is declared after the close of the taxable year and prior to the time for the filing of the return for such taxable year (including the period of any extension of time granted for filing such return) shall, to the extent the company so elects in its return, be treated as having been paid during such taxable year provided that the distribution of such dividend (the entire dividend declared, and not merely the portion covered by the election) is actually made to its shareholders within the 12-month period following such taxable year and not later than the date of the first regular dividend payment made after such declaration.

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Tax computation.—A regulated investment company should compute its tax by using a computation schedule similar to the one shown below in lieu of the computation schedule on page 3 of Form 1120:

1. Adjusted net income computed under section 362 (b) (1) (item 32, page 1, less the sum of lines (*a*) and (*b*), column 3, Schedule C–1, and item 13 (*b*), page 1, Form 1120)	$
2. Less: Basic surtax credit (excluding capital gain dividends) computed without regard to paragraphs (2) and (3) of section 27 (b)	
3. Supplement Q net income	$
4. Normal tax (_____ percent of line 3) (see Note below)	$
5. Net income computed under section 362 (b) (2) (item 32, page 1, less item 13 (*b*), page 1, Form 1120)	$
6. Less: Dividends (other than capital gain dividends) paid, including consent dividends credit	
7. Supplement Q surtax net income	$
8. Surtax (22 percent of the excess of line 7 over $25,000)	$
9. Excess of net long-term capital gain over net short-term capital loss (item 13 (*b*), page 1, Form 1120)	$
10. Less: Capital gain dividends paid	
11. Excess subject to tax	$
12. Tax (25 percent of line 11)	$
13. Total tax in lines 4, 8, and 12. (Enter as item 35, page 1, Form 1120)	$

NOTE.—Thirty percent for taxable years beginning after December 31, 1952, and before April 1, 1954; 25 percent for taxable years beginning on or after April 1, 1954.

SCHEDULE D (Form 1120)
U. S. Treasury Department
Internal Revenue Service

1953

SCHEDULE OF GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY

For Calendar Year 1953

or fiscal year beginning ....., 1953, and ending ....., 1954

Name and address .....

(1) CAPITAL ASSETS

1. Description of Property	2. Date Acquired Mo. Day Year	3. Date Sold Mo. Day Year	4. Gross Sales Price (Contract price)	5. Depreciation Allowed (or allowable) Since Acquisition or March 1, 1913 (Furnish details)	6. Cost or Other Basis and Cost of Improvements Subsequent to Acquisition or March 1, 1913	7. Expense of Sale	8. Gain or Loss (Column 4 plus column 5 less the sum of columns 6 and 7)
SHORT-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD FOR NOT MORE THAN 6 MONTHS							
1.			$	$	$	$	$
2. Unused net capital loss carry-over from five preceding taxable years (attach statement)							
3. Total of short-term capital gains or losses or difference between short-term capital gains and losses							$
LONG-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD FOR MORE THAN 6 MONTHS							
4.			$	$	$	$	$
5. Total of long-term capital gains or losses or difference between long-term capital gains and losses							$

SUMMARY OF CAPITAL GAINS AND LOSSES

Classification	Gain or Loss To Be Taken Into Account (a) Gain	(b) Loss
6. Net short-term capital gain or loss from line 3	$	$
7. Net long-term capital gain or loss from line 5	$	$
8. Net short-term capital gain (line 6, col. (a)) reduced by any net long-term capital loss (line 7, col. (b)). Enter here and as item 13 (*a*), page 1, Form 1120	$	x x x x x x x x x x
9. Net long-term capital gain (line 7, col. (a)) reduced by any net short-term capital loss (line 6, col. (b)). Enter here and as item 13 (*b*), page 1, Form 1120	$	x x x x x x x x x x
10. Excess of losses over gains in lines 6 and 7. This excess is not allowable	x x x x x x x x x x	$

COMPUTATION OF ALTERNATIVE TAX FOR CALENDAR YEAR 1953

11. Surtax net income (line 5, page 3, Form 1120)*	$
12. Less: Net long-term capital gain reduced by any net short-term capital loss (line 9 of summary)	
13. Surtax net income for purpose of alternative tax	$
14. Combined normal tax and surtax. If amount of line 13 is: Not over $25,000; enter 30 percent of line 13 (32 percent if a consolidated return). Over $25,000. Compute 52 percent of line 13 (54 percent if a consolidated return). Subtract $5,500. Enter difference	$
15. Less: Normal tax adjustment for partially tax-exempt interest; enter 30 percent of the sum of lines (*a*) and (*b*), column 3, Schedule C-1, Form 1120, but not in excess of 30 percent of line 13	
16. Partial tax	$
17. 26 percent of line 12	
18. Alternative tax (line 16 plus line 17)	$
19. Normal tax and surtax (line 8, page 3, Form 1120)	$
20. Tax liability (line 18 or 19, whichever is lesser). Enter here and as line 9, page 3, Form 1120	$

(2) PROPERTY OTHER THAN CAPITAL ASSETS

1. Description of Property	2. Date Acquired Mo. Day Year	3. Date Sold Mo. Day Year	4. Gross Sales Price (Contract price)	5. Depreciation Allowed (or allowable) Since Acquisition or March 1, 1913 (Furnish details)	6. Cost or Other Basis and Cost of Improvements Subsequent to Acquisition or March 1, 1913	7. Expense of Sale	8. Gain or Loss (Column 4 plus column 5 less the sum of columns 6 and 7)
1.			$	$	$	$	$
2. Total net gain (or loss). Enter here and as item 13 (*c*), page 1, Form 1120							$

State with respect to each item of property reported in Schedule D (1) and (2): (1) How property was acquired ..... (2) whether at time of sale or exchange (*a*) purchaser owned directly or indirectly more than 50 percent in value of your outstanding stock, (*b*) where purchaser was a corporation, more than 50 percent in value of its capital stock and 50 percent in value of your capital stock was owned directly or indirectly by or for the same individual or his family, and (*c*) where purchaser was a corporation, whether more than 50 percent in value of its capital stock was owned directly or indirectly by you ..... If so, state name and address of purchaser .....

*Where credits allowable under section 26 (b), (h), and (i) are limited to percentages of net income, such credits must be based upon a net income which has been reduced by the amount of the total net long-term capital gain or excess of total net long-term capital gain over net short-term capital loss. See "Alternative tax" instructions on reverse.

INSTRUCTIONS

(References are to the Internal Revenue Code)

Instructions For Insurance Companies Using This Schedule

Companies taxable under section 204 and having losses from capital assets sold or exchanged in order to obtain funds to meet abnormal insurance losses, etc., shall attach a schedule corresponding to Schedule E, Form 1120M.

For companies taxable under section 204 or section 207 (a) (1) or (3), "net capital loss" means the amount by which the losses for the taxable year from sales or exchanges of capital assets exceed the sum of the gains from such sales or exchanges and the lesser of (1) the corporation surtax net income (computed without regard to gains or losses from sales or exchanges of capital assets) or (2) losses from the sale or exchange of capital assets sold or exchanged to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders.

For companies taxable under section 207 (a) (1) or (3), all references to "item" or "line" numbers, Form 1120, shall be considered as references to the appropriate "item" or "line" in Form 1120M. It will be necessary for such companies to substitute for lines 14, 15, and 16 on other side a computation conforming to that on pages 2 and 3 of Form 1120M.

General Instructions

Gains and losses from sales or exchanges of capital assets and other property.—Report sales or exchanges of capital assets and sales or exchanges of property other than capital assets in Schedule D on other side. Every sale or exchange of property, even though no gain or loss may be indicated, must be reported in detail.

Losses from sales or exchanges of capital assets shall be allowed only to the extent of gains from such sales or exchanges. However, the amount of a net capital loss sustained in any taxable year may be carried over to each of the five succeeding taxable years and treated in each such succeeding taxable year as a short-term capital loss to the extent not allowed as a deduction against any net capital gains of any taxable year intervening between the taxable year in which the net capital loss was sustained and the taxable year to which carried.

Definition of capital assets.—The term "capital assets" means property held by the taxpayer (whether or not connected with his trade or business), but does not include (*a*) stock in trade of the taxpayer or other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business, or (*b*) property used in the trade or business, of a character which is subject to the allowance for depreciation provided in section 23 (1), or real property used in the trade or business of the taxpayer; or (*c*) a copyright; a literary, musical, or artistic composition, or similar property; or (*d*) an obligation of the United States or any of its possessions, or of a State or Territory, or any political subdivision thereof, or of the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding 1 year from the date of issue.

Classification of capital gains and losses.—The phrase "short-term" applies to the category of gains and losses arising from the sale or exchange of capital assets held for 6 months or less, and the phrase "long-term" to the category of gains and losses arising from the sale or exchange of capital assets held for more than 6 months.

Enter full description of each item of property sold or exchanged, even though no gain or loss may be indicated. Such description should include the following facts: (*a*) For real estate, location and description of land, description of improvements, details explaining depreciation; (*b*) for bonds or other evidences of indebtedness, name of issuing corporation, description of the particular issue, denomination, and amount; (*c*) for stocks, name of issuing corporation, class of stock, number of shares, and capital changes affecting basis (nontaxable stock dividends, other nontaxable distributions, stock rights, etc.).

The "basis" for the property is not subject to the same rule for reporting gains as for losses, if the property was acquired before March 1, 1913. If the property sold or exchanged was acquired prior to March 1, 1913, the basis of determining GAIN is the cost or the fair market value as of March 1, 1913, adjusted as provided in section 113 (b), whichever is greater, but in determining LOSS the basis is cost so adjusted. If property was acquired after February 28, 1913, basis for both gain and loss is the cost of such property, except as otherwise provided by section 113. The exceptions arise chiefly where property was acquired by gift, bequest, tax-free exchange, involuntary conversion, or wash sale of stock; and in such cases section 113 provides the basis that shall be used. If the amount shown as the basis is other than actual cash cost of the property sold or exchanged, full details must be furnished regarding the acquisition of the property.

Enter in column 5 of separate Schedule D the amount of depreciation, exhaustion, wear and tear, obsolescence, and depletion in respect of the property. This amount shall be the sum of the following:

(*a*) The amount of depreciation, exhaustion, wear and tear, obsolescence, and depletion which has been allowed (but not less than the amount allowable) in respect of such property since date of acquisition, or since February 28, 1913, if the property was acquired before that date. For any period after December 31, 1951, the amount of depreciation, etc., allowed (and which is in excess of the amount allowable) shall be disregarded to the extent that such excess does not result in a reduction for any taxable year of the taxpayer's income or excess profits taxes. In respect of any period after February 28, 1913, and before January 1, 1952, the taxpayer may disregard depreciation, etc., which was in excess of the amount allowable and which did not result in reduction of income or excess profits taxes only if an election is made in accordance with regulations. See section 113 (b) (1) (B); and

(*b*) The amount of depreciation, exhaustion, wear and tear, obsolescence, and depletion actually sustained prior to March 1, 1913, if the property was acquired before that date.

Subsequent improvements include expenditures for additions, improvements, renewals, and replacements made to restore the property or prolong its useful life. Do not deduct ordinary repairs, interest, or taxes in computing gain or loss.

Losses on securities becoming worthless.—If any securities (as defined below) become worthless within the taxable year and are capital assets, the loss resulting therefrom shall, in the case of a taxpayer other than a bank, as defined in section 104, be considered as a loss from the sale or exchange, on the last day of such taxable year, of capital assets. (See section 23 (k) (2).)

Definition of securities.—As used for the purpose of determining capital losses under section 23 (k), the term "securities" means bonds, debentures, notes, or certificates, or other evidences of indebtedness, issued by any corporation (including those issued by a government or political subdivision thereof), with interest coupons or in registered form. However, securities issued by any corporation affiliated with the taxpayer shall not be deemed capital assets. (See section 23 (k) (3) and (5).)

Losses on stocks or stock rights becoming worthless.—If any shares of stock in a corporation (except stock in a corporation affiliated with the taxpayer), or rights to subscribe for or to receive such shares, become worthless during the taxable year and are capital assets, the loss resulting therefrom shall be considered as a loss from the sale or exchange, on the last day of such taxable year, of capital assets. (See section 23 (g) (2) and (4).)

Losses not allowable.—No loss shall be recognized in any sale or other disposition of shares of stock or securities where there has been acquired substantially identical stock or securities or there has been entered into a contract or option to acquire substantially identical stock or securities within 30 days before or after the date of such sale or disposition, except in cases of dealers in stocks and securities and with respect to transactions made in the ordinary course of such business.

No deduction shall be allowed in respect of losses from sales or exchanges of property, directly or indirectly (except in the case of distributions in liquidation), between an individual and a corporation in which such individual owns, directly or indirectly, more than 50 percent in value of the outstanding stock; or (except in the case of distributions in liquidation) between two corporations more than 50 percent in value of the outstanding stock of each of which is owned, directly or indirectly, by or for the same individual, if either one of such corporations, with respect to the taxable year of the corporation preceding the date of the sale or exchange was, under the laws applicable to such taxable year, (1) a personal holding company, as defined in section 501, or (2) a foreign personal holding company, as defined in section 331. (See paragraph (1) (B) and (C) of section 24 (b).) (For the purpose of determining the ownership of stock, in applying this paragraph, see section 24 (b) (2).)

Gain on sales by a "controlled" corporation.—If (1) property is sold or exchanged after May 3, 1951, by a corporation to one or more of its shareholders, and (2) the property in the hands of such shareholders is depreciable property, and (3) such shareholders, their spouses, and their minor children and minor grandchildren own more than 80 percent in value of the outstanding stock of the corporation, then any gain on such sale or exchange shall not be treated as gain from the sale or exchange of property which is a capital asset or of property which is described in section 117 (j).

Gains and losses from involuntary conversion and from the sale or exchange of certain property used in the trade or business.—The term "property used in the trade or business" as used in section 117 (j) means property used in the trade or business, of a character which is subject to the allowance for depreciation provided in section 23 (1), held for more than 6 months, and real property used in the trade or business, held for more than 6 months, which is not (*a*) property of a kind which would properly be includible in the inventory of the taxpayer if on hand at the close of the taxable year or (*b*) property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business. Such term also includes timber or coal with respect to which section 117 (k) (1) or (2) is applicable as well as unharvested crops sold with the land to which section 117 (j) (3) applies. Such term also includes livestock (but not poultry) held for draft, breeding, or dairy purposes and held for 12 months or more from the date of acquisition.

Section 117 (j) provides special treatment for the gains and losses upon the sale or exchange of depreciable property and of land, held for more than 6 months, and for the gains and losses upon the compulsory or involuntary conversion of such depreciable property and land and of capital assets held for more than 6 months.

The method prescribed in section 117 (j) (2) is to treat such gains and losses during the taxable year as gains and losses from the sale or exchange of capital assets held for more than 6 months, if the aggregate of such gains exceeds the aggregate of such losses. If, however, the aggregate of such gains does not exceed the aggregate of such losses, such gains and losses shall not be treated as gains and losses from the sale or exchange of capital assets held for more than 6 months.

In determining whether gains do or do not exceed losses, it is necessary to include the gains and losses to the extent that they would be included if they were all ordinary gains and losses. The limitations of section 117 (d) on the deductibility of capital losses do not operate to exclude any such losses from the computation as to the excess of gains over losses, but all such losses are included in full.

For special treatment of gain or loss upon the cutting of timber, or upon the disposal of timber or coal under a contract by which the owner retains an economic interest in such timber or coal, see section 117 (k).

Alternative tax.—If for any taxable year the net long-term capital gain exceeds the net short-term capital loss or in case of only a net long-term capital gain, section 117 (c) (1) imposes an alternative tax in lieu of the normal tax and surtax imposed upon net income, if any, only if such tax is less than the tax imposed by sections 13 and 15 (relating to normal tax and surtax on corporations), sections 204 and 207 (a) (1) or (3) (relating to normal tax and surtax on insurance companies, other than life insurance companies), section 421 (relating to taxation of business income of certain section 101 organizations), and section 500 (relating to surtax on personal holding companies). The alternative tax is the sum of (1) a partial tax, computed at the normal tax and surtax rates on the net income decreased by the amount of the excess of the net long-term capital gain over the net short-term capital loss, and (2) 26 percent of such excess.

In computing the alternative tax under section 117 (c) (1) in cases where the credits allowable under the provisions of subsections (b), (h), and (i) of section 26 are limited to or are percentages of net income, lines 11 and 12 on other side should be disregarded. In lieu of these lines, a computation should be made first reducing net income by the amount of the total net long-term capital gain or excess of net long-term capital gain over net short-term capital loss and then redetermining such section 26 credits on the basis of the resulting reduced net income to derive the amount of the surtax net income for purposes of alternative tax to be inserted on line 13 on other side.

Bonds, etc., losses of banks.—In the case of a bank, as defined in section 104, if the losses of the taxable year from sales or exchanges of bonds, debentures, notes, or certificates, or other evidence of indebtedness, issued by any corporation (including one issued by a government or political subdivision thereof) with interest coupons or in registered form, exceed the gains from such sales or exchanges, such excess shall be considered as an ordinary loss and deductible in full against other income.

Dealers in securities. Capital gains and ordinary losses.—Under the provisions of section 117 (n), gain by a dealer in securities from the sale or exchange of a security, as defined in section 117 (n) (3), shall in no event be considered as gain from the sale or exchange of a capital asset unless (a) the security is, prior to the expiration of the thirtieth day after its acquisition or of the thirtieth day after October 20, 1951, whichever is later, clearly identified in the dealer's records as a security held for investment; and (b) the security is not, at any time after the expiration of such thirtieth day, held by the dealer primarily for sale to customers in the ordinary course of trade or business. A loss from the sale or exchange of a security shall, if section 117 (i) is not applicable, be considered a capital loss if at any time after November 19, 1951, the security was clearly identified in the dealer's record as a security held for investment.

Short sales of capital assets.—For specific rules relating to the tax consequences of certain short sales of stock or other securities, transactions in stock or securities on a "when issued" basis and transactions in commodity futures, see section 117 (g) and (1) and the regulations issued thereunder.

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