

(T. D. 1890.)

*Federal income tax, at the source, on other than bonds, etc., of corporations, joint-stock companies, etc.*

Regulations (part 2) regarding the deduction of the income tax at the source on income *other than* interest maturing on bonds, notes, and other similar obligations of corporations, joint-stock companies or associations, and insurance companies, under the provisions of section 2 of the Federal income-tax law of October 3, 1913.

TREASURY DEPARTMENT,  
OFFICE OF COMMISSIONER OF INTERNAL REVENUE,  
Washington, D. C.

The "source" in these regulations shall be construed as referring to the place where the income originates.

BY WHOM THE NORMAL TAX SHALL BE DEDUCTED AND WITHHELD.

All persons, firms, etc., mentioned in paragraph E of this law, hereinafter referred to either as "Debtors" or "Withholding agents," namely:

Copartnerships, companies, corporations, joint-stock companies or associations, insurance companies, in whatever capacity acting, including lessees, mortgagors of real or personal property, trustees acting in any trust capacity, executors, administrators, agents, receivers, conservators, employers, and all officers and employees of the United States having the control, receipt, custody, disposal, or payment of interest (except income derived from interest upon bonds and mortgages or deeds of trust, or other similar obligations of corporations upon which the normal tax of 1 per cent has otherwise been withheld at the source, as provided by regulations), rents, salaries, wages, royalties, taxable annuities, emoluments, or other fixed or determinable gains, profits, and income of another person, exceeding \$3,000 for any taxable year, except as hereinafter provided,

shall deduct and withhold from such annual gains, profits, and income such sum as will be sufficient to pay the normal tax of 1 per cent imposed thereon by section 2 of this act, and shall make lawful return and pay the taxes so withheld to the Collector of Internal Revenue for the district in which said withholding agent resides or has his, her, or its principal place of business.

The normal tax of 1 per cent shall be thus withheld from all income derived from fixed annual periodical rent of realty or personalty, interest (except as herein otherwise provided), salaries, royalties, taxable annuities, and other fixed annual periodical income exceeding \$3,000.

## ITEMS UPON WHICH TAX IS NOT TO BE WITHHELD AT THE SOURCE.

(1) Dividends on capital stock, or from the net earnings of corporations and joint-stock companies or associations and insurance companies subject to like tax, when said withholding agents are required to make and render a return in behalf of another, as provided herein, to the collector of his, her, or its district.

(2) Proceeds of life insurance policies paid upon the death of the person insured, or payments made by or credited to the insured, on life insurance, endowment, or annuity contracts, upon the return thereof to the insured at the maturity of the term mentioned in the contract, or upon the surrender of contract—all of which shall not be included as income under this law—but this shall not be construed to exempt said insurance companies from withholding and paying the normal tax of 1 per cent on interest income paid by insurance companies to beneficiaries of policies when said interest exceeds \$3,000.

(3) Income of an individual which is *not* fixed or certain, and not payable at stated periods, or is indefinite or irregular as to amount or time of accrual, shall not be withheld at the source, but shall be listed in the annual return, and the tax shall be paid thereon by the individual.

Income derived from the following professions and vocations come under this head: Farmers, merchants, agents compensated on the commission basis, lawyers, doctors, authors, inventors, and other professional persons whose income is irregular and indefinite.

Such persons shall make personal return of all their income, provided their total income from all sources exceeds \$3,000. For example: When a lawyer receives a retainer of \$5,000 as a special fee, a deduction therefrom shall not be made by the payer, but when a lawyer receives a retainer of \$5,000 *per annum*, and the exemption claimed is \$3,000, \$2,000 of such income would be taxed and the tax retained at the source, or if his exemption claimed should be \$4,000, \$1,000 of such income would be taxed and the tax thereon withheld at the source.

(4) The value of property acquired by gift, bequest, devise, or descent.

(5) Interest upon the obligations of a State or any political subdivision thereof, and upon the obligations of the United States or its possessions; also the compensation of the present President of the United States during the term for which he has been elected, and of the judges of the Supreme and inferior courts of the United States now in office, and the compensation of all officers and employees of a State or any political subdivision thereof paid by a State or any political subdivision thereof, except when such compensation is paid by the United States Government.

This exempts from the income tax all salaries paid to an individual by a State or any political subdivision thereof, including the salaries of State, county, and municipal officers, the salaries of public-school

teachers, and special compensation paid by States or subdivisions thereof for professional services, whether in the shape of salaries or special fees.

**NORMAL TAX ON THE SAME INCOME IS TO BE WITHHELD BUT ONCE.**

The normal tax of 1 per cent shall be deducted and withheld *at the source*, and payment made to the Collector of Internal Revenue as provided in the law, by the debtor or his, her; or its duly appointed agent authorized to make such deduction and payment.

No other person, firm, or organization, in whatever capacity acting, having the receipt, custody, or disposal of any income, as herein provided, shall be required to again deduct and withhold the normal tax of 1 per cent thereon: *Provided*, That any person, firm, or organization, in whatever capacity acting, other than the debtor who has withheld said tax, shall file with the Collector of Internal Revenue for his, her, or its district, a certificate in substantially the following form:

(Form 1006.)

*Form of certificate to be filed by persons, firms, or organizations required to withhold and pay said tax other than the debtor at the source.*

To ....., Collector of Internal Revenue,  
(Name of collector of internal revenue.)

.....  
(Give address and designate district.)

I, .....  
(Name.) (Official title, if any.)  
of the .....  
(Person, firm, or organization.) (Capacity in which acting.)  
of ..... do solemnly declare that I (we)  
(Post-office address.)  
received of ..... \$....., same being  
(Name from whom received.)  
income derived from .....  
(State source, whether rents, salary, or other sources.)  
belonging to .....  
(Give name of person to whom income is due.) (Address.)  
and that the tax thereon amounting to \$....., to which said person is subject,  
has been withheld at the source of said income by

.....  
(Name of person withholding.) (Post-office address.)

(Signed).....

Address.....

(Street and number.)

.....  
(City and State.)

Date: ....., 191...

**EXEMPTIONS WHICH MAY BE CLAIMED BY INDIVIDUALS.**

Any person subject to the normal tax of 1 per cent, the amount of which is withheld or is to be withheld at the source, wishing to avail himself or herself of the exemption provided in paragraph C, section 2, of this act (\$3,000 or \$4,000, as the case may be), must file with

the withholding agent, not later than 30 days prior to the day on which the return on his income is due, a notice in the following form:

(Form 1007.)

*Form for claiming exemption at the source as provided in paragraph C, section 2, of the Federal income-tax law of October 3, 1913.*

To.....  
(Give name of withholding agent.)

.....  
(Post-office address.)

I hereby serve you with notice that I ..... am  
*single—married and living with my wife—husband*, and now claim the benefit of the  
(Strike out so as to show status correctly.)  
exemption of \$....., as allowed in paragraphs C and D of section 2 of the  
Federal income-tax law of October 3, 1913 (my total exemption under said para-  
graphs being \$.....).

Signed: .....

Address: .....  
(Street and number.)

Date: ..... 191...

.....  
(City and State.)

BY WHOM EXEMPTIONS UNDER PARAGRAPH C, SECTION 2, OF THIS  
ACT MAY BE CLAIMED.

Every single person, or every married person not living with wife or husband, who is liable for the normal income tax under this law may claim a total deduction of \$3,000 from net income, on which deduction he or she is exempt from said normal tax of 1 per cent.

Where a husband and wife live together and only one of them has an annual income liable for the normal tax of 1 per cent, then the husband or wife who has the income shall make the return and pay the said tax and may claim and deduct an exemption of \$4,000.

But if a husband and wife live together and each has an annual income liable for the normal tax of 1 per cent, then in that event they shall make a separate return, and the \$4,000 exemption allowed to a husband and a wife when living together may be claimed and deducted by *either* the husband or wife, as they may mutually agree (but not by both separately), or the said exemption shall be *pro-rated* between them in proportion to their net income.

AMOUNT OF EXEMPTION ALLOWABLE FOR 1913 UNDER PARAGRAPH C, SECTION 2,  
OF THE FEDERAL INCOME-TAX LAW.

For the present year of 1913 (from March 1 to December 31) exemptions allowed under paragraph C of this law will be five-sixths of those of the calendar year, as specified in paragraph D, namely, \$2,500 if the exemption is \$3,000, or \$3,333.33 if the exemption is \$4,000, as the case may be.

WHEN AND ON WHAT AMOUNT THE NORMAL TAX OF 1 PER CENT SHALL  
BE WITHHELD.

A withholding agent who pays monthly or periodically during the year interest (except income derived from interest upon bonds

and mortgages, or deeds of trust, or other similar obligations of corporations, etc., upon which the normal tax of 1 per cent has been withheld at the source, as provided by regulations), rents, salaries, wages, etc., shall not withhold the said tax until such time as the rents, salaries, wages, etc., shall have reached an aggregate amount in excess of \$3,000.

When such amount has been reached, he, she, or it shall withhold the tax on the whole \$3,000 and excess thereof, *unless* the person to whom the income is due files with him, her, or it the notice, according to Form 1007, above provided for, claiming exemption under paragraph C of section 2 of this act, in which case the withholding agent shall withhold only the tax on the income in excess of said exemption of \$3,000 or \$4,000 (as the case may be), and the tax so withheld shall be returned and paid by the withholding agent as required by law.

#### DEDUCTIONS TO BE MADE IN COMPUTING NET INCOME.

Any person subject to the normal income tax of 1 per cent, a part of whose income is withheld or is to be withheld at the source, who may wish to avail himself of the deductions authorized in subsection B, section 2, of this act, may file either with the Collector of Internal Revenue for the district in which return is made for him or with the withholding agent, not later than 30 days prior to March 1, a return and notice in substantially the following form:

(Form 1008. United States Internal Revenue.)

*Form of return for making application for deductions, as provided by paragraphs B and E, section 2 of the Federal income-tax law of October 3, 1913.*

To .....  
(Name of withholding agent.)

.....  
(Street and number.)

..... (Town or city.) (State.)

I hereby solemnly declare that the following is a true and correct return of my gains, profits, and income from all other sources for the calendar year ended December 31, 191— (for the year 1913 the period to be covered is only for 10 months, from March 1 to December 31), and a true and correct return of deductions asked for under paragraph B of section 2 of the act of October 3, 1913, and I hereby claim deductions as shown below.

Amount of gains, profits, interest, rents, royalties, profits from copartnerships, and income from all other sources whatsoever..... \$.....

#### DEDUCTIONS.

1. The amount of necessary expenses actually paid in carrying on business, except business expenses of partnerships, and not including personal, living, or family expenses..... \$.....
2. All interest paid within the year on personal indebtedness of taxpayer..... \$.....
3. All national, State, county, school, and municipal taxes paid within the year (not including those assessed against local benefits)..... \$.....

4. Losses actually sustained during the year incurred in trade or arising from fires, storms, or shipwreck and not compensated for by insurance or otherwise..... \$.....
  5. Debts due which have been actually ascertained to be worthless and charged off within the year..... \$.....
  6. Amount representing a reasonable allowance for the exhaustion, wear, and tear of property arising out of its use or employment in the business, not to exceed in the case of mines 5 per cent of the gross value of the output for the year for which the computation is made, but not including the expense of restoring property or making good the exhaustion thereof, for which an allowance is or has been made.. \$.....
  7. The amount received as dividends upon the stock or from the net earnings of any corporation, joint-stock company, association, or insurance company which is taxable upon its net income..... \$.....
  8. The amount of income, the tax upon which has been paid or withheld for payment at the source of income..... \$.....
- \$.....
- Total deductions..... \$.....

Date....., 191..

(Signed).....  
Address.....

NOTE.—Money or other things of value, disposed of by gift, donation, or endowment, shall not be deducted or be made the basis for a deduction from the income of persons or corporations in their tax return under the income-tax law.

Money or other things of value, disposed of by gift, donation, or endowment, shall not be deducted or be made the basis for a deduction from the income of persons or corporations in their tax returns under the income-tax law.

**AMOUNT OF DEDUCTION ALLOWABLE FOR 1913 ACCORDING TO PARAGRAPHS B AND D OF SECTION 2 OF THIS ACT.**

For the present year of 1913 (from March 1 to December 31) the deductions allowed under paragraph B shall be five-sixths of the deductions allowable for a calendar year, as specified in paragraph D of this law.

**AMOUNT OF TAX TO BE WITHHELD FOR 1913 AND WHEN WITHHELD.**

The withholding agent is not required to deduct and withhold prior to November 1, 1913, the normal tax of 1 per cent for which an individual is liable.

Whenever the total amount of income paid to any person by a withholding agent *after* October 31, 1913, shall be in excess of \$3,000, then, in that event, the withholding agent shall be liable for and shall deduct and withhold the tax on such amount, unless such person shall file a statement, according to Form 1007, claiming an exemption as allowed in paragraph D of this act, the amount of exemption allowable being \$2,500 if the annual exemption is \$3,000, or \$3,333.33 if the annual exemption is \$4,000, as the case may be.

**PERSONS PHYSICALLY UNABLE TO MAKE RETURNS.**

If a person subject to said tax part of whose income is withheld or is to be withheld, is a minor or insane person, or is absent from the United States, or unable to make the application or return because of serious illness, the application or return may be made by the withholding agent, who shall make the following oath under the penalties of this act:

(Form 1009.)

*Form of oath required of a withholding agent when acting for another in filing return and making application for deductions allowable under paragraph B, as provided in paragraph E, section 2, of the Federal income-tax law of October 3, 1913.*

I hereby swear (or affirm) that I have sufficient knowledge of the affairs and property of..... to enable me to make  
(Naming person and address for whom acting.)

a full and complete return for....., and that the return of income and  
(Naming person.)

application for deductions made by me are true and accurate.

(Signed).....

Address.....  
(Street and number.)

.....  
(City and State.)

Date:....., 191...

Signed and sworn to before....., 191...

**PENALTIES.**

Subsection F of section 2 of the income-tax law provides *inter alia* as follows:

*Any person or any officer of any corporation required by law to make, render, sign, or verify any return, who makes any false or fraudulent return or statement with intent to defeat or evade the assessment required to be made shall be guilty of a misdemeanor and shall be fined not exceeding \$2,000 or be imprisoned not exceeding one year, or both, in the discretion of the court, with the costs of prosecution.*

W. H. OSBORN,

*Commissioner of Internal Revenue.*

Approved October 31, 1913:

W. G. McADOO,

*Secretary of the Treasury.*

(T. D. 1891.)

*Income tax on notes given for interest, rents, etc.*

How tax shall be collected when such notes before their maturity shall have been sold by the payee or recipient, or shall have been discounted with banks.

**TREASURY DEPARTMENT,**

**OFFICE OF COMMISSIONER OF INTERNAL REVENUE,**

*Washington, D. C., November 3, 1913.*

*To collectors of internal revenue:*

When a note shall have been given in payment of interest, rents, or other income accruing after March 1, 1913, and said note matures