

and such contracts may contain, subject to the provisions of this Act, such terms and conditions as may be agreed upon by and between the common council of said city of Ketchikan and the United States of America or any agency or instrumentality thereof, or any other purchaser of the bonds.

SEC. 7. The provisions of the Act approved May 28, 1936, entitled "An Act to authorize municipal corporations in the Territory of Alaska to incur bonded indebtedness, and for other purposes" (49 Stat. 1388), as amended, shall not affect the issuance or payment of the bonds authorized by this Act or any proceedings taken hereunder.

Approved, August 25, 1937.

Terms and conditions.

Existing provisions not to affect issuance, etc.

49 Stat. 1388.
48 U. S. C., Supp. II, § 44a-e.

[CHAPTER 781]

JOINT RESOLUTION

To amend the public resolution approved June 5, 1936, entitled "Joint resolution authorizing and requesting the President to extend to the Government of Sweden and individuals an invitation to join the Government and people of the United States in the observance of the three-hundredth anniversary of the first permanent settlement in the Delaware River Valley, and for other purposes."

August 25, 1937

[S. J. Res. 135]

[Pub. Res., No. 71]

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1 of Public Resolution Numbered 102 of the Seventy-fourth Congress is amended by inserting a comma and the words "the Government of Finland" after the words "Government of Sweden" and before the word "and"; and by inserting the words "and Finnish" after the word "Swedish" and before the word "colonists".

Delaware River Valley tercentenary.
Invitation to Finland to participate in observance of.
49 Stat. 1487.

That section 2 be amended by inserting the words "the Government of Finland" after the words "Government of Sweden" and before the word "and".

Approved, August 25, 1937.

[CHAPTER 815]

AN ACT

To provide revenue, equalize taxation, prevent tax evasion and avoidance, and for other purposes.

August 26, 1937

[H. R. 8284]

[Public, No. 877]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Revenue Act of 1937".

Revenue Act of 1937.

TITLE I—PERSONAL HOLDING COMPANIES

SEC. 1. AMENDMENT OF 1936 ACT.

Title IA of the Revenue Act of 1936 is amended to read as follows:

"TITLE IA—ADDITIONAL INCOME TAXES

"SEC. 351. SURTAX ON PERSONAL HOLDING COMPANIES.

"There shall be levied, collected, and paid, for each taxable year (in addition to the taxes imposed by Title I), upon the undistributed adjusted net income of every personal holding company a surtax equal to the sum of the following:

Title I—Personal holding companies.

49 Stat. 1732.
26 U. S. C., Supp. II, § 331.

Title IA—Additional income taxes.

"(1) 65 per centum of the amount thereof not in excess of \$2,000; plus

"(2) 75 per centum of the amount thereof in excess of \$2,000.

Surtax on personal holding companies.

"Personal holding company" defined.

"SEC. 352. DEFINITION OF PERSONAL HOLDING COMPANY.

"(a) **GENERAL RULE.**—For the purposes of this title and of Title I the term 'personal holding company' means any corporation if—

Gross income requirement.

"(1) **GROSS INCOME REQUIREMENT.**—At least 80 per centum of its gross income for the taxable year is personal holding company income as defined in section 353; but if the corporation is a personal holding company with respect to any taxable year, then, for each subsequent taxable year, the minimum percentage shall be 70 per centum in lieu of 80 per centum, until a taxable year during the whole of the last half of which the stock ownership required by paragraph (2) does not exist, or until the expiration of three consecutive taxable years in each of which less than 70 per centum of the gross income is personal holding company income; and

Stock ownership requirement.

"(2) **STOCK OWNERSHIP REQUIREMENT.**—At any time during the last half of the taxable year more than 50 per centum in value of its outstanding stock is owned, directly or indirectly, by or for not more than five individuals.

Exceptions.

"(b) **EXCEPTIONS.**—The term 'personal holding company' does not include a corporation exempt from taxation under section 101, a bank as defined in section 104, a life insurance company, a surety company, or, except with respect to a taxable year ending on or before the date of the enactment of the Revenue Act of 1937, a foreign personal holding company as defined in section 331.

Personal holding company income.

"SEC. 353. PERSONAL HOLDING COMPANY INCOME.

"For the purposes of this title the term 'personal holding company income' means the portion of the gross income which consists of:

Dividends, interest, etc.

"(a) Dividends, interest, royalties (other than mineral, oil, or gas royalties), annuities.

Stock and securities transactions.

"(b) **STOCK AND SECURITIES TRANSACTIONS.**—Except in the case of regular dealers in stock or securities, gains from the sale or exchange of stock or securities.

Commodities transactions.

"(c) **COMMODITIES TRANSACTIONS.**—Gains from futures transactions in any commodity on or subject to the rules of a board of trade or commodity exchange. This subsection shall not apply to gains by a producer, processor, merchant, or handler of the commodity which arise out of bona fide hedging transactions reasonably necessary to the conduct of its business in the manner in which such business is customarily and usually conducted by others.

Estates and trusts.

"(d) **ESTATES AND TRUSTS.**—Amounts includible in computing the net income of the corporation under Supplement E of Title I; and gains from the sale or other disposition of any interest in an estate or trust.

Personal service contracts.

"(e) **PERSONAL SERVICE CONTRACTS.**—(1) Amounts received under a contract under which the corporation is to furnish personal services; if some person other than the corporation has the right to designate (by name or by description) the individual who is to perform the services, or if the individual who is to perform the services is designated (by name or by description) in the contract; and (2) amounts received from the sale or other disposition of such a contract. This subsection shall apply with respect to amounts received for services under a particular contract only if at some time during the taxable year 25 per centum or more in value of the outstanding stock of the corporation is owned, directly or indirectly, by or for the individual who has performed, is to perform, or may be designated (by name or by description) as the one to perform, such services.

“(f) **USE OF CORPORATION PROPERTY BY SHAREHOLDER.**—Amounts received as compensation (however designated and from whomsoever received) for the use of, or right to use, property of the corporation in any case where, at any time during the taxable year, 25 per centum or more in value of the outstanding stock of the corporation is owned, directly or indirectly, by or for an individual entitled to the use of the property; whether such right is obtained directly from the corporation or by means of a sublease or other arrangement.

Use of corporation property by shareholder.

“(g) **RENTS.**—Rents, unless constituting 50 per centum or more of the gross income. For the purposes of this subsection the term ‘rents’ means compensation, however designated, for the use of, or right to use, property; but does not include amounts constituting personal holding company income under subsection (f).

Rents.

“(h) **MINERAL, OIL, OR GAS ROYALTIES.**—Mineral, oil, or gas royalties, unless (1) constituting 50 per centum or more of the gross income, and (2) the deductions allowable under section 23 (a) (relating to expenses) other than compensation for personal services rendered by shareholders, constitute 15 per centum or more of the gross income.

Mineral, oil, or gas royalties.

“SEC. 354. STOCK OWNERSHIP.

“(a) **CONSTRUCTIVE OWNERSHIP.**—For the purpose of determining whether a corporation is a personal holding company, insofar as such determination is based on stock ownership under section 352 (a) (2), section 353 (e), or section 353 (f)—

Stock ownership.

Constructive ownership.

“(1) **STOCK NOT OWNED BY INDIVIDUAL.**—Stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust shall be considered as being owned proportionately by its shareholders, partners, or beneficiaries.

Stock not owned by individual.

“(2) **FAMILY AND PARTNERSHIP OWNERSHIP.**—An individual shall be considered as owning the stock owned, directly or indirectly, by or for his family or by or for his partner. For the purposes of this paragraph the family of an individual includes only his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants.

Family and partnership ownership.

“(3) **OPTIONS.**—If any person has an option to acquire stock such stock shall be considered as owned by such person. For the purposes of this paragraph an option to acquire such an option, and each one of a series of such options, shall be considered as an option to acquire such stock.

Options.

“(4) **APPLICATION OF FAMILY-PARTNERSHIP AND OPTION RULES.**—Paragraphs (2) and (3) shall be applied—

Application of family-partnership and option rules.

“(A) For the purposes of the stock ownership requirement provided in section 352 (a) (2), if, but only if, the effect is to make the corporation a personal holding company;

“(B) For the purposes of section 353 (e) (relating to personal service contracts), or of section 353 (f) (relating to the use of property by shareholders), if, but only if, the effect is to make the amounts therein referred to includible under such subsection as personal holding company income.

“(5) **CONSTRUCTIVE OWNERSHIP AS ACTUAL OWNERSHIP.**—Stock constructively owned by a person by reason of the application of paragraph (1) or (3) shall, for the purpose of applying paragraph (1) or (2), be treated as actually owned by such person; but stock constructively owned by an individual by reason of the application of paragraph (2) shall not be treated as owned by him for the purpose of again applying such paragraph in order to make another the constructive owner of such stock.

Constructive ownership as actual ownership.

Option rule in lieu of family and partnership rule.

Convertible securities.

"(6) **OPTION RULE IN LIEU OF FAMILY AND PARTNERSHIP RULE.**—If stock may be considered as owned by an individual under either paragraph (2) or (3) it shall be considered as owned by him under paragraph (3).

"(b) **CONVERTIBLE SECURITIES.**—Outstanding securities convertible into stock (whether or not convertible during the taxable year) shall be considered as outstanding stock—

"(1) For the purpose of the stock ownership requirement provided in section 352 (a) (2), but only if the effect of the inclusion of all such securities is to make the corporation a personal holding company;

"(2) For the purpose of section 353 (e) (relating to personal service contracts), but only if the effect of the inclusion of all such securities is to make the amounts therein referred to includible under such subsection as personal holding company income; and

"(3) For the purpose of section 353 (f) (relating to the use of property by shareholders), but only if the effect of the inclusion of all such securities is to make the amounts therein referred to includible under such subsection as personal holding company income.

"The requirement in paragraphs (1), (2), and (3) that all convertible securities must be included if any are to be included shall be subject to the exception that, where some of the outstanding securities are convertible only after a later date than in the case of others, the class having the earlier conversion date may be included although the others are not included, but no convertible securities shall be included unless all outstanding securities having a prior conversion date are also included.

Undistributed adjusted net income.
Definition.

"SEC. 355. UNDISTRIBUTED ADJUSTED NET INCOME.

"For the purposes of this title the term 'undistributed adjusted net income' means the adjusted net income (as defined in section 356) minus—

Computation.

"(a) The amount of the dividends paid credit provided in section 27, computed without the benefit of subsection (b) thereof (relating to the dividend carry-over); and

"(b) Amounts used or irrevocably set aside to pay or to retire indebtedness of any kind incurred prior to January 1, 1934, if such amounts are reasonable with reference to the size and terms of such indebtedness.

Adjusted net income.
Definition.

"SEC. 356. ADJUSTED NET INCOME.

"For the purposes of this title the term 'adjusted net income' means the net income with the following adjustments:

Additional deductions.

"(a) **ADDITIONAL DEDUCTIONS.**—There shall be allowed as deductions—

Computation.

"(1) Federal income, war-profits, and excess-profits taxes paid or accrued during the taxable year to the extent not allowed as a deduction under section 23; but not including the tax imposed by section 102, section 351 (either before or after its amendment by the Revenue Act of 1937), or a section of a prior income-tax law corresponding to either of such sections.

"(2) In lieu of the deduction allowed by section 23 (q), contributions or gifts made within the taxable year to or for the use of donees described in section 23 (q) for the purposes therein specified, to an amount which does not exceed 15 per centum of the taxpayer's net income, computed without the benefit of this paragraph and section 23 (q), and without the deduction of the amount disallowed under subsection (b) of this section.

49 Stat. 1658, 1676, 1732.

Charitable, etc., contributions.
49 Stat. 1661.

"(3) In the case of a corporation organized prior to January 1, 1936, to take over the assets and liabilities of the estate of a decedent, amounts paid in liquidation of any liability of the corporation based on the liability of the decedent to make contributions or gifts to or for the use of donees described in section 23 (o) for the purposes therein specified, to the extent such liability of the decedent existed prior to January 1, 1934. No deduction shall be allowed under paragraph (2) of this subsection for a taxable year for which a deduction is allowed under this paragraph.

Assets and liabilities
of decedent's estate.

"(b) DEDUCTIONS NOT ALLOWED.—The aggregate of the deductions allowed under section 23 (a), relating to expenses, and section 23 (1), relating to depreciation, which are allocable to the operation and maintenance of property owned or operated by the corporation, shall be allowed only in an amount equal to the rent or other compensation received for the use or right to use the property, unless it is established (under regulations prescribed by the Commissioner with the approval of the Secretary) to the satisfaction of the Commissioner:

Deductions not al-
lowed.

"(1) That the rent or other compensation received was the highest obtainable, or, if none was received, that none was obtainable;

"(2) That the property was held in the course of a business carried on bona fide for profit; and

"(3) Either that there was reasonable expectation that the operation of the property would result in a profit, or that the property was necessary to the conduct of the business.

"SEC. 357. MEANING OF TERMS USED.

"The terms used in this title shall have the same meaning as when used in Title I.

Meaning of terms
used.
49 Stat. 1652.

"SEC. 358. ADMINISTRATIVE PROVISIONS.

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

Administrative pro-
visions.

49 Stat. 1666.

"SEC. 359. IMPROPER ACCUMULATION OF SURPLUS.

"For surtax on corporations which accumulate surplus to avoid surtax on stockholders, see section 102.

Improper accumu-
lation of surplus.
49 Stat. 1676.

"SEC. 360. FOREIGN PERSONAL HOLDING COMPANIES.

"For provisions relating to foreign personal holding companies and their shareholders, see Supplement P of Title I."

Foreign personal
holding companies.
Post, p. 818.

SEC. 2. CHANGES IN CROSS-REFERENCES.

Section 12 (c), section 14 (f), and section 102 (e) of the Revenue Act of 1936 are amended by striking out "section 351" and inserting in lieu thereof "Title IA".

Changes in cross ref-
erences.
49 Stat. 1655, 1656,
1677.

SEC. 3. EFFECTIVE DATES.

The amendment made by section 1 shall apply only with respect to taxable years beginning after December 31, 1936; and Title IA of the Revenue Act of 1936, as it existed prior to such amendment, shall not apply to a foreign personal holding company (as defined in section 331 of the Revenue Act of 1936, added to such Act by section 201 of this Act) with respect to any taxable year ending after the date of the enactment of this Act.

Effective dates.
49 Stat. 1732.

Post, p. 818.

Title II—Foreign personal holding companies.

TITLE II—FOREIGN PERSONAL HOLDING COMPANIES

Inclusion of income of, in income of United States shareholders.
49 Stat. 1731.

SEC. 201. INCLUSION IN INCOME OF UNITED STATES SHAREHOLDERS OF INCOME OF FOREIGN PERSONAL HOLDING COMPANIES.

The Revenue Act of 1936 is amended by adding after Supplement O of Title I a new Supplement to read as follows:

"Supplement P—Foreign Personal Holding Companies

Foreign personal holding companies.

Definition of term.

"SEC. 331. DEFINITION OF FOREIGN PERSONAL HOLDING COMPANY.

"(a) GENERAL RULE.—For the purposes of this title and of Title IA the term 'foreign personal holding company' means any foreign corporation if—

Gross income requirement.
Post, p. 820.

"(1) GROSS INCOME REQUIREMENT.—At least 60 per centum of its gross income (as defined in section 334 (a)) for the taxable year is foreign personal holding company income as defined in section 332; but if the corporation is a foreign personal holding company with respect to any taxable year, then, for each subsequent taxable year, the minimum percentage shall be 50 per centum in lieu of 60 per centum, until a taxable year during the whole of which the stock ownership required by paragraph (2) does not exist, or until the expiration of three consecutive taxable years in each of which less than 50 per centum of the gross income is foreign personal holding company income. For the purposes of this paragraph there shall be included in the gross income the amount includible therein as a dividend by reason of the application of section 334 (c) (2); and

Post, p. 821.

Stock ownership requirement.

"(2) STOCK OWNERSHIP REQUIREMENT.—At any time during the taxable year more than 50 per centum in value of its outstanding stock is owned, directly or indirectly, by or for not more than five individuals who are citizens or residents of the United States, hereinafter called 'United States group'.

Exceptions.

"(b) EXCEPTIONS.—The term 'foreign personal holding company' does not include a corporation exempt from taxation under section 101.

Income.

"SEC. 332. FOREIGN PERSONAL HOLDING COMPANY INCOME.

Term defined.

"For the purposes of this title the term 'foreign personal holding company income' means the portion, of the gross income determined for the purposes of section 331 (a) (1), which consists of:

Dividends, interest, etc.

"(a) Dividends, interest, royalties, annuities.

Stock and securities transactions.

"(b) STOCK AND SECURITIES TRANSACTIONS.—Except in the case of regular dealers in stock or securities, gains from the sale or exchange of stock or securities.

Commodities transactions.

"(c) COMMODITIES TRANSACTIONS.—Gains from futures transactions in any commodity on or subject to the rules of a board of trade or commodity exchange. This subsection shall not apply to gains by a producer, processor, merchant, or handler of the commodity which arise out of bona fide hedging transactions reasonably necessary to the conduct of its business in the manner in which such business is customarily and usually conducted by others.

Estates and trusts.

"(d) ESTATES AND TRUSTS.—Amounts includible in computing the net income of the corporation under Supplement E; and gains from the sale or other disposition of any interest in an estate or trust.

Personal service contracts.

"(e) PERSONAL SERVICE CONTRACTS.—(1) Amounts received under a contract under which the corporation is to furnish personal services; if some person other than the corporation has the right to designate (by name or by description) the individual who is to perform the services, or if the individual who is to perform the services is designated (by name or by description) in the contract; and (2) amounts

received from the sale or other disposition of such a contract. This subsection shall apply with respect to amounts received for services under a particular contract only if at some time during the taxable year 25 per centum or more in value of the outstanding stock of the corporation is owned, directly or indirectly, by or for an individual who has performed, is to perform, or may be designated (by name or by description) as the one to perform, such services.

“(f) **USE OF CORPORATION PROPERTY BY SHAREHOLDER.**—Amounts received as compensation (however designated and from whomsoever received) for the use of, or right to use, property of the corporation in any case where, at any time during the taxable year, 25 per centum or more in value of the outstanding stock of the corporation is owned, directly or indirectly, by or for the individual entitled to the use of the property; whether such right is obtained directly from the corporation or by means of a sublease or other arrangement.

Use of corporation property by shareholder.

“(g) **RENTS.**—Rents, unless constituting 50 per centum or more of the gross income. For the purposes of this subsection the term ‘rents’ means compensation, however designated, for the use of, or right to use, property; but does not include amounts constituting foreign personal holding company income under subsection (f).

Rents.

“SEC. 333. STOCK OWNERSHIP.

“(a) **CONSTRUCTIVE OWNERSHIP.**—For the purpose of determining whether a foreign corporation is a foreign personal holding company, insofar as such determination is based on stock ownership under section 331 (a) (2), section 332 (e), or section 332 (f)—

Stock ownership.

Constructive ownership.

Ante, p. 818.

“(1) **STOCK NOT OWNED BY INDIVIDUAL.**—Stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust shall be considered as being owned proportionately by its shareholders, partners, or beneficiaries.

Stock not owned by individual.

“(2) **FAMILY AND PARTNERSHIP OWNERSHIP.**—An individual shall be considered as owning the stock owned, directly or indirectly, by or for his family or by or for his partner. For the purposes of this paragraph the family of an individual includes only his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants.

Family and partnership ownership.

“(3) **OPTIONS.**—If any person has an option to acquire such stock such stock shall be considered as owned by such person. For the purposes of this paragraph an option to acquire such an option, and each one of a series of such options, shall be considered as an option to acquire such stock.

Options.

“(4) **APPLICATION OF FAMILY-PARTNERSHIP AND OPTION RULES.**—Paragraphs (2) and (3) shall be applied—

Application of family-partnership and option rules.

“(A) For the purposes of the stock ownership requirement provided in section 331 (a) (2), if, but only if, the effect is to make the corporation a foreign personal holding company;

Ante, p. 818.

“(B) For the purposes of section 332 (e) (relating to personal service contracts), or of section 332 (f) (relating to the use of property by shareholders), if, but only if, the effect is to make the amounts therein referred to includible under such subsection as foreign personal holding company income.

Ante, p. 818.

“(5) **CONSTRUCTIVE OWNERSHIP AS ACTUAL OWNERSHIP.**—Stock constructively owned by a person by reason of the application of paragraph (1) or (3) shall, for the purpose of applying paragraph (1) or (2), be treated as actually owned by such person; but stock constructively owned by an individual by reason of the application of paragraph (2) shall not be treated as owned by him for the purpose of again applying such paragraph in order to make another the constructive owner of such stock.

Constructive ownership as actual ownership.

Option rule in lieu of family and partnership rule.

Convertible securities.

"(6) **OPTION RULE IN LIEU OF FAMILY AND PARTNERSHIP RULE.**—If stock may be considered as owned by an individual under either paragraph (2) or (3) it shall be considered as owned by him under paragraph (3).

"(b) **CONVERTIBLE SECURITIES.**—Outstanding securities convertible into stock (whether or not convertible during the taxable year) shall be considered as outstanding stock—

"(1) For the purpose of the stock ownership requirement provided in section 331 (a) (2), but only if the effect of the inclusion of all such securities is to make the corporation a foreign personal holding company;

"(2) For the purpose of section 332 (e) (relating to personal service contracts), but only if the effect of the inclusion of all such securities is to make the amounts therein referred to includible under such subsection as foreign personal holding company income; and

"(3) For the purpose of section 332 (f) (relating to the use of property by shareholders), but only if the effect of the inclusion of all such securities is to make the amounts therein referred to includible under such subsection as foreign personal holding company income.

"The requirement in paragraphs (1), (2), and (3) that all convertible securities must be included if any are to be included shall be subject to the exception that, where some of the outstanding securities are convertible only after a later date than in the case of others, the class having the earlier conversion date may be included although the others are not included, but no convertible securities shall be included unless all outstanding securities having a prior conversion date are also included.

Gross income.

"SEC. 334. GROSS INCOME OF FOREIGN PERSONAL HOLDING COMPANIES.

Term defined.

"(a) **GENERAL RULE.**—As used in this Supplement with respect to a foreign corporation the term 'gross income' means gross income computed (without regard to the provisions of Supplement I) as if the foreign corporation were a domestic corporation.

Additions to gross income.

"(b) **ADDITIONS TO GROSS INCOME.**—In the case of a foreign personal holding company (whether or not a United States group, as defined in section 331 (a) (2), existed with respect to such company on the last day of its taxable year) which was a shareholder in another foreign personal holding company on the day in the taxable year of the second company which was the last day on which a United States group existed with respect to the second company, there shall be included, as a dividend, in the gross income of the first company, for the taxable year in which or with which the taxable year of the second company ends, the amount the first company would have received as a dividend if on such last day there had been distributed by the second company, and received by the shareholders, an amount which bears the same ratio to the undistributed Supplement P net income of the second company for its taxable year as the portion of such taxable year up to and including such last day bears to the entire taxable year.

Application of subsection (b).

"(c) **APPLICATION OF SUBSECTION (b).**—The rule provided in subsection (b)—

"(1) shall be applied in the case of a foreign personal holding company for the purpose of determining its undistributed Supplement P net income which, or a part of which, is to be included in the gross income of its shareholders, whether United States shareholders or other foreign personal holding companies;

"(2) shall be applied in the case of every foreign corporation with respect to which a United States group exists on some day of its taxable year, for the purpose of determining whether such corporation meets the gross income requirements of section 331 (a) (1).

"SEC. 335. UNDISTRIBUTED SUPPLEMENT P NET INCOME.

"For the purposes of this title the term 'undistributed Supplement P net income' means the Supplement P net income (as defined in section 336) minus the amount of the dividends paid credit provided in section 27, computed without the benefit of subsection (b) thereof (relating to the dividend carry-over).

Undistributed Supplement P net income.
Term defined.

"SEC. 336. SUPPLEMENT P NET INCOME.

"For the purposes of this title the term 'Supplement P net income' means the net income with the following adjustments:

Supplement P net income.
Term defined.

"(a) **ADDITIONAL DEDUCTIONS.**—There shall be allowed as deductions—

Additional deductions.

"(1) Federal income, war-profits, and excess-profits taxes paid or accrued during the taxable year to the extent not allowed as a deduction under section 23; but not including the tax imposed by section 102, section 351 (either before or after its amendment by the Revenue Act of 1937), or a section of a prior income-tax law corresponding to either of such sections.

Computation.
49 Stat. 1658, 1676,
1732.

"(2) In lieu of the deduction allowed by section 23 (q), contributions or gifts made within the taxable year to or for the use of donees described in section 23 (q) for the purposes therein specified, to an amount which does not exceed 15 per centum of the company's net income, computed without the benefit of this paragraph and section 23 (q), and without the deduction of the amount disallowed under subsection (b) of this section, and without the inclusion in gross income of the amounts includible therein as dividends by reason of the application of the provisions of section 334 (b) (relating to the inclusion in the gross income of a foreign personal holding company of its distributive share of the undistributed Supplement P net income of another foreign personal holding company in which it is a shareholder).

Charitable, etc., contributions.
49 Stat. 1661.

"(b) **DEDUCTIONS NOT ALLOWED.**—

"(1) **TAXES AND PENSION TRUSTS.**—The deductions provided in section 23 (d), relating to taxes of a shareholder paid by the corporation, and in section 23 (p), relating to pension trusts, shall not be allowed.

Deductions not allowed.
Taxes and pension trusts.
49 Stat. 1661.

"(2) **EXPENSES AND DEPRECIATION.**—The aggregate of the deductions allowed under section 23 (a), relating to expenses, and section 23 (l), relating to depreciation, which are allocable to the operation and maintenance of property owned or operated by the company, shall be allowed only in an amount equal to the rent or other compensation received for the use or right to use the property, unless it is established (under regulations prescribed by the Commissioner with the approval of the Secretary) to the satisfaction of the Commissioner:

Expenses and depreciation.
49 Stat. 1658.

"(A) That the rent or other compensation received was the highest obtainable, or, if none was received, that none was obtainable;

"(B) That the property was held in the course of a business carried on bona fide for profit; and

"(C) Either that there was reasonable expectation that the operation of the property would result in a profit, or that the property was necessary to the conduct of the business.

Corporation income
taxed to United States
shareholders.
General rule.

"SEC. 337. CORPORATION INCOME TAXED TO UNITED STATES SHAREHOLDERS.

"(a) **GENERAL RULE.**—The undistributed Supplement P net income of a foreign personal holding company shall be included in the gross income of the citizens or residents of the United States, domestic corporations, domestic partnerships, and estates or trusts (other than estates or trusts the gross income of which under this title includes only income from sources within the United States), who are shareholders in such foreign personal holding company (hereinafter called 'United States shareholders') in the manner and to the extent set forth in this Supplement.

Amount included in
gross income.

"(b) **AMOUNT INCLUDED IN GROSS INCOME.**—Each United States shareholder, who was a shareholder on the day in the taxable year of the company which was the last day on which a United States group (as defined in section 331 (a) (2)) existed with respect to the company, shall include in his gross income, as a dividend, for the taxable year in which or with which the taxable year of the company ends, the amount he would have received as a dividend if on such last day there had been distributed by the company, and received by the shareholders, an amount which bears the same ratio to the undistributed Supplement P net income of the company for the taxable year as the portion of such taxable year up to and including such last day bears to the entire taxable year.

Credit for obliga-
tions of United States
and its instrumental-
ties.

"(c) **CREDIT FOR OBLIGATIONS OF U. S. AND ITS INSTRUMENTALITIES.**—Each United States shareholder shall be allowed a credit against net income, for the purpose of the tax imposed by section 11, 13, 14, 201, or 204, of his proportionate share of the interest specified in section 25 (a) (1) or (2) which is included in the gross income of the company otherwise than by the application of the provisions of section 334 (b) (relating to the inclusion in the gross income of a foreign personal holding company of its distributive share of the undistributed Supplement P net income of another foreign personal holding company in which it is a shareholder).

Information in re-
turn.

"(d) **INFORMATION IN RETURN.**—Every United States shareholder who is required under subsection (b) to include in his gross income any amount with respect to the undistributed Supplement P net income of a foreign personal holding company and who, on the last day on which a United States group existed with respect to the company, owned 5 per centum or more in value of the outstanding stock of such company, shall set forth in his return in complete detail the gross income, deductions and credits, net income, Supplement P net income, and undistributed Supplement P net income of such company.

Effect on capital ac-
count of foreign per-
sonal holding com-
pany.

"(e) **EFFECT ON CAPITAL ACCOUNT OF FOREIGN PERSONAL HOLDING COMPANY.**—An amount which bears the same ratio to the undistributed Supplement P net income of the foreign personal holding company for its taxable year as the portion of such taxable year up to and including the last day on which a United States group existed with respect to the company bears to the entire taxable year, shall, for the purpose of determining the effect of distributions in subsequent taxable years by the corporation, be considered as a contribution to capital.

Basis of stock in
hands of shareholders.

"(f) **BASIS OF STOCK IN HANDS OF SHAREHOLDERS.**—The amount required to be included in the gross income of a United States shareholder under subsection (b) shall, for the purpose of adjusting the basis of his stock with respect to which the distribution would have been made (if it had been made), be treated as having been reinvested by the shareholder as a contribution to the capital of the corporation; but only to the extent to which such amount is included

in his gross income in his return, increased or decreased by any adjustment of such amount in the last determination of the shareholder's tax liability, made before the expiration of seven years after the date prescribed by law for filing the return.

"(g) **BASIS OF STOCK IN CASE OF DEATH.**—For basis of stock or securities in a foreign personal holding company acquired from a decedent, see section 113 (a) (5).

"(h) **LIQUIDATION.**—For amount of gain taken into account on liquidation of foreign personal holding company, see section 115 (c).

"(i) **PERIOD OF LIMITATION ON ASSESSMENT AND COLLECTION.**—For period of limitation on assessment and collection without assessment, in case of failure to include in gross income the amount properly includible therein under subsection (b), see section 275 (d).

"SEC. 338. INFORMATION RETURNS BY OFFICERS AND DIRECTORS.

"(a) **MONTHLY RETURNS.**—On the fifteenth day of each month each individual who on such day is an officer or a director of a foreign corporation which, with respect to its taxable year (if not beginning more than twelve months before the date of the enactment of the Revenue Act of 1937) preceding the taxable year in which such month occurs, was a foreign personal holding company, shall file with the Commissioner a return setting forth with respect to the preceding calendar month the name and address of each shareholder, the class and number of shares held by each, together with any changes in stockholdings during such period, the name and address of any holder of securities convertible into stock of such corporation, and such other information with respect to the stock and securities of the corporation as the Commissioner with the approval of the Secretary shall by regulations prescribe as necessary for carrying out the provisions of this Act. The Commissioner, with the approval of the Secretary, may by regulations prescribe, as the period with respect to which returns shall be filed, a longer period than a month. In such case the return shall be due on the fifteenth day of the succeeding period, and shall be filed by the individuals who on such day are officers and directors of the corporation.

"(b) **ANNUAL RETURNS.**—On the sixtieth day after the close of the taxable year of a foreign personal holding company each individual who on such sixtieth day is an officer or director of the corporation shall file with the Commissioner a return setting forth—

"(1) In complete detail the gross income, deductions and credits, net income, Supplement P net income, and undistributed Supplement P net income of such foreign personal holding company for such taxable year; and

"(2) The same information with respect to such preceding taxable year as is required in subsection (a); except that if all the required reports with respect to such year have been filed under subsection (a) no information under this paragraph need be set forth in the annual report.

"SEC. 339. INFORMATION RETURNS BY SHAREHOLDERS.

"(a) **MONTHLY RETURNS.**—On the fifteenth day of each month each United States shareholder, by or for whom 50 per centum or more in value of the outstanding stock of a foreign corporation is owned directly or indirectly (including in the case of an individual, stock owned by the members of his family as defined in section 333 (a) (2)), if such foreign corporation with respect to its taxable year (if not beginning more than twelve months before the date of the enactment of the Revenue Act of 1937) preceding the taxable year in which such month occurs was a foreign personal holding company, shall file with the Commissioner a return setting forth with

Basis, in case of death.

Liquidation.
49 Stat. 1682.

Period of limitation on assessment and collection.
49 Stat. 1726.

Information returns by officers and directors.
Monthly returns.

Annual returns.

Information returns by shareholders.
Monthly returns.

Ante, p. 819.

respect to the preceding calendar month the name and address of each shareholder, the class and number of shares held by each, together with any changes in stockholdings during such period, the name and address of any holder of securities convertible into stock of such corporation, and such other information with respect to the stock and securities of the corporation as the Commissioner with the approval of the Secretary shall by regulations prescribe as necessary for carrying out the provisions of this Act. The Commissioner, with the approval of the Secretary, may by regulations prescribe, as the period with respect to which returns shall be filed, a longer period than a month. In such case the return shall be due on the fifteenth day of the succeeding period, and shall be filed by the persons who on such day are United States shareholders.

Annual returns.

"(b) ANNUAL RETURNS.—On the sixtieth day after the close of the taxable year of a foreign personal holding company each United States shareholder by or for whom on such sixtieth day more than 50 per centum of the outstanding stock of such company is owned directly or indirectly (including in the case of an individual, stock owned by members of his family as defined in section 333 (a) (2)), shall file with the Commissioner a return setting forth the same information with respect to such preceding taxable year as is required in subsection (a); except that if all the required reports with respect to such year have been filed under subsection (a) no information under this subsection need be set forth in the annual report.

Returns as to formation, etc., of foreign corporations.
Requirement.

"SEC. 340. RETURNS AS TO FORMATION, ETC., OF FOREIGN CORPORATIONS.

"(a) REQUIREMENT.—Under regulations prescribed by the Commissioner with the approval of the Secretary, any attorney, accountant, fiduciary, bank, trust company, financial institution, or other person—

"(1) Who, on or after the date of the enactment of the Revenue Act of 1937, aids, assists, counsels, or advises in, or with respect to, the formation, organization, or reorganization of any foreign corporation, shall, within 30 days thereafter, file with the Commissioner a return; or

"(2) Who, since December 31, 1933, and prior to 90 days after the date of the enactment of the Revenue Act of 1937, has aided, assisted, counseled, or advised in the formation, organization, or reorganization of any foreign corporation shall, within 90 days after the date of the enactment of such Act, file with the Commissioner a return.

Form and contents of return.

"(b) FORM AND CONTENTS OF RETURN.—Such return shall be in such form, and shall set forth, under oath, in respect of each such corporation, to the full extent of the information within the possession or knowledge or under the control of the person required to file the return, such information as the Commissioner with the approval of the Secretary prescribes by regulations as necessary for carrying out the provisions of this Act. Nothing in this section shall be construed to require the divulging of privileged communications between attorney and client.

Penalties.

Willful failure to comply with specified sections.
Ante, p. 823.

49 Stat. 1703.

"SEC. 341. PENALTIES.

"Any person required under section 338, 339, or 340 to file a return, or to supply any information, who willfully fails to file such return, or supply such information, at the time or times required by law or regulations, shall, in lieu of the penalties provided in section 145 (a) for such offense, be guilty of a misdemeanor and, upon conviction thereof, be fined not more than \$2,000, or imprisoned for not more than one year, or both."

SEC. 202. EFFECTIVE DATE.

Supplement P of Title I of the Revenue Act of 1936, added to such Act by section 201 of this Act, shall not apply to a taxable year (either of a shareholder or of a foreign corporation) ending on or before the date of the enactment of this Act; and in no case shall the stock ownership requirement provided in section 331 (a) (2) of such Supplement be satisfied unless a United States group (as therein defined) existed with respect to the corporation after the date of the enactment of this Act. If under section 338 or 339 of such Supplement the date on which a return is required to be filed occurs prior to November 1, 1937, the return shall be considered as filed on time if filed prior to December 1, 1937.

Effective date.

Provisions relating to foreign personal holding companies.
Ante, p. 818.

SEC. 203. ADJUSTED BASIS OF STOCK OF FOREIGN PERSONAL HOLDING COMPANY.

Section 113 (b) (1) of the Revenue Act of 1936 is amended by striking out the period at the end thereof and inserting in lieu thereof a semicolon and the following:

"and

"(E) to the extent provided in section 337 (f) in the case of the stock of United States shareholders in a foreign personal holding company."

Adjusted basis of stock of foreign personal holding company.

General rule.
49 Stat. 1685.

SEC. 204. BASIS OF STOCK IN FOREIGN PERSONAL HOLDING COMPANY ACQUIRED FROM DECEDENT.

Section 113 (a) (5) of the Revenue Act of 1936 is amended by adding at the end thereof a new sentence to read as follows:

"If the property was acquired by bequest, devise, or inheritance, or by the decedent's estate from the decedent, and if the decedent died after the date of the enactment of the Revenue Act of 1937, and if the property consists of stock or securities of a foreign corporation, which with respect to its taxable year next preceding the date of the decedent's death was a foreign personal holding company, then the basis shall be the fair market value of such property at the time of such acquisition or the basis in the hands of the decedent, whichever is lower."

Basis of stock in foreign personal holding company acquired from decedent.
49 Stat. 1682.

SEC. 205. LIQUIDATION OF FOREIGN PERSONAL HOLDING COMPANIES.

Section 115 (c) of the Revenue Act of 1936 is amended by adding at the end thereof a new sentence to read as follows:

"If any distribution in complete liquidation (including any one of a series of distributions made by the corporation in complete cancellation or redemption of all its stock) is made by a foreign corporation which with respect to any taxable year beginning on or before, and ending after, the date of the enactment of the Revenue Act of 1937, was a foreign personal holding company, and with respect to which a United States group (as defined in section 331 (a) (2)) existed after the date of the enactment of the Revenue Act of 1937 and before January 1, 1938, then, despite the foregoing provisions of this subsection, 100 per centum of the gain recognized resulting from such distribution shall be taken into account in computing net income—

Liquidation of foreign personal holding companies.
49 Stat. 1687.

Distribution.

"(1) Unless such liquidation is completed before January 1, 1938; or

"(2) Unless (if it is established to the satisfaction of the Commissioner by evidence submitted before January 1, 1938, that due to the laws of the foreign country in which such corporation is incorporated, or for other reason, it is or will be impossible to complete the liquidation of such company before such date) the liquidation is completed on or before such date as the Commissioner may find reasonable, but not later than June 30, 1938."

Period of limitation upon assessment and collection.
49 Stat. 1726.

Shareholders of foreign personal holding companies.

Time prescribed for filing.
49 Stat. 1726.

Subsection relettered.

Minor amendments to Title I of 1936 Act.
49 Stat. 1653.

49 Stat. 1657.

Foreign personal holding companies.
Ante, p. 820.

49 Stat. 1671.

Foreign personal holding companies.
Information returns.
Ante, pp. 823, 824.

49 Stat. 1706.

Foreign personal holding companies.
Information returns.

Ante, pp. 823, 824.

Penalties.
49 Stat. 1703.

Information returns, failure to file.

SEC. 206. PERIOD OF LIMITATION UPON ASSESSMENT AND COLLECTION.

(a) Section 275 of the Revenue Act of 1936 is amended by inserting after subsection (c) thereof a new subsection to read as follows:

"(d) **SHAREHOLDERS OF FOREIGN PERSONAL HOLDING COMPANIES.**—If the taxpayer omits from gross income an amount properly includible therein under section 337 (b) (relating to the inclusion in the gross income of United States shareholders of their distributive shares of the undistributed Supplement P net income of a foreign personal holding company) the tax may be assessed, or a proceeding in court for the collection of such tax may be begun without assessment, at any time within seven years after the return was filed."

(b) Subsection (d) of such section 275, before its amendment by subsection (a) of this section, is amended to read as follows:

"(e) For the purposes of subsections (a), (b), (c), and (d), a return filed before the last day prescribed by law for the filing thereof shall be considered as filed on such last day."

(c) Subsection (e) of such section 275, before its amendment by subsections (a) and (b) of this section, is amended by striking out "(e)" and inserting in lieu thereof "(f)".

SEC. 207. MINOR AMENDMENTS TO TITLE I OF 1936 ACT.

(a) Section 4 of the Revenue Act of 1936 is amended by adding at the end thereof a new subsection to read as follows:

"(i) Foreign personal holding companies and their shareholders—**Supplement P.**"

(b) Section 22 of such Act is amended by adding at the end thereof a new subsection to read as follows:

"(g) **FOREIGN PERSONAL HOLDING COMPANIES.**—For provisions relating to gross income of foreign personal holding companies and of their shareholders, see section 334."

(c) Section 54 of such Act is amended by adding at the end thereof a new subsection to read as follows:

"(e) **FOREIGN PERSONAL HOLDING COMPANIES.**—For information returns by officers, directors, and large shareholders, with respect to foreign personal holding companies, see sections 338, 339, and 341. For information returns by attorneys, accountants, and so forth, as to formation, and so forth, of foreign corporations, see sections 340 and 341."

(d) Such Act is amended by adding after section 150 a new section to read as follows:

"SEC. 151. FOREIGN PERSONAL HOLDING COMPANIES.

"For information returns by officers, directors, and large shareholders, with respect to foreign personal holding companies, see sections 338, 339, and 341. For information returns by attorneys, accountants, and so forth, as to formation, and so forth, of foreign corporations, see sections 340 and 341."

(e) Section 145 of such Act is amended by adding at the end thereof a new subsection to read as follows:

"(d) For penalties for failure to file information returns with respect to foreign personal holding companies and foreign corporations, see section 341."

TITLE III—DISALLOWED DEDUCTIONS

Title III — Disallowed deductions.

SEC. 301. DISALLOWED DEDUCTIONS.

(a) Section 24 (a) of the Revenue Act of 1936 is amended to read as follows:

49 Stat. 1662.

"(a) **GENERAL RULE.**—In computing net income no deduction shall in any case be allowed in respect of—

General rule, items not deductible.

"(1) Personal, living, or family expenses;

"(2) Any amount paid out for new buildings or for permanent improvements or betterments made to increase the value of any property or estate;

"(3) Any amount expended in restoring property or in making good the exhaustion thereof for which an allowance is or has been made;

"(4) Premiums paid on any life insurance policy covering the life of any officer or employee, or of any person financially interested in any trade or business carried on by the taxpayer, when the taxpayer is directly or indirectly a beneficiary under such policy; or

"(5) Any amount otherwise allowable as a deduction which is allocable to one or more classes of income other than interest (whether or not any amount of income of that class or classes is received or accrued) wholly exempt from the taxes imposed by this title.

"(b) **LOSSES FROM SALES OR EXCHANGES OF PROPERTY.**—

Losses from sales or exchanges of property. Losses disallowed.

"(1) **LOSSES DISALLOWED.**—In computing net income no deduction shall in any case be allowed in respect of losses from sales or exchanges of property, directly or indirectly—

"(A) Between members of a family, as defined in paragraph (2) (D);

"(B) Except in the case of distributions in liquidation, between an individual and a corporation more than 50 per centum in value of the outstanding stock of which is owned, directly or indirectly, by or for such individual;

"(C) Except in the case of distributions in liquidation, between two corporations more than 50 per centum in value of the outstanding stock of each of which is owned by or for the same individual, if—

"(i) Either one of such corporations, with respect to the taxable year (if beginning after December 31, 1935) of the corporation preceding the date of the sale or exchange, was a personal holding company as defined in section 352, or

"(ii) Either one of such corporations, with respect to the taxable year (if not beginning more than 12 months before the date of the enactment of the Revenue Act of 1937) of the corporation preceding the date of the sale or exchange, was a foreign personal holding company as defined in section 331;

"(D) Between a grantor and a fiduciary of any trust;

"(E) Between the fiduciary of a trust and the fiduciary of another trust, if the same person is a grantor with respect to each trust; or

"(F) Between a fiduciary of a trust and a beneficiary of such trust.

Stock ownership,
family, and partner-
ship rule.

"(2) STOCK OWNERSHIP, FAMILY, AND PARTNERSHIP RULE.—For the purposes of determining, in applying paragraph (1), the ownership of stock—

"(A) Stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust, shall be considered as being owned proportionately by or for its shareholders, partners, or beneficiaries;

"(B) An individual shall be considered as owning the stock owned, directly or indirectly, by or for his family;

"(C) An individual owning (otherwise than by the application of subparagraph (B)) any stock in a corporation shall be considered as owning the stock owned, directly or indirectly, by or for his partner;

"(D) The family of an individual shall include only his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants; and

"(E) Constructive Ownership as Actual Ownership.—Stock constructively owned by a person by reason of the application of subparagraph (A) shall, for the purpose of applying subparagraph (A), (B), or (C), be treated as actually owned by such person, but stock constructively owned by an individual by reason of the application of subparagraph (B) or (C) shall not be treated as owned by him for the purpose of again applying either of such subparagraphs in order to make another the constructive owner of such stock.

Special rule for year
1936.
Foreign personal
holding company.

49 Stat. 1732.

Unpaid expenses
and interest.

49 Stat. 1658, 1659.

"(3) SPECIAL RULE FOR YEAR 1936.—In applying paragraph (1) (C) (i) in a case where the preceding taxable year therein referred to began in the calendar year 1936, the determination as to whether the corporation was a foreign personal holding company shall be made under section 351 (b) (1) before the amendment of Title IA made by section 1 of the Revenue Act of 1937.

"(c) UNPAID EXPENSES AND INTEREST.—In computing net income no deduction shall be allowed in respect of expenses incurred under section 23 (a) or interest accrued under section 23 (b)—

"(1) If 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)."

49 Stat. 1662.

Ante, p. 827.

(b) Section 24 (b) and section 24 (c) of the Revenue Act of 1936, as in force prior to the amendment to section 24 made by subsection (a) of this section, are amended by striking out "(b)" and "(c)" and inserting in lieu thereof "(d)" and "(e)".

SEC. 302. EFFECTIVE DATES.

Effective dates.

The amendments made by this title shall apply only with respect to taxable years beginning after December 31, 1936.

TITLE IV—TRUSTS

Title IV—Trusts.

SEC. 401. DENIAL OF PERSONAL EXEMPTION TO TRUSTS.

Section 163 (a) of the Revenue Act of 1936 is amended to read as follows:

Denial of personal exemption to trusts.
49 Stat. 1707.

“(a) CREDITS OF ESTATE OR TRUST.—

“(1) For the purpose of the normal tax and the surtax an estate or trust shall be allowed the same personal exemption as is allowed to a single person under section 25 (b) (1), except that no exemption shall be allowed a trust if the trust instrument requires or permits the accumulation of any portion of the income of the trust and there is not distributed an amount equal to the net income. For the purposes of this paragraph the term “net income” does not include amounts included in gross income which, under the law of the jurisdiction under which the trust is administered, cannot (even if permitted or required by the trust instrument to be considered as income) be considered as income and are not distributable.

Credits of estate or trust.

“(2) If no part of the income of the estate or trust is included in computing the net income of any legatee, heir, or beneficiary, then the estate or trust shall be allowed the same credits against net income for interest as are allowed by section 25 (a).”

SEC. 402. FIDUCIARY RETURNS.

Section 142 (a) of the Revenue Act of 1936 is amended to read as follows:

Fiduciary returns.
49 Stat. 1700.

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

Requirement of return.
Sworn statement of income, etc., of beneficiaries.

Deductions, etc., allowed.

“(1) Every individual having a net income for the taxable year of \$1,000 or over, if single, or if married and not living with husband or wife;

Net income of \$1,000 or over, if single, etc.

“(2) Every individual having a net income for the taxable year of \$2,500 or over, if married and living with husband or wife;

Net income of \$2,500 or over, if married, etc.

“(3) Every individual having a gross income for the taxable year of \$5,000 or over, regardless of the amount of his net income;

Gross income of \$5,000 or over.

“(4) (A) Every estate, and every trust entitled to the personal exemption allowed by section 163 (a) (1), the net income of which for the taxable year is \$1,000 or over.

Estates, or trusts where net income \$1,000 or over.
49 Stat. 1707.

“(B) Every trust, not entitled to a personal exemption under section 163 (a) (1), which has a net income for the taxable year.

Trusts not entitled to personal exemption having net income.

“(5) Every estate or trust the gross income of which for the taxable year is \$5,000 or over, regardless of the amount of the net income;

Gross income of \$5,000 or more.

“(6) Every estate or trust of which any beneficiary is a nonresident alien; and

Nonresident alien beneficiary.

“(7) Regardless of the amount of the gross or net income, every trust, though having no net income, which would have a net income if distributions had not been made which under the terms of the trust instrument were in the discretion of the

Distributions discretionary or based on a contingency.

Exemption.

trustee or conditioned upon a contingency; but subject to such conditions, limitations, and exceptions and under such regulations as may be prescribed by the Commissioner, with the approval of the Secretary, a fiduciary required by this paragraph to file a return may be exempted from the requirement of filing such return."

Effective dates.**SEC. 403. EFFECTIVE DATES.**

The amendments made by this title shall apply only with respect to taxable years beginning after December 31, 1936.

Title V—Nonresident alien individuals.**TITLE V—NONRESIDENT ALIEN INDIVIDUALS****Tax on.****SEC. 501. TAX ON NONRESIDENT ALIEN INDIVIDUALS.****49 Stat. 1714.
Exemption.**

(a) Section 211 (a) of the Revenue Act of 1936 is amended by adding at the end thereof a new sentence to read as follows: "The tax imposed by this subsection shall not apply to any individual if the aggregate amount received during the taxable year from the sources above specified is more than \$21,600."

49 Stat. 1715.

(b) Section 211 of the Revenue Act of 1936 is further amended by adding at the end thereof a new subsection to read as follows:

No United States business or office and gross income of more than \$21,600.

"(c) **NO UNITED STATES BUSINESS OR OFFICE AND GROSS INCOME OF MORE THAN \$21,600.**—A nonresident alien individual not engaged in trade or business within the United States and not having an office or place of business therein who has a gross income for any taxable year of more than \$21,600 from the sources specified in subsection (a), shall be taxable without regard to the provisions of subsection (a), except that—

"(1) The gross income shall include only income from the sources specified in subsection (a); and

49 Stat. 1715.

"(2) The deductions (other than the so-called 'charitable deduction' provided in section 213 (c)) shall be allowed only if and to the extent that they are properly allocable to the gross income from the sources specified in subsection (a); and

"(3) The aggregate of the normal and surtax under sections 11 and 12 shall, in no case, be less than 10 per centum of the gross income from the sources specified in subsection (a)."

(c) The amendments made by subsections (a) and (b)—

Amendments, when effective.

(1) Shall apply only to taxable years beginning after December 31, 1936; and

Residents of contiguous countries.

(2) Shall not apply to a resident of a contiguous country so long as there is in effect a treaty with such country (ratified prior to the date of the enactment of this Act) under which rates of tax under section 211 (a), prior to its amendment by subsection (a), were reduced.

Title VI—Miscellaneous.**TITLE VI—MISCELLANEOUS****Corporations excepted from certain surtax.****Provisions modified.
49 Stat. 1676.****SEC. 601. CORPORATIONS EXCEPTED FROM SECTION 102.**

(a) Section 102 (a) of the Revenue Act of 1936 is amended by striking out "(other than a personal holding company as defined in section 351)" and inserting in lieu thereof "(except as provided in subsection (f))".

(b) Such section 102 is further amended by adding at the end thereof a new subsection to read as follows:

Corporations excepted.

"(f) **CORPORATIONS EXCEPTED.**—This section shall not apply to any corporation—

Personal holding company.

"(1) With respect to a taxable year beginning after December 31, 1936, if the corporation is with respect to such year a personal holding company as defined in section 352.

"(2) With respect to a taxable year beginning before January 1, 1937, if the corporation is with respect to such year a personal holding company as defined in section 351 (b) (1) before the amendment of Title IA by section 1 of the Revenue Act of 1937.

"(3) With respect to a taxable year ending after the date of the enactment of the Revenue Act of 1937, if the corporation is with respect to such year a foreign personal holding company as defined in section 331."

Foreign personal holding company.

SEC. 602. MUTUAL INVESTMENT COMPANIES.

(a) Section 48 (e) (1) of the Revenue Act of 1936 is amended by striking out "other than a personal holding company as defined in section 351" and inserting in lieu thereof "except as provided in paragraph (3)".

Mutual investment companies,
49 Stat. 1669.
General definition.

(b) Such section 48 (e) is further amended by adding at the end of such subsection a new paragraph to read as follows:

"(3) CORPORATIONS EXCEPTED.—This section shall not apply to any corporation—

Corporations ex-
cepted.

"(A) With respect to a taxable year beginning after December 31, 1936, if the corporation is with respect to such year a personal holding company as defined in section 352.

Ante, p. 814.

"(B) With respect to a taxable year beginning before January 1, 1937, if the corporation is with respect to such year a personal holding company as defined in section 351 (b) (1) before the amendment of Title IA by section 1 of the Revenue Act of 1937.

"(C) With respect to a taxable year ending after the date of the enactment of the Revenue Act of 1937, if the corporation is with respect to such year a foreign personal holding company as defined in section 331."

SEC. 603. SEPARABILITY CLAUSE.

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

Separability clause.

Approved, August 26, 1937, 10 a. m.

[CHAPTER 816]

JOINT RESOLUTION

Providing for participation by the United States in the Pan American Exposition to be held in Tampa, Florida, in the year 1939 in commemoration of the four-hundredth anniversary of the landing of Hernando De Soto in Tampa Bay, and for other purposes.

August 26, 1937
[S. J. Res. 166]
[Pub. Res., No. 72]

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That the President of the United States be, and he is hereby, authorized and respectfully requested by proclamation, or in such manner as he may deem proper, to invite foreign countries to an exposition to be held in Tampa, Florida, to be known as the "Pan American Exposition", in commemoration of the four-hundredth anniversary of the landing of Hernando De Soto in Tampa Bay, under the auspices and on the grounds of the Florida Fair and Gasparilla Association, Incorporated, in the year 1939, with a request that they participate therein.

Pan American Exposition, Tampa, Fla., 1939.
President requested to invite foreign countries to participate.

SEC. 2. That there is hereby created a Federal commissioner for such Pan American Exposition, said commissioner to be appointed by the President upon the nomination of the Secretary of Commerce, who shall select for this purpose an official of his Department who has had experience in and is familiar with the preparation and man-

Federal commissioner.
Appointment, qualifications, expenses, etc.