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# 1044 at INDIVIDUAL INCOME TAX BILL OF 1944-11-11756 INDIVIDUAL INCOME TAX BILL OF 1944-11-11756

[April 24, 1944.] [April 24, 1944.]

Mr. Doughton, from the Committee on Ways and Means, submitted the follow-Mr. Doughton, 12 Mr. Do preport to accompany and Means, to whom was referred the bill (H. R. 4646).

The do for simplification of the individual income tax, having had in The Committee on the individual income tax, having had the same opposide for simplification, report it back to the House without amendment a the same

provide for simple. A. 4646) provide for simp moder consider that the bill do pass.

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The bill is committee had in mind the following ob-

the great majority of taxpayers from the necessity of computing the number of tax computations

her income the number of tax computations. 3 To simplify the return form.

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4 To decrease the number of persons required to file declarations of estimated tax. to reads and royalties, and losses treated a

5. To eliminate some of the difficulties and uncertainties in the making of esimates required for declarations.

The bill accomplishes these objectives without substantially changing the numbroftaxpayers or the revenue yield under existing law.

#### income means gross inco SUMMARY OF CHANGES IN EXISTING LAW.

To accomplish these objectives, the bill makes several important changes in

First, for the surtax, there is a uniform exemption of \$500 per person. Thus the taxpayer is allowed \$500, the taxpayer's spouse is allowed \$500, and there is

\$500 allowance for each dependent.
Second, the victory tax is repealed. The present normal tax and surtax are unbined into a single surtax. A new normal tax of 3 per cent is imposed on the person whose net income exceeds \$500.

Third, a new simplified tax table, designated Supplement T, is provided in the This table. This table may be used by taxpayers with adjusted gross incomes of less tank \$5,000, regardless of the source of their income. In general, adjusted gross being is gross in the source of their income. The table is so constructed beome is gross income less business deductions. The table is so constructed to allow the to allow the taxpayer a standard deduction of approximately 10 per cent with gross income less business deduction of approximately 10 per cent

this gross income. The use of this table is optional with the taxpayer. Pourth, taxpayers with adjusted gross incomes of \$5,000 or more are perthe at the se of this table is of \$5,000 or more at the attention of \$5,000 or more at eduction of \$500.

Pitch, the present withholding system is modified, effective with respect to the present withholding system is modified, in the case of a tax, the full tax We present withholding system is modified, effective with respective with resp Wer whose income is derived solely from wages, approximately to

whose income is derived solely from wages, approximately to like on wages up to at least \$5,000.

The property of the close of the clos their declarations on or before January 15 next following the close of their year, for the son or before January 15 next following the close of Taxpayers may file, on or before January 15 next following the close of the year, for the son of estimated their declarations on or before January 15 next following the close of the January 15 next following the close on or before January 15 next following the close on or before January 15 next following the close on or January 15 next following the close on or January 15 their control of estimated the final declaration of estimated on or before January 15 their control of the final declaration of estimated on or before January 15 their control of the final declaration of estimated on or before January 15 their control of the final declaration of estimated on or before January 15 their control of the final declaration of estimated on or before January 15 their control of the final declaration of estimated on the before January 15 their control of the final declaration of estimated on the before January 15 their control of the final declaration of estimated on the before January 15 their control of the final declaration of estimated on the before January 15 their control of the final declaration of estimated the final declaration of estimated the before January 15 their control of the final declaration of estimated the final dre January 15 next long may file, of the January 15 next long may fil Under present law, the final amended declaration must be filed on or december 15. Under present law, the final amended declaration must be filed of the final declaration must be filed of the filed of the final declaration must be filed of the moer 15, 14 w, the final amended declarated vigorination and it was a final amended vigorination and vigorinati

law prevails to the effect that the parent is entitled to the services of the child law prevails to the effect that the parent is entitled to numerous except and hence is entitled to his earnings. This rule is subject to numerous except and hence is entitled to his earnings. It is subject to numerous except and hence is entitled to his earnings. This rule is subject to numerous except and hence is entitled to his earnings. and hence is entitled to his earnings. This rate is a numerous exceptions depending on the circumstances and, in many cases, the intent of the tions depending on the circumstances and bis child. The French class and hence is entitled to the circumstances and, in many states, the intent of the tions depending on the circumstances and, in many states from the French the parties. In Louisiana, where the legal system stems from the French the parties. In Louisiana, where the legal system stems from the French the parties. In Louisiana, where the legal system stems from the French the parties. In Louisiana, where the legal system stems from the French the parties. In Louisiana, where the legal system stems from the French the parties. In Louisiana, where the legal system stems from the French the parties. In Louisiana, where the legal system stems from the French the parties. In Louisiana, where the legal system stems from the French the parties. In Louisiana, where the legal system stems from the French the parties. In Louisiana, where the legal system stems from the French the parties. In Louisiana, where the legal system stems from the French the parties. In Louisiana, where the legal system stems from the French the parties are the legal system stems from the French the parties. law, the parent has no right to the services of his child, for Pederal law, the parent has no right to the services of his child law, the parent has no right to the services of his child law, the parent has no right to the services of his child law, in addition, such variations in the depending upon the applicable State law. In addition, such variations in the facts as make applicable the exceptions to the general rule in each jurisdiction facts as make applicable the exceptions to the services of his child law, for Pederal law facts as make applicable the exceptions to the general rate in each jurisdiction facts as make applicable the exceptions with respect to the tax treatment of the tend to produce additional uncertainty with respect to the tax treatment of the earnings of minor children. Section 7 of the bill incorporates a policy which will make for uniformity among the various States in taxation of the committee for services performed by a minor child. pensation for services performed by a minor child.

ensation for services performed by a little with respect to inclusion in gross Subsection (a) of this section states the rule with respect to inclusion in gross Subsection (a) of this section for the child's services. It amends sections Subsection (a) of this section states the child's services. It amends section 22 income of the amounts received for the child's services. It amends section 22 income) to provide that such amounts shall be included income of the amounts received for the such amounts shall be included in (relating to gross income) to provide that such amounts shall be included in (relating to gross income) the child. This is so even though the compensation to (relating to gross income) to provide in so even though the compensation is not the gross income of the child. This is so even though the compensation is not the gross income of the child. This is provided that such amounts should be a corollary it is provided that such amounts should be a corollary it is provided that such amounts should be a corollary it is provided that such amounts should be a corollary it is provided that such amounts should be a corollary it is provided that such amounts should be a corollary it is provided that such amounts should be a corollary it is provided that such amounts should be a corollary it is provided that such amounts should be a corollary it is provided that such amounts should be a corollary it is provided that such amounts should be a corollary it is provided that such amounts should be a corollary it is provided that such amounts should be a corollary it is provided that such amounts should be a corollary it is provided that such amounts should be a corollary it is provided that such amounts should be a corollary it is provided that such amounts should be a corollary it is provided that such amounts should be a corollary it is provided that such amounts should be a corollary it is provided that such amounts should be a corollary in the corollary it is provided that such a corollar the gross income of the child. As a corollary it is provided that such amounts shall not received by the child. As a corollary it is provided that such amounts shall not received by the child. As a coronary it is a received by the child. As a coronary it is a received by the child. As a coronary it is a received by the great is a received the contract by the parent and the parent receives the be included in the gross income of the parent and the parent receives the contract of employment is made directly by the parent and the parent receives the comof employment is made directly by the particle of the Federal income tax, the amounts pensation for the services, for the purposes of the Federal income tax, the amounts pensation for the services, for the purpose the child because earned by him. This sub-would be considered to be taxable to the child because earned by him. This subwould be considered to be taxable to the earnings of the child, shall be considered to the earnings of the child, shall be considered to the earnings of the child. section likewise provides that expendentings of the child, shall be considered to child, which are attributable to the earnings of the child, shall be considered to child, which are attributable to the Thus, for the purposes of the Federal income have been paid or incurred by him. Thus, for the purposes of the Federal income have been paid or incurred by film. the local law, the child is deemed to be a tax, regardless of the provisions of the requirements as is any other taxpayer, separate taxpayer subject to the filing requirements as is any other taxpayer, entitled to a separate exemption for normal tax and surtax, and entitled to take as deductions the amounts paid out by him or on his behalf where the amounts are attributable to his earnings and are otherwise deductible from gross income for tax purposes. Under this provision, a child would be entitled to take as deductions not only expenditures made on his behalf by his parent which would commonly be considered as business expenses, but also such personal deductions as were made out of his earnings and in his name. For example, a contribution made by a parent in the name of a juvenile actor and out of his earnings to a charitable organization for indigent members of the acting profession would be deductible on the return of the child.

Under these provisions, it is contemplated that the parent or guardian of the child will cause to be made and filed, and will execute on behalf of the child, the required return where the child himself is unable to do so. The term "parent" is defined to mean, in this connection, an individual who under local law is entitled to the services of the child by reason of having parental rights and

duties in respect of the child.

The policy of taxing compensation earned by a child to such child contemplates that the tax will be payable out of or charged upon such compensation. This result follows automatically to the extent the tax is withheld. With respect to any tax liability not satisfied through withholding, which is attributable to such compensation, the amendment provides that the parent is to be treated as having the rights and duties of a fiduciary, to the extent of his rights and privileges over such income. Though it is explicitly provided that the parent shall be considered as acting in a fiduciary capacity in cases where the income includible in the gross income of the child solely by reason of this section, this provision does not affect or relieve the parent or guardian from any existing liability.

### SECTION 8. ADJUSTED GROSS INCOME.

Subsection (a) of this section amends section 22 of the Code by adding subsection (n) thereto for the purpose of defining the new concept "Adjusted gross income" which is a section of the purpose of defining the new concept "Adjusted gross income" which is a section of the purpose of defining the new concept "Adjusted gross income". income," which is used in determining the tax under Supplement T. The tax table provided in section 400 is divided into brackets representing amounts of adjusted gross income. Adjusted gross income also constitutes the base which determines whether the adjusted gross income also constitutes the base which determines whether the optional standard deduction of \$500, as provided in section 9 of the bill is section 9 of the bill, is applicable. The proposed section 22(n) of the Code provides that the torm "addicable. provides that the term "adjusted gross income" shall mean the gross income computed under section 22 loss the gross income "shall mean the gross income". computed under section 22 less the sum of the following deductions: (1) Deductions allowable under section 22 less the sum of the following deductions: (1) Deductions allowable under section 22 less the sum of the following deductions: tions allowable under section 23 of the Code, which are attributable to a trade or business carried on by the or business carried on by the taxpayer not consisting of services performed as an employee: (2) deduction axpayer not consisting of services performed as an employee: an employee; (2) deductions allowed by section 23 which constitute expenses

of travel, meals, of travel, meals, of home (3) de from yee; lodging employ and connequent of the from incurrence of the reimbursement of reimpursement of allow deductions (5) de royalties; and debreciation and deproperty or to of propositions (other ductions ducunia de by s are usual case, t me in arriving penses and losses pelises and rosses erty. Thus taxes only as they con ony arty from w plated in this sta property taxes Di would be deducti of business profits This section ci such of those all clauses (1) to (6 in one of the clai to be twice subtra The only expen by an employee, which he incurs for which he is Thus, for exampl he is reimbursed clude in his gros would be entitled Subsection (b) Code, relating to amended to allow an individual to t 15 per cent of the taxpayer's net in effect of this ame may be received 1 Subsection (c) the Code, relating stituting adjusted of the deduction i must be incurred deduction provisi exemptions which the limit to which single person, or a of married person Since, under secti nated, the limits Thus, \$1,250 is th exemption is alloy tion is allowed.

and toothe penetra This section of (aa) which provi ard deduction in 1 Paragraph (1) \$500 in the case tion 8 of the bill is 6355280-45of travel, meals, and lodging paid or incurred by the taxpayer while away of travel, means, and roughly party of incurred by the taxpayer while away from home in connection with the performance by him of services as an allowed; (3) deductions allowed by section 23 (other than expenses as an from home in connections allowed by section 23 (other than expenses of travel, and lodging while away from home) which consist of expenses of travel, employee; (3) deduction and section 23 (other than expenses as an meals, and lodging while away from home) which consist of expenses paid or meals, and loughing which the performance of services as an employee under a incurred in connection to the expense-allowance arrangement with his employee under a reimbursement or other expense-allowance arrangement with his employer; (4) reimbursement of other section 23 which are attributable to rents and deductions (5) deductions not included in the deductions before morting. deductions and depletion and depletion allowed under section 23 (1) and (m) to 2 life. royalties; (3) deduction allowed under section 23 (1) and (m) to a life tenant depreciation or to an income beneficiary of property held in trust. depreciation and deprec of property of to the than those which would be considered business; and (6) deductions (other than those which would be considered business losses) which ductions (other than the deductions which are to be reachange of property. In the usual case, therefore, the deductions which are to be made from gross inthe usual case, the total gross income are limited to certain business income in arriving at adjusted gross income are limited to certain business excome in arriving which are treated as losses from sales or exchanges expenses and losses which are treated as losses from sales or exchanges of proppenses and losses and interest are deductible in arriving at adjusted gross income See the last part of erty. Thus takes all expenditures attributable to a trade or business or to this paragraph for which rents or royalties are derived. property from which rents or royalties are derived. The connection contemplated in this statute is a direct one rather than a remote one. For example, what is referenced in the toyon paid or incurred on real property used in the toyon paid or incurred on real property used in the toyon paid or incurred on real property used in the toyon real proper property taxes paid or incurred on real property used in the trade or business the TCJA House Rp would be deductible, whereas State income taxes, though incurred as a result at footnote 168.

This section creates no new deductions; the only deductions permitted are such of those allowed in Chapter 1 of the Code as are specified in any of the clauses (1) to (6) above. The circumstance that a particular item is specified in one of the clauses and is also includible in another does not enable the item

to be twice subtracted in determining adjusted gross income.

The only expenses in connection with his employment which are deductible by an employee, as distinguished from an individual entrepreneur, are those which he incurs for travel, meals, and lodging while away from home, or those for which he is reimbursed directly by a separate payment by his employer. Thus, for example, an employee who incurs expenses for his employer for which he is reimbursed or for which he receives a per diem remuneration, would indude in his gross income the amount of the per diem or reimbursement but would be entitled to deduct the amounts paid out by him for expenses.

Subsection (b) of this section contains an amendment to section 23(0) of the Code, relating to the deduction for charitable contributions. This section is amended to allow as a deduction from gross income charitable contributions of an individual to the extent that the amount of such contributions does not exceed 15 per cent of the extent that the amount of such contribution 15 per cent of the taxpayer's adjusted gross income rather than 15 per cent of the taxpayer's adjusted gross income rather than deduction. The taxpayer's net income computed without the benefit of the deduction. The effect of this amendment is generally to enlarge the amount of tax benefit which

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may be received by an individual who makes large gifts to charity. Subsection (c) of this section has a similar amendment to section 23(x) of the Code relative. the Code, relating to the deduction for medical expenses. Here, the effect of substituting coldinary and the deduction for medical expenses. stituting adjusted gross income for net income computed without the benefit of the deduction for net income computed without the benefit of the deduction of the deduction for net income computed without the benefit of the deduction of the medical expenses which of the deduction is to increase slightly the amount of the medical expenses which must be increase slightly the amount of the medical expense must be incurred before deduction therefor will be allowed. The medical expense deduction provided before deduction therefor will be allowed. The medical expense deduction provided before deduction therefor will be allowed. deduction provision is also amended to correspond to the system of surfax exemptions which is also amended to correspond to the system of surfax the pitions which is also amended to correspond to the system of surfax the pitions which is also amended to correspond to the system of surfax the pitions which is also amended to correspond to the system of surfax the pitions which is also amended to correspond to the system of surfax the pitions which is also amended to correspond to the system of surfax the pitions which is also amended to correspond to the system of surfax the pitions which is also amended to correspond to the system of surfax the pitions which is also amended to correspond to the system of surfax the pitions which is also amended to correspond to the system of surfax the pitions which is also amended to correspond to the system of surfax the pitions which is also amended to correspond to the system of surfax the pitions which is also amended to correspond to the system of surfax the pitions which is also amended to correspond to the system of surfax the pitions which is also amended to correspond to the system of the pitions which is also amended to correspond to the system of the pitions which is also amended to correspond to the system of the pitions which is also amended to correspond to the pitions which is also amended to correspond to the pitions which is also amended to correspond to the pitions which is also amended to correspond to the pitions which is also amended to correspond to the pitions which is also amended to correspond to the pitions which is also amended to correspond to the pitions which is also amended to correspond to the pitions which is also amended to correspond to the pitions which is also amended to correspond to the pitions which is also amended to correspond to the pitions which is also amended to correspond to the pitions which is also amended to correspond to the pitions which is also amended to correspond to the pitions which is also amended to correspond to the p exemptions which is also amended to correspond to the system law, the limit to which is introduced in section 10 of the bill. Under existing law, the limit to which is introduced in section 10 of the bill. Under existing law, the limit to which is introduced in section 10 of the bill. the limit to which is introduced in section 10 of the bill. Under taken of a single person and superson are medical expenses may be deducted is \$1,250 in the case of the person are return, and \$2,500 in the case of the person are return, and \$2,500 in the family. single person, or a married person filing a separate return, and \$2,500 in the case of married person filing a separate return, and \$2,500 in the family. of married person, or a married person filing a separate return, and \$2,500 In Single Married persons filing a joint return, or in the case of a head of the family is eliminated the service of the family is eliminated to the service of the head of the family is eliminated. Since, under section 10 of the bill, the concept of the terms of surtax exemption. Thus, \$1,250 is the Thus, \$1,250 is the maximum deduction for the taxable year if only one surtax exemption is allowed as a surface of the limits upon the deduction for the taxable year if only one surtax exemption is allowed as a surface of the surfa exemption is allowed to the taxpayer, and \$2,500 if more than one surtax exemption is allowed. tion is allowed.

SECTION 9. OPTIONAL STANDARD DEDUCTION. This section 9. OPTIONAL STANDARD DEBOCATION 9. OPTIONAL STANDARD DEBOCATION of the bill amends section 23 of the Code to add a new subsection of the bill amends section 23 of the Code to take a stand-deduction provides the code to take a stand-deduction of the bill amends section 23 of the Code to take a stand-deduction of the bill amends section 23 of the Code to add a new subsection of the bill amends section 23 of the Code to take a stand-deduction of the bill amends section 23 of the Code to add a new subsection of the bill amends section 23 of the Code to add a new subsection of the bill amends section 23 of the Code to add a new subsection of the bill amends section 23 of the Code to add a new subsection of the bill amends section 23 of the Code to add a new subsection of the bill amends section 23 of the Code to take a stand-deduction of the bill amends section 24 to take a stand-deduction of the bill amends section 25 of the Code to take a stand-deduction of the bill amends section 25 of the Code to take a stand-deduction of take a sta (a) Which provides that certain individual taxpayers may elect to take a stand-padeution in the standard deduction is which provides that certain individual taxpa, paragraph (7) lieu of certain deductions and credits. Padduction provides that certain individual taxpayers has a paragraph in lieu of certain deductions and credits.

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The taxpayer may avail himself of the standard deduction for the taxpayer may avail himself of the standard deduction for the taxable. The taxpayer may avait infinitely the tax and the does elect to take the standard deduction year only if he so elects; and if he does elect to take the standard deduction year only if he so elects and if he does elect to take the standard deduction year. year only if he so elects, and it is a second of the taxable year, such election shall be irrevocable for such year, such election shall be irrevocable for such year. In the for the taxable year, such election stated gross income, as shown on his return the case of a taxpayer whose adjusted gross income, as shown on his return is case of a taxpayer whose adjusted on shall be allowed only if he signifies h \$5,000 or more, the standard deduction shall be allowed only if he signifies h \$5,000 or more, the standard deduction in the manner to be return his election to take such standard deduction in the manner to be his return his election to take with the approval of the Secretary. If the tar prescribed by the Commissioner, as shown on his return, is less than \$5,000, the payer's adjusted gloss allowed only if he elects to pay the tax imposed by the tax table in Supplement T; his election to pay the tax under Supplement T must be made in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, under such supplement. If the adjusted gross income shown on the return is \$5,000 or more, but the correct amount is less than \$5,000, then the election by the taxpayer to take the standard deduction shall be deemed to be his election to pay the tax imposed by Supplement 1 Similarly, a failure to elect to take the standard deduction will constitute an election not to pay the tax imposed by Supplement T. On the other hand if the adjusted gross income shown on the return is under \$5,000, but the correct amount is \$5,000 or more, then his election to pay the tax imposed by Supple ment T shall be considered his election to take the standard deduction; and in a like manner, if he fails to elect to pay the tax imposed by Supplement T, he shall be deemed to have elected not to take the standard deduction.

In the case of a husband and wife living together, if the net income of one spouse is determined without regard to the standard deduction, the other spouse shall not be permitted to avail himself of the standard deduction. For example, if a husband, whose adjusted gross income is shown on his return to be 86,000, does not elect to take the standard deduction of \$500, his wife with an adjusted gross income of \$3,500 will be precluded from computing her tax in accordance with the tax table prescribed in Supplement T. The determination of whether an individual is married and living with his spouse shall be made as of the last day of the taxable year. If one spouse dies during the taxable year, such determination, however, will be made as of the date on which such death

The standard deduction is not permitted where a separate return is made for a period of less than 12 months under section 47(a) of the Code on account of a

Subsections (b), (c), and (d) of this section amend sections 162, 169, 183, and 3 of the Code so section and (d) of this section amend sections 162, 169, 183, and change in the accounting period of the taxpayer. 213 of the Code so as to deny to estates, trusts, common trust funds, partnerships, and nonresident allows and nonresident aliens and citizens of the United States entitled to the benefits of section 251 the primitive of the United States entitled to the benefits of section 251 the privilege of taking the standard deduction.

#### SECTION 10. CREDITS AGAINST NET INCOME.

Section 10(a) amends section 25(a) of the Code by adding at the end thereonew paragraph to provide a provide of a section 25(b) of the Code by adding at the end thereonew paragraph to provide a pr a new paragraph to provide a normal tax exemption of \$500. In the case of joint return by husband and wife and tax exemption of \$500. joint return by husband and wife under section 51, a normal tax exemption of \$1,000 is provided except that where the adjusted gross income of one spouse is than the purposes of the normal tax, no credit. \$1,000 is provided except that where the adjusted gross income of one spouse is \$500, the exemption will be \$500 plus the adjusted gross income of one spouse is less. For the purposes of the normal tax, no credit or exemption is reconstructed. \$1,000 is \$500, the exemption will be \$500 plus the adjusted gross income of one spouse is for the purposes of the normal tax, no credit or exemption is recognized the respect to dependents.

ouse. Double to dependents. the respect to dependents. the respect to dependents subsection (b) of section 25 of the Code to eliminate section 25 of the code to eliminate section 25 of the code to eliminate with cresponding the revised subsection (b) of section 25 of the Code to eliminate section and to head of a family, and section system the amendment also characteristics. section now found therein to husband and wife, and to head of a family, and to provide for surfax exemptions on a per capita system. As a feature of the provide exemption system the amendment also changes existing large of the capita appendents. Under the new provisions as the capital appendents. reference for surfax exemptions on a per capita system. As a family, and to provide exemption system the amendment also changes existing law tests for dependents. Under the new provisions a taxpayer may receive the surfax but the s to capita exemption system the amendment also changes existing law tests for per difference for the purposes of the surtax, but not for the purposes of the surtax, but not for the normal redistribution of \$500 for himself, \$500 for his spone of the normal redistributions. per capital dependents. Other the new provisions a taxpayer may receive credit for dependents. Other the purposes of the surtax, but not for the normal tax in a mount of \$500 for himself, \$500 for his spouse if a joint return is filed and the spouse has a giont return is at a spouse has a s credit for the income for the purposes of the surfax, but not for the normal tax, in against net income for himself, \$500 for his spouse if a joint return is filed and the spouse has no gross income are return is filed or separate return and \$500 for each a gross income are return is filed or against no state of \$500 for infinisely, pool for his spouse if a joint return is filed and the spouse has no gross income and is not a spouse of another person, and \$500 for each dependent whose gross income and is not a spouse in the spou the appearate return is filed that the spouse has no gross income is filed or if a separate of another person, and \$500 for each dependent whose goss income and is not a dependent of \$500. Thus where a husband and wife file a joint return through the specific property of \$1,000. In such occasion, the specific property of \$1,000. if a september of another person, and solve for each dependent whose and is not a dependent \$500. Thus where a husband and wife file a joint return they are is less than exemption of \$1,000. In such case neither the husband are relied to an exemption of \$1,000. depends than \$500. Thus where a musually and wife file a joint return they are entitled to an exemption of \$1,000. In such case neither the husband nor the may be claimed as a dependent by any other person. This is the fundant or the is less to an exemption of \$1,000. In such case neither the husband nor the entitled to an exemption of \$1,000. In such case neither the husband nor the entire may be claimed as a dependent by any other person. This is true although wife, for instance, has no gross income and has received more than wife may be claimed as no gross income and has received more than half of the wingort for the taxable year from her parent. In the husband and half of the wife, for illistance, the wife, for the taxable year from her parent. In the husband and wife situation of the taxable year from her parent. In the husband and wife situation of the sunness storage of t her support for the the third is filed but where one of the spouses files a separate atton such spouse would be entitled to claim an exemption of \$1.000 separate ation where no joint varieties a separate ation, such spouse would be entitled to claim an exemption of \$1,000 provided return, such spouse had no gross income and was not a dependent of the other spouse had no gross income and was not a dependent of \$1,000 provided to the other spouse had no gross income and was not a dependent of the spouse spouse had no gross income and was not a dependent of the spouse spous return, such spouse had no gross income and was not a dependent of another that the other rule under existing law that the marital exemption that the other spouse resisting law that the marital exemption may be divided person. The rule under existing law that the marital exemption may be divided person. The rule data person. The rule data the marital exemption may be divided between the spouses as they choose or all claimed by one spouse on a separate changed so that where separate returns are filed by the spouse of a separate between the spouses as that where separate returns are filed, husband and wife return, is changed so that where separate returns are filed, husband and wife return, is changed to their respective \$500 exemptions. It is only in the case where are entitled only to gross income and is not a dependent of another person that one spouse has no given no dependents) may claim \$1,000 on a separate return the other spouse (having no dependents) may claim \$1,000 on a separate return the other spouse (the spouse that it is only in the situation where a separate return filed by him. Similarly, it is only in the situation where a separate return is filed filed by firm. Sand the other spouse has no gross income that inquiry need be by one spouse and the distribution of whether the wife for example, is supported by her made into the question and the wife, for instance, had no gross income and derived parent. However, in the support from an individual who would not be entitled to more than har very claim a credit for her as a dependent (for example, a first cousin), the husband would be entitled to the surtax exemption with respect to his wife

In addition to the exemption of the taxpayer himself and the possible second exemption for his spouse under the conditions noted above, a taxpayer is entitled, under the new section, to a \$500 exemption for each dependent. Under existing law a taxpayer may claim a credit for any person who is dependent on him and is under the age of 18 or physically or mentally incapable of self-support, and for whom he furnishes the chief support. In lieu of these tests the new system. of exemptions grants a surfax exemption for every person closely related to the taxpayer in any of several specified degrees of relationship for whom the taxpayer provides over half the support. In addition, it is provided that the term "dependent" does not include any nonresident alien individual unless such individual is a resident of a country contiguous to the United States.

It is required that the dependent be related to the taxpayer within one of the following relationships; child, the descendants of such child; a stepchild; a brother, sister, or brother or sister by the half-blood, stepbrother or stepsister; parent, or grandparent; a stepfather or stepmother; a niece or nephew; an uncle or aunt; a son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law. For the purpose of determining whether any of the foregoing relationships exist a legally adopted child is considered as a child by blood.

It is contemplated by the bill that not more than one taxpayer shall be entitled to a surfax exemption with respect to any individual. Consistent with this theory an additional restriction on the claiming of the surfax exemption for a dependent is found in the fact that such exemption may not be claimed for any advantage of \$500 or for any individual who has, during the taxable year, a gross income of \$500 or more. Such an individual is, under section 51 of the Code, as amended by section 11. section 11 of the bill, required to file a return and would be entitled to the surtax exemption on his own behalf. This rule applies even though the individual in question. in question derives more than one-half of his support from the taxpayer. Thus in the case of the support from the taxpayer and the case of the support from the taxpayer. in the case of a minor child earning wages of \$600 during the taxable year, a return must, a minor child earning wages of \$600 during the parent even return must be filed by the child and no credit is allowed the parent even though the control of the child and no credit is support for the taxable though the child receives more than one-half of his support for the taxable year from the child receives more than one-half of his support for the taxable year from the child receives more than one-half of his support for the taxable year from the child receives more than one-half of his support for the taxable year. Fear from the parent. Likewise, a father having gross income of \$500 or more