

Exhibit 34

INCOME TAX

Income of States, municipalities and other political subdivisions;

Receipts of ship owners' mutual protection and indemnity associations;

Dividends from China Trade Act corporations.

(c) **Inventories.**—Whenever in the opinion of the Commissioner the use of inventories is necessary in order clearly to determine the income of any taxpayer, inventories shall be taken by such taxpayer upon such basis as the Commissioner, with the approval of the Secretary, may prescribe as conforming as nearly as may be to the best accounting practice in the trade or business and as most clearly reflecting the income.

Inventories to determine income may be taken.

(d) **Distributions by corporations.**—Distributions by corporations shall be taxable to the shareholders as provided in section 115.

Distributions by corporations.
Post, p. 822.

(e) **Determination of gain or loss.**—In the case of a sale or other disposition of property, the gain or loss shall be computed as provided in sections 111, 112, and 113.

Computation of gain or loss on sale, etc., of property.
Post, pp. 815-822.

(f) **Gross income from sources within and without United States.**—For computation of gross income from sources within and without the United States, see section 119.

Sources within and without United States.
Post, p. 826.

SEC. 23. DEDUCTIONS FROM GROSS INCOME.

Deductions from gross income.

In computing net income there shall be allowed as deductions:

Items specified.

(a) **Expenses.**—All the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including a reasonable allowance for salaries or other compensation for personal services actually rendered; traveling expenses (including the entire amount expended for meals and lodging) while away from home in the pursuit of a trade or business; and rentals or other payments required to be made as a condition to the continued use or possession, for purposes of the trade or business, of property to which the taxpayer has not taken or is not taking title or in which he has no equity.

Business expenses.

Travel, etc., included.

(b) **Interest.**—All interest paid or accrued within the taxable year on indebtedness, except on indebtedness incurred or continued to purchase or carry obligations or securities (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest upon which is wholly exempt from taxation under this title.

Interest on debts.
Exception.

(c) **Taxes generally.**—Taxes paid or accrued within the taxable year, except—

Taxes paid.

(1) income, war-profits, and excess-profits taxes imposed by the authority of the United States;

Exceptions.

(2) so much of the income, war-profits, and excess-profits taxes imposed by the authority of any foreign country or possession of the United States as is allowed as a credit against the tax under section 131; and

Post, p. 829.

(3) taxes assessed against local benefits of a kind tending to increase the value of the property assessed; but this paragraph shall not exclude the allowance as a deduction of so much of such taxes as is properly allocable to maintenance or interest charges.

For the purpose of this subsection, estate, inheritance, legacy, and succession taxes accrue on the due date thereof, except as otherwise provided by the law of the jurisdiction imposing such taxes, and shall be allowed as a deduction only to the estate.

Accrual of estate, etc.
Limitations.

(d) **Taxes of shareholder paid by corporation.**—The deduction for taxes allowed by subsection (c) shall be allowed to a corporation in the case of taxes imposed upon a shareholder of the corporation upon his interest as shareholder which are paid by the corporation

Taxes of shareholder paid by the corporation.

INCOME TAX	without reimbursement from the shareholder, but in such cases no deduction shall be allowed the shareholder for the amount of such taxes.
Losses by individuals.	(e) Losses by individuals. —In the case of an individual, losses sustained during the taxable year and not compensated for by insurance or otherwise—
Business. Not connected with trade or business.	(1) if incurred in trade or business; or (2) if incurred in any transaction entered into for profit, though not connected with the trade or business; or
Casualty losses not connected with business.	(3) of property not connected with the trade or business, if the loss arises from fires, storms, shipwreck, or other casualty, or from theft.
Losses by corporations.	(f) Losses by corporations. —In the case of a corporation, losses sustained during the taxable year and not compensated for by insurance or otherwise.
Basis for determining loss. <i>Post</i> , p. 818.	(g) Basis for determining loss. —The basis for determining the amount of deduction for losses sustained, to be allowed under subsection (e) or (f), shall be the same as is provided in section 113 for determining the gain or loss from the sale or other disposition of property.
Disallowance of loss on sale of stock. <i>Post</i> , p. 826.	(h) Loss on sale of stock or securities. —For disallowance of loss deduction in the case of sales of stock or securities where within thirty days before or after the date of the sale the taxpayer has acquired substantially identical property, see section 118.
Losses for prior years. <i>Post</i> , p. 825.	(i) Net losses. —The special deduction for net losses of prior years, to the extent provided in section 117.
Worthless debts.	(j) Bad debts. —Debts ascertained to be worthless and charged off within the taxable year (or, in the discretion of the Commissioner, a reasonable addition to a reserve for bad debts); and when satisfied that a debt is recoverable only in part, the Commissioner may allow such debt to be charged off in part.
Exhaustion, etc., of business property.	(k) Depreciation. —A reasonable allowance for the exhaustion, wear and tear of property used in the trade or business, including a reasonable allowance for obsolescence. In the case of property held by one person for life with remainder to another person, the deduction shall be computed as if the life tenant were the absolute owner of the property and shall be allowed to the life tenant. In the case of property held in trust the allowable deduction shall be apportioned between the income beneficiaries and the trustee in accordance with the pertinent provisions of the instrument creating the trust, or, in the absence of such provisions, on the basis of the trust income allocable to each.
Real estate in life tenancy.	
Property in trust.	
Mines, oil and gas wells, timber, etc. Reasonable allowance for depletion, etc.	(l) Depletion. —In the case of mines, oil and gas wells, other natural deposits, and timber, a reasonable allowance for depletion and for depreciation of improvements, according to the peculiar conditions in each case; such reasonable allowance in all cases to be made under rules and regulations to be prescribed by the Commissioner, with the approval of the Secretary. In the case of leases the deduction shall be equitably apportioned between the lessor and lessee. In the case of property held by one person for life with remainder to another person, the deduction shall be computed as if the life tenant were the absolute owner of the property and shall be allowed to the life tenant. In the case of property held in trust the allowable deduction shall be apportioned between the income beneficiaries and the trustee in accordance with the pertinent provisions of the instrument creating the trust, or, in the absence of such provisions, on the basis of the trust income allocable to each. (For percentage depletion in case of oil and gas wells, see section 114(b)(3).)
In leases.	
Held in life tenancy.	
Property in trust.	
Oil and gas wells. <i>Post</i> , p. 821.	
Basis for depletion, etc.	(m) Basis for depreciation and depletion. —The basis upon which depletion, exhaustion, wear and tear, and obsolescence are to be

allowed in respect of any property shall be as provided in section 114.

(n) **Charitable and other contributions.**—In the case of an individual, contributions or gifts made within the taxable year to or for the use of:

(1) the United States, any State, Territory, or any political subdivision thereof, or the District of Columbia, for exclusively public purposes;

(2) any corporation, or trust, or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual;

(3) the special fund for vocational rehabilitation authorized by section 7 of the Vocational Rehabilitation Act;

(4) posts or organizations of war veterans, or auxiliary units or societies of any such posts or organizations, if such posts, organizations, units, or societies are organized in the United States or any of its possessions, and if no part of their net earnings inures to the benefit of any private shareholder or individual; or

(5) a fraternal society, order, or association, operating under the lodge system, but only if such contributions or gifts are to be used exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals;

to an amount which in all the above cases combined does not exceed 15 per centum of the taxpayer's net income as computed without the benefit of this subsection. Such contributions or gifts shall be allowable as deductions only if verified under rules and regulations prescribed by the Commissioner, with the approval of the Secretary. (For unlimited deduction if contributions and gifts exceed 90 per centum of the net income, see section 120.)

(o) **Future expenses in case of casual sales of real property.**—In the case of a casual sale or other casual disposition of real property by an individual, a reasonable allowance for future expense liabilities, incurred under the provisions of the contract under which such sale or other disposition was made, under such regulations as the Commissioner, with the approval of the Secretary, may prescribe, including the giving of a bond, with such sureties and in such sum (not less than the estimated tax liability computed without the benefit of this subsection) as the Commissioner may require, conditioned upon the payment (notwithstanding any statute of limitations) of the tax, computed without the benefit of this subsection, in respect of any amounts allowed as a deduction under this subsection and not actually expended in carrying out the provisions of such contract.

(p) **Dividends received by corporations.**—In the case of a corporation, the amount received as dividends—

(1) from a domestic corporation, or

(2) from any foreign corporation when it is shown to the satisfaction of the Commissioner that more than 50 per centum of the gross income of such foreign corporation for the three-year period ending with the close of its taxable year preceding the declaration of such dividends (or for such part of such period as the foreign corporation has been in existence) was derived from sources within the United States as determined under section 119.

INCOME TAX
Post, p. 821.

Gifts.

For public uses.

Corporations, community chests, religious, scientific, etc., organizations.

Vocational rehabilitation.
Vol. 41, p. 737.

War veterans' organizations, etc.

Fraternal lodges, etc.
Conditions.

Limit.

Unlimited deductions.
Post, p. 828.

On casual sale of real property, reserve for future liabilities under contract, allowed.

Dividends received by corporations.

From a domestic corporation.

From a foreign corporation, if more than 50 per cent derived from United States sources.

Post, p. 826.

INCOME TAX
Dividends from
China Trade Act cor-
porations, etc., ex-
cepted.
Post, p. 850.

The deduction allowed by this subsection shall not be allowed in respect of dividends received from a corporation organized under the China Trade Act, 1922, or from a corporation which under section 251 is taxable only on its gross income from sources within the United States by reason of its receiving a large percentage of its gross income from sources within a possession of the United States.

Amount transferred
to a pension trust in
excess of contributions.

(q) **Pension trusts.**—An employer establishing or maintaining a pension trust to provide for the payment of reasonable pensions to his employees (if such trust is exempt from tax under section 165, relating to trusts created for the exclusive benefit of employees) shall be allowed as a deduction (in addition to the contributions to such trust during the taxable year to cover the pension liability accruing during the year, allowed as a deduction under subsection (a) of this section) a reasonable amount transferred or paid into such trust during the taxable year in excess of such contributions, but only if such amount (1) has not theretofore been allowable as a deduction, and (2) is apportioned in equal parts over a period of ten consecutive years beginning with the year in which the transfer or payment is made.

Items not deductible.

SEC. 24. ITEMS NOT DEDUCTIBLE.

Objects specified.

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

Personal, etc., ex-
penses.
Property improve-
ments.

(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;

Restoring property.

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

Life insurance for
employees, etc.

(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.

Deductions on in-
come from life interests,
etc., by gifts, bequests,
or inheritance.

(b) **Holders of life or terminable interest.**—Amounts paid under the laws of any State, Territory, District of Columbia, possession of the United States, or foreign country as income to the holder of a life or terminable interest acquired by gift, bequest, or inheritance shall not be reduced or diminished by any deduction for shrinkage (by whatever name called) in the value of such interest due to the lapse of time, nor by any deduction allowed by this Act (except the deductions provided for in subsections (k) and (l) of section 23) for the purpose of computing the net income of an estate or trust but not allowed under the laws of such State, Territory, District of Columbia, possession of the United States, or foreign country for the purpose of computing the income to which such holder is entitled.

Ante, p. 800.

Tax-free covenant
bonds.
Post, p. 834.

(c) **Tax withheld on tax-free covenant bonds.**—For tax withheld on tax-free covenant bonds, see section 144(a)(4).

Credits allowed indi-
viduals.
Against net income.

SEC. 25. CREDITS OF INDIVIDUAL AGAINST NET INCOME.

There shall be allowed for the purpose of the normal tax, but not for the surtax, the following credits against the net income:

Dividends.
From domestic cor-
poration.
Foreign corporation,
with more than 50 per
cent of income from
United States sources.

(a) **Dividends.**—The amount received as dividends—

(1) from a domestic corporation, or

(2) from a foreign corporation when it is shown to the satisfaction of the Commissioner that more than 50 per centum of the gross income of such foreign corporation for the three-year