

Exhibit 35

issue thereof as amended and supplemented, and shall be excluded from gross income only if and to the extent it is wholly exempt to the taxpayer from the taxes imposed by this title;

(5) **COMPENSATION FOR INJURIES OR SICKNESS.**—Amounts received, through accident or health insurance or under workmen's compensation acts, as compensation for personal injuries or sickness, plus the amount of any damages received whether by suit or agreement on account of such injuries or sickness;

(6) **MINISTERS.**—The rental value of a dwelling house and appurtenances thereof furnished to a minister of the gospel as part of his compensation;

(7) **MISCELLANEOUS ITEMS.**—The following items, to the extent provided in section 116:

Earned income from sources without the United States;

Salaries of certain Territorial employees;

The income of foreign governments;

Income of States, municipalities and other political subdivisions;

Receipts of shipowners' 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.

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

(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.

(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.

SEC. 23. DEDUCTIONS FROM GROSS INCOME.

In computing net income there shall be allowed as deductions:

(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.

(b) **INTEREST.**—All interest paid or accrued within the taxable year on indebtedness, except (1) 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 the taxes imposed by this title, or (2) on indebtedness incurred or continued in connection with the purchasing or carrying of an annuity.

INCOME TAX

Payment for personal injuries or sickness.

Rent of ministers' dwelling.

Miscellaneous items. Post, p. 204.

Inventories to determine income.

Distributions by corporations. Post, p. 203.
Determination of gain or loss on sale of property. Post, pp. 195, 196, 198.

Sources within and without United States. Post, p. 206.

Deductions from gross income. Items specified.
Business expenses.

Travel, etc., included.

Interest on debts. Exceptions.

<p>INCOME TAX</p> <p>Taxes paid within taxable year. Exceptions.</p>	<p>(c) TAXES GENERALLY.—Taxes paid or accrued within the taxable year, except—</p>
	<p>(1) income, war-profits, and excess-profits taxes imposed by the authority of the United States;</p> <p>(2) income, war-profits, and excess-profits taxes imposed by the authority of any foreign country or possession of the United States; but this deduction shall be allowed in the case of a taxpayer who does not signify in his return his desire to have to any extent the benefits of section 131 (relating to credit for taxes of foreign countries and possessions of the United States); and</p>
<p>Post, p. 211.</p>	<p>(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.</p>
<p>Accrual of estate, etc., taxes.</p>	<p>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.</p>
<p>Limitation.</p> <p>Taxes of shareholder paid by corporation.</p>	<p>(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 without reimbursement from the shareholder, but in such cases no deduction shall be allowed the shareholder for the amount of such taxes.</p>
<p>Losses by individuals.</p>	<p>(e) LOSSES BY INDIVIDUALS.—Subject to the limitations provided in subsection (r) of this section; in the case of an individual, losses sustained during the taxable year and not compensated for by insurance or otherwise—</p>
<p>Business.</p> <p>Not connected with trade or business.</p>	<p>(1) if incurred in trade or business; or</p> <p>(2) if incurred in any transaction entered into for profit, though not connected with the trade or business; or</p>
<p>Casualty losses not connected with business.</p>	<p>(3) of property not connected with the trade or business, if the loss arises from fires, storms, shipwreck, or other casualty, or from theft. No loss shall be allowed as a deduction under this paragraph if at the time of the filing of the return such loss has been claimed as a deduction for estate tax purposes in the estate tax return.</p>
<p>Disallowed if deducted for estate-tax purposes.</p>	<p>(f) LOSSES BY CORPORATIONS.—Subject to the limitations provided in subsection (r) of this section, in the case of a corporation, losses sustained during the taxable year and not compensated for by insurance or otherwise.</p>
<p>Losses by corporations.</p>	<p>(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 adjusted basis provided in section 113 (b) for determining the gain or loss from the sale or other disposition of property.</p>
<p>Basis for determining loss.</p>	<p>(h) LOSS ON WASH SALES 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.</p>
<p>Post, p. 201.</p>	<p>(i) NET LOSSES.—The special deduction for net losses of a prior year, to the extent provided in section 117.</p>
<p>Disallowance of loss on wash sales of stock, etc.</p>	<p>(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</p>
<p>Post, p. 208.</p>	
<p>Net losses of prior year.</p>	
<p>Post, p. 207.</p>	
<p>Worthless debts.</p>	

may allow such debt, in an amount not in excess of the part charged off within the taxable year, as a deduction.

(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.

(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 any case in which it is ascertained as a result of operations or of development work that the recoverable units are greater or less than the prior estimate thereof, then such prior estimate (but not the basis for depletion) shall be revised and the allowance under this subsection for subsequent taxable years shall be based upon such revised estimate. In the case of leases the deductions 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, see section 114(b) (3) and (4).)

(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) a 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 12 of the World War Veterans' Act, 1924;

(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

INCOME TAX

Exhaustion, etc., of business property.

Life estates.

Property in trust.

Mines, oil and gas wells, timber, etc.

Reasonable allowance for depletion, etc.

Revision of estimates allowed.

Leases.

Life estates.

Property in trust.

Post, p. 202.

Basis for depletion, etc.

Charitable, etc., contributions. Gifts.

For public uses.

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

Vocational rehabilitation. Vol. 43, p. 611.

War veterans' organizations, etc.

<p>INCOME TAX</p> <p>Fraternal societies, etc. Condition.</p>	<p>(b) 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;</p>
<p>Limit.</p> <p>Unlimited deduc- tions, p. 210.</p>	<p>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.)</p>
<p>Future expenses in case of casual sales of real property. Allowance for future liabilities under contract.</p>	<p>(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>
<p>Bond.</p>	<p>(p) DIVIDENDS RECEIVED BY CORPORATIONS.—In the case of a corporation, the amount received as dividends—</p>
<p>Dividends received by corporations. From a domestic corporation.</p>	<p>(1) from a domestic corporation which is subject to taxation under this title, or</p>
<p>From a foreign corporation, if more than 50 per cent derived from United States sources.</p>	<p>(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.</p>
<p>Post, p. 208.</p> <p>Dividends from China Trade Act corporations, etc., excepted. Post, p. 231.</p>	<p>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.</p>
<p>Pension trusts. Contributions to. Post, p. 221.</p>	<p>(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. Any deduction allowable under section 23 (q) of the Revenue Act of 1928 which under such section was apportioned to any taxable year subsequent to the taxable year 1931 shall be allowed as a deduction in the years to which so apportioned to</p>
<p>Allowances under a previous law. Vol. 45, p. 802.</p>	

the extent allowable under such section if it had remained in force with respect to such year.

(r) **LIMITATION ON STOCK LOSSES.**—

(1) Losses from sales or exchanges of stocks and bonds (as defined in subsection (t) of this section) which are not capital assets (as defined in section 101) shall be allowed only to the extent of the gains from such sales or exchanges (including gains which may be derived by a taxpayer from the retirement of his own obligations).

(2) Losses disallowed as a deduction by paragraph (1), computed without regard to any losses sustained during the preceding taxable year, shall, to an amount not in excess of the taxpayer's net income for the taxable year, be considered for the purposes of this title as losses sustained in the succeeding taxable year from sales or exchanges of stocks or bonds which are not capital assets.

(3) This subsection shall not apply to a dealer in securities (as to stocks and bonds acquired for resale to customers) in respect of transactions in the ordinary course of his business, nor to a bank or trust company incorporated under the laws of the United States or of any State or Territory, nor to persons carrying on the banking business (where the receipt of deposits constitutes a major part of such business) in respect of transactions in the ordinary course of such banking business.

(s) **SAME—SHORT SALES.**—For the purposes of this title, gains or losses (A) from short sales of stocks and bonds, or (B) attributable to privileges or options to buy or sell such stocks and bonds, or (C) from sales or exchanges of such privileges or options, shall be considered as gains or losses from sales or exchanges of stocks or bonds which are not capital assets.

(t) **DEFINITION OF STOCKS AND BONDS.**—As used in subsections (r) and (s), the term "stocks and bonds" means (1) shares of stock in any corporation, or (2) rights to subscribe for or to receive such shares, or (3) bonds, debentures, notes, or certificates or other evidences of indebtedness, issued by any corporation (other than a government or political subdivision thereof), with interest coupons or in registered form, or (4) certificates of profit, or of interest in property or accumulations, in any investment trust or similar organization holding or dealing in any of the instruments mentioned or described in this subsection, regardless of whether or not such investment trust or similar organization constitutes a corporation within the meaning of this Act.

SEC. 24. ITEMS NOT DEDUCTIBLE.

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

(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; or

(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.

INCOME TAX

Limitation on stock losses.
Sales or exchanges.

Post, p. 101.

Disallowances computed as losses sustained in succeeding taxable year.

Exceptions.
Dealer in securities.

Bank or trust company.

Gains or losses from short sales.
From short sales of stocks, etc.
Due to options to buy such stocks, etc.
From sales of such privileges, etc.

Stocks and bonds defined.
Shares of stock in a corporation.
Subscriptions.
Bonds, etc.

Certificates of profit.

Items not deductible.
Objects specified.

Personal, etc., expenses.
Property improvements.

Restoring property.

Life insurance premiums for employees.