

Exhibit 37

**INCOME TAX.
COMPUTATION
OF NET INCOME—
Contd.**
Minister's dwelling.
Miscellaneous items.
Post, p. 712.

(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.

Inventories, to determine income.

(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.

Distributions by corporations.
Post, p. 711.

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

Determination of gain or loss in sale of property.
Post, p. 703.

(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 section 111.

Sources within and without United States.
Post, p. 716.

(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.

Deductions from gross income.

SEC. 23. DEDUCTIONS FROM GROSS INCOME.

In computing net income there shall be allowed as deductions:

Business expenses.

(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.

Traveling included.

Interest on debts.
Exceptions.

(b) **INTEREST.**—All interest paid or accrued within the taxable year on indebtedness, except on indebtedness incurred or continued to purchase or carry obligations (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.

Taxes generally.
Exceptions.

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

(1) Federal income, war-profits, and excess-profits taxes;

(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);

(3) estate, inheritance, legacy, succession, and gift taxes; and

- (4) 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.
- (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.
- (e) **LOSSES BY INDIVIDUALS.**—In the case of an individual, losses sustained during the taxable year and not compensated for by insurance or otherwise—
- (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
 - (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.
- (f) **LOSSES BY CORPORATIONS.**—In the case of a corporation, losses sustained during the taxable year and not compensated for by insurance or otherwise.
- (g) **WAGERING LOSSES.**—Losses from wagering transactions shall be allowed only to the extent of the gains from such transactions.
- (h) **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 loss from the sale or other disposition of property.
- (i) **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.
- (j) **CAPITAL LOSSES.**—Losses from sales or exchanges of capital assets shall be allowed only to the extent provided in section 117(d).
- (k) **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, in an amount not in excess of the part charged off within the taxable year, as a deduction.
- (l) **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.
- (m) **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 con-

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Taxes of shareholder paid by corporation.

Losses by individuals.

Business.

Not connected with trade or business.

Casualty losses not connected with business.

Disallowed, if deducted for estate tax purposes.

Losses by corporations

Wagering losses.

Basis for determining loss.
Post, p. 709.

Disallowance of loss on wash sales of stock, etc.
Post, p. 715.

Capital losses.
Post, p. 715.

Bad debts.

Exhaustion, etc., of business property.

Life estates.

Property in trust.

Mines, oil and gas wells, timber, etc.
Reasonable allowance for depletion, etc.

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Contd.
Revision of estimates
allowed.

Leases.	ditions 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 allowable under this subsection, see section 114(b), (3) and (4).)
Life estates.	
Property in trust.	
<i>Post</i> , p. 710.	
Basis for depletion, etc.	(n) 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.
<i>Post</i> , p. 710.	
Charitable, etc., contributions. Gifts.	(o) CHARITABLE AND OTHER CONTRIBUTIONS. —In the case of an individual, contributions or gifts made within the taxable year to or for the use of:
Public uses.	(1) the United States, any State, Territory, or any political subdivision thereof, or the District of Columbia, for exclusively public purposes;
Religious, scientific, etc., organizations.	(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, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation;
Vocational rehabilitation. Vol. 43, p. 611.	(3) the special fund for vocational rehabilitation authorized by section 12 of the World War Veterans' Act, 1924;
War veterans' organizations, etc.	(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
Fraternal society.	(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;
Limit.	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.)
Unlimited deduction.	
<i>Post</i> , p. 718.	
Dividends received by corporations. Domestic.	(p) DIVIDENDS RECEIVED BY CORPORATIONS. —In the case of a corporation, the amount received as dividends from a domestic corporation which is subject to taxation under this title. The deduc-

tion 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.

(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 or the Revenue Act of 1932 which under such section was apportioned to any taxable year beginning after December 31, 1933, shall be allowed as a deduction in the years to which so apportioned to the extent allowable under such section if it had remained in force with respect to such year.

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;

(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;

(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; or

(6) Loss from sales or exchanges of property, directly or indirectly, (A) between members of a family, or (B) except in the case of distributions in liquidation, between an individual and a corporation in which such individual owns, directly or indirectly, more than 50 per centum in value of the outstanding stock. For the purpose of this paragraph—(C) an individual shall be considered as owning the stock owned, directly or indirectly, by his family; and (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.

(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

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China Trade Act
corporation.
Vol. 42, p. 849.
Post, p. 738.

Maintenance of pen-
sion trusts.

Post, p. 729.

Allowance under pre-
vious laws.
Vol. 45, p. 802; Vol.
47, p. 182.

Items not deductible.

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

Restoring property.

Life insurance pre-
miums for employees.

Deductions allocable
to tax-exempt incomes.

Property losses from
sales, etc.
Exchanges between
members of family.
Shareholder and cor-
poration.

Definitions.

Holders of life or
terminable interest.
Deductions on in-
come acquired by gift,
etc.