

or otherwise, of a life insurance, endowment, or annuity contract, or any interest therein, only the actual value of such consideration and the amount of the premiums and other sums subsequently paid by the transferee shall be exempt from taxation under paragraph (1) or this paragraph;

(3) **GIFTS, BEQUESTS, AND DEVISES.**—The value of property acquired by gift, bequest, devise, or inheritance (but the income from such property shall be included in gross income);

(4) **TAX-FREE INTEREST.**—Interest upon (A) the obligations of a State, Territory, or any political subdivision thereof, or the District of Columbia; or (B) securities issued under the provisions of the Federal Farm Loan Act, or under the provisions of such Act as amended; or (C) the obligations of the United States or its possessions. Every person owning any of the obligations or securities enumerated in clause (A), (B), or (C) shall, in the return required by this title, submit a statement showing the number and amount of such obligations and securities owned by him and the income received therefrom, in such form and with such information as the Commissioner may require. In the case of obligations of the United States issued after September 1, 1917 (other than postal savings certificates of deposit), the interest shall be exempt only if and to the extent provided in the respective Acts authorizing the 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.

Art. 81. Exclusions from gross income.—The term "gross income" as used in the Act does not include those items of income exempted by statute or by fundamental law. The exemption of such income should not be confused with the reduction of taxable income by the application of allowable deductions. Every person owning obligations of a State, Territory, any political subdivision thereof, or the District of Columbia; securities issued under the provisions of the

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Federal Farm Loan Act or of such Act as amended; or obligations of the United States or its possessions, must, however, submit in his income tax return a statement showing the number and amount of such obligations and securities owned and the income received therefrom. For additional exclusions from gross income, see section 116 and articles 641-644.

Art. 82. Proceeds of insurance—Compensation.—The proceeds of life insurance policies, paid by reason of the death of an insured to his estate or to any beneficiary (individual, partnership, or corporation, but not a transferee for a valuable consideration), directly or in trust, are excluded from the gross income of the beneficiary. It is immaterial whether the proceeds are received in a single sum or in installments. If, however, such proceeds are held by the insurer under an agreement to pay interest thereon, the interest payments must be included in gross income. Amounts received (other than amounts paid by reason of the death of the insured and interest payments on such amounts) under a life insurance, endowment, or annuity contract are excluded from gross income, but if such amounts (when added to amounts received before the taxable year under such contract) exceed the aggregate premiums or consideration paid (whether or not paid during the taxable year) then the excess shall be included in gross income. (See article 62.) However, in the case of a transfer for a valuable consideration, by assignment or otherwise, of a life insurance, endowment, or annuity contract, or any interest therein, only the actual value of such consideration and the amount of the premiums and other sums subsequently paid by the transferee are exempt from taxation. The amounts received by an insured or his estate or other beneficiaries through accident or health insurance or under workmen's compensation acts as compensation for personal injuries or sickness are excluded from the gross income of the insured, his estate, and other beneficiaries. Any damages recovered by suit or agreement on account of such injuries or sickness are similarly excluded from the gross income of the individual injured or sick, if living, or of his estate or other beneficiaries entitled to receive such damages, if dead. (See further article 283.)

Art. 83. Gifts and bequests.—Property received as a gift, or received under a will or under statutes of descent and distribution, is exempt from the income tax, although the income therefrom derived from investment, sale, or otherwise is not. An amount of principal paid under a marriage settlement is a gift. Neither alimony nor an allowance based on a separation agreement is taxable income. (See article 281.)

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