

an excise tax to be based on each yacht or boat, at rates as follows: Yachts, pleasure boats, power boats, motor boats with fixed engines, and sailing boats, of over five net tons, length not over fifty feet, 50 cents for each foot; length over fifty feet and not over one hundred feet, \$1 for each foot; length over one hundred feet, \$2 for each foot; motor boats of not over five net tons with fixed engines, \$5.

In determining the length of such yachts, pleasure boats, power boats, motor boats with fixed engines, and sailing boats, the measurement of overall length shall govern.

In the case of a tax imposed at the time of the original purchase of a new boat on any other date than July first, the amount to be paid shall be the same number of twelfths of the amount of the tax as the number of calendar months, including the month of sale, remaining prior to the following July first.

(1) The tax on boats went into effect on October 4, 1917, and is to be paid annually in advance. It becomes due on the 1st day of July in each year (except as to the first payment due October 4, 1917), or on purchasing a new boat if on any other date than July 1. In the former case the tax is reckoned for one year, and in the latter case it is reckoned proportionately from the first day of the month in which the liability to the tax commenced to the 1st day of July following. It shall be the duty of taxpayers to render their returns on Form 732 to the collector at such times within the calendar month in which the tax liability commenced as shall enable him to receive such returns duly signed and verified not later than the last day of the month.

(2) A boat not used or intended to be used between July 1, 1918, and June 30, 1919, is not subject to the tax, but if used or intended to be used in such period the tax was payable on July 1, 1918, for the full year ending June 30, 1919. If on July 1 of any year, or on the date of purchase if on another date, the owner of a boat intends to use it before the following July 1, or if he does use it before the July 1 following, the tax attaches. A person who has paid no tax at the regular time by reason of an intention not to use a boat, and later decides to use it, shall pay the full tax without penalty or interest before using the boat; but an owner not paying on time the tax upon a boat which he actually intended to use shall be liable for the full penalties. The taxpayer must keep the tax receipt about the boat when in use available for examination by Government officers. To the extent that it is inconsistent herewith T. D. 2591 of November 24, 1917, is modified accordingly.

(3) All boats of the specified classes (other than boats used exclusively for national defense or built according to plans and specifications approved by the Navy Department) are taxed unless they are used exclusively for trade. "For trade" means for business, particularly the business of buying and selling, or for commerce. Boats used for pleasure, whether of the owner or of paying patrons, or for serious activities not constituting trade, are subject to the tax. It is the actual use of the boat which is controlling, regardless of whether the owner himself uses it or hires it out for profit.

Thus, boats used by a marine engine manufacturer in transporting salesmen on their business trips, or in taking out prospective

customers purely for demonstrating purposes, or in towing disabled boats and furnishing repair service to customers, are used exclusively for trade. So are boats used to carry produce to market. On the other hand, a boat used by a physician in visiting patients, a boat used by the Y. M. C. A. in transporting its religious workers and others, and a boat operated for profit to carry passengers on pleasure trips to and from certain fishing grounds, are not used for trade, but for other serious purposes or for pleasure.

The imposition of a transportation tax for persons transported by boat is not conclusive that the boat is used for trade. If a boat is used to carry freight for hire, it is not subject to the tax. If it is used to carry passengers, however, the distinction is between its operation in general commerce, as from New York to Boston, and its operation for plainly pleasure purposes, as from New York to Coney Island. Boats carrying pleasure excursions to fishing grounds or resorts are therefore taxable.

(4) If a boat is employed for several purposes its use is to be taxed, even though one of them is in trade. Casual employment at irregular intervals for the convenience of the owner or his family, however, not exceeding such casual employment as is usual for boats maintained or employed in trade, will not cause the tax to attach to a boat which is entirely devoted to trade except for such limited casual use. This is true, for instance, of boats used by their owners in their oyster, fishing, or crabbing business, which are occasionally used to convey members of the family to market or to other places upon trips for personal or household purposes.

(5) Boats used in the United States or navigating United States waters are subject to the tax, although of foreign register or owned by nonresident aliens.

DANIEL C. ROPER,

*Commissioner of Internal Revenue.*

Approved August 23, 1918:

J. H. MOYLE,

*Acting Secretary of the Treasury.*

(T. D. 2754.)

*Income tax.*

Basis of allowances for depreciation.

TREASURY DEPARTMENT,

OFFICE OF COMMISSIONER OF INTERNAL REVENUE,

*Washington, D. C.*

*To collectors of internal revenue and others concerned:*

Section 12(a) of the act of September 8, 1916, as amended, to which section 5(a) is similar, provides that net income shall be ascertained by deducting from gross income, among other things:

Second. All losses actually sustained and charged off within the year and not compensated by insurance or otherwise, including a reasonable allowance for the