

Internal Revenue Service, Treasury

§ 1.37-3

Example 1. A, a single individual who is 67 years old, has adjusted gross income of \$8,000 for the calendar year 1977. A also receives social security payments of \$1,450 during 1977. A does not itemize deductions. A's credit for the elderly is \$120, computed as follows:

Initial amount under section 37(b)(2)	\$2,500	
Reductions required by section 37		
(b)(3) and (c)(1):		
Social security payments	\$1,450	
One-half the excess of ad-		
justed gross income over		
\$7,500	250	1,700
Section 37 amount		800
15 pct. of \$800		\$120

A's tax from the tax tables, which reflect the allowance of the general tax credit, is \$662. Accordingly, the limitation of section 37(c)(2) and paragraph (b) of § 1.37-1 does not reduce A's credit for the elderly.

Example 2. H and W, who have both attained the age of 65, file a joint return for calendar year 1977. For that year H and W have adjusted gross income of \$8,120; H also receives a railroad retirement pension of \$1,550, and W receives social security payments of \$1,200. H and W do not itemize deductions. The credit for the elderly allowed to H and W for 1977 is \$139, computed as follows:

Initial amount under section 37(b)(2)	\$3,750	
Reductions required by section 37		
(b)(3):		
Railroad retirement pension	\$1,550	
Social Security payments	1,200	2,750
Section 37 amount		1,000
15 pct. of \$1,000		150
Limitation based upon amount of tax (derived from		
table reflecting allowance of general tax credit) ..		\$139

Since the adjusted gross income of H and W is not greater than \$10,000, no reduction of the initial amount is required under section 37 (c)(1).

[T.D. 7743, 45 FR 84050, Dec. 22, 1980]

§ 1.37-3 Credit for individuals under age 65 who have public retirement system income.

(a) *In general.* This section provides rules for the computation of the credit for the elderly under section 37(e) in the case of an individual who has not attained the age of 65 before the close of the taxable year and whose gross income for the taxable year includes retirement income within the meaning of paragraph (d)(1)(ii) of this section (*i.e.*, under a public retirement system). If such an individual is married within the meaning of section 143 at the close of the taxable year and the spouse of

the individual has attained the age of 65 before the close of the taxable year, this section shall apply to the individual for the taxable year only if both spouses make the election described in paragraph (b) of this section. If both spouses make the election described in paragraph (b) of this section for the taxable year, the credit of each spouse shall be determined under the rules of this section. See paragraph (f)(2) of this section for a limitation on the effects of community property laws in making determinations and computations under section 37(e) and this section.

(b) *Election by certain married taxpayers.* If a married individual under age 65 at the close of the taxable year has retirement income and the spouse of that individual has attained the age of 65 before the close of the taxable year, both spouses may elect to compute the credit provided by section 37 under the rules of section 37(e) and this section. The spouses shall signify the election on the return (or amended return) for the taxable year in the manner prescribed in the instructions accompanying the return. The election may be made at any time before the expiration of the period of limitation for filing claim for credit or return for the taxable year. The election may be revoked without the consent of the Commissioner at any time before the expiration of that period by filing an amended return.

(c) *Computation of credit.* The credit of an individual under section 37(e) and this section equals 15 percent of the individual's credit base for the taxable year. The credit base of an individual for a taxable year is the lesser of—

- (1) The retirement income of the individual for the taxable year, or
- (2) The amount determined under section 37(e)(5), as modified by section 37(e) (6) and (7).

(d) *Retirement income*—(1) *General rule*—(i) *For individuals 65 or over.* Section 37(e)(4)(A) enumerates the kinds of income which may be treated as the retirement income of an individual who has attained the age of 65 before the close of the taxable year. They include income from pensions and annuities, interest, rents, dividends, certain bonds received under a qualified bond

purchase plan, and certain individual retirement accounts or annuities.

(ii) *For individuals under 65.* In the case of an individual who has not attained the age of 65 before the close of the taxable year, retirement income consists only of income from pensions and annuities (including disability annuity payments) under a public retirement system which arises from services performed by that individual or by a present or former spouse of that individual. The term “public retirement system” means a pension, annuity, or retirement, or similar fund or system established by the United States, a State, a possession of the United States, any political subdivision of any of the foregoing, or the District of Columbia.

(2) *Rents.* For purposes of section 37(e)(4)(A)(iii), income from rents shall be the gross amount received, not reduced by depreciation or other expenses, except that beneficiaries of a trust or estate shall treat as retirement income only their proportionate shares, of the taxable rents of the trust or estate. In the case of an amount received for board and lodging, only the portion of the amount received for lodging is income from rents.

(3) *Disability annuity payments received by individual under age 65.* Disability annuity payments received under a public retirement system by an individual under age 65 at the close of the taxable year shall not be treated as retirement income unless the payments are for periods after the date on which the individual reached minimum retirement age, that is, the age at which the individual would be eligible to receive a pension or annuity without regard to disability, and any of the following conditions is satisfied—

(i) The individual is precluded from seeking the benefits of section 105(d) (relating to certain disability payments) for that taxable year by reason of an irrevocable election;

(ii) The individual was not permanently and totally disabled at the time of retirement (and was not permanently and totally disabled either on January 1, 1976, or on January 1, 1977, if the individual retired before the later date on disability or under cir-

cumstances which entitled the individual to retire on disability); or

(iii) The payments are for periods after the individual reached mandatory retirement age.

For purposes of this paragraph, disability annuity payments include payments to an individual who retired on partial or temporary disability.

(4) *Compensation of personal services rendered during taxable year.* Retirement income does not include any amount representing compensation for personal services rendered during the taxable year. For this purpose, amounts received as a pension shall not be treated as representing compensation for personal services rendered during the taxable year if the period of service during the taxable year is not substantial when compared with the total years of service. For example, an individual on the calendar year basis retires on November 30 after 5 years of service and receives a pension during the remainder of his taxable year. The pension is not treated as representing compensation for personal services rendered during such taxable year merely because it is paid by reason of the services of the individual for a period of 5 years which includes a portion of the taxable year.

(5) *Amounts not includible in gross income.* Retirement income does not include any amount not includible in the gross income of the individual for the taxable year. For example, if a portion of an annuity is excluded from gross income under section 72, relating to annuities, that portion of the annuity is not retirement income; similarly, the portion of dividend income excluded from gross income under section 116, relating to the partial exclusion of dividends received by individuals is not retirement income.

(e) *Earned income—(1) In general.* The term “earned income” in section 37(e)(5)(B) generally has the same meaning as in section 911(b), except that earned income does not include any amount received as a pension or annuity. See section 911(b) and the regulations thereunder. Section 911(b) provides, in general, that earned income includes wages, salaries, professional fees, and other amounts received as

compensation for personal services rendered.

(2) *Earned income from self-employment.* For purposes of section 37(e)(5)(B), the earned income of a taxpayer from self-employment in a trade or business shall not exceed—

(i) The taxpayer's share of the net profits from the trade or business if capital is not a material income-producing factor in that trade or business; or

(ii) Thirty percent of the taxpayer's share of the net profits from the trade or business if capital is a material income-producing factor in that trade or business.

For other rules relating to the determination of earned income from self-employment in a trade or business, see section 911(b) and the regulations thereunder.

(3) *Disability annuity payments received by individuals under age 65.* Disability annuity payments received under a public retirement system by an individual under age 65 at the close of the taxable year shall be treated as earned income for purposes of section 37(e)(5)(B) unless the payments are treated as retirement income under paragraph (d)(3) of this section.

(f) *Computation of credit under section 37(e) in the case of joint returns—(1) In general.* In the case of a joint return of husband and wife, the credit base of each spouse under section 37(e) is computed separately. The spouses then combine their credit bases and compute a single credit. The limitation in section 37(c)(2) and paragraph (b) of § 1.37-1 on the amount of the credit is determined by reference to the joint tax liability of the spouses. Thus, regardless of whether a spouse would be liable for the tax imposed by chapter 1 of the Code if the joint return had not been filed, the credit base of that spouse is taken into account in computing the credit.

(2) *Community property laws.* For taxable years beginning after 1977, married individuals filing joint returns shall disregard community property laws in making any determination or computation required under section 37(e) or this section. Each item of income is attributed in full to the spouse whose income it would have been in the absence of

community property laws. Thus, if a 67-year old individual files a joint return with a 62-year old spouse for 1979 and the only income of the couple is from a public pension of the older spouse, that public pension is attributed in full to the older spouse for purposes of section 37(e) even though the applicable community property law may treat one-half of the pension as the income of the 62-year old spouse. Since the younger spouse consequently has no retirement income within the meaning of paragraph (d) of this section, the couple may not make the election described in paragraph (b) of this section.

(g) *Examples.* The computation of the credit for the elderly under section 37(e) and this section is illustrated by the following examples:

Example 1. B, who is 62 years old and single, receives a fully taxable pension of \$2,400 from a public retirement system during 1977. B performed the services giving rise to the pension. During that year, B also earns \$2,650 from a part-time job. B receives no tax-exempt pension or annuity in 1977. Subject to the limitation of section 37(c)(2) and paragraph (b) of § 1.37-1, B's credit for the elderly for 1977 under section 37(e) is \$195, computed as follows:

Maximum retirement income level under section 37(e)(5)	\$2,500	
Earned income offset under section 37(e)(5)(B)(ii):		
Earned income in excess of \$1,700	\$950	
One-half of earned income in excess of \$1,200, but not in excess of \$1,700	250	1,200
Amount determined under section 37(e)(5)		1,300
Retirement income		2,400
Credit for the elderly (15 pct. of \$1,300)		195

Example 2. During 1978 H, who is 67 years old, has earnings of \$1,300 and retirement income (rents, interest, etc.) of \$6,000. H also receives social security payments totalling \$1,400. During 1978 W, who is 63 years old, earns \$1,600 and receives a fully taxable pension of \$1,400 from a public retirement system that constitutes retirement income. W performed the services giving rise to the pension. H and W file a joint return for 1978 and elect to compute the credit for the elderly under section 37(e). Under the applicable law these items of income are community income, and both spouses share equally in each item. Because H and W are filing a joint return, they disregard community property laws in computing their credit under section

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37(e). The couple allocates \$1,600 of the \$3,750 referred to in section 37(e)(6) to W and \$2,150 to H. Subject to the limitation of section 37(c)(2) and paragraph (b) of § 1.37-1, their credit for the elderly is \$315, computed as follows:

Credit base of H:	
Amount allocated to H under section 37(e)(6)	\$2,150
Reductions required by section 37(e)(5):	
Social Security payments	\$1,400
One-half of excess of earnings over \$1,200	50
_____	1,450
Amount determined under section 37(e)(5)	700
Retirement income	6,000
Credit base of H	700
Credit base of W:	
Amount allocated to W under section 37(e)(6)	\$1,600
Reduction required by section 37(e)(5)(B):	
One-half of excess of earnings over \$1,200	\$200
Amount determined under section 37(e)(5)	1,400
Retirement income	1,400
Credit base of W	1,400
Computation of credit:	
Credit base of H	700
Credit base of W	1,400
Combined credit base	2,100
Credit for the elderly (15 pct. of \$2,100)	315

Example 3. (a) Assume the same facts as in example (2) of this paragraph, except that H and W live apart at all times during 1978 and file separate returns. Under these circumstances, H and W must give effect to the applicable community property law in determining their credits under section 37(e). Thus, each spouse must take into account one-half of each item of income.

(b) Subject to the limitation of section 37(c)(2) and paragraph (b) of § 1.37-1, H's credit for the elderly is \$157.50, computed as follows:

Maximum retirement income level under section 37(e)(7)	\$1,875
Reductions required by section 37(e)(5):	
Social security payments	\$700
One-half of excess of earnings over \$1,200 (taking into account one-half of combined earnings of \$2,900)	125
_____	825
Amount determined under section 37(e)(5)	1,050
Retirement income	3,700
Credit of H (15 pct. of \$1,050)	157.50

(c) Subject to the limitation of section 37(c)(2) and paragraph (b) of § 1.37-1, W's credit for the elderly is computed as follows:

Maximum retirement income level under section 37(e)(7)	\$1,875
Reductions required by section 37(e)(5):	
Social security payments	\$700
One-half of excess of earnings over \$1,200	125
_____	825
Amount determined under section 37(e)(5)	1,050
Retirement income (limited to W's share of public pension)	700
Credit of W (15 pct. of \$700)	105

[T.D. 7743, 45 FR 84050, Dec. 22, 1980]

§ 1.38-1 Investment in certain depreciable property.

Regulations under sections 46 through 50 are prescribed under the authority granted the Secretary by section 38(b) to prescribe regulations as may be necessary to carry out the purposes of section 38 and subpart B, part IV, subchapter A, chapter 1 of the Code.

[44 FR 20417, Apr. 5, 1979]

§ 1.40-1 Questions and answers relating to the meaning of the term "qualified mixture" in section 40(b)(1).

Q-1. What is a "qualified mixture" within the meaning of section 40(b)(1)?

A-1. A "qualified mixture" is a mixture of alcohol and gasoline or of alcohol and special fuel which (1) is sold by the taxpayer producing such mixture to any person for use as a fuel, or (2) is used as a fuel by the taxpayer producing such mixture.

Q-2. Must alcohol be present in a product in order for that product to be considered a mixture of alcohol and either gasoline or a special fuel?

A-2. No. A product is considered to be a mixture of alcohol and gasoline or of alcohol and a special fuel if the product is derived from alcohol and either gasoline or a special fuel even if the alcohol is chemically transformed in producing the product so that the alcohol is no longer present as a separate chemical in the final product, provided that there is no significant loss in the energy content of the alcohol. Thus, a