lost, in any taxable year and the taxpayer receives payment for the vessel so purchased or requisitioned, or receives from the United States indemnity on account of such loss, subsequent to the end of such taxable year, the taxpayer shall make his election by filing notice thereof with the Commissioner of Internal Revenue, Washington, DC, 20224, prior to the expiration of 60 days after receipt of the payment or indemnity. The taxpayer shall file a copy of the notice with the Secretary, Maritime Administration, Washington, DC, 20590. The form of the notice of election shall be substantially as follows:

**ELECTION RELATIVE TO NONRECOGNITION OF GAIN UNDER SECTION 511(C)(2), MERCHANT MARINE ACT, 1936**

Pursuant to the provisions of section 511(c)(2) of the Merchant Marine Act, 1936, as amended, notice is hereby given that the undersigned taxpayer elects that gain in respect of the sale to the United States, or indemnification received from the United States on account of the loss, of the vessel named below or share therein shall not be recognized. The circumstances involved in the computation of such gain are as follows:

Name and other identification of vessel  
Nature and extent of the taxpayer’s interest in the vessel  
Nature of disposition, i.e., sale or loss  
Date of disposition  
Full sale price or full amount of indemnity received by taxpayer  
Amount and date of each payment of sale price or indemnity received by taxpayer  
Amount and date of each previous deposit of such payments in construction reserve fund  
Identification of each check or other instrument by which payment made to taxpayer  
Tax basis of taxpayer’s interest in vessel  
Any other data affecting the determination of the realized gain  
Amount of gain (submit computation)  

(Date of execution)  

(Name of taxpayer)

§ 287.13  Deposit of proceeds of sales or indemnities.

(a) Manner of deposit. The deposit required by section 511 of the Act must be made in a construction reserve fund established with a depository or depositaries approved by the Administration and subject to the joint control of the Administration and the taxpayer. It is not necessary to establish a separate fund with respect to each vessel or share in a vessel sold or lost.

(b) Amount of deposit. With respect to any vessel sold or lost, or a share therein, the deposit must be in an amount equal to the “net proceeds” of the sale, or the “net indemnity” for the loss. By “net proceeds” and “net indemnity” is meant (1) the depositor’s interest in the adjusted basis of the vessel plus (2) the amount of gain which would be recognized for tax purposes in the absence of section 511 of the Act. In determining “net proceeds”, the amount necessarily paid or incurred for brokers’ commissions is to be deducted from the gross amount of the sales price. In the event the taxpayer is an affiliate or associate of the buyer, the amount of the sales price shall not exceed the fair market value of the vessel or vessels sold as determined by the Administration. In such case the taxpayer shall furnish evidence sufficient, in the opinion of the Administration, to establish that the sales price is not in excess of the fair market value. In determining “net indemnity”, the amount necessarily paid or incurred purely for collection, or rate of exchange discounts on the payment, of the indemnity is to be deducted from the gross amount of collectible indemnity. In case of the sale or loss of several vessels or share therein, a deposit of the “net proceeds” or “net indemnity” with respect to one or more of the vessels or shares is permissible. Where several vessels or shares are sold for a lump sum, the “net proceeds” allocated to each vessel or share shall be determined in accordance with any reasonable rule satisfactory to the Commissioner of Internal Revenue. The taxpayer must deposit the full amount of each payment (including cash, notes, or other evidences of indebtedness) as a
§ 287.14 Deposit of earnings and receipts.

(a) Earnings. A citizen may deposit all or any part of earnings derived from the operation, within the scope of §287.3, of a vessel or vessels owned either by himself or any other person, if such earnings are intended for construction or acquisition of new vessels. Earnings from other sources may not be deposited. The earnings from operation of vessels which are eligible for deposit are the net earnings determined without regard to any deduction for depreciation, obsolescence, or amortization with respect to such vessels.

(b) Receipts. Receipts from deposited funds, in the form of interest or otherwise, may be deposited.

§ 287.15 Time for making deposits.

(a) Proceeds of sale or indemnification. Deposits of amounts representing proceeds of the sale or indemnification for loss of a vessel or share therein must be made within 60 days after receipt by the taxpayer.

(b) Earnings and receipts. Earnings and receipts for the taxable year may be deposited at any time. (See §287.14.)

§ 287.16 Tax liability as to earnings deposited.

Deposit in the construction reserve fund of earnings from the operation of a vessel or vessels, or receipts, in the form of interest or otherwise, with respect to amounts previously deposited does not exempt the taxpayer from tax liability with respect thereto nor postpone the time such earnings or receipts