



# 2007 Instructions for Schedule J

## Income Averaging for Farmers and Fishermen

Use Schedule J (Form 1040) to elect to figure your 2007 income tax by averaging, over the previous 3 years (base years), all or part of your 2007 taxable income from your trade or business of farming or fishing. This election may give you a lower tax if your 2007 income from farming or fishing is high and your taxable income for one or more of the 3 prior years was low.

In order to qualify for this election, you are not required to have been in the business of farming or fishing during any of the base years.

You may elect to average farming or fishing income even if your filing status was not the same in the election year and the base years.

This election does not apply when figuring your alternative minimum tax on Form 6251. Also, you do not have to recompute, because of this election, the tax liability of any minor child who was required to use your tax rates in the prior years.

### General Instructions

#### Prior Year Tax Returns

You may need copies of your original or amended income tax returns for 2004, 2005, and 2006 to figure your tax on Schedule J.

If you do not have copies of those returns, you can get them by filing Form 4506. There is a \$39 fee for each return requested. If your main home, principal place of business, or tax records are located in a Presidentially declared disaster area, the fee will be waived if the word "Disaster" is written across the top of Form 4506 when filed. If you want a free transcript of your tax return, use Form 4506-T. See your Form 1040 instruction booklet to find out how to get these forms.

Keep a copy of your 2007 income tax return to use for income averaging in 2008, 2009, or 2010.

#### Definitions

**Farming business.** A farming business is the trade or business of cultivating land or raising or harvesting any agricultural or horticultural commodity. This includes:

1. Operating a nursery or sod farm;
2. Raising or harvesting of trees bearing fruits, nuts, or other crops;
3. Raising ornamental trees (but not evergreen trees that are more than 6 years old when severed from the roots);
4. Raising, shearing, feeding, caring for, training, and managing animals; and
5. Leasing land to a tenant engaged in a farming business, but only if the lease payments are (a) based on a share of the tenant's production (not a fixed amount), and (b) determined under a written agreement entered into before the tenant begins significant activities on the land.

A farming business does not include:

- Contract harvesting of an agricultural or horticultural commodity grown or raised by someone else, or
- Merely buying or reselling plants or animals grown or raised by someone else.

**Fishing business.** A fishing business is the trade or business of fishing in which the fish harvested, either in whole or in part, are intended to enter commerce or enter commerce through sale, barter, or trade. This includes:

1. The catching, taking, or harvesting of fish;
2. The attempted catching, taking, or harvesting of fish;
3. Any other activity which can reasonably be expected to result in the catching, taking, or harvesting of fish; or
4. Any operations at sea in support of, or in preparation for, any activity described in (1) through (3) above.



*At the time these instructions went to print, there were pending Regulations that could change the definition of a fishing business.*

The word fish means finfish, mollusks, crustaceans, and all other forms of marine animal and plant life other than marine mammals and birds.

A fishing business does not include any scientific research activity which is conducted by a scientific research vessel.

#### Additional Information

See Pub. 225 and Regulations section 1.1301-1 for more information.

### Specific Instructions

#### Line 2

##### Elected Farm Income

To figure your elected farm income, first figure your taxable income from farming or fishing. This includes all income, gains, losses, and deductions attributable to any farming or fishing business. Include the deduction for one-half of self-employment tax only to the extent that deduction is attributable to your farming or fishing business. However, it does not include gain from the sale or other disposition of land.

You should find your income, gains, losses and deductions from farming or fishing reported on different tax forms, such as:

- Form 1040, line 7, income from wages and other compensation you received as a shareholder in an S corporation engaged in a farming or fishing business;
- Schedule C or C-EZ;
- Schedule D;
- Schedule E, Part II;
- Schedule F;
- Form 4797; and
- Form 4835.

Your elected farm income is the amount of your taxable income from farming or fishing that you elect to include on line 2. However, you do not have to include all of your taxable income from farming or fishing on line 2. It may be to your advantage to include less than the entire amount, depending on how the amount you include on line 2 affects your tax bracket for the current and prior 3 tax years.

Your elected farm income cannot exceed your taxable income. Also, the portion of your elected farm income treated as a net capital gain cannot exceed the smaller of

your total net capital gain or your net capital gain attributable to your farming or fishing business. If your elected farm income includes net capital gain, you must allocate an equal portion of the net capital gain to each of the base years. If, for any base year, you had a capital loss that resulted in a capital loss carryover to the next tax year, do not reduce the elected farm income allocated to that base year by any part of the carryover.

## Line 4

Figure the tax on the amount on line 3 using:

- The 2007 Tax Table, Tax Computation Worksheet, or Qualified Dividends and Capital Gain Tax Worksheet from the 2007 Instructions for Form 1040;
- The Schedule D Tax Worksheet in the 2007 Instructions for Schedule D; or
- The Foreign Earned Income Tax Worksheet in Pub. 4655, Supplemental Instructions for 2007 Form 1040 and Form 1040NR.

Enter the tax on line 4.

## Line 5

If you used Schedule J to figure your tax for 2006 (that is, you entered the amount from the 2006 Schedule J, line 22, on your 2006 Form 1040, line 44, 2006 Form 1040NR, line 41, or on Form 1040X), enter on line 5 the amount from your 2006 Schedule J, line 11. If you used Schedule J to figure your tax for 2005 but not 2006, enter on line 5 the amount from your 2005 Schedule J, line 15. If you used Schedule J to figure your tax for 2004 but not 2005 or 2006, enter on line 5 the amount from your 2004 Schedule J, line 3.

If you figured your tax for 2004, 2005, and 2006 without using Schedule J, enter

on line 5 the taxable income from your 2004 tax return (or as previously adjusted by the IRS, or corrected on an amended return). But if that amount is zero or less, complete the worksheet below to figure the amount to enter on line 5.

If you filed your 2004 tax return using TeleFile, enter the taxable income from your TeleFile Tax Record. If you did not file a tax return for 2004, use the amount you would have reported as your taxable income had you been required to file a tax return. Be sure to keep all your records for 2004 for at least 3 years after April 15, 2008 (or the date you file your 2007 tax return, if later).

### Instructions for 2004 Taxable Income Worksheet

**Line 2.** Any net capital loss deduction on your 2004 Schedule D, line 21, is not allowed for income averaging purposes to the extent it did not reduce your capital loss carryover to 2005. This could happen if the taxable income before subtracting exemptions—shown on your 2004 Form 1040, line 40 (or as previously adjusted)—was less than zero. Enter on line 2 the amount by which your 2004 capital loss carryover to 2005 (the sum of your short- and long-term capital loss carryovers) exceeds the excess of the loss on your 2004 Schedule D, line 16, over the loss on your 2004 Schedule D, line 21. If you had any net operating loss (NOL) carrybacks to 2004, be sure you refigured your 2004 capital loss carryover to 2005.

**Line 3.** If you had an NOL for 2004, enter the amount of that NOL from line 24 of the 2004 Form 1045, Schedule A, you filed with Form 1045 or Form 1040X. If you did not have an NOL for 2004, enter the portion, if any, of the NOL carryovers and carrybacks to 2004 that were not used in 2004 and were carried to years after 2004.

**Example.** John Farmington, who is single, did not use income averaging for 2004, 2005, or 2006. For 2007, John has \$18,000

of elected farm income on Schedule J, line 2. The taxable income before subtracting exemptions on his 2004 Form 1040, line 40, is \$4,050. A deduction for exemptions of \$3,100 is shown on line 41, and line 42, taxable income, is \$950. However, John had a \$21,900 NOL for 2005, \$9,000 of which was remaining to carry to 2004 after the NOL was carried back to 2003. To complete line 1 of the worksheet, John combines the \$9,000 NOL deduction with the \$950 from his 2004 Form 1040, line 42. The result is a negative \$8,050, John's 2004 taxable income, which he enters as a positive amount on line 1 of the 2004 worksheet.

When John filed his 2004 tax return, he had a \$3,000 net capital loss deduction on Schedule D, line 21 (which was also entered on Form 1040, line 13), a \$7,000 loss on Schedule D, line 16, and a \$4,000 capital loss carryover to 2005. However, when John carried back the 2005 NOL to 2004, he refigured his 2004 capital loss carryover to 2005 as \$7,000. John adds the \$3,000 from Schedule D, line 21, and the \$7,000 carryover. He subtracts from the \$10,000 result the \$7,000 loss on his Schedule D, line 16, and enters \$3,000 on line 2 of the worksheet.

John had \$950 of taxable income in 2004 that reduced the 2005 NOL carryback. The \$3,100 of exemptions and \$3,000 net capital loss deduction also reduced the amount of the 2005 NOL carryback. Therefore, only \$1,950 was available to carry to 2006 and later years, as shown on line 9 of his 2005 Form 1045, Schedule B. John enters the \$1,950 on line 3 of the worksheet, and \$4,950 (\$1,950 plus the \$3,000 line 2 amount) on line 4. He then subtracts the \$4,950 from the \$8,050 on line 1 and enters the result, \$3,100, on line 5 of the worksheet. He enters a negative \$3,100 on Schedule J, line 5. He combines that amount with the \$6,000 on Schedule J, line 6, and enters \$2,900 on Schedule J, line 7.

## 2004 Taxable Income Worksheet—Line 5

Keep for Your Records



Complete this worksheet if you did not use Schedule J to figure your tax for both 2005 and 2006 **and** your 2004 taxable income was zero or less. See the instructions above before completing this worksheet.

- |   |    |       |
|---|----|-------|
| 1. Figure the taxable income from your 2004 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 2004, <b>do not</b> include any NOL carryovers or carrybacks to 2004. Enter the result as a positive amount . . . . . | 1. | _____ |
| 2. If there is a loss on your 2004 Schedule D, line 21, add that loss (as a positive amount) and your 2004 capital loss carryover to 2005. Subtract from that sum the amount of the loss on your 2004 Schedule D, line 16, and enter the result . . . . .   | 2. | _____ |
| 3. If you had an NOL for 2004, enter it as a positive amount. Otherwise, enter as a positive amount the portion, if any, of the NOL carryovers and carrybacks to 2004 that were not used in 2004 and were carried to years after 2004 . . . . .             | 3. | _____ |
| 4. Add lines 2 and 3 . . . . .  | 4. | _____ |
| 5. Subtract line 4 from line 1. Enter the result as a negative amount on Schedule J, line 5 . . . . .   | 5. | _____ |

## Line 8

If line 7 is zero, enter -0- on line 8. Otherwise, figure the tax on the amount on line 7 using:

- The 2004 Tax Rate Schedules below,
- The 2004 Qualified Dividends and Capital Gain Tax Worksheet on the next page, or

• The 2004 Schedule D Tax Worksheet in the Schedule D instructions (but use the 2004 Tax Rate Schedules below instead of

the 2004 Tax Table when figuring the tax on lines 34 and 36 of the Schedule D Tax Worksheet.)

### 2004 Tax Rate Schedules—Line 8

<b>Schedule X</b> —Use if your <b>2004</b> filing status was <b>Single</b> or you checked filing status box 1 or 2 on Form 1040NR					<b>Schedule Y-2</b> —Use if your <b>2004</b> filing status was <b>Married filing separately</b> or you checked filing status box 3, 4, or 5 on Form 1040NR				
If Schedule J, line 7, is: Over—	<i>But not over—</i>	Enter on Schedule J, line 8	<i>of the amount over—</i>		If Schedule J, line 7, is: Over—	<i>But not over—</i>	Enter on Schedule J, line 8	<i>of the amount over—</i>	
\$0	\$7,150	.....	<b>10%</b>	<b>\$0</b>	\$0	\$7,150	.....	<b>10%</b>	<b>\$0</b>
7,150	29,050	<b>\$715.00 +</b>	<b>15%</b>	<b>7,150</b>	7,150	29,050	<b>\$715.00 +</b>	<b>15%</b>	<b>7,150</b>
29,050	70,350	<b>4,000.00 +</b>	<b>25%</b>	<b>29,050</b>	29,050	58,625	<b>4,000.00 +</b>	<b>25%</b>	<b>29,050</b>
70,350	146,750	<b>14,325.00 +</b>	<b>28%</b>	<b>70,350</b>	58,625	89,325	<b>11,393.75 +</b>	<b>28%</b>	<b>58,625</b>
146,750	319,100	<b>35,717.00 +</b>	<b>33%</b>	<b>146,750</b>	89,325	159,550	<b>19,989.75 +</b>	<b>33%</b>	<b>89,325</b>
319,100	.....	<b>92,592.50 +</b>	<b>35%</b>	<b>319,100</b>	159,550	.....	<b>43,164.00 +</b>	<b>35%</b>	<b>159,550</b>
<b>Schedule Y-1</b> —Use if your <b>2004</b> filing status was <b>Married filing jointly</b> or <b>Qualifying widow(er)</b> or you checked filing status box 6 on Form 1040NR					<b>Schedule Z</b> —Use if your <b>2004</b> filing status was <b>Head of household</b>				
If Schedule J, line 7, is: Over—	<i>But not over—</i>	Enter on Schedule J, line 8	<i>of the amount over—</i>		If Schedule J, line 7, is: Over—	<i>But not over—</i>	Enter on Schedule J, line 8	<i>of the amount over—</i>	
\$0	\$14,300	.....	<b>10%</b>	<b>\$0</b>	\$0	\$10,200	.....	<b>10%</b>	<b>\$0</b>
14,300	58,100	<b>\$1,430.00 +</b>	<b>15%</b>	<b>14,300</b>	10,200	38,900	<b>\$1,020.00 +</b>	<b>15%</b>	<b>10,200</b>
58,100	117,250	<b>8,000.00 +</b>	<b>25%</b>	<b>58,100</b>	38,900	100,500	<b>5,325.00 +</b>	<b>25%</b>	<b>38,900</b>
117,250	178,650	<b>22,787.50 +</b>	<b>28%</b>	<b>117,250</b>	100,500	162,700	<b>20,725.00 +</b>	<b>28%</b>	<b>100,500</b>
178,650	319,100	<b>39,979.50 +</b>	<b>33%</b>	<b>178,650</b>	162,700	319,100	<b>38,141.00 +</b>	<b>33%</b>	<b>162,700</b>
319,100	.....	<b>86,328.00 +</b>	<b>35%</b>	<b>319,100</b>	319,100	.....	<b>89,753.00 +</b>	<b>35%</b>	<b>319,100</b>



Use this worksheet **only** if both of the following apply.

- Your elected farm income on Schedule J, lines 5 and 6, does not include any net capital gain.
- You (a) entered qualified dividends on your 2004 Form 1040, line 9b (or your 2004 Form 1040A, line 9b, or 2004 Form 1040NR, line 10b), (b) entered capital gain distributions directly on your 2004 Form 1040, line 13 (or your 2004 Form 1040A, line 10, or 2004 Form 1040NR, line 14) and checked the box on that line, or (c) filed Schedule D in 2004 and you answered “Yes” on lines 17 and 20 of that Schedule D.

1. Amount from Schedule J, line 7 . . . . .	1.	<input type="text"/>	
2. Amount from your 2004 Form 1040, line 9b (or Form 1040A, line 9b, or Form 1040NR, line 10b) . . . . .	2.	<input type="text"/>	
3. Did you file Schedule D in 2004?			
<input type="checkbox"/> <b>Yes.</b> Enter the <b>smaller</b> of line 15 or 16 of your 2004 Schedule D, but do not enter less than -0-	3.	<input type="text"/>	
<input type="checkbox"/> <b>No.</b> Enter the amount from Form 1040, line 13 (or Form 1040A, line 10, or Form 1040NR, line 14)			
4. Add lines 2 and 3 . . . . .	4.	<input type="text"/>	
5. Amount, if any, from your 2004 Form 4952, line 4g . . . . .	5.	<input type="text"/>	
6. Subtract line 5 from line 4. If zero or less, enter -0- . . . . .	6.	<input type="text"/>	
7. Subtract line 6 from line 1. If zero or less, enter -0- . . . . .	7.	<input type="text"/>	
8. Enter the <b>smaller</b> of:			
• The amount on line 1, or	8.	<input type="text"/>	
• \$29,050 if single or married filing separately or if you checked filing status box 1, 2, 3, 4, or 5 on Form 1040NR, \$58,100 if married filing jointly or qualifying widow(er), or if you checked filing status box 6 on Form 1040NR, \$38,900 if head of household.			
9. Is the amount on line 7 equal to or more than the amount on line 8?			
<input type="checkbox"/> <b>Yes.</b> Skip lines 9 through 11; go to line 12 and check the “No” box.			
<input type="checkbox"/> <b>No.</b> Enter the amount from line 7 . . . . .	9.	<input type="text"/>	
10. Subtract line 9 from line 8 . . . . .	10.	<input type="text"/>	
11. Multiply line 10 by 5% (.05) . . . . .	11.	<input type="text"/>	
12. Are the amounts on lines 6 and 10 the same?			
<input type="checkbox"/> <b>Yes.</b> Skip lines 12 through 15; go to line 16.			
<input type="checkbox"/> <b>No.</b> Enter the <b>smaller</b> of line 1 or line 6 . . . . .	12.	<input type="text"/>	
13. Enter the amount from line 10 (if line 10 is blank, enter -0-) . . . . .	13.	<input type="text"/>	
14. Subtract line 13 from line 12 . . . . .	14.	<input type="text"/>	
15. Multiply line 14 by 15% (.15) . . . . .	15.	<input type="text"/>	
16. Figure the tax on the amount on line 7. Use the 2004 Tax Rate Schedules on page J-3 . . . . .	16.	<input type="text"/>	
17. Add lines 11, 15, and 16 . . . . .	17.	<input type="text"/>	
18. Figure the tax on the amount on line 1. Use the 2004 Tax Rate Schedules on page J-3 . . . . .	18.	<input type="text"/>	
19. <b>Tax.</b> Enter the <b>smaller</b> of line 17 or line 18 here and on Schedule J, line 8 . . . . .	19.	<input type="text"/>	

## Line 9

If you used Schedule J to figure your tax for 2006 (that is, you entered the amount from the 2006 Schedule J, line 22, on your 2006 Form 1040, line 44, 2006 Form 1040NR, line 41, or on Form 1040X), enter on line 9 the amount from your 2006 Schedule J, line 15. If you used Schedule J to figure your tax for 2005 but not 2006, enter on line 9 the amount from your 2005 Schedule J, line 3.

If you figured your tax for both 2005 and 2006 without using Schedule J, enter on line 9 the taxable income from your 2005 tax return (or as previously adjusted by the IRS or corrected on an amended return). But if that amount is zero or less, complete the worksheet below to figure the amount to enter on line 9.

If you did not file a tax return for 2005, use the amount you would have reported as your taxable income had you been required to file a tax return. Be sure to keep all your records for 2005 until at least 3 years after April 15, 2008 (or the date you file your 2007 tax return, if later).

### Instructions for 2005 Taxable Income Worksheet

**Line 2.** Any net capital loss deduction on your 2005 Schedule D, line 21, is not allowed for income averaging purposes to the extent it did not reduce your capital loss carryover to 2006. This could happen if the

taxable income before subtracting exemptions—shown on your 2005 Form 1040, line 41 (or as previously adjusted)—was less than zero. Enter on line 2 the amount by which your 2005 capital loss carryover to 2006 (the sum of your short- and long-term capital loss carryovers) exceeds the excess of the loss on your 2005 Schedule D, line 16, over the loss on your 2005 Schedule D, line 21. If you had any NOL carrybacks to 2005, be sure you refigured your 2005 capital loss carryover to 2006.

**Line 3.** If you had an NOL for 2005, enter the amount of that NOL from line 25 of the 2005 Form 1045, Schedule A, you filed with Form 1045 or Form 1040X. If you did not have an NOL for 2005, enter the portion, if any, of the NOL carryovers and carrybacks to 2005 that were not used in 2005 and were carried to years after 2005.

**Example.** John Farmington did not use income averaging for 2004, 2005, or 2006. The taxable income before subtracting exemptions on his 2005 Form 1040, line 41, is a negative \$29,900. A deduction for exemptions of \$3,200 is shown on line 42, and line 43, taxable income, is limited to zero. John subtracts from the \$29,900 loss the \$3,200 deduction for exemptions. The result is a negative \$33,100, John's 2005 taxable income, which he enters as a positive amount on line 1 of the 2005 worksheet.

When John filed his 2005 tax return, he had a \$3,000 net capital loss deduction on Schedule D, line 21 (which was also entered on Form 1040, line 13), and a \$7,000 loss on Schedule D, line 16 (as adjusted). He also had a \$7,000 capital loss carryover to 2006. John adds the \$3,000 from Schedule D, line 21, and the \$7,000 carryover. He subtracts from the \$10,000 result the \$7,000 loss on his Schedule D, line 16, and enters \$3,000 on line 2 of the worksheet.

John enters \$21,900 on line 3 of the worksheet, the 2005 NOL from his 2005 Form 1045, Schedule A, line 25. Of the \$33,100 negative taxable income, the \$3,200 deduction for exemptions, the \$3,000 capital loss deduction, and his \$5,000 standard deduction were not allowed in figuring the NOL. John had a \$21,900 loss on his 2005 Schedule F, the only other item on his 2005 tax return.

John enters \$24,900 (the \$3,000 line 2 amount plus the \$21,900 line 3 amount) on line 4 and \$8,200 (the \$33,100 line 1 amount minus the \$24,900 line 4 amount) on line 5. He enters \$8,200 as a negative amount on Schedule J, line 9. He enters \$6,000 on Schedule J, line 10, and a negative \$2,200 on Schedule J, line 11. If he uses Schedule J to figure his tax for 2008, he will enter the negative \$2,200 amount on his 2008 Schedule J as his 2005 taxable income for income averaging purposes.

## 2005 Taxable Income Worksheet—Line 9

Keep for Your Records



Complete this worksheet if you did not use Schedule J to figure your tax for 2006 **and** your 2005 taxable income was zero or less. See the instructions above before completing this worksheet.

1. Figure the taxable income from your 2005 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 2005, <b>do not</b> include any NOL carryovers or carrybacks to 2005. Enter the result as a positive amount . . . . .		1.	<input type="text"/>
2. If there is a loss on your 2005 Schedule D, line 21, add that loss (as a positive amount) and your 2005 capital loss carryover to 2006. Subtract from that sum the amount of the loss on your 2005 Schedule D, line 16, and enter the result . . . . .	2.	<input type="text"/>	
3. If you had an NOL for 2005, enter it as a positive amount. Otherwise, enter as a positive amount the portion, if any, of the NOL carryovers and carrybacks to 2005 that were not used in 2005 and were carried to years after 2005 . . . . .	3.	<input type="text"/>	
4. Add lines 2 and 3 . . . . .	4.	<input type="text"/>	
5. Subtract line 4 from line 1. Enter the result as a negative amount on Schedule J, line 9 . . . . .	5.	<input type="text"/>	

## Line 12

If line 11 is zero or less, enter -0- on line 12. Otherwise, figure the tax on the amount on line 11 using:

- The 2005 Tax Rate Schedules below,

- The 2005 Qualified Dividends and Capital Gain Tax Worksheet on page J-7, or

- The 2005 Schedule D Tax Worksheet in the Schedule D instructions (but use the

2005 Tax Rate Schedules below instead of the 2005 Tax Table when figuring the tax on the Schedule D Tax Worksheet, lines 34 and 36).

### 2005 Tax Rate Schedules—Line 12

Schedule X—Use if your 2005 filing status was <b>Single</b> or you checked filing status box 1 or 2 on Form 1040NR					Schedule Y-2—Use if your 2005 filing status was <b>Married filing separately</b> or you checked filing status box 3, 4, or 5 on Form 1040NR				
If Schedule J, line 11, is: <i>Over—</i>	<i>But not over—</i>	Enter on Schedule J, line 12	<i>of the amount over—</i>		If Schedule J, line 11, is: <i>Over—</i>	<i>But not over—</i>	Enter on Schedule J, line 12	<i>of the amount over—</i>	
\$0	\$7,300	.....	<b>10%</b>	<b>\$0</b>	\$0	\$7,300	.....	<b>10%</b>	<b>\$0</b>
7,300	29,700	<b>\$730.00 +</b>	<b>15%</b>	<b>7,300</b>	7,300	29,700	<b>\$730.00 +</b>	<b>15%</b>	<b>7,300</b>
29,700	71,950	<b>4,090.00 +</b>	<b>25%</b>	<b>29,700</b>	29,700	59,975	<b>4,090.00 +</b>	<b>25%</b>	<b>29,700</b>
71,950	150,150	<b>14,652.50 +</b>	<b>28%</b>	<b>71,950</b>	59,975	91,400	<b>11,658.75 +</b>	<b>28%</b>	<b>59,975</b>
150,150	326,450	<b>36,548.50 +</b>	<b>33%</b>	<b>150,150</b>	91,400	163,225	<b>20,457.75 +</b>	<b>33%</b>	<b>91,400</b>
326,450	.....	<b>94,727.50 +</b>	<b>35%</b>	<b>326,450</b>	163,225	.....	<b>44,160.00 +</b>	<b>35%</b>	<b>163,225</b>
Schedule Y-1—Use if your 2005 filing status was <b>Married filing jointly</b> or <b>Qualifying widow(er)</b> or you checked filing status box 6 on Form 1040NR					Schedule Z—Use if your 2005 filing status was <b>Head of household</b>				
If Schedule J, line 11, is: <i>Over—</i>	<i>But not over—</i>	Enter on Schedule J, line 12	<i>of the amount over—</i>		If Schedule J, line 11, is: <i>Over—</i>	<i>But not over—</i>	Enter on Schedule J, line 12	<i>of the amount over—</i>	
\$0	\$14,600	.....	<b>10%</b>	<b>\$0</b>	\$0	\$10,450	.....	<b>10%</b>	<b>\$0</b>
14,600	59,400	<b>\$1,460.00 +</b>	<b>15%</b>	<b>14,600</b>	10,450	39,800	<b>\$1,045.00 +</b>	<b>15%</b>	<b>10,450</b>
59,400	119,950	<b>8,180.00 +</b>	<b>25%</b>	<b>59,400</b>	39,800	102,800	<b>5,447.50 +</b>	<b>25%</b>	<b>39,800</b>
119,950	182,800	<b>23,317.50 +</b>	<b>28%</b>	<b>119,950</b>	102,800	166,450	<b>21,197.50 +</b>	<b>28%</b>	<b>102,800</b>
182,800	326,450	<b>40,915.50 +</b>	<b>33%</b>	<b>182,800</b>	166,450	326,450	<b>39,019.50 +</b>	<b>33%</b>	<b>166,450</b>
326,450	.....	<b>88,320.00 +</b>	<b>35%</b>	<b>326,450</b>	326,450	.....	<b>91,819.50 +</b>	<b>35%</b>	<b>326,450</b>



Use this worksheet **only** if both of the following apply.

- Your elected farm income on Schedule J, line 2, does not include any net capital gain.
- You (a) entered qualified dividends on your 2005 Form 1040, line 9b (or your 2005 Form 1040A, line 9b, or 2005 Form 1040NR, line 10b) (b) entered capital gain distributions directly on your 2005 Form 1040, line 13 (or your 2005 Form 1040A, line 10, or 2005 Form 1040NR, line 14) and checked the box on that line, or (c) filed Schedule D in 2005 and you answered “Yes” on lines 17 and 20 of that Schedule D.

1. Amount from Schedule J, line 11	1.	<input type="text"/>
2. Amount from Form 1040, line 9b (or Form 1040A, line 9b, or Form 1040NR, line 10b)	2.	<input type="text"/>
3. Did you file Schedule D in 2005?		
<input type="checkbox"/> <b>Yes.</b> Enter the <b>smaller</b> of line 15 or 16 of your 2005 Schedule D, but do not enter less than -0-	3.	<input type="text"/>
<input type="checkbox"/> <b>No.</b> Enter the amount from Form 1040, line 13 (or Form 1040A, line 10, or Form 1040NR, line 14)		
4. Add lines 2 and 3	4.	<input type="text"/>
5. Amount, if any, from your 2005 Form 4952, line 4g	5.	<input type="text"/>
6. Subtract line 5 from line 4. If zero or less, enter -0-	6.	<input type="text"/>
7. Subtract line 6 from line 1. If zero or less, enter -0-	7.	<input type="text"/>
8. Enter the <b>smaller</b> of:		
• The amount on line 1, or	8.	<input type="text"/>
• \$29,700 if single or married filing separately or if you checked filing status box 1, 2, 3, 4, or 5 on Form 1040NR, \$59,400 if married filing jointly or qualifying widow(er) or if you checked filing status box 6 on Form 1040NR, \$39,800 if head of household.		
9. Is the amount on line 7 equal to or more than the amount on line 8?		
<input type="checkbox"/> <b>Yes.</b> Skip lines 9 through 11; go to line 12 and check the “No” box.	9.	<input type="text"/>
<input type="checkbox"/> <b>No.</b> Enter the amount from line 7		
10. Subtract line 9 from line 8	10.	<input type="text"/>
11. Multiply line 10 by 5% (.05)	11.	<input type="text"/>
12. Are the amounts on lines 6 and 10 the same?		
<input type="checkbox"/> <b>Yes.</b> Skip lines 12 through 15; go to line 16.	12.	<input type="text"/>
<input type="checkbox"/> <b>No.</b> Enter the <b>smaller</b> of line 1 or line 6		
13. Enter the amount from line 10 (if line 10 is blank, enter -0-)	13.	<input type="text"/>
14. Subtract line 13 from line 12	14.	<input type="text"/>
15. Multiply line 14 by 15% (.15)	15.	<input type="text"/>
16. Figure the tax on the amount on line 7. Use the 2005 Tax Rate Schedules on page J-6	16.	<input type="text"/>
17. Add lines 11, 15, and 16	17.	<input type="text"/>
18. Figure the tax on the amount on line 1. Use the 2005 Tax Rate Schedules on page J-6	18.	<input type="text"/>
19. <b>Tax.</b> Enter the <b>smaller</b> of line 17 or line 18 here and on Schedule J, line 12	19.	<input type="text"/>

## Line 13

If you used Schedule J to figure your tax for 2006 (that is, you entered the amount from the 2006 Schedule J, line 22, on your 2006 Form 1040, line 44, 2006 Form 1040NR, line 41, or on Form 1040X), enter on line 13 the amount from your 2006 Schedule J, line 3.

If you did not use Schedule J to figure your tax for 2006, enter on line 13 the taxable income from your 2006 tax return (or as previously adjusted by the IRS or corrected on an amended return). But if that amount is zero or less, complete the worksheet below to figure the amount to enter on line 13.

If you did not file a tax return for 2006, use the amount you would have reported as your taxable income had you been required to file a tax return. Be sure to keep all your records for 2006 until at least 3 years after April 15, 2008 (or the date you file your 2007 tax return, if later).

### Instructions for 2006 Taxable Income Worksheet

**Line 2.** Any net capital loss deduction on your 2006 Schedule D, line 21, is not allowed for income averaging purposes to the extent it did not reduce your capital loss carryover to 2007. This could happen if the taxable income before subtracting exemptions—shown on your 2006 Form 1040, line 41 (or as previously adjusted)—was less than zero. Enter the amount by which your 2006 capital loss carryover to 2007 (the sum of your short- and long-term capital loss carryovers) exceeds the excess of the loss on your 2006 Schedule D, line 16, over the loss on your 2006 Schedule D, line 21.

**Line 3.** If you had an NOL for 2006, enter the amount of that NOL from line 25 of the 2006 Form 1045, Schedule A, you filed with Form 1045 or Form 1040X. If you did not have an NOL for 2006, enter the portion, if any, of the NOL carryovers and carrybacks to 2006 that were not used in 2006 and were carried to years after 2006.

**Example.** John Farmington did not use income averaging for 2004, 2005, or 2006. The taxable income before subtracting exemptions on his 2006 Form 1040, line 41, is a negative \$1,000. This amount includes an NOL deduction on his 2006 Form 1040, line 21, of \$1,950. The \$1,950 is the portion of the 2005 NOL that was remaining from 2004 to be carried to 2006. See the examples on pages J-2 and J-5. A deduction for exemptions of \$3,300 is shown on Form 1040, line 42, and line 43, taxable income, is limited to zero. John does not have an NOL for 2006. John subtracts from the \$1,000 negative amount on Form 1040, line 41, the \$3,300 deduction for exemptions. The result is a negative \$4,300, John's 2006 taxable income, which he enters as a positive amount on line 1 of the 2006 worksheet.

When John filed his 2006 tax return, he had a \$3,000 net capital loss deduction on Schedule D, line 21 (which was also entered on Form 1040, line 13), a \$7,000 loss on Schedule D, line 16, and a \$5,000 capital loss carryover to 2007 (his 2006 capital loss carryover to 2007 was \$5,000, not \$4,000, because the amount on his Form 1040, line 41, was a negative \$1,000). John adds the \$3,000 from Schedule D, line 21, and the \$5,000 carryover. He subtracts from the \$8,000 result the \$7,000 loss on his Schedule D, line 16, and enters \$1,000 on line 2 of the worksheet.

John enters -0- on line 3 of the worksheet because he does not have an NOL for 2006 and did not have an NOL carryover from 2006 available to carry to 2007 and later years. The NOL deduction for 2006 of \$1,950 was reduced to zero because it did not exceed his modified taxable income of \$3,950. Modified taxable income is figured by adding back the \$3,000 net capital loss deduction and the \$3,300 of exemptions to negative taxable income (figured without regard to the NOL deduction) of \$2,350. John enters \$1,000 on line 4 and \$3,300 on line 5. He enters \$3,300 as a negative amount on Schedule J, line 13. He enters \$6,000 on Schedule J, line 14, and \$2,700 on Schedule J, line 15. If he uses Schedule J to figure his tax for 2008, he will enter \$2,700 on his 2008 Schedule J as his 2006 taxable income for income averaging purposes.

## Line 16

If line 15 is zero or less, enter -0- on line 16. Otherwise, figure the tax on the amount on line 15 using:

- The 2006 Tax Rate Schedules on page J-9,
- The 2006 Qualified Dividends and Capital Gain Tax Worksheet on page J-10,
- The 2006 Schedule D Tax Worksheet in the Schedule D instructions (but use the 2006 Tax Rate Schedules on page J-9 instead of the 2006 Tax Table when figuring the tax on the Schedule D Tax Worksheet, lines 34 and 36), or
- The 2006 Foreign Earned Income Tax Worksheet on page J-11.

## 2006 Taxable Income Worksheet—Line 13

Keep for Your Records



Complete this worksheet if your 2006 taxable income is zero or less. See the instructions above before completing this worksheet.

- |   |    |                      |
|---|----|----------------------|
| 1. Figure the taxable income from your 2006 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 2006, <b>do not</b> include any NOL carryovers or carrybacks to 2006. Enter the result as a positive amount . . . . . | 1. | <input type="text"/> |
| 2. If there is a loss on your 2006 Schedule D, line 21, add that loss (as a positive amount) and your 2006 capital loss carryover to 2007. Subtract from that sum the amount of the loss on your 2006 Schedule D, line 16, and enter the result . . . . .   | 2. | <input type="text"/> |
| 3. If you had an NOL for 2006, enter it as a positive amount. Otherwise, enter as a positive amount the portion, if any, of the NOL carryovers and carrybacks to 2006 that were not used in 2006 and were carried to years after 2006 . . . . .             | 3. | <input type="text"/> |
| 4. Add lines 2 and 3 . . . . .  | 4. | <input type="text"/> |
| 5. Subtract line 4 from line 1. Enter the result as a negative amount on Schedule J, line 13 . . . . .  | 5. | <input type="text"/> |



**2006 Tax Rate Schedules—Line 16**

<b>Schedule X</b> —Use if your <b>2006</b> filing status was <b>Single</b> or you checked filing status box 1 or 2 on Form 1040NR					<b>Schedule Y-2</b> —Use if your <b>2006</b> filing status was <b>Married filing separately</b> or you checked filing status box 3, 4, or 5 on Form 1040NR				
If Schedule J, line 15, is: <i>Over</i> —	<i>But not over</i> —	Enter on Schedule J, line 16	<i>of the amount over</i> —		If Schedule J, line 15, is: <i>Over</i> —	<i>But not over</i> —	Enter on Schedule J, line 16	<i>of the amount over</i> —	
\$0	\$7,550	.....	<b>10%</b>	<b>\$0</b>	\$0	\$7,550	.....	<b>10%</b>	<b>\$0</b>
7,550	30,650	<b>\$755.00+</b>	<b>15%</b>	<b>7,550</b>	7,550	30,650	<b>\$755.00 +</b>	<b>15%</b>	<b>7,550</b>
30,650	74,200	<b>4,220.00+</b>	<b>25%</b>	<b>30,650</b>	30,650	61,850	<b>4,220.00 +</b>	<b>25%</b>	<b>30,650</b>
74,200	154,800	<b>15,107.50+</b>	<b>28%</b>	<b>74,200</b>	61,850	94,225	<b>12,020.00 +</b>	<b>28%</b>	<b>61,850</b>
154,800	336,550	<b>37,675.50+</b>	<b>33%</b>	<b>154,800</b>	94,225	168,275	<b>21,085.00 +</b>	<b>33%</b>	<b>94,225</b>
336,550	.....	<b>97,653.00+</b>	<b>35%</b>	<b>336,550</b>	168,275	.....	<b>45,521.50 +</b>	<b>35%</b>	<b>168,275</b>
<b>Schedule Y-1</b> —Use if your <b>2006</b> filing status was <b>Married filing jointly</b> or <b>Qualifying widow(er)</b> or you checked filing status box 6 on Form 1040NR					<b>Schedule Z</b> —Use if your <b>2006</b> filing status was <b>Head of household</b>				
If Schedule J, line 15, is: <i>Over</i> —	<i>But not over</i> —	Enter on Schedule J, line 16	<i>of the amount over</i> —		If Schedule J, line 15, is: <i>Over</i> —	<i>But not over</i> —	Enter on Schedule J, line 16	<i>of the amount over</i> —	
\$0	\$15,100	.....	<b>10%</b>	<b>\$0</b>	\$0	\$10,750	.....	<b>10%</b>	<b>\$0</b>
15,100	61,300	<b>\$1,510.00+</b>	<b>15%</b>	<b>15,100</b>	10,750	41,050	<b>\$1,075.00 +</b>	<b>15%</b>	<b>10,750</b>
61,300	123,700	<b>8,440.00+</b>	<b>25%</b>	<b>61,300</b>	41,050	106,000	<b>5,620.00 +</b>	<b>25%</b>	<b>41,050</b>
123,700	188,450	<b>24,040.00+</b>	<b>28%</b>	<b>123,700</b>	106,000	171,650	<b>21,857.50 +</b>	<b>28%</b>	<b>106,000</b>
188,450	336,550	<b>42,170.00+</b>	<b>33%</b>	<b>188,450</b>	171,650	336,550	<b>40,239.50 +</b>	<b>33%</b>	<b>171,650</b>
336,550	.....	<b>91,043.00+</b>	<b>35%</b>	<b>336,550</b>	336,550	.....	<b>94,656.50 +</b>	<b>35%</b>	<b>336,550</b>

**2006 Qualified Dividends and Capital Gain Tax Worksheet—Line 16**

Keep for Your Records



Use this worksheet **only** if both of the following apply.

- Your elected farm income on Schedule J, line 2, does not include any net capital gain.
- You (a) entered qualified dividends on your 2006 Form 1040, line 9b (or your 2006 Form 1040A, line 9b, or 2006 Form 1040NR, line 10b), (b) entered capital gain distributions directly on your 2006 Form 1040, line 13 (or your 2006 Form 1040A, line 10, or 2006 Form 1040NR, line 14) and checked the box on that line, or (c) filed Schedule D in 2006 and you answered “Yes” on lines 17 and 20 of that Schedule D.

1. Amount from Schedule J, line 15	1.	<input type="text"/>
2. Amount from Form 1040, line 9b (or Form 1040A, line 9b, or Form 1040NR, line 10b)	2.	<input type="text"/>
3. Did you file Schedule D in 2006?		
<input type="checkbox"/> <b>Yes.</b> Enter the <b>smaller</b> of line 15 or 16 of your 2006 Schedule D, but do not enter less than -0-	3.	<input type="text"/>
<input type="checkbox"/> <b>No.</b> Enter the amount from Form 1040, line 13 (or Form 1040A, line 10, or Form 1040NR, line 14)		
4. Add lines 2 and 3	4.	<input type="text"/>
5. Amount, if any, from your 2006 Form 4952, line 4g	5.	<input type="text"/>
6. Subtract line 5 from line 4. If zero or less, enter -0-	6.	<input type="text"/>
7. Subtract line 6 from line 1. If zero or less, enter -0-	7.	<input type="text"/>
8. Enter the <b>smaller</b> of:		
• The amount on line 1, or	8.	<input type="text"/>
• \$30,650 if single or married filing separately, or if you checked filing status 1, 2, 3, 4, or 5 on Form 1040NR, \$61,300 if married filing jointly or qualifying widow(er) or if you checked filing status box 6 on Form 1040NR, \$41,050 if head of household.		
9. Is the amount on line 7 equal to or more than the amount on line 8?		
<input type="checkbox"/> <b>Yes.</b> Skip lines 9 through 11; go to line 12 and check the “No” box.	9.	<input type="text"/>
<input type="checkbox"/> <b>No.</b> Enter the amount from line 7		
10. Subtract line 9 from line 8	10.	<input type="text"/>
11. Multiply line 10 by 5% (.05)	11.	<input type="text"/>
12. Are the amounts on lines 6 and 10 the same?		
<input type="checkbox"/> <b>Yes.</b> Skip lines 12 through 15; go to line 16.	12.	<input type="text"/>
<input type="checkbox"/> <b>No.</b> Enter the <b>smaller</b> of line 1 or line 6		
13. Enter the amount from line 10 (if line 10 is blank, enter -0-)	13.	<input type="text"/>
14. Subtract line 13 from line 12	14.	<input type="text"/>
15. Multiply line 14 by 15% (.15)	15.	<input type="text"/>
16. Figure the tax on the amount on line 7. Use the 2006 Tax Rate Schedules on page J-9	16.	<input type="text"/>
17. Add lines 11, 15, and 16	17.	<input type="text"/>
18. Figure the tax on the amount on line 1. Use the 2006 Tax Rate Schedules on page J-9	18.	<input type="text"/>
19. <b>Tax.</b> Enter the <b>smaller</b> of line 17 or line 18 here and on Schedule J, line 16	19.	<input type="text"/>



Use this worksheet if you claimed the foreign earned income exclusion or the housing exclusion on your 2006 Form 2555 or Form 2555-EZ.

1. Enter the amount from Schedule J, line 15 . . . . .	1.	<input type="text"/>
2. Enter the amount from your (and your spouse's, if filing jointly) Form 2555, line 45, or Form 2555-EZ, line 18 . . . . .	2.	<input type="text"/>
3. Enter the total amount of any itemized deductions you could not claim because they are related to excluded income . . . . .	3.	<input type="text"/>
4. Subtract line 3 from line 2. If zero or less, enter -0- . . . . .	4.	<input type="text"/>
5. Combine lines 1 and 4. If zero or less, enter -0- . . . . .	5.	<input type="text"/>
6. Tax on amount on line 5. Use the 2006 Tax Rate Schedules on page J-9, the 2006 Schedule D Tax Worksheet*, or the Qualified Dividends and Capital Gain Tax Worksheet*, whichever applies. . . . .	6.	<input type="text"/>
7. Tax on amount on line 4. Use the 2006 Tax Rate Schedules on page J-9 . . . . .	7.	<input type="text"/>
8. Subtract line 7 from line 6. Enter the result here and on Schedule J, line 16 . . . . .	8.	<input type="text"/>

*\*Enter the amount from line 5 above on line 1 of the Qualified Dividends and Capital Gain Tax Worksheet on page J-10 or Schedule D Tax Worksheet in the 2006 Schedule D instructions if you use either of those worksheets to figure the tax on line 6 above. Complete the rest of either of those worksheets according to the worksheet's instructions. Then complete lines 7 and 8 above.*

**Lines 18, 19, and 20**

If you filed your 2004 tax return using TeleFile, enter your tax from your TeleFile Tax Record. The TeleFile Program was discontinued in 2005.

If you amended your return or the IRS made changes to it, enter the corrected amount.

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