



2008 Instructions for Schedule J

Income Averaging for Farmers and Fishermen

Use Schedule J (Form 1040) to elect to figure your 2008 income tax by averaging, over the previous 3 years (base years), all or part of your 2008 taxable income from your trade or business of farming or fishing. This election may give you a lower tax if your 2008 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.

What's New

Exxon Valdez litigation. If you received taxable income from this civil action, you may qualify to include the amount received as fishing income for income averaging purposes. See *Settlement from Exxon Valdez litigation* on page 2.

New rules for averaging farming and fishing income. The four items discussed below are effective for tax years beginning after July 22, 2008. However, you can apply these provisions to tax years beginning after December 31, 2003, and before July 23, 2008, if all provisions are consistently applied in each tax year.

Farming and fishing businesses. If you conduct both farming and fishing businesses, you must figure elected farm income by combining income, gains, losses, and deductions attributable to your farming and fishing businesses.

Lessors of fishing vessels. A lessor of a fishing vessel is engaged in a fishing business for income averaging purposes with respect to payments received under the lease, but only if the lease payments are (a) based on a share of the catch (or a share of the proceeds from the sale of the catch) from the lessee's use of the vessel in a fishing business (not a fixed payment), and (b) determined under a written lease agreement entered into before the lessee begins any significant fishing activities resulting in the catch.

Crew members on fishing vessels. A crew member on a fishing vessel is engaged in a fishing business for income averaging purposes with respect to the compensation earned as a crew member on a vessel engaged in a fishing business, but only if the compensation is based on a share of the catch (or a share of the proceeds from the sale of the catch).

Merchant Marine Capital Construction Fund (CCF) deposits. If you reduced your taxable income on Form 1040, line 43, or Form 1040NR, line 40, by any amount deposited into a CCF account, take into account the CCF reduction in figuring taxable income for income averaging purposes. Also, the CCF reduction is treated as a deduction attributable to your fishing business in figuring elected farm income. However, if any earnings (without regard to the carryback of any net operating or net capital loss) from the operation of agreement vessels in the fisheries of the United States or in the foreign or domestic commerce of the United States are not attributable to your fishing business, such amounts are not deductible when figuring elected farm income.

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.

General Instructions

Prior Year Tax Returns

You may need copies of your original or amended income tax returns for 2005, 2006, and 2007 to figure your tax on Schedule J.

If you need copies of your tax returns, use Form 4506. There is a \$57 fee (subject to change) for each return requested. If your main home, principal place of business, or tax records are located in a federally declared disaster area, this fee will be waived. If you want a free transcript of your tax return or account, use Form 4506-T. See your Form 1040 instruction booklet to find out how to get these forms.

Keep a copy of your 2008 income tax return to use for income averaging in 2009, 2010, or 2011.

Definitions

Farming business. A farming business is the trade or business of cultivating land or

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;
4. Any operations at sea in support of, or in preparation for, any activity described in (1) through (3) above;
5. Leasing a fishing vessel, but only if the lease payments are (a) based on a share of the catch (or a share of the proceeds from

the sale of the catch) from the lessee's use of the vessel in a fishing business (not a fixed payment), and (b) determined under a written lease entered into before the lessee begins any significant fishing activities resulting in the catch; and

6. Compensation as a crew member on a vessel engaged in a fishing business, but only if the compensation is based on a share of the catch (or a share of the proceeds from the sale of the catch).

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.

Settlement from Exxon Valdez litigation. You will be treated as engaged in a fishing business with respect to any qualified settlement income you received if either of the following applies.

1. You were a plaintiff in the civil action *In re Exxon Valdez*, No. 89-095-CV (HRH) (Consolidated) (D.Alaska); or

2. All of the following apply.

a. You were a beneficiary of a plaintiff described in (1) above,

b. You acquired the right to receive qualified settlement income from that plaintiff, and

c. You were the spouse or an immediate relative of that plaintiff.

Qualified settlement income is any taxable interest and punitive damage awards you received (whether as lump sums or periodic payments) in connection with the Exxon Valdez civil action described above. Qualified settlement income includes all such awards, whether received before or after the judgement and whether related to a settlement or a judgement.

Additional Information

See Pub. 225 and Regulations section 1.1301-1T 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 your farming or fishing business. If you conduct both farming and fishing businesses, you must figure your elected farm income by combining income, gains, losses, and deductions attributable to your farming and fishing businesses.

Elected farm income also includes any gain or loss from the sale or other disposition of property regularly used in your farming or fishing business for a substantial period of time. However, if such gain or loss is realized after cessation of the farming or fishing business, the gain or loss is treated as attributable to a farming or fishing business only if the property is sold within a reasonable time after cessation of the farming or fishing business. A sale or other disposition within one year of the cessation is considered to be within a reasonable time.

Elected farm income does not include income, gain, or loss from the sale or other disposition of land or from the sale of development rights, grazing rights, and other similar rights.

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

- Form 1040, line 7, or Form 1040NR, line 8, income from wages and other compensation you received (a) as a shareholder in an S corporation engaged in a farming or fishing business or (b) as a crew member on a vessel engaged in a fishing business (but see *Fishing business* on page 1);

- Form 1040, line 21, or Form 1040NR, line 21, income from Exxon Valdez litigation;

- Form 1040, line 27, deduction for one-half of self-employment tax, but only to the extent that deduction is attributable to your farming or fishing business;

- Form 1040, line 43, or Form 1040NR, line 40, CCF reduction, except to the extent that any earnings (without regard to the carryback of any net operating or net capital loss) from the operation of agreement vessels in the fisheries of the United States or in the foreign or domestic commerce of the United States are not attributable to your 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 fish-

ing 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 2008 Tax Table, Tax Computation Worksheet, Qualified Dividends and Capital Gain Tax Worksheet, or Foreign Earned Income Tax Worksheet from the 2008 Instructions for Form 1040 or Form 1040NR; or

- The Schedule D Tax Worksheet in the 2008 Instructions for Schedule D.

Enter the tax on line 4.

Line 5

If you used Schedule J to figure your tax for:

- 2007 (that is, you entered the amount from the 2007 Schedule J, line 22, on line 44 of your 2007 Form 1040, on line 41 of your 2007 Form 1040NR, or on Form 1040X for 2007), enter on line 5 the amount from your 2007 Schedule J, line 11.

- 2006 but not 2007, enter on line 5 the amount from your 2006 Schedule J, line 15.

- 2005 but not 2006 or 2007, enter on line 5 the amount from your 2005 Schedule J, line 3.

If you figured your tax for 2005, 2006, and 2007 without using Schedule J, enter on line 5 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 on page J-3 to figure the amount to enter on line 5.

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 for at least 3 years after April 15, 2009 (or the date you file your 2008 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 your 2005 Form 1040NR, line 38 (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 net operating loss (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, who is single, did not use income averaging for 2005, 2006, or 2007. For 2008, John has \$18,000 of elected farm income on Schedule J, line 2. The taxable income before subtracting exemptions on his 2005 Form 1040, line

41, is \$4,050. A deduction for exemptions of \$3,200 is shown on line 42, and line 43, taxable income, is \$850. However, John had a \$21,750 NOL for 2006, \$9,000 of which was remaining to carry to 2005 after the NOL was carried back to 2004. To complete line 1 of the 2005 Taxable Income Worksheet, John combines the \$9,000 NOL deduction with the \$850 from his 2005 Form 1040, line 43. The result is a negative \$8,150, John's 2005 taxable income, which he enters as a positive amount on line 1 of the 2005 Taxable Income 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), a \$7,000 loss on Schedule D, line 16, and a \$4,000 capital loss carryover to 2006. However, when John carried back the 2006 NOL (\$9,000 of which was carried to 2005), he refigured his 2005 capital loss carryover to 2006 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 \$850 of taxable income in 2005 that reduced the 2006 NOL carryback. The \$3,200 exemption deduction and \$3,000 net capital loss deduction also reduced the amount of the 2006 NOL carryback. Therefore, only \$1,950 was available to carry to 2007 and later years, as shown on line 10 of his 2006 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 \$8,150 on line 1 and enters the result, \$3,200, on line 5 of the worksheet. He enters a negative \$3,200 on Schedule J, line 5. He combines that amount with the \$6,000 on Schedule J, line 6, and enters \$2,800 on Schedule J, line 7.

2005 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 2006 and 2007 **and** your 2005 taxable income was zero or less. See the instructions that begin on page J-2 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, do not 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 5 | 5. | <input type="text"/> |

Line 8

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

- The 2005 Tax Rate Schedules below,

- The 2005 Qualified Dividends and Capital Gain Tax Worksheet on the next page, or

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

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

2005 Tax Rate Schedules—Line 8

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



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

- Your elected farm income on your 2008 Schedule J, lines 5 and 6, 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 your 2008 Schedule J, line 7	1.	<input type="text"/>
2. Amount from your 2005 Form 1040, line 9b (or your 2005 Form 1040A, line 9b, or 2005 Form 1040NR, line 10b)	2.	<input type="text"/>
3. Did you file Schedule D in 2005?		
<input type="checkbox"/> Yes. Enter the smaller of line 15 or 16 of your 2005 Schedule D, but do not enter less than -0-	3.	<input type="text"/>
<input type="checkbox"/> No. Enter the amount from your 2005 Form 1040, line 13 (or your 2005 Form 1040A, line 10, or 2005 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 smaller 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"/> Yes. Skip lines 9 through 11; go to line 12 and check the “No” box.	9.	<input type="text"/>
<input type="checkbox"/> No. 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"/> Yes. Skip lines 12 through 15; go to line 16.	12.	<input type="text"/>
<input type="checkbox"/> No. Enter the smaller 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-4	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-4	18.	<input type="text"/>
19. Tax. Enter the smaller of line 17 or line 18 here and on your 2008 Schedule J, line 8	19.	<input type="text"/>

Line 9

If you used Schedule J to figure your tax for:

- 2007 (that is, you entered the amount from the 2007 Schedule J, line 22, on line 44 of your 2007 Form 1040, on line 41 of 2007 Form 1040NR, or on Form 1040X for 2007), enter on line 9 the amount from your 2007 Schedule J, line 15.

- 2006 but not 2007, enter on line 9 the amount from your 2006 Schedule J, line 3.

If you figured your tax for both 2006 and 2007 without using Schedule J, enter on line 9 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 9.

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, 2009 (or the date you file your 2008 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 your 2006 Form 1040NR, line 38, (or as previously adjusted)—was less than zero. Enter on line 2 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. If you had any NOL carrybacks to 2006, be sure you refigured your 2006 capital loss carryover to 2007.

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 2005, 2006, or 2007. The taxable income before subtracting exemptions on his 2006 Form 1040, line 41, is a negative \$29,900. A deduction for exemptions of \$3,300 is shown on line 42, and line 43, taxable income, is limited to zero. John subtracts from the \$29,900 loss the \$3,300 deduction for exemptions. The result is a negative \$33,200, John's 2006 taxable income, which he enters as a positive amount on line 1 of the 2006 Taxable Income 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), and a \$7,000 loss on Schedule D, line 16 (as adjusted). He also had a \$7,000 capital loss carryover to 2007. 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 \$21,750 on line 3 of the worksheet, the 2006 NOL from his 2006 Form 1045, Schedule A, line 25. Of the \$33,200 negative taxable income, the \$3,300 deduction for exemptions, the \$3,000 capital loss deduction, and his \$5,150 standard deduction were not allowed in figuring the NOL. John had a \$21,750 loss on his 2006 Schedule F, the only other item on his 2006 tax return.

John enters \$24,750 (the \$3,000 line 2 amount plus the \$21,750 line 3 amount) on line 4 and \$8,450 (the \$33,200 line 1 amount minus the \$24,750 line 4 amount) on line 5. He enters \$8,450 as a negative amount on Schedule J, line 9. He enters \$6,000 on Schedule J, line 10, and a negative \$2,450 on Schedule J, line 11. If he uses Schedule J to figure his tax for 2009, he will enter the negative \$2,450 amount on his 2009 Schedule J as his 2006 taxable income for income averaging purposes.

2006 Taxable Income Worksheet—Line 9

Keep for Your Records



Complete this worksheet if you **did not** use Schedule J to figure your tax for 2007 **and** your 2006 taxable income was 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, do not 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 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 2006 Tax Rate Schedules below,

- The 2006 Qualified Dividends and Capital Gain Tax Worksheet on page J-8,

- The 2006 Schedule D Tax Worksheet in the 2006 Schedule D instructions (but use the 2006 Tax Rate Schedules below

when figuring the tax on the Schedule D Tax Worksheet, lines 34 and 36), or

- The 2006 Foreign Earned Income Tax Worksheet below.

2006 Tax Rate Schedules—Line 12

Keep for Your Records



Schedule X—Use if your 2006 filing status was Single or you checked filing status box 1 or 2 on Form 1040NR					Schedule Y-2—Use if your 2006 filing status was Married filing separately or you checked filing status box 3, 4, or 5 on Form 1040NR				
If Schedule J, line 11, is: Over—	But not over—	Enter on Schedule J, line 12	of the amount over—		If Schedule J, line 11, is: Over—	But not over—	Enter on Schedule J, line 12	of the amount over—	
\$0	\$7,550	.....	10%	\$0	\$0	\$7,550	.....	10%	\$0
7,550	30,650	\$755.00 +	15%	7,550	7,550	30,650	\$755.00 +	15%	7,550
30,650	74,200	4,220.00 +	25%	30,650	30,650	61,850	4,220.00 +	25%	30,650
74,200	154,800	15,107.50 +	28%	74,200	61,850	94,225	12,020.00 +	28%	61,850
154,800	336,550	37,675.50 +	33%	154,800	94,225	168,275	21,085.00 +	33%	94,225
336,550	.....	97,653.00 +	35%	336,550	168,275	.....	45,521.50 +	35%	168,275
Schedule Y-1—Use if your 2006 filing status was Married filing jointly or Qualifying widow(er) or you checked filing status box 6 on Form 1040NR					Schedule Z—Use if your 2006 filing status was Head of household				
If Schedule J, line 11, is: Over—	But not over—	Enter on Schedule J, line 12	of the amount over—		If Schedule J, line 11, is: Over—	But not over—	Enter on Schedule J, line 12	of the amount over—	
\$0	\$15,100	.....	10%	\$0	\$0	\$10,750	.....	10%	\$0
15,100	61,300	\$1,510.00 +	15%	15,100	10,750	41,050	\$1,075.00 +	15%	10,750
61,300	123,700	8,440.00 +	25%	61,300	41,050	106,000	5,620.00 +	25%	41,050
123,700	188,450	24,040.00 +	28%	123,700	106,000	171,650	21,857.50 +	28%	106,000
188,450	336,550	42,170.00 +	33%	188,450	171,650	336,550	40,239.50 +	33%	171,650
336,550	.....	91,043.00 +	35%	336,550	336,550	.....	94,656.50 +	35%	336,550

2006 Foreign Earned Income Tax Worksheet—Line 12

Keep for Your Records



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 your 2006 Schedule J, line 11 1.
2. Enter the amount from your (and your spouse's, if filing jointly) 2006 Form 2555, line 45, or Form 2555-EZ, line 18 2.
3. Enter the total amount of any itemized deductions you could not claim in 2006 because they were related to excluded income 3.
4. Subtract line 3 from line 2. If zero or less, enter -0- 4.
5. Combine lines 1 and 4. If zero or less, enter -0- 5.
6. Tax on amount on line 5. Use the 2006 Tax Rate Schedules above, the 2006 Schedule D Tax Worksheet,* or the Qualified Dividends and Capital Gain Tax Worksheet,* whichever applies. . . . 6.
7. Tax on amount on line 4. Use the 2006 Tax Rate Schedules above 7.
8. Subtract line 7 from line 6. Enter the result here and on your 2006 Schedule J, line 12 8.

*Enter the amount from line 5 above on line 1 of the 2006 Qualified Dividends and Capital Gain Tax Worksheet on page J-8 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.



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

- Your elected farm income on the your 2008 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 your 2008 Schedule J, line 11	1.	<input type="text"/>
2.	Amount from your 2006 Form 1040, line 9b (or your 2006 Form 1040A, line 9b, or 2006 Form 1040NR, line 10b)	2.	<input type="text"/>
3.	Did you file Schedule D in 2006?		
	<input type="checkbox"/> Yes. Enter the smaller of line 15 or 16 of your 2006 Schedule D, but do not enter less than -0-	3.	<input type="text"/>
	<input type="checkbox"/> No. Enter the amount from your 2006 Form 1040, line 13 (or your 2006 Form 1040A, line 10, or 2006 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 smaller 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 box 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"/> Yes. Skip lines 9 through 11; go to line 12 and check the “No” box.	9.	<input type="text"/>
	<input type="checkbox"/> No. 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"/> Yes. Skip lines 12 through 15; go to line 16.	12.	<input type="text"/>
	<input type="checkbox"/> No. Enter the smaller 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-7	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-7	18.	<input type="text"/>
19.	Tax. Enter the smaller of line 17 or line 18 here and on your 2008 Schedule J, line 12	19.	<input type="text"/>

Line 13

If you used Schedule J to figure your tax for 2007 (that is, you entered the amount from the 2007 Schedule J, line 22, on line 44 of your 2007 Form 1040, on line 41 of your 2007 Form 1040NR, or on Form 1040X for 2007), enter on line 13 the amount from your 2007 Schedule J, line 3.

If you did not use Schedule J to figure your tax for 2007, enter on line 13 the taxable income from your 2007 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 2007, 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 2007 until at least 3 years after April 15, 2009 (or the date you file your 2008 tax return, if later).

Instructions for 2007 Taxable Income Worksheet

Line 2. Any net capital loss deduction on your 2007 Schedule D, line 21, is not allowed for income averaging purposes to the extent it did not reduce your capital loss carryover to 2008. This could happen if the taxable income before subtracting exemptions—shown on your 2007 Form 1040, line 41, or your 2007 Form 1040NR, line 38 (or as previously adjusted)—was less than zero. Enter on line 2 the amount by which your 2007 capital loss carryover to 2008 (the sum of your short- and long-term capital loss carryovers) exceeds the excess of the loss on your 2007 Schedule D, line 16, over the loss on your 2007 Schedule D, line 21.

Line 3. If you had an NOL for 2007, enter the amount of that NOL from line 25 of the 2007 Form 1045, Schedule A, you filed with Form 1045 or Form 1040X. If you did not have an NOL for 2007, enter the portion, if any, of the NOL carryovers and carrybacks to 2007 that were not used in 2007 and were carried to years after 2007.

Example. John Farmington did not use income averaging for 2005, 2006, or 2007. The taxable income before subtracting exemptions on his 2007 Form 1040, line 41, is a negative \$1,000. This amount includes an NOL deduction on his 2007 Form 1040, line 21, of \$1,950. The \$1,950 is the portion of the 2006 NOL that was remaining from 2005 to be carried to 2007. See the examples on pages J-3 and J-6. A deduction for exemptions of \$3,400 is shown on Form 1040, line 42, and line 43, taxable income, is limited to zero. John does not have an NOL for 2007. John subtracts from the \$1,000 negative amount on Form 1040, line 41, the \$3,400 deduction for exemptions. The result is a negative \$4,400, John's 2007 taxable income, which he enters as a positive amount on line 1 of the 2007 Taxable Income Worksheet.

When John filed his 2007 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 2008 (his 2007 capital loss carryover to 2008 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 2007 and did not have an NOL carryover from 2007 available to carry to 2008 and later years. The NOL deduction for 2007 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 \$3,400 exemption deduction to negative taxable income (figured without regard to the NOL deduction) of \$2,450. John enters \$1,000 on line 4 and \$3,400 on line 5. He enters \$3,400 as a negative amount on Schedule J, line 13. He enters \$6,000 on Schedule J, line 14, and \$2,600 on Schedule J, line 15. If he uses Schedule J to figure his tax for 2009, he will enter \$2,600 on his 2009 Schedule J as his 2007 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 2007 Tax Rate Schedules on page J-10,
- The 2007 Qualified Dividends and Capital Gain Tax Worksheet on page J-11,
- The 2007 Schedule D Tax Worksheet in the 2007 Schedule D instructions (but use the 2007 Tax Rate Schedules on page J-10 when figuring the tax on the Schedule D Tax Worksheet, lines 34 and 36), or
- The 2007 Foreign Earned Income Tax Worksheet on page J-12.

2007 Taxable Income Worksheet—Line 13

Keep for Your Records



Complete this worksheet if your 2007 taxable income was zero or less. See the instructions above before completing this worksheet.

1. Figure the taxable income from your 2007 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 2007, do not include any NOL carryovers or carrybacks to 2007. Enter the result as a positive amount	1.	<input type="text"/>
2. If there is a loss on your 2007 Schedule D, line 21, add that loss (as a positive amount) and your 2007 capital loss carryover to 2008. Subtract from that sum the amount of the loss on your 2007 Schedule D, line 16, and enter the result	2.	<input type="text"/>
3. If you had an NOL for 2007, enter it as a positive amount. Otherwise, enter as a positive amount the portion, if any, of the NOL carryovers and carrybacks to 2007 that were not used in 2007 and were carried to years after 2007	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"/>

2007 Tax Rate Schedules—Line 16

Schedule X —Use if your 2007 filing status was Single or you checked filing status box 1 or 2 on Form 1040NR					Schedule Y-2 —Use if your 2007 filing status was Married filing separately 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	\$7,825	.....	10%	\$0	\$0	\$7,825	.....	10%	\$0
7,825	31,850	\$782.50 +	15%	7,825	7,825	31,850	\$782.50 +	15%	7,825
31,850	77,100	4,386.25 +	25%	31,850	31,850	64,250	4,386.25 +	25%	31,850
77,100	160,850	15,698.75 +	28%	77,100	64,250	97,925	12,486.25 +	28%	64,250
160,850	349,700	39,148.75 +	33%	160,850	97,925	174,850	21,915.25 +	33%	97,925
349,700	.....	101,469.25+	35%	349,700	174,850	.....	47,300.50 +	35%	174,850
Schedule Y-1 —Use if your 2007 filing status was Married filing jointly or Qualifying widow(er) or you checked filing status box 6 on Form 1040NR					Schedule Z —Use if your 2007 filing status was Head of household				
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	\$15,650	.....	10%	\$0	\$0	\$11,200	.....	10%	\$0
15,650	63,700	\$1,565.00 +	15%	15,650	11,200	42,650	\$1,120.00 +	15%	11,200
63,700	128,500	8,772.50 +	25%	63,700	42,650	110,100	5,837.50 +	25%	42,650
128,500	195,850	24,972.50 +	28%	128,500	110,100	178,350	22,700.00 +	28%	110,100
195,850	349,700	43,830.50 +	33%	195,850	178,350	349,700	41,810.00 +	33%	178,350
349,700	.....	94,601.00 +	35%	349,700	349,700	.....	98,355.50 +	35%	349,700

2007 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 your 2008 Schedule J, line 2, does not include any net capital gain.
- You (a) entered qualified dividends on your 2007 Form 1040, line 9b (or your 2007 Form 1040A, line 9b, or 2007 Form 1040NR, line 10b); (b) entered capital gain distributions directly on your 2007 Form 1040, line 13 (or your 2007 Form 1040A, line 10, or 2007 Form 1040NR, line 14) and checked the box on that line; or (c) filed Schedule D in 2007 and you answered “Yes” on lines 17 and 20 of that Schedule D.

1. Amount from your 2008 Schedule J, line 15	1.	<input type="text"/>
2. Amount from your 2007 Form 1040, line 9b (or your 2007 Form 1040A, line 9b, or 2007 Form 1040NR, line 10b)	2.	<input type="text"/>
3. Did you file Schedule D in 2007?		
<input type="checkbox"/> Yes. Enter the smaller of line 15 or 16 of your 2007 Schedule D, but do not enter less than -0-	3.	<input type="text"/>
<input type="checkbox"/> No. Enter the amount from your 2007 Form 1040, line 13 (or your 2007 Form 1040A, line 10, or 2007 Form 1040NR, line 14)		
4. Add lines 2 and 3	4.	<input type="text"/>
5. Amount, if any, from your 2007 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 smaller of:		
• The amount on line 1, or	8.	<input type="text"/>
• \$31,850 if single or married filing separately, or if you checked filing status box 1, 2, 3, 4, or 5 on Form 1040NR; \$63,700 if married filing jointly or qualifying widow(er) or if you checked filing status box 6 on Form 1040NR; \$42,650 if head of household.		
9. Is the amount on line 7 equal to or more than the amount on line 8?		
<input type="checkbox"/> Yes. Skip lines 9 through 11; go to line 12 and check the “No” box.	9.	<input type="text"/>
<input type="checkbox"/> No. 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"/> Yes. Skip lines 12 through 15; go to line 16.	12.	<input type="text"/>
<input type="checkbox"/> No. Enter the smaller 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 2007 Tax Rate Schedules on page J-10	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 2007 Tax Rate Schedules on page J-10	18.	<input type="text"/>
19. Tax. Enter the smaller of line 17 or line 18 here and on your 2008 Schedule J, line 16	19.	<input type="text"/>



Before you begin: ✓ If Schedule J, line 15, is zero or less, do not complete this worksheet.

1. Enter the amount from your 2008 Schedule J, line 15	1.	
2. Enter the amount from your (and your spouse's, if filing jointly) 2007 Form 2555, line 45, or Form 2555-EZ, line 18	2.	
3. Add lines 1 and 2	3.	
4. Tax on the amount on line 3. Use the 2007 Tax Rate Schedules on page J-10, the 2007 Qualified Dividends and Capital Gain Tax Worksheet on page J-11,* or the 2007 Schedule D Tax Worksheet in the 2007 Schedule D instructions,* whichever applies.	4.	
5. Tax on the amount on line 2. Use the 2007 Tax Rate Schedules on page J-10.	5.	
6. Subtract line 5 from line 4. Enter the result. If zero or less, enter -0-. Also include this amount on your 2008 Schedule J, line 16	6.	

**Enter the amount from line 3 above on line 1 of the 2007 Qualified Dividends and Capital Gain Tax Worksheet or the 2007 Schedule D Tax Worksheet if you use either of those worksheets to figure the tax on line 4 above. Complete the rest of that worksheet through line 6 (line 10 if you use the Schedule D Tax Worksheet). Next, you must determine if you had a capital gain excess. To find out if you had a capital gain excess, subtract the amount from your 2007 Form 1040, line 43, from line 6 of your 2007 Qualified Dividends and Capital Gain Tax Worksheet (line 10 of your 2007 Schedule D Tax Worksheet). If the result is more than zero, that amount is your capital gain excess.*

If you did not have a capital gain excess, complete the rest of either of those worksheets according to the worksheet's instructions. Then complete lines 5 and 6 above.

If you had a capital gain excess, complete a second 2007 Qualified Dividends and Capital Gain Tax Worksheet or 2007 Schedule D Tax Worksheet (whichever applies) as instructed above but in its entirety and with the following additional modifications. Then complete lines 5 and 6 above. These modifications are to be made only for purposes of filling out the 2007 Foreign Earned Income Tax Worksheet above.

1. Reduce the amount you would otherwise enter on line 3 of your 2007 Qualified Dividends and Capital Gain Tax Worksheet or line 9 of your 2007 Schedule D Tax Worksheet (but not below zero) by your capital gain excess.
2. Reduce the amount you would otherwise enter on your 2007 Form 1040, line 9b, (but not below zero) by any of your capital gain excess not used in (1) above.
3. Reduce the amount on your 2007 Schedule D (Form 1040), line 18, (but not below zero) by your capital gain excess.
4. Include your capital gain excess as a loss on line 16 of your 2007 Unrecaptured Section 1250 Gain Worksheet on page D-9 of the 2007 Instructions for Schedule D (Form 1040).

Lines 18, 19, and 20

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