



2004 Instructions for Schedule J

Income Averaging for Farmers and Fishermen

Use Schedule J (Form 1040) to elect to figure your 2004 tax by averaging, over the previous 3 years (base years), all or part of your 2004 taxable income from your trade or business of farming or fishing. Making this election may give you a lower tax if your 2004 income from farming or fishing is high and your taxable income for one or more of the 3 prior years was low.

This election does not apply when figuring your tentative minimum tax on Form 6251 (that is, you cannot average your AMT income from farming or fishing). 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

Fishermen. You can use Schedule J to average your income from your fishing business by electing to include taxable income from fishing in elected farm income on line 2.

Alternative minimum tax (AMT). Filing Schedule J may reduce your total tax for 2004 even if you owe AMT.

General Instructions

Prior Year Tax Returns

You may need copies of your original or amended income tax returns for 2001, 2002, and 2003 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 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 2004 income tax return for use in 2005, 2006, or 2007.

Additional Information

See Regulations section 1.1301-1 for more details.

Specific Instructions

Line 2

Elected Farm Income

To figure 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. However, it does not include gain from the sale or other disposition of land.

Your elected farm income is the amount of your taxable income from farming or fishing that you elect to include on line 2. 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 full 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.

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.

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.



Generally, income, gains, losses, and deductions from farming or fishing are reported on:

- Form 1040, line 7, to the extent of 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.



Complete this worksheet if you did not use Schedule J to figure your tax for both 2002 and 2003 **and** your 2001 taxable income was zero or less. See the instructions below before completing this worksheet.

1. Figure the taxable income from your 2001 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 2001, **do not** include any NOL carryovers or carrybacks to 2001. Enter the result as a positive amount **1.** _____
2. If there is a loss on your 2001 Schedule D, line 18, add that loss (as a positive amount) and your 2001 capital loss carryover to 2002. Subtract from that sum the amount of the loss on your 2001 Schedule D, line 17, and enter the result . . . **2.** _____
3. If you had an NOL for 2001, enter it as a positive amount. Otherwise, enter as a positive amount the portion, if any, of the NOL carryovers and carrybacks to 2001 that were not used in 2001 and were carried to years after 2001 **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 4

Figure the tax on the amount on line 3 using the 2004 Tax Table, Tax Computation Worksheet, or Qualified Dividends and Capital Gain Tax Worksheet from your 2004 Form 1040 instruction booklet, or use the Schedule D Tax Worksheet. Enter the tax on line 4.

Line 5

If you used Schedule J to figure your tax for 2003 (that is, you entered the amount from that Schedule J, line 22, on Form 1040, line 41, or on Form 1040X), enter on line 5 the amount from your 2003 Schedule J, line 11. If you used Schedule J to figure your tax for 2002 but not 2003, enter on line 5 the amount from your 2002 Schedule J, line 15. If you used Schedule J to figure your tax for 2001 but not 2002 nor 2003, enter

on line 5 the amount from your 2001 Schedule J, line 3.

If you figured your tax for 2001, 2002, and 2003 without using Schedule J, enter on line 5 the taxable income from your 2001 tax return (or as previously adjusted by the IRS, an amended return, etc.). But if that amount is zero or less, complete the worksheet above to figure the amount to enter on line 5.

If you filed your 2001 tax return using TeleFile, enter the taxable income from your TeleFile Tax Record. If you did not file a tax return for 2001, 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 2001 for at least 3 years after April 15, 2005 (or the date you file your 2004 tax return, if later), even if you did not file a tax return for 2001.

Instructions for 2001 Taxable Income Worksheet

Line 2. Any net capital loss deduction on your 2001 Schedule D, line 18, is not allowed for income averaging purposes to the extent it did not reduce your capital loss carryover to 2002. This could happen if the taxable income before subtracting exemptions shown on your 2001 Form 1040, line 37 (or as previously adjusted), was less than zero. Enter the amount by which your 2001 capital loss carryover to 2002 (the sum of your short- and long-term capital loss carryovers) exceeds the excess of the loss on your 2001 Schedule D, line 17, over the loss on your 2001 Schedule D, line 18. If you had any net operating loss (NOL) carrybacks to 2001, be sure you refigured your 2001 capital loss carryover to 2002.

Line 3. If you had an NOL for 2001, enter the amount of that NOL as figured on the 2001 Form 1045, Schedule A, line 27, you

2001 Tax Rate Schedules—Line 8

Schedule X—Use if your 2001 filing status was Single					Schedule Y-2—Use if your 2001 filing status was Married filing separately				
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	\$27,050	.....	15%	\$0	\$0	\$22,600	.....	15%	\$0
27,050	65,550	\$4,057.50 +	27.5%	27,050	22,600	54,625	\$3,390.00 +	27.5%	22,600
65,550	136,750	14,645.00 +	30.5%	65,550	54,625	83,250	12,196.88 +	30.5%	54,625
136,750	297,350	36,361.00 +	35.5%	136,750	83,250	148,675	20,927.50 +	35.5%	83,250
297,350	.....	93,374.00 +	39.1%	297,350	148,675	.....	44,153.38 +	39.1%	148,675
Schedule Y-1—Use if your 2001 filing status was Married filing jointly or Qualifying widow(er)					Schedule Z—Use if your 2001 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	\$45,200	.....	15%	\$0	\$0	\$36,250	.....	15%	\$0
45,200	109,250	\$6,780.00 +	27.5%	45,200	36,250	93,650	\$5,437.50 +	27.5%	36,250
109,250	166,500	24,393.75 +	30.5%	109,250	93,650	151,650	21,222.50 +	30.5%	93,650
166,500	297,350	41,855.00 +	35.5%	166,500	151,650	297,350	38,912.50 +	35.5%	151,650
297,350	.....	88,306.75 +	39.1%	297,350	297,350	.....	90,636.00 +	39.1%	297,350

2001 Capital Gain Tax Worksheet—Line 8

Keep for Your Records



Use this worksheet **only** if you entered capital gain distributions directly on line 13 of your 2001 Form 1040 (or line 10 of your 2001 Form 1040A) and checked the box on that line **and** elected farm income included on Schedule J, lines 5 and 6, does not include any net capital gain.

1.	Amount from Schedule J, line 7	1.	<input type="text"/>	
2.	Amount from your 2001 Form 1040, line 13 (or Form 1040A, line 10)	2.	<input type="text"/>	
3.	Subtract line 2 from line 1. If zero or less, enter -0-	3.	<input type="text"/>	
4.	Figure the tax on the amount on line 3. Use the 2001 Tax Rate Schedules on page J-2	4.	<input type="text"/>	
5.	Enter the smaller of:			
	• The amount on line 1 above or			
	• \$27,050 if single for 2001; \$45,200 if married filing jointly or qualifying widow(er); \$22,600 if married filing separately; or \$36,250 if head of household. }	5.	<input type="text"/>	
6.	Enter the amount from line 3	6.	<input type="text"/>	
7.	Subtract line 6 from line 5. If zero or less, enter -0- and go to line 9	7.	<input type="text"/>	
8.	Multiply line 7 by 10% (.10)	8.	<input type="text"/>	
9.	Enter the smaller of line 1 or line 2	9.	<input type="text"/>	
10.	Enter the amount from line 7	10.	<input type="text"/>	
11.	Subtract line 10 from line 9. If zero or less, enter -0- and go to line 13	11.	<input type="text"/>	
12.	Multiply line 11 by 20% (.20)	12.	<input type="text"/>	
13.	Add lines 4, 8, and 12	13.	<input type="text"/>	
14.	Figure the tax on the amount on line 1. Use the 2001 Tax Rate Schedules on page J-2	14.	<input type="text"/>	
15.	Tax. Enter the smaller of line 13 or line 14 here and on Schedule J, line 8.	15.	<input type="text"/>	

filed with Form 1045 or Form 1040X. If you did not have an NOL for 2001, enter the portion, if any, of the NOL carryovers and carrybacks to 2001 that were not used in 2001 and were carried to years after 2001.

Example. John Farmington did not use income averaging for 2001, 2002, nor

2003. John has \$18,000 of elected farm income on line 2. The taxable income before subtracting exemptions shown on his 2001 Form 1040, line 37, was \$3,900. A deduction for exemptions of \$2,900 was shown on line 38, and line 39, taxable income, was \$1,000. However, John had a \$22,300 NOL in 2002, \$9,000 of which

was remaining to carry to 2001 after the NOL was carried back to 2000. To complete line 1 of the worksheet, John combines the \$9,000 NOL deduction with the \$1,000 from his 2001 Form 1040, line 39. The result is a negative \$8,000, John's 2001 taxable income, which he enters as a

2001 Tax Computation Worksheet for Certain Dependents and Nonresident Alien Individuals — Line 8

Keep for Your Records



Use this worksheet only if you, or your spouse if filing jointly, **did not** receive (before offset) an advance payment of your 2001 taxes and (a) you, or your spouse if filing jointly, could be claimed as a dependent on someone else's 2001 tax return or (b) you filed Form 1040NR for 2001.

Special Rules. If:

- The **2001 Capital Gain Tax Worksheet** above applies, use this worksheet to figure the tax on lines 4 and 14 of the 2001 Capital Gain Tax Worksheet.
- **Part IV** of the 2001 **Schedule D** applies, use this worksheet to figure the tax on lines 25 and 39 of Part IV. If the 2001 **Schedule D Tax Worksheet** applies, use this worksheet to figure the tax on lines 15 and 36 of the Schedule D Tax Worksheet.

1.	Figure the tax on the amount on Schedule J, line 7 (or the applicable line of the worksheet or schedule listed above). Use the 2001 Tax Rate Schedules on page J-2	1.	<input type="text"/>
2.	Is the amount on line 1 more than the amount shown below for your 2001 filing status?		
	• Single or married filing separately—\$900		
	• Married filing jointly or qualifying widow(er)—\$1,800		
	• Head of household—\$1,500		
	<input type="checkbox"/> Yes. Enter: \$300 if single or married filing separately for 2001; \$500 if head of household; \$600 if married filing jointly or qualifying widow(er). }	2.	<input type="text"/>
	<input type="checkbox"/> No. Divide the amount on line 1 by 3.0. }		
3.	Subtract line 2 from line 1. Enter the result here and on Schedule J, line 8 (or the applicable line of the worksheet or schedule listed above)	3.	<input type="text"/>

positive amount on line 1 of the 2001 worksheet.

When John filed his 2001 tax return, he had a \$3,000 net capital loss deduction on Schedule D, line 18 (which was also entered on Form 1040, line 13), a \$7,000 loss on Schedule D, line 17, and a \$4,000 capital loss carryover to 2002. However, when John carried back the 2002 NOL to 2001, he refigured his 2001 capital loss carryover to 2002 as \$7,000. John adds the \$3,000 from Schedule D, line 18, and the \$7,000 carryover. He subtracts from the result the \$7,000 loss on his Schedule D, line 17, and enters \$3,000 on line 2 of the worksheet.

John had \$1,000 of taxable income in 2001 that reduced the 2002 NOL carryback. The \$2,900 of exemptions and \$3,000 net capital loss deduction also reduced the amount of the 2002 NOL carryback. Therefore, only \$2,100 was available to carry to 2003 and later years, as shown on his 2002 Form 1045, Schedule B, line 9. John enters the \$2,100 on line 3 of the worksheet, and \$5,100 on line 4. He then subtracts the \$5,100 from the \$8,000 on line 1 and enters the result, \$2,900, on line 5 of the worksheet. He enters a negative \$2,900 on Schedule J, line 5. He combines that amount with the \$6,000 on Schedule J, line 6, and enters \$3,100 on Schedule J, line 7.

Line 8

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

- The 2001 Tax Rate Schedules on page J-2,
- The 2001 Capital Gain Tax Worksheet on page J-3, or
- The Schedule D you filed for 2001 (but use the 2001 Tax Rate Schedules on page J-2 instead of the 2001 Tax Table when figuring the tax on Schedule D,

lines 25 and 39, or on the Schedule D Tax Worksheet, lines 15 and 36).

Exception. You must use the 2001 Tax Computation Worksheet for Certain Dependents and Nonresident Alien Individuals on page J-3 if you, or your spouse if filing jointly, did not receive (before offset) an advance payment of your 2001 taxes and either of the following apply.

- You, or your spouse if filing jointly, could be claimed as a dependent on someone else's 2001 tax return.
- You filed Form 1040NR for 2001.

If the 2001 Capital Gain Tax Worksheet or Schedule D also applies, follow the *Special Rules* on the worksheet on page J-3 to figure your tax.

Line 9

If you used Schedule J to figure your tax for 2003 (that is, you entered the amount from that Schedule J, line 22, on Form 1040, line 41, or on Form 1040X), enter on line 9 the amount from your 2003 Schedule J, line 15. If you used Schedule J to figure your tax for 2002 but not 2003, enter on line 9 the amount from your 2002 Schedule J, line 3.

If you figured your tax for both 2002 and 2003 without using Schedule J, enter on line 9 the taxable income from your 2002 tax return (or as previously adjusted by the IRS, an amended return, etc.). But if that amount is zero or less, complete the worksheet below to figure the amount to enter on line 9.

If you filed your 2002 tax return using TeleFile, enter the taxable income from your TeleFile Tax Record. If you did not file a tax return for 2002, 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 2002 until at least 3 years after April 15, 2005 (or the date you file your 2004 tax

return, if later), even if you did not file a tax return for 2002.

Instructions for 2002 Taxable Income Worksheet

Line 2. Any net capital loss deduction on your 2002 Schedule D, line 18, is not allowed for income averaging purposes to the extent it did not reduce your capital loss carryover to 2003. This could happen if the taxable income before subtracting exemptions shown on your 2002 Form 1040, line 39 (or as previously adjusted), was less than zero. Enter the amount by which your 2002 capital loss carryover to 2003 (the sum of your short- and long-term capital loss carryovers) exceeds the excess of the loss on your 2002 Schedule D, line 17, over the loss on your 2002 Schedule D, line 18. If you had any NOL carrybacks to 2002, be sure you refigured your 2002 capital loss carryover to 2003.

Line 3. If you had an NOL for 2002, enter the amount of that NOL as figured on the 2002 Form 1045, Schedule A, line 27, you filed with Form 1045 or Form 1040X. If you did not have an NOL for 2002, enter the portion, if any, of the NOL carryovers and carrybacks to 2002 that were not used in 2002 and were carried to years after 2002.

Example. John Farmington did not use income averaging for 2001, 2002, nor 2003. The taxable income before subtracting exemptions on his 2002 Form 1040, line 39, is a negative \$30,000. A deduction for exemptions of \$3,000 is shown on line 40, and line 41, taxable income, is limited to zero. John subtracts from the \$30,000 loss the \$3,000 deduction for exemptions. The result is a negative \$33,000, John's 2002 taxable income, which he enters as a positive amount on line 1 of the 2002 worksheet.

John had a \$3,000 net capital loss deduction on Schedule D, line 18 (which was also entered on Form 1040, line 13), and a \$7,000 loss on Schedule D, line 17 (as ad-

2002 Taxable Income Worksheet—Line 9

Keep for Your Records



Complete this worksheet if you did not use Schedule J to figure your tax for 2003 **and** your 2002 taxable income was zero or less. See the instructions above before completing this worksheet.

- | | | |
|---|----|----------------------|
| 1. Figure the taxable income from your 2002 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 2002, do not include any NOL carryovers or carrybacks to 2002. Enter the result as a positive amount | 1. | <input type="text"/> |
| 2. If there is a loss on your 2002 Schedule D, line 18, add that loss (as a positive amount) and your 2002 capital loss carryover to 2003. Subtract from that sum the amount of the loss on your 2002 Schedule D, line 17, and enter the result | 2. | <input type="text"/> |
| 3. If you had an NOL for 2002, enter it as a positive amount. Otherwise, enter as a positive amount the portion, if any, of the NOL carryovers and carrybacks to 2002 that were not used in 2002 and were carried to years after 2002 | 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"/> |

2002 Tax Rate Schedules—Line 12

Schedule X—Use if your 2002 filing status was Single					Schedule Y-2—Use if your 2002 filing status was Married filing separately				
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	\$6,000	.....	10%	\$0	\$0	\$6,000	.....	10%	\$0
6,000	27,950	\$600.00 +	15%	6,000	6,000	23,350	\$600.00 +	15%	6,000
27,950	67,700	3,892.50 +	27%	27,950	23,350	56,425	3,202.50 +	27%	23,350
67,700	141,250	14,625.00 +	30%	67,700	56,425	85,975	12,132.75 +	30%	56,425
141,250	307,050	36,690.00 +	35%	141,250	85,975	153,525	20,997.75 +	35%	85,975
307,050	.....	94,720.00 +	38.6%	307,050	153,525	.....	44,640.25 +	38.6%	153,525
Schedule Y-1—Use if your 2002 filing status was Married filing jointly or Qualifying widow(er)					Schedule Z—Use if your 2002 filing status was Head of household				
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	\$12,000	.....	10%	\$0	\$0	\$10,000	.....	10%	\$0
12,000	46,700	\$1,200.00 +	15%	12,000	10,000	37,450	\$1,000.00 +	15%	10,000
46,700	112,850	6,405.00 +	27%	46,700	37,450	96,700	5,117.50 +	27%	37,450
112,850	171,950	24,265.50 +	30%	112,850	96,700	156,600	21,115.00 +	30%	96,700
171,950	307,050	41,995.50 +	35%	171,950	156,600	307,050	39,085.00 +	35%	156,600
307,050	.....	89,280.50 +	38.6%	307,050	307,050	.....	91,742.50 +	38.6%	307,050

2002 Capital Gain Tax Worksheet—Line 12

Keep for Your Records

Use this worksheet **only** if you entered capital gain distributions directly on line 13 of your 2002 Form 1040 (or line 10 of your 2002 Form 1040A) and checked the box on that line **and** elected farm income on Schedule J, lines 9 and 10, does not include any net capital gain.

1.	Amount from Schedule J, line 11	1.	_____		
2.	Amount from your 2002 Form 1040, line 13 (or Form 1040A, line 10)	2.	_____		
3.	Subtract line 2 from line 1. If zero or less, enter -0-	3.	_____		
4.	Figure the tax on the amount on line 3. Use the 2002 Tax Rate Schedules above			4.	_____
5.	Enter the smaller of:				
	• The amount on line 1 above or				
	• \$27,950 if single for 2002; \$46,700 if married filing jointly or qualifying widow(er); \$23,350 if married filing separately; or \$37,450 if head of household.	5.	_____		
6.	Enter the amount from line 3	6.	_____		
7.	Subtract line 6 from line 5. If zero or less, enter -0- and go to line 9	7.	_____		
8.	Multiply line 7 by 10% (.10)			8.	_____
9.	Enter the smaller of line 1 or line 2	9.	_____		
10.	Enter the amount from line 7	10.	_____		
11.	Subtract line 10 from line 9. If zero or less, enter -0- and go to line 13	11.	_____		
12.	Multiply line 11 by 20% (.20)			12.	_____
13.	Add lines 4, 8, and 12			13.	_____
14.	Figure the tax on the amount on line 1. Use the 2002 Tax Rate Schedules above			14.	_____
15.	Tax. Enter the smaller of line 13 or line 14 here and on Schedule J, line 12			15.	_____

justed). He also had a \$7,000 capital loss carryover to 2003. John adds the \$3,000 from Schedule D, line 18, and the \$7,000 carryover. He subtracts from the result the \$7,000 loss on his Schedule D, line 17, and enters \$3,000 on line 2 of the worksheet.

John enters \$22,300 on line 3 of the worksheet, the 2002 NOL from his 2002 Form 1045, Schedule A, line 27. Of the \$33,000 negative taxable income, the \$3,000 deduction for exemptions, the

\$3,000 capital loss deduction, and his \$4,700 standard deduction were not allowed in figuring the NOL. John had a \$22,300 loss on his 2002 Schedule F, the only other item on his 2002 tax return.

John enters \$25,300 on line 4 and \$7,700 on line 5. He enters \$7,700 as a negative amount on Schedule J, line 9. He enters \$6,000 on Schedule J, line 10, and a negative \$1,700 on Schedule J, line 11. If he uses Schedule J to figure his tax for

2005, he will enter the negative \$1,700 amount on his 2005 Schedule J as his 2002 taxable income for income averaging purposes.

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 2002 Tax Rate Schedules on page J-5,
- The 2002 Capital Gain Tax Worksheet on page J-5, or
- The Schedule D you filed for 2002 (but use the 2002 Tax Rate Schedules on page J-5 instead of the 2002 Tax Table when figuring the tax on Schedule D, lines 25 and 39, or on the Schedule D Tax Worksheet, lines 15 and 36).

Line 13

If you used Schedule J to figure your tax for 2003 (that is, you entered the amount from that Schedule J, line 22, on Form 1040, line 41, or on Form 1040X), enter on line 13 the amount from that Schedule J, line 3.

If you did not use Schedule J to figure your tax for 2003, enter on line 13 the taxable income from your 2003 tax return (or as previously adjusted by the IRS, an amended return, etc.). But if that amount is zero or less, complete the worksheet below to figure the amount to enter on line 13.

If you filed your 2003 tax return using TeleFile, enter the taxable income from your TeleFile Tax Record. If you did not file a tax return for 2003, 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 2003 until at least 3 years after April 15, 2005 (or the date you file your 2004 tax return, if later), even if you did not file a tax return for 2003.

Instructions for 2003 Taxable Income Worksheet

Line 2. Any net capital loss deduction on your 2003 Schedule D, line 18, is not allowed for income averaging purposes to the extent it did not reduce your capital loss carryover to 2004. This could happen if the

taxable income before subtracting exemptions shown on your 2003 Form 1040, line 38 (or as previously adjusted), was less than zero. Enter the amount by which your 2003 capital loss carryover to 2004 (the sum of your short- and long-term capital loss carryovers) exceeds the excess of the loss on your 2003 Schedule D, line 17a, over the loss on your 2003 Schedule D, line 18.

Line 3. If you had an NOL for 2003, enter the amount of that NOL as figured on the 2003 Form 1045, Schedule A, line 27, you filed with Form 1045 or Form 1040X. If you did not have an NOL for 2003, enter the portion, if any, of the NOL carryovers and carrybacks to 2003 that were not used in 2003 and were carried to years after 2003.

Example. John Farmington did not use income averaging for 2001, 2002, nor 2003. The taxable income before subtracting exemptions on his 2003 Form 1040, line 38, is a negative \$1,000. This amount includes an NOL deduction (NOLD) on his 2003 Form 1040, line 21, of \$2,100. The \$2,100 is the portion of the 2002 NOL that was remaining from 2001 to be carried to 2003. See the examples that begin on pages J-3 and J-4. A deduction for exemptions of \$3,050 is shown on Form 1040, line 39, and line 40, taxable income, is limited to zero. John does not have an NOL for 2003. John subtracts from the \$1,000 negative amount on Form 1040, line 38, the \$3,050 deduction for exemptions. The result is a negative \$4,050, John's 2003 taxable income, which he enters as a positive amount on line 1 of the 2003 worksheet.

John had a \$3,000 net capital loss deduction on Schedule D, line 18 (which was also entered on Form 1040, line 13a), a \$7,000 loss on Schedule D, line 17a, and a \$5,000 capital loss carryover to 2004 (his 2003 capital loss carryover to 2004 was \$5,000, not \$4,000, because the amount on

his Form 1040, line 38, was a negative \$1,000). John adds the \$3,000 from Schedule D, line 18, and the \$5,000 carryover. He reduces the result by the \$7,000 loss on his Schedule D, line 17a, 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 2003 and did not have an NOL carryover from 2003 available to carry to 2004 and later years. The NOLD for 2003 of \$2,100 was reduced to zero because it did not exceed his modified taxable income of \$4,100. Modified taxable income is figured by adding back the \$3,000 net capital loss deduction and the \$3,050 of exemptions to negative taxable income (figured without regard to the NOLD) of \$1,950. John enters \$1,000 on line 4 and \$3,050 on line 5. He enters \$3,050 as a negative amount on Schedule J, line 13. He enters \$6,000 on Schedule J, line 14, and \$2,950 on Schedule J, line 15. If he uses Schedule J to figure his tax for 2005, he will enter \$2,950 on his 2005 Schedule J as his 2003 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 2003 Tax Rate Schedules on page J-7,
- The 2003 Qualified Dividends and Capital Gain Tax Worksheet on page J-8, or
- The Schedule D you filed for 2003 (but use the 2003 Tax Rate Schedules on page J-7 instead of the 2003 Tax Table when figuring the tax on Schedule D, lines 50 and 52, or on the Schedule D Tax Worksheet, lines 48 and 50).

2003 Taxable Income Worksheet—Line 13

Keep for Your Records



Complete this worksheet if your 2003 taxable income is zero or less. See the instructions above before completing this worksheet.

1. Figure the taxable income from your 2003 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 2003, do not include any NOL carryovers or carrybacks to 2003. Enter the result as a positive amount	1.	<input type="text"/>
2. If there is a loss on your 2003 Schedule D, line 18, add that loss (as a positive amount) and your 2003 capital loss carryover to 2004. Subtract from that sum the amount of the loss on your 2003 Schedule D, line 17a, and enter the result	2.	<input type="text"/>
3. If you had an NOL for 2003, enter it as a positive amount. Otherwise, enter as a positive amount the portion, if any, of the NOL carryovers and carrybacks to 2003 that were not used in 2003 and were carried to years after 2003	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"/>

2003 Tax Rate Schedules—Line 16

Schedule X —Use if your 2003 filing status was Single					Schedule Y-2 —Use if your 2003 filing status was Married filing separately				
If Schedule J, line 15, is: Over—	<i>But not over—</i>	Enter on Schedule J, line 16	<i>of the amount over—</i>		If Schedule J, line 15, is: Over—	<i>But not over—</i>	Enter on Schedule J, line 16	<i>of the amount over—</i>	
\$0	\$7,000	.....	10%	\$0	\$0	\$7,000	.....	10%	\$0
7,000	28,400	\$700.00 +	15%	7,000	7,000	28,400	\$700.00 +	15%	7,000
28,400	68,800	3,910.00 +	25%	28,400	28,400	57,325	3,910.00 +	25%	28,400
68,800	143,500	14,010.00 +	28%	68,800	57,325	87,350	11,141.25 +	28%	57,325
143,500	311,950	34,926.00 +	33%	143,500	87,350	155,975	19,548.25 +	33%	87,350
311,950	.....	90,514.50 +	35%	311,950	155,975	.....	42,194.50 +	35%	155,975
Schedule Y-1 —Use if your 2003 filing status was Married filing jointly or Qualifying widow(er)					Schedule Z —Use if your 2003 filing status was Head of household				
If Schedule J, line 15, is: Over—	<i>But not over—</i>	Enter on Schedule J, line 16	<i>of the amount over—</i>		If Schedule J, line 15, is: Over—	<i>But not over—</i>	Enter on Schedule J, line 16	<i>of the amount over—</i>	
\$0	\$14,000	.....	10%	\$0	\$0	\$10,000	.....	10%	\$0
14,000	56,800	\$1,400.00 +	15%	14,000	10,000	38,050	\$1,000.00 +	15%	10,000
56,800	114,650	7,820.00 +	25%	56,800	38,050	98,250	5,207.50 +	25%	38,050
114,650	174,700	22,282.50 +	28%	114,650	98,250	159,100	20,257.50 +	28%	98,250
174,700	311,950	39,096.50 +	33%	174,700	159,100	311,950	37,295.50 +	33%	159,100
311,950	.....	84,389.00 +	35%	311,950	311,950	.....	87,736.00 +	35%	311,950

Lines 18, 19, and 20

If you filed your 2001, 2002, or 2003 tax return using TeleFile, enter your tax from your TeleFile Tax Record. If you

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

2003 Qualified Dividends and Capital Gain Tax Worksheet—Line 16

Keep for Your Records



Use this worksheet **only** if:

- You entered (a) qualified dividends on your 2003 Form 1040, line 9b (or your 2003 Form 1040A, line 9b) or (b) capital gain distributions directly on your 2003 Form 1040, line 13a (or your 2003 Form 1040A, line 10a) and checked the box on that line **and**
- Your elected farm income on Schedule J, line 2, does not include any net capital gain.

1. Amount from Schedule J, line 15	1.	
2. Enter the total of the amounts from your 2003 Form 1040, lines 9b and 13a (or Form 1040A, lines 9b and 10a)	2.	
3. Amount, if any, from your 2003 Form 4952, line 4g	3.	
4. Subtract line 3 from 2. If zero or less, enter -0-	4.	
5. Enter the smaller of:		
• The amount on line 1 above or		
• \$56,800 if married filing jointly or qualifying widow(er) for 2003,		
\$28,400 if single or married filing separately, or		
\$38,050 if head of household.		
6. Subtract line 4 from line 1. If zero or less, enter -0-	6.	
7. Subtract line 6 from line 5. If zero or less, enter -0- and go to line 13	7.	
8. Enter the total of the amounts from your 2003 Form 1040, lines 9b and 13b (or Form 1040A, lines 9b and 10b)	8.	
9. Enter the smaller of line 7 or 8	9.	
10. Multiply line 8 by 5% (.05)	10.	
11. Subtract line 9 from line 7. If zero, go to line 13	11.	
12. Multiply line 11 by 10% (.10)	12.	
13. Enter the smaller of line 1 or line 4	13.	
14. Enter the amount from line 7	14.	
15. Subtract line 14 from line 13. If zero or less, enter -0- and go to line 23	15.	
16. Enter the total of the amounts from your 2003 Form 1040, lines 9b and 13b (or Form 1040A, lines 9b and 10b)	16.	
17. Enter the amount from line 9 (if line 9 is blank, enter -0-)	17.	
18. Subtract line 17 from line 16	18.	
19. Enter the smaller of line 15 or line 18	19.	
20. Multiply line 19 by 15% (.15)	20.	
21. Subtract line 19 from line 15. If zero, go to line 23	21.	
22. Multiply line 21 by 20% (.20)	22.	
23. Figure the tax on the amount on line 6. Use the 2003 Tax Rate Schedules on page J-7	23.	
24. Add lines 10, 12, 20, 22, and 23	24.	
25. Figure the tax on the amount on line 1. Use the 2003 Tax Rate Schedules on page J-7	25.	
26. Tax. Enter the smaller of line 24 or line 25 here and on Schedule J, line 16	26.	