



# 2005 Instructions for Schedule J

## Income Averaging for Farmers and Fishermen

Use Schedule J (Form 1040) to elect to figure your 2005 tax by averaging, over the previous 3 years (base years), all or part of your 2005 taxable income from your trade or business of farming or fishing. This election may give you a lower tax if your 2005 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 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 2002, 2003, and 2004 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 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 2005 income tax return for use in 2006, 2007, or 2008.

#### 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.

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 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.



*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.

#### Line 4

Figure the tax on the amount on line 3 using the 2005 Tax Table, Tax Computation Worksheet, or Qualified Dividends and Capital Gain Tax Worksheet from the 2005 Instructions for Form 1040, or the Schedule D Tax Worksheet in the 2005 Instructions for Schedule D. Enter the tax on line 4.

## Line 5

If you used Schedule J to figure your tax for 2004 (that is, you entered the amount from that Schedule J, line 22, on Form 1040, line 43, or on Form 1040X), enter on line 5 the amount from your 2004 Schedule J, line 11. If you used Schedule J to figure your tax for 2003 but not 2004, enter on line 5 the amount from your 2003 Schedule J, line 15. If you used Schedule J to figure your tax for 2002 but not 2003 nor 2004, enter on line 5 the amount from your 2002 Schedule J, line 3.

If you figured your tax for 2002, 2003, and 2004 without using Schedule J, enter on line 5 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 5.

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 for at least 3 years after April 17, 2006 (or the date you file your 2005 tax return, if later).

### Instructions for 2002 Taxable Income Worksheet

**Line 2.** Any net capital loss deduction on your 2002 Schedule D, line 18, is not al-

lowed 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 net operating loss (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 2002, 2003, nor 2004. For 2005, John has \$18,000 of elected farm income on line 2. The taxable income before subtracting exemptions on his 2002 Form 1040, line 39, is \$4,000. A deduction for exemptions of \$3,000 is shown on line 40, and line 41, taxable income, is \$1,000. However, John had a \$22,200 NOL in 2003, \$9,000 of which was remaining to carry to 2002 after the NOL was carried back to 2001. To complete line 1 of the

worksheet, John combines the \$9,000 NOL deduction with the \$1,000 from his 2002 Form 1040, line 41. The result is a negative \$8,000, John's 2002 taxable income, which he enters as a positive amount on line 1 of the 2002 worksheet.

When John filed his 2002 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 2003. However, when John carried back the 2003 NOL to 2002, he refigured his 2002 capital loss carryover to 2003 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 2002 that reduced the 2003 NOL carryback. The \$3,000 of exemptions and \$3,000 net capital loss deduction also reduced the amount of the 2003 NOL carryback. Therefore, only \$2,000 was available to carry to 2004 and later years, as shown on his 2003 Form 1045, Schedule B, line 9. John enters the \$2,000 on line 3 of the worksheet, and \$5,000 on line 4. He then subtracts the \$5,000 from the \$8,000 on line 1 and enters the result, \$3,000, on line 5 of the worksheet. He enters a negative \$3,000 on Schedule J, line 5. He combines that amount with the \$6,000 on Schedule J, line 6, and enters \$3,000 on Schedule J, line 7.

## 2002 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 2003 and 2004 **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, <b>do not</b> 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 5 . . . . .	5.	<input type="text"/>	

## 2002 Tax Rate Schedules—Line 8

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

### Line 8

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

- The 2002 Tax Rate Schedules above,

• The 2002 Capital Gain Tax Worksheet below, or

• The Schedule D you filed for 2002 (but use the 2002 Tax Rate Schedules above 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).

### 2002 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 2002 Form 1040 (or line 10 of your 2002 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 2002 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 2002 Tax Rate Schedules above . . . . .	4.	<input type="text"/>	
5.	Enter the <b>smaller</b> of:			
	• The amount on line 1 above or		<input type="text"/>	
	• \$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.	<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 <b>smaller</b> 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 2002 Tax Rate Schedules above . . . . .	14.	<input type="text"/>	
15.	<b>Tax.</b> Enter the <b>smaller</b> of line 13 or line 14 here and on Schedule J, line 8 . . . . .	15.	<input type="text"/>	

## Line 9

If you used Schedule J to figure your tax for 2004 (that is, you entered the amount from that Schedule J, line 22, on Form 1040, line 43, or on Form 1040X), enter on line 9 the amount from your 2004 Schedule J, line 15. If you used Schedule J to figure your tax for 2003 but not 2004, enter on line 9 the amount from your 2003 Schedule J, line 3.

If you figured your tax for both 2003 and 2004 without using Schedule J, enter on line 9 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 9.

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 17, 2006 (or the date you file your 2005 tax return, if later).

### 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. If you had any NOL carrybacks to 2003, be sure you refigured your 2003 capital loss carryover to 2004.

**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 2002, 2003, nor 2004. The taxable income before subtracting exemptions on his 2003 Form 1040, line 38, is a negative \$29,950. A deduction for exemptions of \$3,050 is shown on line 39, and line 40, taxable income, is limited to zero. John subtracts from the \$29,950 loss the \$3,050 deduction for exemptions. The result is a negative \$33,000, John's 2003 taxable income, which he enters as a posi-

tive amount on line 1 of the 2003 worksheet.

When John filed his 2003 tax return, he had a \$3,000 net capital loss deduction on Schedule D, line 18 (which was also entered on Form 1040, line 13a), and a \$7,000 loss on Schedule D, line 17a (as adjusted). He also had a \$7,000 capital loss carryover to 2004. 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 17a, and enters \$3,000 on line 2 of the worksheet.

John enters \$22,200 on line 3 of the worksheet, the 2003 NOL from his 2003 Form 1045, Schedule A, line 27. Of the \$33,000 negative taxable income, the \$3,050 deduction for exemptions, the \$3,000 capital loss deduction, and his \$4,750 standard deduction were not allowed in figuring the NOL. John had a \$22,200 loss on his 2003 Schedule F, the only other item on his 2003 tax return.

John enters \$25,200 on line 4 and \$7,800 on line 5. He enters \$7,800 as a negative amount on Schedule J, line 9. He enters \$6,000 on Schedule J, line 10, and a negative \$1,800 on Schedule J, line 11. If he uses Schedule J to figure his tax for 2006, he will enter the negative \$1,800 amount on his 2006 Schedule J as his 2003 taxable income for income averaging purposes.

## 2003 Taxable Income Worksheet—Line 9

Keep for Your Records



Complete this worksheet if you did not use Schedule J to figure your tax for 2004 **and** your 2003 taxable income was 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, <b>do not</b> 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 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 2003 Tax Rate Schedules below,

- The 2003 Qualified Dividends and Capital Gain Tax Worksheet on page J-6, or

- The Schedule D you filed for 2003 (but use the 2003 Tax Rate Schedules below 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 Tax Rate Schedules—Line 12

<b>Schedule X—Use if your 2003 filing status was Single</b>					<b>Schedule Y-2—Use if your 2003 filing status was Married filing separately</b>				
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	\$7,000	.....	10%	<b>\$0</b>	\$0	\$7,000	.....	10%	<b>\$0</b>
7,000	28,400	<b>\$700.00 +</b>	<b>15%</b>	<b>7,000</b>	7,000	28,400	<b>\$700.00 +</b>	<b>15%</b>	<b>7,000</b>
28,400	68,800	<b>3,910.00 +</b>	<b>25%</b>	<b>28,400</b>	28,400	57,325	<b>3,910.00 +</b>	<b>25%</b>	<b>28,400</b>
68,800	143,500	<b>14,010.00 +</b>	<b>28%</b>	<b>68,800</b>	57,325	87,350	<b>11,141.25 +</b>	<b>28%</b>	<b>57,325</b>
143,500	311,950	<b>34,926.00 +</b>	<b>33%</b>	<b>143,500</b>	87,350	155,975	<b>19,548.25 +</b>	<b>33%</b>	<b>87,350</b>
311,950	.....	<b>90,514.50 +</b>	<b>35%</b>	<b>311,950</b>	155,975	.....	<b>42,194.50 +</b>	<b>35%</b>	<b>155,975</b>
<b>Schedule Y-1—Use if your 2003 filing status was Married filing jointly or Qualifying widow(er)</b>					<b>Schedule Z—Use if your 2003 filing status was Head of household</b>				
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	\$14,000	.....	10%	<b>\$0</b>	\$0	\$10,000	.....	10%	<b>\$0</b>
14,000	56,800	<b>\$1,400.00 +</b>	<b>15%</b>	<b>14,000</b>	10,000	38,050	<b>\$1,000.00 +</b>	<b>15%</b>	<b>10,000</b>
56,800	114,650	<b>7,820.00 +</b>	<b>25%</b>	<b>56,800</b>	38,050	98,250	<b>5,207.50 +</b>	<b>25%</b>	<b>38,050</b>
114,650	174,700	<b>22,282.50 +</b>	<b>28%</b>	<b>114,650</b>	98,250	159,100	<b>20,257.50 +</b>	<b>28%</b>	<b>98,250</b>
174,700	311,950	<b>39,096.50 +</b>	<b>33%</b>	<b>174,700</b>	159,100	311,950	<b>37,295.50 +</b>	<b>33%</b>	<b>159,100</b>
311,950	.....	<b>84,389.00 +</b>	<b>35%</b>	<b>311,950</b>	311,950	.....	<b>87,736.00 +</b>	<b>35%</b>	<b>311,950</b>

## Line 13

If you used Schedule J to figure your tax for 2004 (that is, you entered the amount from that Schedule J, line 22, on Form 1040, line 43, 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 2004, enter on line 13 the taxable income from your 2004 tax return (or as previously adjusted by the IRS, an amended return, etc.). But if that amount is zero or less, complete the worksheet on page J-7 to figure the amount to enter on line 13.

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 until at least 3 years after April 17,

2006 (or the date you file your 2005 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 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.

**Line 3.** If you had an NOL for 2004, enter the amount of that NOL as figured on the 2004 Form 1045, Schedule A, line 24, 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 did not use income averaging for 2002, 2003, nor 2004. The taxable income before subtracting exemptions on his 2004 Form 1040, line 40, is a negative \$1,000. This amount includes an NOL deduction (NOLD) on his 2004 Form 1040, line 21, of \$2,000. The \$2,000 is the portion of the 2003 NOL that was remaining from 2002 to be carried to 2004. See the examples on pages J-2 and J-4. A deduction for exemptions of \$3,100 is shown on Form 1040, line 41, and line 42, taxable income, is limited to zero. John does not have an NOL for 2004. John subtracts from the \$1,000 negative amount on Form 1040, line 40, the \$3,100 deduction for exemptions. The result is a negative \$4,100, John's 2004 taxable income, which

## 2003 Qualified Dividends and Capital Gain Tax Worksheet—Line 12

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, lines 9 and 10, does not include any net capital gain.

1. Amount from Schedule J, line 11	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 <b>smaller</b> 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.	5.	_____
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 <b>smaller</b> 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 <b>smaller</b> 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 <b>smaller</b> 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-5	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-5	25.	_____
26. <b>Tax.</b> Enter the <b>smaller</b> of line 24 or line 25 here and on Schedule J, line 12	26.	_____



Complete this worksheet if your 2004 taxable income is zero or less. See the instructions that begin on page J-6 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 13 . . . . .	5.	

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 \$5,000 capital loss carryover to 2005 (his 2004 capital loss carryover to 2005 was \$5,000, not \$4,000, because the amount on his Form 1040, line 40, was a negative \$1,000). John adds the \$3,000 from Schedule D, line 21, and the \$5,000 carryover. He subtracts from the 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

2004 and did not have an NOL carryover from 2004 available to carry to 2005 and later years. The NOLD for 2004 of \$2,000 was reduced to zero because it did not exceed his modified taxable income of \$4,000. Modified taxable income is figured by adding back the \$3,000 net capital loss deduction and the \$3,100 of exemptions to negative taxable income (figured without regard to the NOLD) of \$2,100. John enters \$1,000 on line 4 and \$3,100 on line 5. He enters \$3,100 as a negative amount on Schedule J, line 13. He enters \$6,000 on Schedule J, line 14, and \$2,900 on Schedule J, line 15. If he uses Schedule J to figure his tax for 2006, he will enter \$2,900 on his 2006 Schedule J as his 2004 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 2004 Tax Rate Schedules below,
- The 2004 Qualified Dividends and Capital Gain Tax Worksheet on page J-8, or
- The 2004 Schedule D Tax Worksheet (but use the 2004 Tax Rate Schedules below instead of the 2004 Tax Table when figuring the tax on the Schedule D Tax Worksheet, lines 34 and 36).

### 2004 Tax Rate Schedules—Line 16

Schedule X—Use if your 2004 filing status was <b>Single</b>					Schedule Y-2—Use if your 2004 filing status was <b>Married filing separately</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	\$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>
Schedule Y-1—Use if your 2004 filing status was <b>Married filing jointly</b> or <b>Qualifying widow(er)</b>					Schedule Z—Use if your 2004 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	\$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>

# Lines 18, 19, and 20

If you filed your 2002, 2003, or 2004 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.

## 2004 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 2004 Form 1040, line 9b (or your 2004 Form 1040A, line 9b), (b) entered capital gain distributions directly on your 2004 Form 1040, line 13 (or your 2004 Form 1040A, line 10) 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 15 . . . . .	1.	<input type="text"/>
2. Amount from Form 1040, line 9b (or Form 1040A, line 9b) . . . . .	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)		
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 for 2004, \$58,100 if married filing jointly or qualifying widow(er), \$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.		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 2004 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 2004 Tax Rate Schedules on page J-7 . . . . .	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"/>