



2006 Instructions for Schedule J

Income Averaging for Farmers and Fishermen

Use Schedule J (Form 1040) to elect to figure your 2006 income tax by averaging, over the previous 3 years (base years), all or part of your 2006 taxable income from your trade or business of farming or fishing. This election may give you a lower tax if your 2006 income from farming or fishing is high and your taxable income for one or more of the 3 prior years was low.

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

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

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

General Instructions

Prior Year Tax Returns

You may need copies of your original or amended income tax returns for 2003, 2004, and 2005 to figure your tax on Schedule J.

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

Keep a copy of your 2006 income tax return to use for income averaging in 2007, 2008, or 2009.

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 agree-

ment entered into before the tenant begins significant activities on the land.

A farming business does not include:

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

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

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



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

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

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

Additional Information

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

Specific Instructions

Line 2

Elected Farm Income

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

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

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

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

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

Line 4

Figure the tax on the amount on line 3 using the 2006 Tax Table, Tax Computation Worksheet, Qualified Dividends and Capital Gain Tax Worksheet, or Foreign Earned Income Tax Worksheet from the 2006 Instructions for Form 1040. The tax can also be figured on the Schedule D Tax Worksheet in the 2006 Instructions for Schedule D. Enter the tax on line 4.

If you use the Foreign Earned Income Tax Worksheet, enter the amount from Schedule J, line 3, on line 3 of the worksheet. Do not complete lines 1 and 2 of the worksheet.

Line 5

If you used Schedule J to figure your tax for 2005 (that is, you entered the amount from the 2005 Schedule J, line 22, on your 2005 Form 1040, line 44, or on Form 1040X), enter on line 5 the amount from your 2005 Schedule J, line 11. If you used Schedule J to figure your tax for 2004 but not 2005, enter on line 5 the amount from your 2004 Schedule J, line 15. If you used Schedule J to figure your tax for 2003 but not 2004 nor 2005, enter on line 5 the amount from your 2003 Schedule J, line 3.

If you figured your tax for 2003, 2004, and 2005 without using Schedule J, enter on line 5 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 5.

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 for at least 3 years after April 16, 2007 (or the date you file your 2006 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 on Schedule J, line 2, 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 net operating loss (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 from line 27 of the 2003 Form 1045, Schedule A, 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 2003, 2004, nor 2005. For 2006, John has \$18,000 of elected farm income on line 2. The taxable income before subtracting exemptions on his 2003 Form 1040, line 38, is \$4,050. A deduction for exemptions of \$3,050 is shown on line 39, and line 40, taxable income, is \$1,000. However, John had a \$22,100 NOL in 2004, \$9,000 of which was remaining to carry to 2003 after the NOL was carried back to 2002. To complete line 1 of the worksheet, John combines the \$9,000 NOL deduction with the \$1,000 from his 2003 Form 1040, line 40. The result is a negative \$8,000, John's 2003 taxable income, which he enters as a positive 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), a \$7,000 loss on Schedule D, line 17a, and a \$4,000 capital loss carryover to 2004. However, when John carried back the 2004 NOL to 2003, he refigured his 2003 capital loss carryover to 2004 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 17a, and enters \$3,000 on line 2 of the worksheet.

John had \$1,000 of taxable income in 2003 that reduced the 2004 NOL carryback. The \$3,050 of exemptions and \$3,000 net capital loss deduction also reduced the amount of the 2004 NOL carryback. Therefore, only \$1,950 was available to carry to 2005 and later years, as shown on line 9 of his 2004 Form 1045, Schedule B. John enters the \$1,950 on line 3 of the worksheet, and \$4,950 on line 4. He then subtracts the \$4,950 from the \$8,000 on line 1 and enters the result, \$3,050, on line 5 of the worksheet. He enters a negative \$3,050 on Schedule J, line 5. He combines that amount with the \$6,000 on Schedule J, line 6, and enters \$2,950 on Schedule J, line 7.

2003 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 2004 and 2005 **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, do not include any NOL carryovers or carrybacks to 2003. Enter the result as a positive amount | 1. | _____ |
| 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. | _____ |
| 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. | _____ |
| 4. Add lines 2 and 3 | 4. | _____ |
| 5. Subtract line 4 from line 1. Enter the result as a negative amount on Schedule J, line 5 | 5. | _____ |

Line 8

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

- The 2003 Tax Rate Schedules below,
- The 2003 Qualified Dividends and Capital Gain Tax Worksheet on the next page, or

- Part IV of 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 lines 50 and 52 of Schedule D, Part IV, or on lines 48 and 50 of the Schedule D Tax Worksheet in the Schedule D instructions.

2003 Tax Rate Schedules—Line 8

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 7, is:	<i>But not over—</i>	Enter on Schedule J, line 8	<i>of the amount over—</i>		If Schedule J, line 7, is:	<i>But not over—</i>	Enter on Schedule J, line 8	<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	68,800	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 7, is:	<i>But not over—</i>	Enter on Schedule J, line 8	<i>of the amount over—</i>		If Schedule J, line 7, is:	<i>But not over—</i>	Enter on Schedule J, line 8	<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



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 5 and 6, does not include any net capital gain.

1. Amount from Schedule J, line 7	1.	<input type="text"/>	
2. Enter the total of the amounts from your 2003 Form 1040, lines 9b and 13a (or Form 1040A, lines 9b and 10a)	2.	<input type="text"/>	
3. Amount, if any, from your 2003 Form 4952, line 4g	3.	<input type="text"/>	
4. Subtract line 3 from 2. If zero or less, enter -0-	4.	<input type="text"/>	
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.	5.		<input type="text"/>
6. Subtract line 4 from line 1. If zero or less, enter -0-	6.	<input type="text"/>	
7. Subtract line 6 from line 5. If zero or less, enter -0- and go to line 13	7.	<input type="text"/>	
8. Enter the total of the amounts from your 2003 Form 1040, lines 9b and 13b (or Form 1040A, lines 9b and 10b)	8.	<input type="text"/>	
9. Enter the smaller of line 7 or 8	9.	<input type="text"/>	
10. Multiply line 8 by 5% (.05)	10.	<input type="text"/>	
11. Subtract line 9 from line 7. If zero, go to line 13	11.	<input type="text"/>	
12. Multiply line 11 by 10% (.10)	12.	<input type="text"/>	
13. Enter the smaller of line 1 or line 4	13.	<input type="text"/>	
14. Enter the amount from line 7	14.	<input type="text"/>	
15. Subtract line 14 from line 13. If zero or less, enter -0- and go to line 23	15.	<input type="text"/>	
16. Enter the total of the amounts from your 2003 Form 1040, lines 9b and 13b (or Form 1040A, lines 9b and 10b)	16.	<input type="text"/>	
17. Enter the amount from line 9 (if line 9 is blank, enter -0-)	17.	<input type="text"/>	
18. Subtract line 17 from line 16	18.	<input type="text"/>	
19. Enter the smaller of line 15 or line 18	19.	<input type="text"/>	
20. Multiply line 19 by 15% (.15)	20.	<input type="text"/>	
21. Subtract line 19 from line 15. If zero, go to line 23	21.	<input type="text"/>	
22. Multiply line 21 by 20% (.20)	22.	<input type="text"/>	
23. Figure the tax on the amount on line 6. Use the 2003 Tax Rate Schedules on page J-3	23.	<input type="text"/>	
24. Add lines 10, 12, 20, 22, and 23	24.	<input type="text"/>	
25. Figure the tax on the amount on line 1. Use the 2003 Tax Rate Schedules on page J-3	25.	<input type="text"/>	
26. Tax. Enter the smaller of line 24 or line 25 here and on Schedule J, line 8	26.	<input type="text"/>	

Line 9

If you used Schedule J to figure your tax for 2005 (that is, you entered the amount from the 2005 Schedule J, line 22, on your 2005 Form 1040, line 44, or on Form 1040X), enter on line 9 the amount from your 2005 Schedule J, line 15. If you used Schedule J to figure your tax for 2004 but not 2005, enter on line 9 the amount from your 2004 Schedule J, line 3.

If you figured your tax for both 2004 and 2005 without using Schedule J, enter on line 9 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 below to figure the amount to enter on line 9.

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 16, 2007 (or the date you file your 2006 tax return, if later).

Instructions for 2004 Taxable Income Worksheet

Line 2. Any net capital loss deduction on your 2004 Schedule D, line 21, is not allowed for income averaging purposes to the

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

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

Example. John Farmington did not use income averaging for 2003, 2004, nor 2005. The taxable income before subtracting exemptions on his 2004 Form 1040, line 40, is a negative \$29,900. A deduction for exemptions of \$3,100 is shown on line 41, and line 42, taxable income, is limited to zero. John subtracts from the \$29,900 loss the \$3,100 deduction for exemptions. The result is a negative \$33,000, John's 2004 taxable income, which he enters as a posi-

tive 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), and a \$7,000 loss on Schedule D, line 16 (as adjusted). He also had a \$7,000 capital loss carryover to 2005. John adds the \$3,000 from Schedule D, line 21, and the \$7,000 carryover. He subtracts from the result the \$7,000 loss on his Schedule D, line 16, and enters \$3,000 on line 2 of the worksheet.

John enters \$22,100 on line 3 of the worksheet, the 2004 NOL from his 2004 Form 1045, Schedule A, line 24. Of the \$33,000 negative taxable income, the \$3,100 deduction for exemptions, the \$3,000 capital loss deduction, and his \$4,850 standard deduction were not allowed in figuring the NOL. John had a \$22,100 loss on his 2004 Schedule F, the only other item on his 2004 tax return.

John enters \$25,100 on line 4 and \$7,900 on line 5. He enters \$7,900 as a negative amount on Schedule J, line 9. He enters \$6,000 on Schedule J, line 10, and a negative \$1,900 on Schedule J, line 11. If he uses Schedule J to figure his tax for 2007, he will enter the negative \$1,900 amount on his 2007 Schedule J as his 2004 taxable income for income averaging purposes.

2004 Taxable Income Worksheet—Line 9

Keep for Your Records



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

1. Figure the taxable income from your 2004 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 2004, do not include any NOL carryovers or carrybacks to 2004. Enter the result as a positive amount		1.	<input type="text"/>
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.	<input type="text"/>	
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.	<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 2004 Tax Rate Schedules below,

- The 2004 Qualified Dividends and Capital Gain Tax Worksheet on page J-7, 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 12

Schedule X—Use if your 2004 filing status was Single					Schedule Y-2—Use if your 2004 filing status was Married filing separately				
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	\$7,150	.....	10%	\$0	\$0	\$7,150	.....	10%	\$0
7,150	29,050	\$715.00 +	15%	7,150	7,150	29,050	\$715.00 +	15%	7,150
29,050	70,350	4,000.00 +	25%	29,050	29,050	58,625	4,000.00 +	25%	29,050
70,350	146,750	14,325.00 +	28%	70,350	58,625	89,325	11,393.75 +	28%	58,625
146,750	319,100	35,717.00 +	33%	146,750	89,325	159,550	19,989.75 +	33%	89,325
319,100	.....	92,592.50 +	35%	319,100	159,550	.....	43,164.00 +	35%	159,550
Schedule Y-1—Use if your 2004 filing status was Married filing jointly or Qualifying widow(er)					Schedule Z—Use if your 2004 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	\$14,300	.....	10%	\$0	\$0	\$10,200	.....	10%	\$0
14,300	58,100	\$1,430.00 +	15%	14,300	10,200	38,900	\$1,020.00 +	15%	10,200
58,100	117,250	8,000.00 +	25%	58,100	38,900	100,500	5,325.00 +	25%	38,900
117,250	178,650	22,787.50 +	28%	117,250	100,500	162,700	20,725.00 +	28%	100,500
178,650	319,100	39,979.50 +	33%	178,650	162,700	319,100	38,141.00 +	33%	162,700
319,100	.....	86,328.00 +	35%	319,100	319,100	.....	89,753.00 +	35%	319,100



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 11	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"/> Yes. Enter the smaller of line 15 or 16 of your 2004 Schedule D, but do not enter less than -0-	3.	<input type="text"/>
	<input type="checkbox"/> No. 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 smaller 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"/> 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 2004 Tax Rate Schedules on page J-6	16.	<input type="text"/>
17.	Add lines 11, 15, and 16	17.	<input type="text"/>
18.	Figure the tax on the amount on line 1. Use the 2004 Tax Rate Schedules on page J-6	18.	<input type="text"/>
19.	Tax. Enter the smaller of line 17 or line 18 here and on Schedule J, line 12	19.	<input type="text"/>

Line 13

If you used Schedule J to figure your tax for 2005 (that is, you entered the amount from the 2005 Schedule J, line 22, on your 2005 Form 1040, line 44, or on Form 1040X), enter on line 13 the amount from your 2005 Schedule J, line 3.

If you did not use Schedule J to figure your tax for 2005, enter on line 13 the taxable income from your 2005 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 did not file a tax return for 2005, use the amount you would have reported as your taxable income had you been required to file a tax return. Be sure to keep all your records for 2005 until at least 3 years after April 16, 2007 (or the date you file your 2006 tax return, if later).

Instructions for 2005 Taxable Income Worksheet

Line 2. Any net capital loss deduction on your 2005 Schedule D, line 21, is not allowed for income averaging purposes to the extent it did not reduce your capital loss carryover to 2006. This could happen if the taxable income before subtracting exemptions—shown on your 2005 Form 1040, line 41 (or as previously adjusted)—was less than zero. Enter 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.

Line 3. If you had an NOL for 2005, enter the amount of that NOL from line 25 of the

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

Example. John Farmington did not use income averaging for 2003, 2004, nor 2005. The taxable income before subtracting exemptions on his 2005 Form 1040, line 41, is a negative \$1,000. This amount includes an NOL deduction on his 2005 Form 1040, line 21, of \$1,900. The \$1,900 is the portion of the 2004 NOL that was remaining from 2003 to be carried to 2005. See the examples on pages J-2 and J-5. A deduction for exemptions of \$3,200 is shown on Form 1040, line 42, and line 43, taxable income, is limited to zero. John does not have an NOL for 2005. John subtracts from the \$1,000 negative amount on Form 1040, line 41, the \$3,200 deduction for exemptions. The result is a negative \$4,200, John's 2005 taxable income, which he enters as a positive amount on line 1 of the 2005 worksheet.

When John filed his 2005 tax return, he had a \$3,000 net capital loss deduction on Schedule D, line 21 (which was also entered on Form 1040, line 13), a \$7,000 loss on Schedule D, line 16, and a \$5,000 capital loss carryover to 2006 (his 2005 capital loss carryover to 2006 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 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 2005 and did not have an NOL carryover from 2005 available to carry to 2006 and later years. The NOL deduction for 2005 of \$1,900 was reduced to zero because it did not exceed his modified taxable income of \$3,900. Modified taxable income is figured by adding back the \$3,000 net capital loss deduction and the \$3,200 of exemptions to negative taxable income (figured without regard to the NOL deduction) of \$2,300. John enters \$1,000 on line 4 and \$3,200 on line 5. He enters \$3,200 as a negative amount on Schedule J, line 13. He enters \$6,000 on Schedule J, line 14, and \$2,800 on Schedule J, line 15. If he uses Schedule J to figure his tax for 2007, he will enter \$2,800 on his 2007 Schedule J as his 2005 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 2005 Tax Rate Schedules on page J-9,
- The 2005 Qualified Dividends and Capital Gain Tax Worksheet on page J-10, or
- The 2005 Schedule D Tax Worksheet (but use the 2005 Tax Rate Schedules on page J-9 instead of the 2005 Tax Table when figuring the tax on the Schedule D Tax Worksheet, lines 34 and 36).

2005 Taxable Income Worksheet—Line 13

Keep for Your Records 

Complete this worksheet if your 2005 taxable income is zero or less. See the instructions above before completing this worksheet.

- | | | |
|---|----|----------------------|
| 1. Figure the taxable income from your 2005 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 2005, 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 13 | 5. | <input type="text"/> |

2005 Tax Rate Schedules—Line 16

Schedule X—Use if your 2005 filing status was Single					Schedule Y-2—Use if your 2005 filing status was Married filing separately				
If Schedule J, line 15, is: Over—	But not over—	Enter on Schedule J, line 16		of the amount over—	If Schedule J, line 15, is: Over—	But not over—	Enter on Schedule J, line 16		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)					Schedule Z—Use if your 2005 filing status was Head of household				
If Schedule J, line 15, is: Over—	But not over—	Enter on Schedule J, line 16		of the amount over—	If Schedule J, line 15, is: Over—	But not over—	Enter on Schedule J, line 16		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 Schedule J, line 2, does not include any net capital gain.
- You (a) entered qualified dividends on your 2005 Form 1040, line 9b (or your 2005 Form 1040A, line 9b), (b) entered capital gain distributions directly on your 2005 Form 1040, line 13 (or your 2005 Form 1040A, line 10) and checked the box on that line, or (c) filed Schedule D in 2005 and you answered “Yes” on lines 17 and 20 of that Schedule D.

1. Amount from Schedule J, line 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 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 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 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 for 2005, \$59,400 if married filing jointly or qualifying widow(er), \$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-9	16.	<input type="text"/>
17. Add lines 11, 15, and 16	17.	<input type="text"/>
18. Figure the tax on the amount on line 1. Use the 2005 Tax Rate Schedules on page J-9	18.	<input type="text"/>
19. Tax. Enter the smaller of line 17 or line 18 here and on Schedule J, line 16	19.	<input type="text"/>

Lines 18, 19, and 20

If you filed your 2003 or 2004 tax return using TeleFile, enter your tax from your TeleFile Tax Record. The TeleFile program was discontinued in 2005.

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