Form **4726**
Department of the Treasury
Internal Revenue Service

Maximum Tax on Personal Service Income

► **Attach to Form 1040 (or Form 1041).**

1977

Name(s) as shown on Form 1040 (or Form 1041) | **Identifying number**

Do not complete this form if—(a) Taxable income or personal service taxable income is:
$40,200 or less, and on Form 1040, you checked box 1 or box 4,
$55,200 or less, and on Form 1040, you checked box 2 or box 5,
$26,000 or less and this is an Estate or Trust return (Form 1041);
(b) You elected income averaging; or
(c) On Form 1040, you checked box 3.

A—Personal Service Income		**B—Deductions Against Personal Service Income**	
Total personal service income		Total deductions against personal service income . .	

1 Personal service net income—Subtract total amount in column B from total amount in column A . .	1	
2 Enter your adjusted gross income	2	
3 Divide the amount on line 1 by the amount on line 2. Enter percentage result here, but not more than 100%	3	
4 Enter your taxable income	4	
5 Multiply the amount on line 4 by the percentage on line 3	5	
6 Enter the total of your 1977 tax preference items	6	

Instructions

(Section references are to the Internal Revenue Code unless otherwise specified)

Column A—Personal Service Income.—Enter in the spaces provided all your personal service income as shown on Form 1040 or Form 1041. Personal service income generally means wages, salaries, professional fees, bonuses, commissions on sales or on insurance premiums, tips, and other amounts received as compensation for personal services actually rendered. It includes prizes and awards (other than gambling winnings), taxable pensions or annuities (if there is a connection with earning income from past personal services), and group-term life insurance purchased for employees that are includible in gross income. It also includes property received for performance of services and transferred to another individual.

If you perform personal services for a corporation, personal service income generally means only that portion of income received from the corporation that represents a reasonable allowance for salaries and other compensation for personal services actually rendered. It also includes gains (other than capital gains) and net earnings derived from the sale or other disposition of the transfer of any interest in, or the licensing of the use of, property (other than goodwill) if your personal efforts created the property.

The entire amount you receive for performing professional services, such as those of a doctor, dentist, lawyer, architect, or accountant, will be treated as personal service income if you are individually and personally responsible for the services performed, even though you employ assistants to perform all or part of the services.

If you are engaged in a noncorporate trade or business in which both personal services and capital are material income producing factors, a reasonable allowance as compensation for the personal services actually rendered shall be considered personal service income from such trade or business. However, the total amount may not exceed 30 percent of your share of the net profits of such trade or business including any guaranteed payment received from a partnership. An item of gross income in respect of a decedent shall be treated as personal service income in the hands of the beneficiary if such gross income would have constituted personal service income of the decedent had he or she lived and received such amount.

If you are a nonresident alien, personal service income includes only income from sources within the United States that is effectively connected with the conduct of a trade or business in the United States. It does not include income subject to 30 percent tax under Section 871(a)(1)(A).

Personal service income does not include dividends (including undistributed taxable income from an electing Small Business Corporation), other distributions of corporate earnings and profits, gambling gains, or gains treated as capital gains.

Personal service income does not include premature or excess distributions from a qualified employees pension plan under Section 72(m)(5), nor does it include lump-sum distributions from pension etc. plans taxed under Sections 402 (a)(2), 402(e) and 403(a)(2).

Personal service income also does not include certain distributions from Individual Retirement Accounts described in Sections 408(e)(2), (3), (4), (5) and 408(f) nor redemption of Retirement Bonds includible in income under Section 409(b) or (c).

Column B—Deductions Against Personal Service Income.—Enter in the spaces provided any deductions from gross income that are required to be taken into account in determining adjusted gross income and are properly allocable to or chargeable against personal service income such as:

(1) Deductions attributable to a trade or business from which personal service income is or may be derived,

(2) Expenses paid or incurred in connection with the performance of services as an employee,

(3) Deductions allowable to employers for their contributions to qualified pension, annuity, or bond purchase plans,

(4) Allowable deductions for moving expenses,

(5) Deductions allowable to an individual who is a shareholder-employee of an electing small business corporation for the excess of amounts included in gross income due to overpayment on his or her behalf by a corporation to a qualified pension plan over amounts not received as benefits, and

(6) A net operating loss deduction to the extent that the net operating losses carried to the taxable year are properly allocable to or chargeable against personal service income.

Line 6.—The tax preference items to take into consideration for purposes of this form are the same as those required for computation of minimum tax whether or not you are actually liable for such tax.

Line 7—Personal Service Taxable Income.—Personal service taxable income means the excess of the portion of taxable income attributable to personal service net income over the total tax preference items.

Lines 15 and 27.—Enter your maximum tax on Schedule TC, Form 1040, Part I, line 4 (or Form 1041, line 26). However, if you had net long-term capital gain in excess of net short-term capital loss, complete lines 16 to 27 and enter instead, the result from line 27 on the appropriate line.

Short Period Returns.—If you are required to make a return of less than twelve months, your tax is determined by placing your taxable income, personal service net income, adjusted gross income, and items of tax preference on an annual basis. However, if a short period return is required due to a termination of taxable year for purposes of a jeopardy assessment, maximum tax computation shall not apply unless the taxable year is reopened.

☆ U.S. GOVERNMENT PRINTING OFFICE: 1977—O-235-166

235-166-2