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2018 Instructions for Schedule J

Income Averaging for Farmers and Fishermen

Use Schedule J (Form 1040) to elect to figure your 2018 income tax by averaging, over the previous 3 years (base years), all or part of your 2018 taxable income from your trade or business of farming or fishing. This election may give you a lower tax if your 2018 income from farming or fishing is high and your taxable income for 1 or more of the 3 prior years was low.

In order to qualify for this election, you aren't 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 wasn't the same in the election year and the base years.

This election doesn't apply when figuring your alternative minimum tax on Form 6251. Also, you don't have to refigure, because of this election, the tax liability of any minor child who was required to use your tax rates in the prior years.

Section references are to the Internal Revenue Code unless otherwise noted.

Future Developments

For the latest information about developments related to Schedule J (Form 1040) and its instructions, such as legislation enacted after they were published, go to IRS.gov/ScheduleJ.

General Instructions

Prior Year Tax Returns

You may need copies of your original or amended income tax returns for 2015, 2016, and 2017 to figure your tax on Schedule J.

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

Keep a copy of your 2018 income tax return to use for income averaging in 2019, 2020, or 2021.

Definitions

Farming business. A farming business is the trade or business of cultivating land or raising or harvesting any agricul-

tural 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 doesn't 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;

4. Any operations at sea in support of, or in preparation for, any activity described in (1) through (3) above;

5. Leasing a fishing vessel, but only if the lease payments are (a) based on a share of the catch (or a share of the proceeds from the sale of the catch) from the lessee's use of the vessel in a fishing business (not a fixed payment), and (b) determined under a written lease entered into before the lessee begins any significant fishing activities resulting in the catch; and

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

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

A fishing business doesn't include any scientific research activity conducted by a scientific research vessel.

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

1. You were a plaintiff in the civil action *In re Exxon Valdez*, No.

89-095-CV (HRH) (Consolidated) (D. Alaska); or

2. All of the following apply.

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

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

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

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

Additional Information

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

Specific Instructions

Line 2a

Elected Farm Income

To figure your elected farm income, first figure your taxable income from farming or fishing. This includes all income, gains, losses, and deductions attributable to your farming or fishing business. If you conduct both farming and fishing businesses, you must figure your elected farm income by combining income, gains, losses, and deductions attributable to your farming and fishing businesses.

Elected farm income also includes any gain or loss from the sale or other disposition of property regularly used in your farming or fishing business for a substantial period of time. However, if such gain or loss is realized after cessation of the farming or fishing business, the gain or loss is treated as attributable to a farming or fishing business only if the property is sold within a reasonable time after cessation of the farming or fishing business. A sale or other disposition within 1 year of the cessation is

considered to be within a reasonable time.

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

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

- 2018 Form 1040, line 1, or Form 1040NR, line 8, income from wages and other compensation you received (a) as a shareholder in an S corporation engaged in a farming or fishing business, or (b) as a crew member on a vessel engaged in a fishing business (but see *Fishing business*, earlier);

- 2018 Schedule 1 (Form 1040), line 21, or Form 1040NR, line 21, income from Exxon Valdez litigation;

- 2018 Schedule 1 (Form 1040), line 27, or Form 1040NR, line 27, deductible part of self-employment tax, but only to the extent that deduction is attributable to your farming or fishing business;

- 2018 Form 1040, line 10, or Form 1040NR, line 41, CCF reduction, except to the extent that any earnings (without regard to the carryback of any net operating or net capital loss) from the operation of agreement vessels in the fisheries of the United States or in the foreign or domestic commerce of the United States aren't attributable to your fishing business;

- Schedule C or C-EZ;
- Schedule D;
- Schedule E, Part II;
- Schedule F;
- Form 4797;
- Form 4835;
- Form 8903, Domestic Production Activities Deduction, but only to the extent that deduction is attributable to your farming or fishing business; and
- Form 8949.

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



TIP You don't have to include all of your taxable income from farming or fishing on line 2a. It may be to your advantage to include less than the entire amount, depending on how the amount you include on line 2a affects your tax bracket for the current and prior 3 tax years.

The excess farm loss rules don't apply in 2018. The excess business loss disallowance rule replaces the limitation on excess farm loss. Your elected farm income can't include excess business losses. See the Instructions for Schedule F (Form 1040) and Form 461.

Your elected farm income can't exceed your taxable income.

Lines 2b and 2c

Complete lines 2b and 2c if the amount of your elected farm income on line 2a includes net capital gain. Net capital gain is the excess, if any, of net long-term capital gain over net short-term capital loss.

Line 2b. Enter on line 2b the portion of your elected farm income on line 2a treated as a net capital gain. The amount you enter on line 2b can't exceed the **smaller** of your total net capital gain or the net capital gain attributable to your farming or fishing business.

Line 2c. Enter on line 2c the **smaller** of line 2b or the unrecaptured section 1250 gain attributable to your farming or fishing business, if any.

Line 4

Figure the tax on the amount on line 3 using:

- The 2018 Tax Table, Tax Computation Worksheet, or Qualified Dividends and Capital Gain Tax Worksheet from the 2018 Instructions for Form 1040 or Form 1040NR;

- The 2018 Foreign Earned Income Tax Worksheet from the 2018 Instructions for Form 1040; or

- The Schedule D Tax Worksheet in the 2018 Instructions for Schedule D.

Enter the tax on line 4.

Line 5

If you used Schedule J to figure your tax for:

- 2017 (that is, you entered the amount from the 2017 Schedule J, line 23; on your 2017 Form 1040, line 44; on your 2017 Form 1040NR, line 42; or on Form 1040X for 2017), enter on line 5 the amount from your 2017 Schedule J, line 11.

- 2016 but not 2017, enter on line 5 the amount from your 2016 Schedule J, line 15.

- 2015 but not 2016 or 2017, enter on line 5 the amount from your 2015 Schedule J, line 3.

If you figured your tax for 2015, 2016, and 2017 without using Schedule J, enter on line 5 the taxable income from your 2015 tax return (or as previously adjusted by the IRS, or corrected on an amended return). But if that amount is zero or less, complete the 2015 Taxable Income Worksheet to figure the amount to enter on line 5.

If you didn't file a tax return for 2015, 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 2015 for at least 3 years after April 16, 2019 (or the date you file your 2018 tax return, if later).

Instructions for 2015 Taxable Income Worksheet

Line 2. Any net capital loss deduction on your 2015 Schedule D, line 21, isn't allowed for income averaging purposes to the extent it didn't reduce your capital loss carryover to 2016. This could happen if the taxable income before subtracting exemptions—shown on your 2015 Form 1040, line 41, or your 2015 Form 1040NR, line 39 (or as previously adjusted)—was less than zero. Enter on line 2 the amount by which your 2015 capital loss carryover to 2016 (the sum of your short- and long-term capital loss carryovers) exceeds the excess of the loss on your 2015 Schedule D, line 16, over the loss on your 2015 Schedule D, line 21. If you had any Net Operating Loss (NOL) carrybacks to 2015, be sure you refigured your 2015 capital loss carryover to 2016.

Line 3. If you had an NOL for 2015, enter the amount of that NOL from the 2015 Form 1045, Schedule A, line 25, you filed with Form 1045 or Form 1040X. If you didn't have an NOL for 2015, enter the portion, if any, of the NOL carryovers and carrybacks to 2015 that weren't used in 2015 and were carried to years after 2015.

Example. John Farmington, who is single, didn't use income averaging for 2015, 2016, or 2017. For 2018, John has \$18,000 of elected farm income on Schedule J, line 2a. The taxable income before subtracting exemptions on his 2015 Form 1040, line 41, is \$4,850. A deduction for exemptions of \$4,000 is shown on line 42, and line 43, taxable income, is \$850. However, John had a \$20,600 NOL for 2016, \$9,000 of which was remaining to carry to 2015 after the NOL was carried back to 2014. To complete line 1 of the 2015 Taxable Income Worksheet, John combines the \$9,000 NOL deduction with the \$850 from his 2015 Form 1040, line 43. The result is a negative \$8,150, John's 2015 taxable income, which he enters as a positive amount on line 1 of the 2015 Taxable Income Worksheet.

When John filed his 2015 tax return, he had a \$3,000 net capital loss deduction on Schedule D, line 21 (which was also entered on Form 1040, line 13), a \$7,000 loss on Schedule D, line 16, and a \$4,000 capital loss carryover to 2016. However, when John carried back the 2016 NOL (\$9,000 of which was carried to 2015), he refigured his 2015 capital loss carryover to 2016 as \$7,000. John adds the \$3,000 from Schedule D, line 21, and the \$7,000 capital loss carryover. He subtracts from the \$10,000 result the \$7,000 loss on his Schedule D, line 16, and enters \$3,000 on line 2 of the worksheet.

John had \$850 of taxable income in 2015 that reduced the 2016 NOL carryback. The \$4,000 exemption deduction and \$3,000 net capital loss deduction also reduced the amount of the 2016 NOL carryback. As a result, only \$1,150 ($\$9,000 - \$850 - \$4,000 - \$3,000 =$

\$1,150) was available to carry to 2017 and later years, as shown on his 2016 Form 1045, Schedule B, line 10. John enters the \$1,150 on line 3 of the worksheet, and \$4,150 (\$1,150 plus the \$3,000 line 2 amount) on line 4. He then subtracts the \$4,150 from the \$8,150 on line 1 and enters the result, \$4,000, on line 5 of the worksheet. He enters a negative \$4,000 on Schedule J, line 5. He combines that amount with the \$6,000 on Schedule J, line 6, and enters \$2,000 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 2015 Tax Rate Schedules below;
- The 2015 Qualified Dividends and Capital Gain Tax Worksheet, later;
- The 2015 Schedule D Tax Worksheet in the 2015 Schedule D instructions (but use the 2015 Tax Rate Schedules below when figuring the tax on lines 34 and 36 of the Schedule D Tax Worksheet); or
- The 2015 Foreign Earned Income Tax Worksheet, later.

If your elected farm income includes net capital gain, you must use the 2015 Schedule D Tax Worksheet to figure the tax on the amount on line 7. However, if you filed Form 2555 or 2555-EZ for 2015, you must first complete the 2015 Foreign Earned Income Tax Worksheet, and then use the 2015 Schedule D Tax Worksheet to figure the tax on the amount on line 3 of the Foreign Earned Income Tax Worksheet.

When completing the Schedule D Tax Worksheet, you must allocate 1/3 of the amount on Schedule J, line 2b (and 1/3 of the amount on line 2c, if any) to 2015. If for 2015 you had a capital loss that resulted in a capital loss carryover to 2016, don't reduce the elected farm income allocated to 2015 by any part of the carryover.

2015 Taxable Income Worksheet—Line 5

Keep for Your Records



Complete this worksheet if you **didn't** use Schedule J to figure your tax for 2016 and 2017 **and** your 2015 taxable income was zero or less. See the instructions above before completing this worksheet for line 5.

1. Figure the taxable income from your 2015 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 2015, **don't** include any NOL carryovers or carrybacks to 2015. Enter the result as a positive amount 1. _____
2. If there is a loss on your 2015 Schedule D, line 21, add that loss (as a positive amount) and your 2015 capital loss carryover to 2016. Subtract from that sum the amount of the loss on your 2015 Schedule D, line 16, and enter the result 2. _____
3. If you had an NOL for 2015, enter it as a positive amount. Otherwise, enter as a positive amount the portion, if any, of the NOL carryovers and carrybacks to 2015 that weren't used in 2015 and were carried to years after 2015 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. _____

2015 Tax Rate Schedules—Line 8

Schedule X—Use if your 2015 filing status was Single or you checked filing status box 1 or 2 on Form 1040NR					Schedule Y-2—Use if your 2015 filing status was Married filing separately or you checked filing status box 3, 4, or 5 on Form 1040NR				
If Schedule J, line 7, is: Over—	But not over—	Enter on Schedule J, line 8		of the amount over—	If Schedule J, line 7, is: Over—	But not over—	Enter on Schedule J, line 8		of the amount over—
\$0	\$9,225	.....	10%	\$0	\$0	\$9,225	.....	10%	\$0
9,225	37,450	\$922.50	+	15%	9,225	37,450	\$922.50	+	15%
37,450	90,750	5,156.25	+	25%	37,450	75,600	5,156.25	+	25%
90,750	189,300	18,481.25	+	28%	75,600	115,225	14,693.75	+	28%
189,300	411,500	46,075.25	+	33%	115,225	205,750	25,788.75	+	33%
411,500	413,200	119,401.25	+	35%	205,750	232,425	55,662.00	+	35%
413,200	.....	119,996.25	+	39.6%	232,425	.....	64,998.25	+	39.6%
Schedule Y-1—Use if your 2015 filing status was Married filing jointly or Qualifying widow(er) or you checked filing status box 6 on Form 1040NR					Schedule Z—Use if your 2015 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	\$18,450	.....	10%	\$0	\$0	\$13,150	.....	10%	\$0
18,450	74,900	\$1,845.00	+	15%	13,150	50,200	\$1,315.00	+	15%
74,900	151,200	10,312.50	+	25%	50,200	129,600	6,872.50	+	25%
151,200	230,450	29,387.50	+	28%	129,600	209,850	26,772.50	+	28%
230,450	411,500	51,577.50	+	33%	209,850	411,500	49,192.50	+	33%
411,500	464,850	111,324.00	+	35%	411,500	439,000	115,737.00	+	35%
464,850	.....	129,996.50	+	39.6%	439,000	.....	125,362.00	+	39.6%



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

- Your elected farm income on your 2018 Schedule J, line 2a, doesn't include any net capital gain.
- You (a) entered qualified dividends on your 2015 Form 1040, line 9b (or your 2015 Form 1040A, line 9b, or 2015 Form 1040NR, line 10b); (b) entered capital gain distributions directly on your 2015 Form 1040, line 13 (or your 2015 Form 1040A, line 10, or 2015 Form 1040NR, line 14) and weren't required to file Schedule D; or (c) filed Schedule D in 2015 and you answered "Yes" on lines 17 and 20 of that Schedule D.

1.	Amount from your 2018 Schedule J, line 7. If for 2015 you filed Form 2555 or 2555-EZ, enter the amount from line 3 of the 2015 Foreign Earned Income Tax Worksheet	1.	_____
2.	Amount from your 2015 Form 1040, line 9b* (or your 2015 Form 1040A, line 9b, or 2015 Form 1040NR, line 10b)	2.	_____
3.	Did you file Schedule D in 2015?*		
	<input type="checkbox"/> Yes. Enter the smaller of line 15 or 16 of your 2015 Schedule D, but don't enter less than -0-	}	3. _____
	<input type="checkbox"/> No. Enter the amount from your 2015 Form 1040, line 13 (or your 2015 Form 1040A, line 10, or 2015 Form 1040NR, line 14)		
4.	Add lines 2 and 3	4.	_____
5.	Amount, if any, from your 2015 Form 4952, line 4g	5.	_____
6.	Subtract line 5 from line 4. If zero or less, enter -0-	6.	_____
7.	Subtract line 6 from line 1. If zero or less, enter -0-	7.	_____
8.	Enter one of the following three amounts depending on your filing status:	}	8. _____
	• \$37,450 if single or married filing separately, or if you checked filing status box 1, 2, 3, 4, or 5 on Form 1040NR;		
	• \$74,900 if married filing jointly or qualifying widow(er) or if you checked filing status box 6 on Form 1040NR;		
	• \$50,200 if head of household.		
9.	Enter the smaller of line 1 or line 8	9.	_____
10.	Enter the smaller of line 7 or line 9	10.	_____
11.	Subtract line 10 from line 9. This amount is taxed at 0%	11.	_____
12.	Enter the smaller of line 1 or line 6	12.	_____
13.	Enter the amount from line 11	13.	_____
14.	Subtract line 13 from line 12	14.	_____
15.	Enter one of the following amounts depending on your filing status:	}	15. _____
	• \$413,200 if single, or if you checked filing status box 1 or 2 on Form 1040NR;		
	• \$232,425 if married filing separately, or if you checked filing status box 3, 4, or 5 on Form 1040NR;		
	• \$464,850 if married filing jointly or qualifying widow(er), or if you checked filing status box 6 on Form 1040NR;		
	• \$439,000 if head of household.		
16.	Enter the smaller of line 1 or line 15	16.	_____
17.	Add lines 7 and 11	17.	_____
18.	Subtract line 17 from line 16. If zero or less, enter -0-	18.	_____
19.	Enter the smaller of line 14 or line 18	19.	_____
20.	Multiply line 19 by 15% (0.15)	20.	_____
21.	Add lines 11 and 19	21.	_____
22.	Subtract line 21 from line 12	22.	_____
23.	Multiply line 22 by 20% (0.20)	23.	_____
24.	Figure the tax on the amount on line 7. Use the 2015 Tax Rate Schedules	24.	_____
25.	Add lines 20, 23, and 24	25.	_____
26.	Figure the tax on the amount on line 1. Use the 2015 Tax Rate Schedules	26.	_____
27.	Tax. Enter the smaller of line 25 or line 26 here and on your 2018 Schedule J, line 12. If for 2015 you filed Form 2555 or 2555-EZ, don't enter this amount on Schedule J, line 12. Instead, enter it on line 4 of the 2015 Foreign Earned Income Tax Worksheet	27.	_____

*If for 2015 you filed Form 2555 or 2555-EZ, see the footnote in the 2015 Foreign Earned Income Tax Worksheet before completing this line.

2015 Foreign Earned Income Tax Worksheet—Line 8

Keep for Your Records



Use this worksheet if you claimed the foreign earned income exclusion or housing exclusion on your 2015 Form 1040 using Form 2555 or 2555-EZ. However, if Schedule J, line 7, is zero or less, don't complete this worksheet.

1. Enter the amount from your 2018 Schedule J, line 7	1.	<input type="text"/>
2a. Enter the amount from your (and your spouse's, if filing jointly) 2015 Form 2555, lines 45 and 50, or Form 2555-EZ, line 18	2a.	<input type="text"/>
b. Enter the total amount of any itemized deductions or exclusions you could not claim for 2015 because they were related to excluded income	b.	<input type="text"/>
c. Subtract line 2b from line 2a. If zero or less, enter -0-	c.	<input type="text"/>
3. Add lines 1 and 2c	3.	<input type="text"/>
4. Figure the tax on the amount on line 3. Use the 2015 Tax Rate Schedules, the 2015 Qualified Dividends and Capital Gain Tax Worksheet,* or the 2015 Schedule D Tax Worksheet in the 2015 Schedule D instructions,* whichever applies.	4.	<input type="text"/>
5. Figure the tax on the amount on line 2c. Use the 2015 Tax Rate Schedules.	5.	<input type="text"/>
6. Subtract line 5 from line 4. Enter the result. If zero or less, enter -0-. Also include this amount on your 2018 Schedule J, line 8	6.	<input type="text"/>

**Enter the amount from line 3 above on line 1 of the 2015 Qualified Dividends and Capital Gain Tax Worksheet or the 2015 Schedule D Tax Worksheet if you use either of those worksheets to figure the tax on line 4 above. Complete the rest of that worksheet through line 6 (line 10 if you use the Schedule D Tax Worksheet). Next, you must determine if you had a capital gain excess. To find out if you had a capital gain excess, subtract the amount from your 2018 Schedule J, line 7, from line 6 of your 2015 Qualified Dividends and Capital Gain Tax Worksheet (line 10 of your 2015 Schedule D Tax Worksheet). If the result is more than zero, that amount is your capital gain excess.*

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

If you had a capital gain excess, complete a second 2015 Qualified Dividends and Capital Gain Tax Worksheet or 2015 Schedule D Tax Worksheet (whichever applies) as instructed above but in its entirety and with the following additional modifications. Then complete lines 5 and 6 above. These modifications are to be made only for purposes of filling out the 2015 Foreign Earned Income Tax Worksheet above.

- 1. Reduce (but not below zero) the amount you would otherwise enter on line 3 of your 2015 Qualified Dividends and Capital Gain Tax Worksheet or line 9 of your 2015 Schedule D Tax Worksheet by your capital gain excess.*
- 2. Reduce (but not below zero) the amount you would otherwise enter on line 2 of your 2015 Qualified Dividends and Capital Gain Tax Worksheet or line 6 of your 2015 Schedule D Tax Worksheet by any of your capital gain excess not used in (1) above.*
- 3. Reduce (but not below zero) the amount on your 2015 Schedule D (Form 1040), line 18, by your capital gain excess.*
- 4. Include your capital gain excess as a loss on line 16 of your 2015 Unrecaptured Section 1250 Gain Worksheet in the 2015 Instructions for Schedule D (Form 1040).*

Line 9

If you used Schedule J to figure your tax for:

- 2017 (that is, you entered the amount from the 2017 Schedule J, line 23; on your 2017 Form 1040, line 44; 2017 Form 1040NR, line 42; or 2017 Form 1040X), enter on line 9 the amount from your 2017 Schedule J, line 15.
- 2016 but not 2017, enter on line 9 the amount from your 2016 Schedule J, line 3.

If you figured your tax for both 2016 and 2017 without using Schedule J, enter on line 9 the taxable income from your 2016 tax return (or as previously adjusted by the IRS or corrected on an amended return). But if that amount is zero or less, complete the worksheet below to figure the amount to enter on line 9.

If you didn't file a tax return for 2016, 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 2016 until at least 3 years after April 16, 2019 (or the date you file your 2018 tax return, if later).

Instructions for 2016 Taxable Income Worksheet

Line 2. Any net capital loss deduction on your 2016 Schedule D, line 21, isn't allowed for income averaging purposes to the extent it didn't reduce your capital

loss carryover to 2017. This could happen if the taxable income before subtracting exemptions—shown on your 2016 Form 1040, line 41, or your 2016 Form 1040NR, line 39 (or as previously adjusted)—was less than zero. Enter on line 2 the amount by which your 2016 capital loss carryover to 2017 (the sum of your short- and long-term capital loss carryovers) exceeds the excess of the loss on your 2016 Schedule D, line 16, over the loss on your 2016 Schedule D, line 21. If you had any NOL carrybacks to 2016, be sure you refigured your 2016 capital loss carryover to 2017.

Line 3. If you had an NOL for 2016, enter the amount of that NOL from the 2016 Form 1045, Schedule A, line 25, you filed with Form 1045 or Form 1040X. If you didn't have an NOL for 2016, enter the portion, if any, of the NOL carryovers and carrybacks to 2016 that weren't used in 2016 and were carried to years after 2016.

Example. John Farmington didn't use income averaging for 2015, 2016, or 2017. The taxable income before subtracting exemptions on his 2016 Form 1040, line 41, is a negative \$29,900. A deduction for exemptions of \$4,050 is shown on line 42, and line 43, taxable income, is limited to zero. John subtracts from the \$29,900 loss the \$4,050 deduction for exemptions. The result is a negative \$33,950, John's 2016 taxable income, which he enters as a positive amount on line 1 of the 2016 Taxable Income Worksheet.

When John filed his 2016 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 2017. John adds the \$3,000 from Schedule D, line 21, and the \$7,000 capital loss carryover. He subtracts from the \$10,000 result the \$7,000 loss on his Schedule D, line 16, and enters \$3,000 on line 2 of the worksheet.

John enters \$20,600 on line 3 of the worksheet, the 2016 NOL from his 2016 Form 1045, Schedule A, line 25. Of the \$33,950 negative taxable income, the \$4,050 deduction for exemptions, the \$3,000 capital loss deduction, and his \$6,300 standard deduction weren't allowed in figuring the NOL. John had a \$20,600 loss on his 2016 Schedule F, the only other item on his 2016 tax return.

John enters \$23,600 (the \$3,000 line 2 amount plus the \$20,600 line 3 amount) on line 4 and \$10,350 (the \$33,950 line 1 amount minus the \$23,600 line 4 amount) on line 5. He enters \$10,350 as a negative amount on Schedule J, line 9. He enters \$6,000 on Schedule J, line 10, and a negative \$4,350 on Schedule J, line 11. If he uses Schedule J to figure his tax for 2019, he will enter the negative \$4,350 amount on his 2019 Schedule J as his 2016 taxable income for income averaging purposes.

2016 Taxable Income Worksheet—Line 9

Keep for Your Records 

Complete this worksheet if you **didn't** use Schedule J to figure your tax for 2017 and your 2016 taxable income was zero or less. See the instructions above before completing this worksheet.

- | | | |
|--|----|----------------------|
| 1. Figure the taxable income from your 2016 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 2016, don't include any NOL carryovers or carrybacks to 2016. Enter the result as a positive amount | 1. | <input type="text"/> |
| 2. If there is a loss on your 2016 Schedule D, line 21, add that loss (as a positive amount) and your 2016 capital loss carryover to 2017. Subtract from that sum the amount of the loss on your 2016 Schedule D, line 16, and enter the result | 2. | <input type="text"/> |
| 3. If you had an NOL for 2016, enter it as a positive amount. Otherwise, enter as a positive amount the portion, if any, of the NOL carryovers and carrybacks to 2016 that weren't used in 2016 and were carried to years after 2016 | 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 2016 Tax Rate Schedules below;
- The 2016 Qualified Dividends and Capital Gain Tax Worksheet, later;
- The 2016 Schedule D Tax Worksheet in the 2016 Schedule D instructions (but use the 2016 Tax Rate Schedules below when figuring the tax on the

Schedule D Tax Worksheet, lines 42 and 44); or

- The 2016 Foreign Earned Income Tax Worksheet, later.

If your elected farm income includes net capital gain, you must use the 2016 Schedule D Tax Worksheet to figure the tax on the amount on line 11. However, if you filed Form 2555 or 2555-EZ for 2016, you must first complete the 2016 Foreign Earned Income Tax Worksheet, and then use the 2016 Schedule D Tax

Worksheet to figure the tax on the amount on line 3 of the Foreign Earned Income Tax Worksheet.

When completing the Schedule D Tax Worksheet, you must allocate 1/3 of the amount on Schedule J, line 2b (and 1/3 of the amount on line 2c, if any) to 2016. If for 2016 you had a capital loss that resulted in a capital loss carryover to 2017, don't reduce the elected farm income allocated to 2016 by any part of the carryover.

2016 Tax Rate Schedules—Line 12

Schedule X —Use if your 2016 filing status was Single or you checked filing status box 1 or 2 on Form 1040NR					Schedule Y-2 —Use if your 2016 filing status was Married filing separately or you checked filing status box 3, 4, or 5 on Form 1040NR				
If Schedule J, line 11, is: <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	\$9,275	.....	10%	\$0	\$0	\$9,275	.....	10%	\$0
9,275	37,650	\$927.50	+ 15%	9,275	9,275	37,650	\$927.50	+ 15%	9,275
37,650	91,150	5,183.75	+ 25%	37,650	37,650	75,950	5,183.75	+ 25%	37,650
91,150	190,150	18,558.75	+ 28%	91,150	75,950	115,725	14,758.75	+ 28%	75,950
190,150	413,350	46,278.75	+ 33%	190,150	115,725	206,675	25,895.75	+ 33%	115,725
413,350	415,050	119,934.75	+ 35%	413,350	206,675	233,475	55,909.25	+ 35%	206,675
415,050	.....	120,529.75	+ 39.6%	415,050	233,475	.....	65,289.25	+ 39.6%	233,475
Schedule Y-1 —Use if your 2016 filing status was Married filing jointly or Qualifying widow(er) or you checked filing status box 6 on Form 1040NR					Schedule Z —Use if your 2016 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	\$18,550	.....	10%	\$0	\$0	\$13,250	.....	10%	\$0
18,550	75,300	\$1,855.00	+ 15%	18,550	13,250	50,400	\$1,325.00	+ 15%	13,250
75,300	151,900	10,367.50	+ 25%	75,300	50,400	130,150	6,897.50	+ 25%	50,400
151,900	231,450	29,517.50	+ 28%	151,900	130,150	210,800	26,835.00	+ 28%	130,150
231,450	413,350	51,791.50	+ 33%	231,450	210,800	413,350	49,417.00	+ 33%	210,800
413,350	466,950	111,818.50	+ 35%	413,350	413,350	441,000	116,258.50	+ 35%	413,350
466,950	.....	130,578.50	+ 39.6%	466,950	441,000	.....	125,936.00	+ 39.6%	441,000

2016 Foreign Earned Income Tax Worksheet—Line 12

Keep for Your Records



Use this worksheet if you claimed the foreign earned income exclusion or housing exclusion on your 2016 Form 1040 using Form 2555 or 2555-EZ. However, if Schedule J, line 11, is zero or less, don't complete this worksheet.

1. Enter the amount from your 2018 Schedule J, line 11	1.	
2a. Enter the amount from your (and your spouse's, if filing jointly) 2016 Form 2555, lines 45 and 50, or Form 2555-EZ, line 18	2a.	
b. Enter the total amount of any itemized deductions or exclusions you could not claim for 2016 because they were related to excluded income	b.	
c. Subtract line 2b from line 2a. If zero or less, enter -0-	c.	
3. Add lines 1 and 2c	3.	
4. Figure the tax on the amount on line 3. Use the 2016 Tax Rate Schedules, the 2016 Qualified Dividends and Capital Gain Tax Worksheet,* or the 2016 Schedule D Tax Worksheet in the 2016 Schedule D instructions,* whichever applies.	4.	
5. Figure the tax on the amount on line 2c. Use the 2016 Tax Rate Schedules.	5.	
6. Subtract line 5 from line 4. Enter the result. If zero or less, enter -0-. Also include this amount on your 2018 Schedule J, line 12	6.	

**Enter the amount from line 3 above on line 1 of the 2016 Qualified Dividends and Capital Gain Tax Worksheet or the 2016 Schedule D Tax Worksheet if you use either of those worksheets to figure the tax on line 4 above. Complete the rest of that worksheet through line 6 (line 10 if you use the Schedule D Tax Worksheet). Next, you must determine if you had a capital gain excess. To find out if you had a capital gain excess, subtract the amount from your 2018 Schedule J, line 11, from line 6 of your 2016 Qualified Dividends and Capital Gain Tax Worksheet (line 10 of your 2016 Schedule D Tax Worksheet). If the result is more than zero, that amount is your capital gain excess.*

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

If you had a capital gain excess, complete a second 2016 Qualified Dividends and Capital Gain Tax Worksheet or 2016 Schedule D Tax Worksheet (whichever applies) as instructed above but in its entirety and with the following additional modifications. Then complete lines 5 and 6 above. These modifications are to be made only for purposes of filling out the 2016 Foreign Earned Income Tax Worksheet above.

- 1. Reduce (but not below zero) the amount you would otherwise enter on line 3 of your 2016 Qualified Dividends and Capital Gain Tax Worksheet or line 9 of your 2016 Schedule D Tax Worksheet by your capital gain excess.*
- 2. Reduce (but not below zero) the amount you would otherwise enter on line 2 of your 2016 Qualified Dividends and Capital Gain Tax Worksheet or line 6 of your 2016 Schedule D Tax Worksheet by any of your capital gain excess not used in (1) above.*
- 3. Reduce (but not below zero) the amount on your 2016 Schedule D (Form 1040), line 18, by your capital gain excess.*
- 4. Include your capital gain excess as a loss on line 16 of your 2016 Unrecaptured Section 1250 Gain Worksheet in the 2016 Instructions for Schedule D (Form 1040).*

Line 13

If you used Schedule J to figure your tax for 2017 (that is, you entered the amount from the 2017 Schedule J, line 23; on your 2017 Form 1040, line 44; on your 2017 Form 1040NR, line 42; or on Form 1040X for 2017), enter on line 13 the amount from your 2017 Schedule J, line 3.

If you didn't use Schedule J to figure your tax for 2017, enter on line 13 the taxable income from your 2017 tax return (or as previously adjusted by the IRS or corrected on an amended return). But if that amount is zero or less, complete the worksheet below to figure the amount to enter on line 13.

If you didn't file a tax return for 2017, 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 2017 until at least 3 years after April 16, 2019 (or the date you file your 2018 tax return, if later).

Instructions for 2017 Taxable Income Worksheet

Line 2. Any net capital loss deduction on your 2017 Schedule D, line 21, isn't allowed for income averaging purposes to the extent it didn't reduce your capital loss carryover to 2018. This could happen if the taxable income before subtracting exemptions—shown on your 2017 Form 1040, line 41, or your 2017

Form 1040NR, line 39 (or as previously adjusted)—was less than zero. Enter on line 2 the amount by which your 2017 capital loss carryover to 2018 (the sum of your short- and long-term capital loss carryovers) exceeds the excess of the loss on your 2017 Schedule D, line 16, over the loss on your 2017 Schedule D, line 21.

Line 3. If you had an NOL for 2017, enter the amount of that NOL from the 2017 Form 1045, Schedule A, line 25, you filed with Form 1045 or Form 1040X. If you didn't have an NOL for 2017, enter the portion, if any, of the NOL carryovers and carrybacks to 2017 that weren't used in 2017 and were carried to years after 2017.

Example. John Farmington didn't use income averaging for 2015, 2016, or 2017. The taxable income before subtracting exemptions on his 2017 Form 1040, line 41, is a negative \$1,000. This amount includes an NOL deduction on his 2017 Form 1040, line 21, of \$1,150. The \$1,150 is the portion of the 2016 NOL that was remaining from 2015 to be carried to 2017. See the examples earlier. A deduction for exemptions of \$4,050 is shown on Form 1040, line 42, and line 43, taxable income, is limited to zero. John doesn't have an NOL for 2017. John subtracts from the \$1,000 negative amount on Form 1040, line 41, the \$4,050 deduction for exemptions. The result is a negative \$5,050, John's 2017 taxable income, which he enters as

a positive amount on line 1 of the 2017 Taxable Income Worksheet.

When John filed his 2017 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 2018 (his 2017 capital loss carryover to 2018 was \$5,000, not \$4,000, because the amount on his Form 1040, line 41, was a negative \$1,000). John adds the \$3,000 from Schedule D, line 21, and the \$5,000 carryover. He subtracts from the \$8,000 result the \$7,000 loss on his Schedule D, line 16, and enters \$1,000 on line 2 of the worksheet.

John enters -0- on line 3 of the worksheet because he doesn't have an NOL for 2017 and didn't have an NOL carryover from 2017 available to carry to 2018 and later years. The NOL deduction for 2017 of \$1,150 was reduced to zero because it didn't exceed his modified taxable income of \$3,150. Modified taxable income is figured by adding back the \$3,000 net capital loss deduction and the \$4,050 exemption deduction to negative taxable income (figured without regard to the NOL deduction) of \$3,900. John enters \$1,000 on line 4 and \$4,050 on line 5. He enters \$4,050 as a negative amount on Schedule J, line 13. He enters \$6,000 on Schedule J, line 14, and \$1,950 on Schedule J, line 15. If he uses Schedule J to figure his tax for 2019, he will enter \$1,950 on his 2019 Schedule J as his 2017 taxable income for income averaging purposes.

2017 Taxable Income Worksheet—Line 13

Keep for Your Records 

Complete this worksheet if your 2017 taxable income was zero or less. See the instructions above before completing this worksheet.

- | | | |
|--|----|----------------------|
| 1. Figure the taxable income from your 2017 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 2017, don't include any NOL carryovers or carrybacks to 2017. Enter the result as a positive amount | 1. | <input type="text"/> |
| 2. If there is a loss on your 2017 Schedule D, line 21, add that loss (as a positive amount) and your 2017 capital loss carryover to 2018. Subtract from that sum the amount of the loss on your 2017 Schedule D, line 16, and enter the result | 2. | <input type="text"/> |
| 3. If you had an NOL for 2017, enter it as a positive amount. Otherwise, enter as a positive amount the portion, if any, of the NOL carryovers and carrybacks to 2017 that weren't used in 2017 and were carried to years after 2017 | 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"/> |

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 2017 Tax Rate Schedules below;
- The 2017 Qualified Dividends and Capital Gain Tax Worksheet, later;
- The 2017 Schedule D Tax Worksheet in the 2017 Schedule D instructions (but use the 2017 Tax Rate Schedules when figuring the tax on the Sched-

ule D Tax Worksheet, lines 42 and 44); or

- The 2017 Foreign Earned Income Tax Worksheet, later.

If your elected farm income includes net capital gain, you must use the 2017 Schedule D Tax Worksheet to figure the tax on the amount on line 15. However, if you filed Form 2555 or 2555-EZ for 2017, you must first complete the 2017 Foreign Earned Income Tax Worksheet, and then use the 2017 Schedule D Tax

Worksheet to figure the tax on the amount on line 3 of the Foreign Earned Income Tax Worksheet.

When completing the Schedule D Tax Worksheet, you must allocate 1/3 of the amount on Schedule J, line 2b (and 1/3 of the amount on line 2c, if any) to 2017. If for 2017 you had a capital loss that resulted in a capital loss carryover to 2018, don't reduce the elected farm income allocated to 2017 by any part of the carryover.

2017 Tax Rate Schedules—Line 16

Schedule X—Use if your 2017 filing status was Single or you checked filing status box 1 or 2 on Form 1040NR					Schedule Y-2—Use if your 2017 filing status was Married filing separately or you checked filing status box 3, 4, or 5 on Form 1040NR				
If Schedule J, line 15, is: <i>Over—</i>	<i>But not over—</i>	Enter on Schedule J, line 16	<i>of the amount over—</i>		If Schedule J, line 15, is: <i>Over—</i>	<i>But not over—</i>	Enter on Schedule J, line 16	<i>of the amount over—</i>	
\$0	\$9,325	.....	10%	\$0	\$0	\$9,325	.....	10%	\$0
9,325	37,950	\$932.50	+ 15%	9,325	\$9,325	37,950	\$932.50	+ 15%	9,325
37,950	91,900	5,226.25	+ 25%	37,950	37,950	76,550	5,226.25	+ 25%	37,950
91,900	191,650	18,713.75	+ 28%	91,900	76,550	116,675	14,876.25	+ 28%	76,550
191,650	416,700	46,643.75	+ 33%	191,650	116,675	208,350	26,111.25	+ 33%	116,675
416,700	418,400	120,910.25	+ 35%	416,700	208,350	235,350	56,364.00	+ 35%	208,350
418,400	.....	121,505.25	+ 39.6%	418,400	235,350	.....	65,814.00	+ 39.6%	235,350
Schedule Y-1—Use if your 2017 filing status was Married filing jointly or Qualifying widow(er) or you checked filing status box 6 on Form 1040NR					Schedule Z—Use if your 2017 filing status was Head of household				
If Schedule J, line 15, is: <i>Over—</i>	<i>But not over—</i>	Enter on Schedule J, line 16	<i>of the amount over—</i>		If Schedule J, line 15, is: <i>Over—</i>	<i>But not over—</i>	Enter on Schedule J, line 16	<i>of the amount over—</i>	
\$0	\$18,650	.....	10%	\$0	\$0	\$13,350	.....	10%	\$0
18,650	75,900	\$1,865.00	+ 15%	18,650	13,350	50,800	\$1,335.00	+ 15%	13,350
75,900	153,100	10,452.50	+ 25%	75,900	50,800	131,200	6,952.50	+ 25%	50,800
153,100	233,350	29,752.50	+ 28%	153,100	131,200	212,500	27,052.50	+ 28%	131,200
233,350	416,700	52,222.50	+ 33%	233,350	212,500	416,700	49,816.50	+ 33%	212,500
416,700	470,700	112,728.00	+ 35%	416,700	416,700	444,550	117,202.50	+ 35%	416,700
470,700	.....	131,628.00	+ 39.6%	470,700	444,550	.....	126,950.00	+ 39.6%	444,550

Use this worksheet if you claimed the foreign earned income exclusion or housing exclusion on your 2017 Form 1040 using Form 2555 or 2555-EZ. However, if Schedule J, line 15, is zero or less, don't complete this worksheet.

1. Enter the amount from your 2018 Schedule J, line 15	1.	<input type="text"/>
2a. Enter the amount from your (and your spouse's, if filing jointly) 2017 Form 2555, lines 45 and 50, or Form 2555-EZ, line 18	2a.	<input type="text"/>
b. Enter the total amount of any itemized deductions or exclusions you could not claim for 2017 because they were related to excluded income	b.	<input type="text"/>
c. Subtract line 2b from line 2a. If zero or less, enter -0-	c.	<input type="text"/>
3. Add lines 1 and 2c	3.	<input type="text"/>
4. Figure the tax on the amount on line 3. Use the 2017 Tax Rate Schedules, the 2017 Qualified Dividends and Capital Gain Tax Worksheet,* or the 2017 Schedule D Tax Worksheet in the 2017 Schedule D instructions,* whichever applies.	4.	<input type="text"/>
5. Figure the tax on the amount on line 2c. Use the 2017 Tax Rate Schedules.	5.	<input type="text"/>
6. Subtract line 5 from line 4. Enter the result. If zero or less, enter -0-. Also include this amount on your 2018 Schedule J, line 16	6.	<input type="text"/>

**Enter the amount from line 3 above on line 1 of the 2017 Qualified Dividends and Capital Gain Tax Worksheet or the 2017 Schedule D Tax Worksheet if you use either of those worksheets to figure the tax on line 4 above. Complete the rest of that worksheet through line 6 (line 10 if you use the Schedule D Tax Worksheet). Next, you must determine if you had a capital gain excess. To find out if you had a capital gain excess, subtract the amount from your 2018 Schedule J, line 15, from line 6 of your 2017 Qualified Dividends and Capital Gain Tax Worksheet (line 10 of your 2017 Schedule D Tax Worksheet). If the result is more than zero, that amount is your capital gain excess.*

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

If you had a capital gain excess, complete a second 2017 Qualified Dividends and Capital Gain Tax Worksheet or 2017 Schedule D Tax Worksheet (whichever applies) as instructed above but in its entirety and with the following additional modifications. Then complete lines 5 and 6 above. These modifications are to be made only for purposes of filling out the 2017 Foreign Earned Income Tax Worksheet above.

1. Reduce (but not below zero) the amount you would otherwise enter on line 3 of your 2017 Qualified Dividends and Capital Gain Tax Worksheet or line 9 of your 2017 Schedule D Tax Worksheet by your capital gain excess.
2. Reduce (but not below zero) the amount you would otherwise enter on line 2 of your 2017 Qualified Dividends and Capital Gain Tax Worksheet or line 6 of your 2017 Schedule D Tax Worksheet by any of your capital gain excess not used in (1) above.
3. Reduce (but not below zero) the amount on your 2017 Schedule D (Form 1040), line 18, by your capital gain excess.
4. Include your capital gain excess as a loss on line 16 of your 2017 Unrecaptured Section 1250 Gain Worksheet in the 2017 Instructions for Schedule D (Form 1040).

Lines 19, 20, and 21

For example, your “tax” line may, in addition to the tax imposed by section 1, include amounts from Forms 8814 or

4972; alternative minimum tax if you filed Form 1040A; amounts from the recapture of an education credit; or a repayment amount for any excess of ad-

vance monthly payments of the health coverage tax credit.

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