

Maximum Tax on Earned Income

▶ Attach to Form 1040 (or Form 1041).
 ▶ See instructions on back.

1971

Name(s) as shown on Form 1040 (or Form 1041)

Identifying number

Do not complete this form if—(a) Earned taxable income is:
 \$50,000 or less, and you checked line 1, Form 1040,
 \$100,000 or less, and you checked line 2 or line 5, Form 1040,
 \$70,000 or less, and you checked line 4, Form 1040,
 \$50,000 or less and this is an Estate or Trust return (Form 1041)
 (b) You elected income averaging; or
 (c) You checked line 3 or line 6, Form 1040.

| | | | |
|---------------------------------------|--|----|--|
| 1 | Earned income (see instructions) | 1 | |
| 2 | Deductions (see instructions) | 2 | |
| 3 | Earned net income. Subtract line 2 from line 1 | 3 | |
| 4 | Enter your adjusted gross income | 4 | |
| 5 | Divide the amount on line 3 by the amount on line 4. Enter percentage result here, but not more than 100% | 5 | |
| 6 | Enter your taxable income | 6 | |
| 7 | Multiply the amount on line 6 by the percentage on line 5 | 7 | |
| 8 | Sum of 1971 items of tax preference in excess of \$30,000 (or an amount equal to the excess of one-half of the sum of your items of tax preference for 1970 and 1971 over \$30,000, if greater) | 8 | |
| 9 | Earned taxable income. Subtract line 8 from line 7 (see instructions) | 9 | |
| 10 | If: you checked line 1, Form 1040, enter \$50,000 you checked line 2 or 5, Form 1040, enter \$100,000 you checked line 4, Form 1040, enter \$70,000 Estate or trust, enter \$50,000 | 10 | |
| 11 | Subtract line 10 from line 9 (if zero or less, do not complete rest of form) | 11 | |
| 12 | Enter 60% of line 11 | 12 | |
| 13 | Tax on amount on line 6 (use Tax Rate Schedule in Form 1040 (or Form 1041) Instr.) | 13 | |
| 14 | Tax on amount on line 9 (use Tax Rate Schedule in Form 1040 (or Form 1041) Instr.) | 14 | |
| 15 | Subtract line 14 from line 13 | 15 | |
| 16 | If the amount on line 10 is: \$50,000, enter \$20,190 (\$22,590 if estate or trust) \$100,000, enter \$45,180 \$70,000, enter \$30,260 | 16 | |
| 17 | Add lines 12, 15, and 16. This is your maximum tax. Enter here and on line 19, Form 1040 (or line 24, Form 1041); however, if you had net long-term capital gain in excess of net short-term capital loss, complete Computation of Alternative Tax below | 17 | |
| Computation of Alternative Tax | | | |
| 18 | Amount from line 6 | 18 | |
| 19 | Amount from Schedule D (Form 1040), line 15(a) (or line 20, Form 1041) | 19 | |
| 20 | Subtract line 19 from line 18 (Caution: Line 9 cannot exceed this amount.) | 20 | |
| 21 | Enter smaller of amount on Sch. D (Form 1040), line 13 or 14 (or enter amount from Sch. D (Form 1041), line 17(e)). If line 21 does not exceed \$50,000, check this block <input type="checkbox"/> and omit lines 22 through 31. | 21 | |
| 22 | Enter long-term gains from certain binding contracts, distributions, and installment sales (referred to as "certain subsection d gains"—see Sch. D (Form 1040) or Sch. D (Form 1041) instructions). | 22 | |
| 23 | Amount from line 22 or \$50,000, whichever is larger. If line 23 is equal to or greater than line 21, check this block <input type="checkbox"/> and omit lines 24 through 31. | 23 | |
| 24 | Enter 50% of line 23 | 24 | |
| 25 | Add lines 20 and 24 | 25 | |
| 26 | Subtract line 23 from line 21 | 26 | |
| 27 | Enter amount from line 13 | 27 | |
| 28 | Tax on amount on line 25 (use Tax Rate Schedule in Form 1040 (or 1041) Instructions) | 28 | |
| 29 | Subtract line 28 from line 27 | 29 | |
| 30 | Enter 32½% of line 26 | 30 | |
| 31 | Amount on line 29 or 30, whichever is smaller | 31 | |
| 32 | Tax on amount on line 20 (use Tax Rate Schedule in Form 1040 (or 1041) Instructions) | 32 | |
| 33 | Subtract line 32 from line 13 | 33 | |
| 34 | Subtract line 33 from line 17 | 34 | |
| 35 | If the block on line 21 or 23 is checked, enter 50% of line 19; otherwise, enter 25% of line 23 | 35 | |
| 36 | Alternative tax, add lines 31 (if applicable), 34, and 35 | 36 | |
| 37 | Enter here and on line 19, Form 1040, (or line 24 or 25, whichever is applicable, Form 1041) the amount on line 17 or line 36, whichever is smaller | 37 | |

Instructions

The following instructions are numbered to correspond with the line numbers on the form

Line 1—Earned income.—“Earned 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 gains) and group-term life insurance purchased for employees that are includible in gross income.

If you perform personal services for a corporation, “earned income” 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 such property.

The entire amount you receive for the performance of professional services, such as services performed by a doctor, dentist, lawyer, architect, or accountant, will be treated as earned income if you are individually and personally responsible for the services performed, even though you employ assistants to perform all or part of such 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 (but not more than 30% of your share of net profits of such trade or business) will be considered to be earned income. See Income Tax Regulations section 1.1348-3(a)(3) for rules on earned income from business in which capital is material.

For rules relating to income in respect of a decedent, see Income Tax Regulations section 1.1348-3(a)(4).

If you are a *nonresident alien*, “earned 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.

“*Earned income*” does not include such income as dividends (including amounts treated as dividends by reason of section 1373(b) of the Internal Revenue Code and Income Tax Regulations section 1.1373-1), other distributions of corporate earnings and profits, gambling gains, or gains treated as capital gains under chapter 1 of the Internal Revenue Code.

“Earned income” does not include any distribution to which sections 72(m)(5), 72(n), 402(a)(2), or 403(a)(2)(A) of the Internal Revenue Code apply, or any deferred compensation within the meaning of section 404. “Deferred compensation” for this purpose does not include any amount received before the end of the taxable year following the first taxable year of the recipient in which his right to receive such amount is not subject to a substantial risk of forfeiture.

Section 72(m)(5) deals with premature or excessive distributions from a qualified employees’ pension plan or trust to an employee who is (or was) also an owner of the business.

Sections 72(n), 402(a)(2), or 403(a)(2)(A) deal with certain lump-sum distributions from other qualified plans that

are treated as capital gains or are subject to special averaging rules.

See Income Tax Regulations section 1.1348-3(a)(5) for exceptions to definition of earned income.

See Income Tax Regulations section 1.1348-3(b) for definition and examples of deferred compensation.

If you are a nonresident alien, “earned income” does not include salaries, wages, compensations, remunerations, emoluments, and other fixed or determinable annual or periodic gains, profits and income subject to tax at the rate of 30 percent (or lower treaty rate) under section 871(a)(1)(A) of the Internal Revenue Code.

Line 2—Deductions.—Include on this line any deductions that are required to be taken into account under section 62 of the Internal Revenue Code in determining adjusted gross income and are properly allocable to or chargeable against earned income. Such deductions include:

- (1) deductions attributable to a trade or business from which earned income is or may be derived,
- (2) expenses paid or incurred in connection with the performance of services as an employee,
- (3) deductions allowable by sections 404 (employer contributions to an employer’s trust or annuity plan) and 405(c) (employer contributions to qualified bond purchase plans) of the Internal Revenue Code,
- (4) deductions allowable by section 217 (moving expense) of the Internal Revenue Code,
- (5) deductions allowable by section 1379(b)(3) (employer contributions to qualified pension, etc., plans) of the Internal Revenue Code, 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 earned income. See Income Tax Regulations section 1.1348-2(d)(2)(vi) for more information on net operating loss deduction.

Line 8—Tax preference Offset.—See Income Tax Regulations section 1.1348-2(d)(3) for detailed information concerning items of tax preference to be taken into account to determine the tax preference offset.

Line 9—Earned taxable income.—“Earned taxable income” means the excess of the portion of taxable income attributable to earned net income over the tax preference offset. **Earned taxable income (line 9) may not exceed the excess of taxable income over 50 percent of the net section 1201 of the Internal Revenue Code gain (line 20).**

See Income Tax Regulations section 1.1348-2(d)(4) for illustrations showing computation of earned taxable income.

NOTE: If short period return, see Income Tax Regulations section 1.1348-2(c).