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

Maximum Tax on Earned Income

▶ Attach to Form 1040 (or Form 1041).

1976

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

Do not complete this form if—(a) Earned taxable income is:
$38,000 or less, and on Form 1040, you checked line 1 or line 4,
$52,000 or less, and on Form 1040, you checked line 2 or line 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 line 3.

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	a. Enter the larger of either (1) the total of your 1976 tax preference items or (2) one-fifth of the total of your tax preference items for 1972, 1973, 1974, 1975, and 1976	8a			
	b. Less	8b	$30,000		
	c. Subtract line 8b from line 8a			8c	
9	Earned taxable income. Subtract line 8c from line 7 (see instructions)			9	
10	If: on Form 1040, you checked line 1 or line 4, enter $38,000 on Form 1040, you checked line 2 or 5, enter $52,000 Estate or Trust, enter $26,000			10	
11	Subtract line 10 from line 9 (if zero or less, do not complete rest of form)			11	
12	Enter 50% of line 11			12	
13	Tax on amount on line 6 (use Tax Rate Schedule from Form 1040 (or Form 1041) Instructions)	13			
14	Tax on amount on line 9 (use Tax Rate Schedule from Form 1040 (or Form 1041) Instructions)	14			
15	Subtract line 14 from line 13			15	
16	If the amount on line 10 is: $38,000, enter $13,290 ($12,240 if unmarried head of household) $52,000, enter $18,060 $26,000, enter $9,030			16	
17	Add lines 12, 15, and 16. This is your maximum tax. Enter here and on Form 1040, line 16 (or Form 1041, line 24); 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 Form 1041, page 1, line 20)			19	
20	Subtract line 19 from line 18			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 here ▶ ☐ and omit lines 22 through 25.**			21	
22	Enter amount from line 20 plus $25,000			22	
23	Enter amount from line 13			23	
24	Tax on amount on line 22 (use Tax Rate Schedule from Form 1040 (or 1041) Instructions)			24	
25	Subtract line 24 from line 23			25	
26	Tax on amount on line 20 (use Tax Rate Schedule from Form 1040 (or 1041) Instructions). **Caution:** *If line 9 is more than line 20, enter instead amount on line 14 less 50% of excess of line 9 over line 20*			26	
27	Subtract line 26 from line 13			27	
28	Subtract line 27 from line 17			28	
29	If the block on line 21 is checked, enter 50% of line 19; otherwise, enter $12,500			29	
30	Alternative tax, add lines 25 (if applicable), 28 and 29			30	
31	Enter here and on Form 1040, line 16 (or Form 1041, line 24 or 25, whichever is applicable), the amount on line 17 or line 30, whichever is smaller			31	

* If you reported capital gain distributions but did not use Schedule D (Form 1040), enter on line 19 the amount shown on Form 1040, line 30b. Also, enter on line 21 the total amount of capital gain distributions received.

Instructions

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 the prizes and awards (other than gambling winnings) 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, "earned 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 earned 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 earned 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 earned income in the hands of the beneficiary if such gross income would have constituted earned income of the decedent had he lived and received such amount.

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 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.

"Earned Income" does not include premature or excess distributions from a qualified employees pension plan, nor does it include lump-sum distributions from pension etc. plans.

"Earned Income" also does not include distributions from qualified pension, profit sharing, stock bonus or deferred compensation plans.

If you are a nonresident alien "earned income" does not include income not connected with United States business subject to 30 percent tax.

Line 2—Deductions.—Include on this line 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 earned income such as:

(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 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 behalf by corporation to 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 earned income.

Line 8.—The tax preference items to take into consideration for purposes of this form are the same as those required for computation of minimum tax.

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.

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, earned 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.

Alternative Tax.—If you have excess long-term capital gains over short-term capital losses and your tax bracket is high enough to qualify for maximum tax rates complete lines 18 to 31.