

Maximum Tax on Personal Service Income

▶ Attach to Form 1040 (or Form 1041).

1978

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 (see instructions)	2	
3 Divide the amount on line 1 by the amount on line 2. Enter percentage result here, but not more than 100%. Round to nearest 4 numbers (see instructions)	3	
4 Enter your taxable income (see instructions)	4	
5 Multiply the amount on line 4 by the percentage on line 3	5	
6 Enter the total of your 1978 tax preference items (see instructions)	6	
7 Personal service taxable income. Subtract line 6 from line 5 (see instructions)	7	
8 If: on Form 1040, you checked box 1 or box 4, enter \$40,200	8	
on Form 1040, you checked box 2 or box 5, enter \$55,200		
Estate or Trust, enter \$26,000		
9 Subtract line 8 from line 7 (if zero or less, do not complete rest of form)	9	
10 Enter 50% of line 9	10	
11 Tax on amount on line 4	11	
12 Tax on amount on line 7	12	
13 Subtract line 12 from line 11	13	
14 If the amount on line 8 is: \$40,200, enter \$13,290 (\$12,240 if unmarried head of household)	14	
\$55,200, enter \$18,060		
\$26,000, enter \$9,030		
15 Add lines 10, 13, and 14. This is your maximum tax (see instructions)	15	

Computation of Alternative Tax		
16 Amount from line 4	16	
17 Enter amount reportable on Schedule D (Form 1040), line 26 or Schedule D (Form 1041), line 20*	17	
18 Subtract line 17 from line 16	18	
Note: If Schedule D (Form 1040), line 15; Form 4798, line 7; or Schedule D (Form 1041), line 17(e) or 31 is not more than \$50,000, skip lines 19 through 23.		
19 Enter amount reportable on Schedule D (Form 1040), line 28 or Schedule D (Form 1041), line 22	19	
20 Add lines 18 and 19	20	
21 Enter amount from line 11	21	
22 Tax on amount on line 20	22	
23 Subtract line 22 from line 21	23	
24 Tax on amount on line 18. Caution: If line 7 is more than line 18, enter instead, amount on line 12 less 50% of the excess of line 7 over line 18	24	
25 Subtract line 24 from line 11	25	
26 Subtract line 25 from line 15	26	
27 Enter 25% of Schedule D (Form 1040), line 15; Form 4798, line 7; or Schedule D (Form 1041), line 17(e) or 31, but not more than \$12,500	27	
28 Add lines 23 (if applicable), 26 and 27	28	

*If you reported capital gain distributions but did not use Schedule D (Form 1040), enter on line 17 the amount shown on Form 1040, line 15.

Instructions

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

Column A—Personal Service Income.—Enter in the spaces provided all personal service income as shown on your Form 1040 or your Form 1041. Personal service income generally includes 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 also includes prizes and awards that are not 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.

Personal service income 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.

If you perform personal services for a corporation (including an electing small business corporation), personal service income generally is only the portion of income that is received from the corporation that represents a reasonable allowance for salaries and other compensation for personal services actually rendered.

If you are a doctor, dentist, lawyer, architect, accountant, etc., the entire amount you receive for performing professional services, is 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 is personal service income from the trade or business. If the trade or business had a net profit, the value of your services that could be considered personal service income may not exceed 30 percent of your share of the net profits from the trade or business including any guaranteed payment received from a partnership.

An item of gross income in respect of a decedent is treated as personal service income to the beneficiary if the gross income would have been personal service income for the decedent had he or she lived and received the amount.

If you are a nonresident alien, per-

sonal 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 or Annuities 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 for contributions to a Keogh Retirement Plan,
- (4) Allowable deduction for payments to an individual retirement arrangement,
- (5) Allowable deductions for moving expenses,
- (6) 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
- (7) 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.

When the expenses of a business exceed the income from that business, and

both personal services and capital are material income producing factors, only a portion of the expenses are deductible against personal service income. To determine the allowable deductions, multiply the total business expenses of that business by the ratio of the reasonable value of the taxpayer's service to the business over the gross receipts of that business.

This calculation must be applied separately to each business having a loss, and the profits or losses of one business may not be netted against profits or losses of another business.

Line 2—Adjusted Gross Income.—If this form is to be attached to Form 1040, enter on this line, the amount from Form 1040, line 31.

Line 3.—Round percentage to nearest four numbers. For example, a percentage of 68.8456% should be rounded to 68.85%.

Line 4—Taxable Income.—If this form is to be attached to Form 1040, enter on this line, the amount from Schedule TC (Form 1040), Part I, line 3.

Line 6.—Enter on this line the tax preference items required for computation of minimum tax whether or not you are actually liable for such tax.

Exception: The capital gain deduction from Schedule D (Form 1040), line 19; Form 4798, line 12; or Schedule D (Form 1041), line 35 need not be taken into account.

For more information, see Form 4625.

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 11, 12, 22 and 24.—Use Tax Rate Schedules from Form 1040 or Form 1041 instructions.

Lines 15 and 28.—Enter your maximum tax on Schedule TC, Form 1040, Part I, line 4 (or Form 1041, line 27). However, if you had net long-term capital gain in excess of net short-term capital loss, complete lines 16 to 28 and enter the smaller of line 15 or line 28 on the appropriate line of Form 1040, or Form 1041.

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.