

Maximum Tax on Personal Service Income

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

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:
 - \$41,500 or less, and on Form 1040, you checked box 1,
 - \$60,000 or less, and on Form 1040, you checked box 2 or box 5,
 - \$44,700 or less, and on Form 1040, you checked box 4,
 - \$28,300 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.

Personal Service Income			Deductions Against Personal Service Income		
1 Total personal service income	1		2 Total deductions against personal service income	2	
3 Personal service net income—Subtract total of line 2 from total of line 1				3	
4 Enter your adjusted gross income				4	
5 Divide the amount on line 3 by the amount on line 4. Enter result as a percentage. If more than 100%, enter 100%. Round to nearest 4 numbers				5	
6 Enter your taxable income				6	
7 Multiply the amount on line 6 by the percentage on line 5				7	
8 Enter the total of your 1979 tax preference items				8	
9 Personal service taxable income. Subtract line 8 from line 7				9	
10 If: on Form 1040, you checked box 1, enter \$41,500			}	10	
on Form 1040, you checked box 2 or box 5, enter \$60,000					
on Form 1040, you checked box 4, enter \$44,700					
you are filing Form 1041, enter \$28,300					
11 Subtract line 10 from line 9. If line 10 is more than line 9, do not complete rest of form				11	
12 Enter 50% of line 11				12	
13 Tax on amount on line 6*		13			
14 Tax on amount on line 9*		14			
15 Subtract line 14 from line 13				15	
16 If the amount on line 10 is: \$41,500, enter \$13,392			}	16	
\$60,000, enter \$19,678					
\$44,700, enter \$13,961					
\$28,300, enter \$9,839					
17 Add lines 12, 15, and 16. This is your maximum tax				17	

*Use Tax Rate Schedules from Form 1040 or Form 1041 instructions.

Instructions

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

Purpose of Form.—This form may be to your advantage if you have personal service income and your tax bracket is above 50%. Please read the instructions and complete the form. If line 17 is less than your regular tax using the tax rate schedules and income averaging, attach this form to Form 1040 or Form 1041. Also, check the box labeled Form 4726, on Schedule TC (Form 1040), if you are filing this form with Form 1040.

Line 1. Personal service income.—In the spaces on line 1 show the kinds and amounts of personal service income from your Form 1040 or Form 1041. For an estate or trust, personal service income includes only income in respect of a decedent as defined below. Personal service income for an individual includes:

- wages, salaries, tips, and other compensation for personal services actually rendered.
- professional fees.
- bonuses.
- commissions on sales or insurance premiums.
- prizes and awards that are not gambling winnings.
- taxable pensions and annuities if there is a connection with earning income from past personal services.
- taxable group term life insurance.
- property you received as payment for services even if you later transferred the property to someone else.
- gains (except capital gains) and net earnings from the sale or transfer of an interest in, or license for the use of property (other than goodwill) that you created by your personal efforts.
- the portion of income you received from a corporation (including an electing small business corporation) that represents a reasonable allowance as compensation for the services you performed for the corporation.
- the entire amount you receive for professional services if you are a doctor, dentist, lawyer, architect, accountant, etc., and you are personally responsible for the services performed. This is true even if your assistants perform all or part of the services.
- income you receive from a noncorporate trade or business where both personal services and capital are material income producing factors. In this case, your personal service income is a reasonable allowance as compensation for the personal serv-

ices actually rendered, but not more than the net profits of the business.

- an item of gross income in respect of a decedent if the gross income would have been personal service income for the decedent had he or she lived and received the amount.
- personal service income of a nonresident alien if it is from sources in the U.S. and is effectively connected with the conduct of a business in the U.S. It does not include income subject to the 30 percent tax under section 871(a)(1)(A).

Personal service income does not include:

- interest and dividends (including undistributed taxable income from an electing small business corporation).
- other distributions of corporate earnings and profits.
- gambling gains.
- gains treated as capital gains.
- premature or excess distributions from a qualified employee pension plan under section 72(m)(5).
- lump-sum distributions from pension, etc., plans taxed under sections 402(a)(2), 402(e) and 403(a)(2).
- certain distributions from Individual Retirement Accounts or Annuities described in sections 408(e)(2), (3), (4), (5), and 408(f).
- redemption of retirement bonds includible in income under section 409(b) or (c).

Line 2. Deductions against personal service income.—In the spaces on line 2 show the kind and amount of each deduction that is related to your personal service income and is required to be taken into account in determining adjusted gross income.

Examples of these are:

- allowable deduction for expenses from a trade or business from which you received personal service income.
- allowable deduction for expenses from performing services as an employee.
- allowable deduction for payments to a Keogh plan.
- allowable deduction for payments to an IRA.
- allowable deduction for moving expenses.
- 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

- 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 are more than the income from that business, and both personal services and capital are material income producing factors, deduct only part of the expenses against personal service income. To figure your deduction, multiply the total business expenses of that business by the ratio of a reasonable amount of pay for your services over the gross receipts of that business. You must make the computation separately for each business with a loss. You cannot apply the profits or losses of one business against the profits or losses of another.

Line 4. Adjusted gross income.—If you are filing this form with Form 1040, enter on line 4 the amount from Form 1040, line 31.

Line 5.—Round percentage to nearest four numbers. For example, a percentage of 63.8456% should be rounded to 68.85%.

Line 6. Taxable income.—If you are filing this form with Form 1040, enter the amount from Schedule TC (Form 1040), Part I, line 3.

Line 8.—Enter on this line the following tax preference items:

- adjusted itemized deductions.
- accelerated depreciation on real and personal property.
- amortization of certified historic structures, certified pollution control facilities, railroad rolling stock, on-the-job training facilities and child care facilities.
- reserves for losses on bad debts of financial institutions.
- stock options.
- depletion.
- intangible drilling costs.

For more information, see Forms 4625 and 6251.

Line 17. Maximum tax.—Add lines 12, 15, and 16 and enter the total. This is your maximum tax. Enter it also on Schedule TC (Form 1040), Part I, line 4, or on Form 1041, line 27.

Short Period Returns.—If you are required to prepare 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 tax year for purposes of a jeopardy assessment, the maximum tax computation shall not apply unless the tax year is reopened.