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

Maximum Tax on Personal Service Income

▶ See instructions on back.

▶ Attach to Form 1040 (or Form 1041).

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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 less than the amount reportable on line 10.
(b) You elected income averaging; or
(c) On Form 1040, you checked box 3.

Personal Service Income			**Deductions Against Personal Service Income** *(Do not include expenses deductible on Schedule A (Form 1040))*		
Wages, salaries, tips, etc.			Moving expenses		
Other compensation			Employee business expenses		
Other (see instructions and list):			Other (see instructions and list):		
1 Total personal service income			**2** Total deductions against personal service income		

3 Personal service net income—Subtract total of line 2 from total of line 1	3		
4 Adjusted gross income from Form 1040, line 32a (estates and trusts—see instructions)	4		
5 Divide the amount on line 3 by the amount on line 4. Enter result as a percentage. If more than 100%,			

Instructions

(Section references are to the Internal Revenue Code)

Paperwork Reduction Act Notice.—The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form.—This form may be to your advantage if you have personal service income and your tax rate is above 50%. For more information, see **Publication 909,** Minimum Tax and Maximum Tax.

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 which arise from employer-employee relationship or from tax deductible contributions to a retirement plan.
- 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 services 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 trade or business in the U.S.

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.
- 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.
- allowable deduction for certain expenses of living abroad under section 913.

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.

Note: *Do not include in line 2, expenses which are properly deductible on Schedule A (Form 1040).*

Line 4. Adjusted gross income.—If you are an estate or trust, adjusted gross income is determined the same as for an individual.

Line 5.—Round percentage to nearest four numbers. For example, a percentage of 68.8456% should be rounded to 68.85%.

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.

See Form 6251 for adjusted itemized deductions and Form 4625 for the other tax preference items. If you are an estate or trust, see Form 4626 instead of Form 4625.

If there are no tax preference items because of section 58(h), indicate this on line 8.

Lines 20 and 33.—This is your maximum tax. If line 20 is less than your tax by using the tax rate schedule, income averaging, or alternative tax, enter it on Form 1040, line 35 and check the box labeled "Form 4726". If you are an estate or trust, enter this amount on Form 1041, line 26a and write "Form 4726" in the margin. However, if you had an entry on line 29 of Schedule D (Form 1040 or Form 1041), complete lines 21 through 33. If line 33 is less than line 20, use the line 33 amount instead of line 20.

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.

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