

2002 Instructions for Schedule J, Farm Income Averaging

General Instructions

Negative Taxable Income

If your deductions exceeded your gross income for any year that is a base year for 2002 (1999, 2000, or 2001), your taxable income for farm income averaging purposes for that year may be negative. See the instructions for lines 5, 9, and 13.

If you had taxable income from farming in 1999 and your deductions exceeded your gross income for any year that is a base year for 1999 (1996, 1997, or 1998), your taxable income for farm income averaging purposes for that year may be negative. You can use that negative amount instead of limiting the amount to zero when figuring your tax using Schedule J for 1999. Unless you have already done so, file an amended return on **Form 1040X** for 1999 and attach Schedule J. Filing Form 1040X may result in a refund. You may file Form 1040X for 1999 and use Schedule J to figure your tax even if you did not use Schedule J on your original 1999 tax return. If you did use Schedule J to figure your tax for 1999 and the taxable income for any of the base years was zero, you **must** refigure your tax using a 1999 Schedule J **before** completing Schedule J for 2002. You also should amend your 1999 tax return. Figure the amount to enter on lines 5, 9, and 13 of the 1999 Schedule J in the manner shown for those lines in these instructions, but substituting the applicable base years. Also, do not limit the amount on lines 5, 9, 11, 13, and 15 of the 1999 Schedule J to zero.

Prior Year Tax Returns

You may need copies of your original or amended income tax returns for 1999, 2000, and 2001 to figure your tax on Schedule J. If you do not have copies of those returns, you can get them by filing **Form 4506**. See your Form 1040 instruction booklet to find out how to get this form. Keep a copy of your 2002 income tax return for use in 2003, 2004, or 2005.

Use Schedule J (Form 1040) to elect to figure your 2002 tax by averaging, over the previous 3 years (base years), all or part of your 2002 taxable income from your trade or business of farming. Making this election may give you a lower tax if your 2002 income from farming is high and your taxable income for one or more of the 3 prior years was low.

If you owe alternative minimum tax (AMT) for 2002 (figured without regard to farm income averaging), filing Schedule J will not reduce your total tax for 2002. Filing Schedule J may, however, increase your credit for prior year minimum tax in a later tax year.

This election does not apply when figuring your tentative minimum tax on **Form 6251** (that is, you cannot average your AMT farm income). Also, you do not have to recompute, because of this election, the tax liability of any minor child who was required to use your tax rates in the prior years.

Additional Information

See Regulations section 1.1301-1 for more details.

Specific Instructions

Line 2

Elected Farm Income

To figure elected farm income, first figure your taxable income from farming. **Taxable income from farming** includes all income, gains, losses, and deductions attributable to any farming business. However, it does not include gain from the sale or other disposition of land.

Your **elected farm income** is the amount of your taxable income from farming that you elect to include on line 2. You do not have to include all of your taxable income from farming on line 2. It may be to your advantage to include less than the full amount, depending on how the amount you include on line 2 affects your tax bracket for the current and prior 3 tax years.

Your elected farm income cannot exceed your taxable income. Also, the portion of your elected farm income treated as a net capital gain cannot exceed the **smaller** of your total net capital gain or your net capital gain attributable to your farming business. If your elected farm income includes net capital gain, you must allocate an equal portion of the net capital gain to each of the base years. If, for any base year, you had a capital loss that resulted in a capital loss carryover to the next tax year, **do not** reduce the elected farm income allocated to that base year by any part of the carryover.

Farming Business. A farming business is the trade or business of cultivating land or raising or harvesting any agricultural or horticultural commodity. This includes:

- Operating a nursery or sod farm;
- Raising or harvesting of trees bearing fruits, nuts, or other crops;

- Raising ornamental trees (but not evergreen trees that are more than 6 years old when severed from the roots);

- Raising, shearing, feeding, caring for, training, and managing animals; and

- Leasing land to a tenant engaged in a farming business, but **only** if the lease payments are based on a share of the tenant's production (not a fixed amount).

A farming business **does not** include:

- Contract harvesting of an agricultural or horticultural commodity grown or raised by someone else or

- Merely buying or reselling plants or animals grown or raised by someone else.



Generally, farm income, gains, losses, and deductions are reported on:

- **Form 1040**, line 7, to the extent of wages and other compensation you received as a shareholder in an S corporation engaged in a farming business;

- **Schedule D**;

- **Schedule E**, Part II;

- **Schedule F**;

- **Form 4797**; and

- **Form 4835**.

Line 4

Figure the tax on the amount on line 3 using the **2002 Tax Table**, Tax Rate Schedules, or Capital Gain Tax Worksheet from your 2002 Form 1040 instruction booklet, or use Schedule D. Enter the tax on line 4.

Line 5

If you used Schedule J to figure your tax for 2001 (that is, you entered the amount from line 22 of that Schedule J on Form 1040, line 40, or on Form 1040X), enter on line 5 the amount from line 11 of your 2001 Schedule J. If you used Schedule J to figure your tax for 2000 but not 2001, enter on line 5 the amount from line 15 of your 2000 Schedule J. If you used Schedule J to figure your tax for 1999 but not 2000 nor 2001, enter on line 5 the amount from line 3 of your 1999 Schedule J.

If you figured your tax for 1999, 2000, and 2001 without using Schedule J, enter on line 5 the taxable income from your 1999 tax return (or as previously adjusted by the IRS, an amended return, etc.). But if that amount is zero or less, complete the worksheet below to figure the amount to enter on line 5.

If you filed your 1999 tax return using TeleFile, enter the taxable income from your TeleFile Tax Record. If you did not file a tax return for 1999, use the amount you would have reported as your taxable income had you been required to file a tax return. Be sure to keep all your records for 1999 for at least 3 years after April 15, 2003 (or the date you file your 2002 tax return, if later), even if you did not file a tax return for 1999.

Instructions for 1999 Taxable Income Worksheet

Line 2. Any net capital loss deduction on your 1999 Schedule D, line 18, is not allowed for farm income averaging purposes to the extent it did not reduce your capital loss carryover to 2000. This could happen if the taxable income before subtracting exemptions shown on your 1999 Form 1040, line 37 (or as previously adjusted), was less than zero. Enter the amount by which your 1999 capital loss carryover to 2000 (the sum of your short- and long-term capital loss carryovers) exceeds the excess of the loss on your 1999 Schedule D, line 17, over the loss on your 1999 Schedule D, line 18. If you had any net operating loss (NOL) carrybacks to 1999, be sure you refigured your 1999 capital loss carryover to 2000.

Line 3. If you had an NOL for 1999, enter the amount of that NOL as figured on line 27 of the 1999 Form 1045, Schedule A, you filed with **Form 1045** or Form 1040X. If you did not have an NOL for 1999, enter the portion, if any, of the NOL carryovers and carrybacks to 1999 that were not used in 1999 and were carried to years after 1999.

Example. John Farmington did not use farm income averaging for 1999, 2000, nor 2001. John has \$18,000 of elected farm income on line 2. The taxable income before subtracting exemptions shown on his 1999 Form 1040, line 37, was \$3,750. A deduction for exemptions of \$2,750 was shown on line 38, and line 39, taxable income, was \$1,000. However, John had a \$22,800 NOL in 2000, \$9,000 of which was remaining to carry to 1999 after the NOL was carried back to 1998. To complete line 1 of the worksheet,

John combines the \$9,000 NOL deduction with the \$3,750 from his 1999 Form 1040, line 37. The result is a negative \$5,250. John subtracts from that amount the \$2,750 deduction for exemptions. That result is a negative \$8,000, John's 1999 taxable income, which he enters as a positive amount on line 1 of the 1999 worksheet.

When John filed his 1999 tax return, he had a \$3,000 net capital loss deduction on Schedule D, line 18 (which was also entered on Form 1040, line 13), a \$7,000 loss on Schedule D, line 17, and a \$4,000 capital loss carryover to 2000. However, when John carried back the 2000 NOL to 1999, he refigured his 1999 capital loss carryover to 2000 as \$7,000. John adds the \$3,000 from Schedule D, line 18, and the \$7,000 carryover. He subtracts from the result the \$7,000 loss on his Schedule D, line 17, and enters \$3,000 on line 2 of the worksheet.

John had \$1,000 of taxable income in 1999 that reduced the 2000 NOL carryback. The \$2,750 of exemptions and \$3,000 net capital loss deduction also reduced the amount of the 2000 NOL carryback. Therefore, only \$2,250 was available to carry to 2001 and later years, as shown on his 2000 Form 1045, Schedule B, line 9. John enters the \$2,250 on line 3 of the worksheet, and \$5,250 on line 4. He then subtracts the \$5,250 from the \$8,000 on line 1 and enters the result, \$2,750, on line 5 of the worksheet. He enters a negative \$2,750 on Schedule J, line 5. He combines that amount with the \$6,000 on Schedule J, line 6, and enters \$3,250 on Schedule J, line 7.

1999 Taxable Income Worksheet—Line 5

Keep for Your Records

Complete this worksheet if you figured your tax for both 2000 and 2001 without using Schedule J **and** your 1999 taxable income is zero or less. See the instructions above before completing this worksheet.

- | | | |
|---|----|----------------------|
| 1. Figure the taxable income from your 1999 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 1999, do not include any NOL carryovers or carrybacks to 1999. Enter the result as a positive amount | 1. | <input type="text"/> |
| 2. If there is a loss on your 1999 Schedule D, line 18, add that loss (as a positive amount) and your 1999 capital loss carryover to 2000. Subtract from that sum the amount of the loss on your 1999 Schedule D, line 17, and enter the result | 2. | <input type="text"/> |
| 3. If you had an NOL for 1999, enter it as a positive amount. Otherwise, enter as a positive amount the portion, if any, of the NOL carryovers and carrybacks to 1999 that were not used in 1999 and were carried to years after 1999 | 3. | <input type="text"/> |
| 4. Add lines 2 and 3 | 4. | <input type="text"/> |
| 5. Subtract line 4 from line 1. Enter the result as a negative amount on Schedule J, line 5 | 5. | <input type="text"/> |

Line 8

If line 7 is zero, enter zero on line 8. Otherwise, figure the tax on the amount on line 7 using:

- The 1999 Capital Gain Tax Worksheet below, or

- The Schedule D you filed for 1999 (but use the 1999 Tax Rate Schedules below instead of the 1999 Tax Table when figuring the tax on Schedule D, lines 33 and 53).

- The 1999 Tax Rate Schedules below,

1999 Tax Rate Schedules—Line 8

Schedule X—Use if your 1999 filing status was Single				Schedule Y-2—Use if your 1999 filing status was Married filing separately			
If Schedule J, line 7, is:	But not Over—	Enter on Schedule J, line 8	of the amount over—	If Schedule J, line 7, is:	But not Over—	Enter on Schedule J, line 8	of the amount over—
\$0	\$25,750	15%	\$0	\$0	\$21,525	15%	\$0
25,750	62,450	\$3,862.50 + 28%	25,750	21,525	52,025	\$3,228.75 + 28%	21,525
62,450	130,250	14,138.50 + 31%	62,450	52,025	79,275	11,768.75 + 31%	52,025
130,250	283,150	35,156.50 + 36%	130,250	79,275	141,575	20,216.25 + 36%	79,275
283,150		90,200.50 + 39.6%	283,150	141,575		42,644.25 + 39.6%	141,575

Schedule Y-1—Use if your 1999 filing status was Married filing jointly or Qualifying widow(er)				Schedule Z—Use if your 1999 filing status was Head of household			
If Schedule J, line 7, is:	But not Over—	Enter on Schedule J, line 8	of the amount over—	If Schedule J, line 7, is:	But not Over—	Enter on Schedule J, line 8	of the amount over—
\$0	\$43,050	15%	\$0	\$0	\$34,550	15%	\$0
43,050	104,050	\$6,457.50 + 28%	43,050	34,550	89,150	\$5,182.50 + 28%	34,550
104,050	158,550	23,537.50 + 31%	104,050	89,150	144,400	20,470.50 + 31%	89,150
158,550	283,150	40,432.50 + 36%	158,550	144,400	283,150	37,598.00 + 36%	144,400
283,150		85,288.50 + 39.6%	283,150	283,150		87,548.00 + 39.6%	283,150

1999 Capital Gain Tax Worksheet—Line 8

Keep for Your Records

Use this worksheet **only** if you entered capital gain distributions directly on line 13 of your 1999 Form 1040 and checked the box on that line **and** you do not have to use Schedule D to figure your tax.

1.	Amount from Schedule J, line 7	1.	_____
2.	Amount from your 1999 Form 1040, line 13	2.	_____
3.	Subtract line 2 from line 1. If zero or less, enter -0-	3.	_____
4.	Figure the tax on the amount on line 3. Use the 1999 Tax Rate Schedules above	4.	_____
5.	Enter the smaller of:		
	• The amount on line 1 above or		
	• \$25,750 if single for 1999; \$43,050 if married filing jointly or qualifying widow(er); \$21,525 if married filing separately; or \$34,550 if head of household.	5.	_____
6.	Enter the amount from line 3	6.	_____
7.	Subtract line 6 from line 5. If zero or less, enter -0- and go to line 9	7.	_____
8.	Multiply line 7 by 10% (.10)	8.	_____
9.	Enter the smaller of line 1 or line 2	9.	_____
10.	Enter the amount from line 7	10.	_____
11.	Subtract line 10 from line 9. If zero or less, enter -0- and go to line 13	11.	_____
12.	Multiply line 11 by 20% (.20)	12.	_____
13.	Add lines 4, 8, and 12	13.	_____
14.	Figure the tax on the amount on line 1. Use the 1999 Tax Rate Schedules above	14.	_____
15.	Tax. Enter the smaller of line 13 or line 14 here and on Schedule J, line 8	15.	_____

Line 9

If you used Schedule J to figure your tax for 2001 (that is, you entered the amount from line 22 of that Schedule J on Form 1040, line 40, or on Form 1040X), enter on line 9 the amount from line 15 of your 2001 Schedule J. If you used Schedule J to figure your tax for 2000 but not 2001, enter on line 9 the amount from line 3 of your 2000 Schedule J.

If you figured your tax for both 2000 and 2001 without using Schedule J, enter on line 9 the taxable income from your 2000 tax return (or as previously adjusted by the IRS, an amended return, etc.). But if that amount is zero or less, complete the worksheet below to figure the amount to enter on line 9.

If you filed your 2000 tax return using TeleFile, enter the taxable income from your TeleFile Tax Record. If you did not file a tax return for 2000, use the amount you would have reported as your taxable income had you been required to file a tax return. Be sure to keep all your records for 2000 until at least 3 years after April 15, 2003 (or the date you file your 2002 tax return, if later), even if you did not file a tax return for 2000.

Instructions for 2000 Taxable Income Worksheet

Line 2. Any net capital loss deduction on your 2000 Schedule D, line 18, is not allowed for farm income averaging purposes to the extent it did not reduce your capital loss carryover to 2001. This could happen if the taxable income before subtracting exemptions shown on your 2000 Form 1040, line 37 (or as previously adjusted), was less than zero. Enter the amount by which your 2000 capital loss carryover to 2001 (the sum of your short- and long-term capital loss carryovers) exceeds the excess of the loss on your 2000 Schedule D, line 17, over the loss on your 2000 Schedule D, line 18. If you had any NOL carrybacks to 2000, be sure you refigured your 2000 capital loss carryover to 2001.

Line 3. If you had an NOL for 2000, enter the amount of that NOL as figured on line 27 of the 2000 Form 1045, Schedule A, you filed with Form 1045 or Form 1040X. If you did not have an NOL for 2000, enter the portion, if any, of the NOL carryovers and carrybacks to 2000 that were not used in 2000 and were carried to years after 2000.

Example. John Farmington did not use farm income averaging for 1999, 2000, nor 2001. The taxable income before subtracting exemptions on his 2000 Form 1040, line 37, is a negative \$30,200. A deduction for exemptions of \$2,800 is shown on line 38, and line 39, taxable income, is limited to zero. John subtracts from the \$30,200 loss the \$2,800 deduction for exemptions. The result is a negative \$33,000, John's 2000 taxable income, which he enters as a positive amount on line 1 of the 2000 worksheet.

John had a \$3,000 net capital loss deduction on Schedule D, line 18 (which was also entered on Form 1040, line 13), and a \$7,000 loss on Schedule D, line 17 (as adjusted). He also had a \$7,000 capital loss carryover to 2001. John adds the \$3,000 from Schedule D, line 18, and the \$7,000 carryover. He subtracts from the result the \$7,000 loss on his Schedule D, line 17, and enters \$3,000 on line 2 of the worksheet.

John enters \$22,800 on line 3 of the worksheet, the 2000 NOL from his 2000 Form 1045, Schedule A, line 27. Of the \$33,000 negative taxable income, the \$2,800 deduction for exemptions, the \$3,000 capital loss deduction, and his \$4,400 standard deduction were not allowed in figuring the NOL. John had a \$22,800 loss on his 2000 Schedule F, the only other item on his 2000 tax return.

John enters \$25,800 on line 4 and \$7,200 on line 5. He enters \$7,200 as a negative amount on Schedule J, line 9. He enters \$6,000 on Schedule J, line 10, and a negative \$1,200 on Schedule J, line 11. If he uses Schedule J to figure his tax for 2003, he will enter the negative \$1,200 amount on his 2003 Schedule J as his 2000 taxable income for farm income averaging purposes.

2000 Taxable Income Worksheet—Line 9

Keep for Your Records

Complete this worksheet if you did not use Schedule J to figure your tax for 2001 **and** your 2000 taxable income is zero or less. See the instructions above before completing this worksheet.

- | | | |
|---|----|----------------------|
| 1. Figure the taxable income from your 2000 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 2000, do not include any NOL carryovers or carrybacks to 2000. Enter the result as a positive amount | 1. | <input type="text"/> |
| 2. If there is a loss on your 2000 Schedule D, line 18, add that loss (as a positive amount) and your 2000 capital loss carryover to 2001. Subtract from that sum the amount of the loss on your 2000 Schedule D, line 17, and enter the result | 2. | <input type="text"/> |
| 3. If you had an NOL for 2000, enter it as a positive amount. Otherwise, enter as a positive amount the portion, if any, of the NOL carryovers and carrybacks to 2000 that were not used in 2000 and were carried to years after 2000 | 3. | <input type="text"/> |
| 4. Add lines 2 and 3 | 4. | <input type="text"/> |
| 5. Subtract line 4 from line 1. Enter the result as a negative amount on Schedule J, line 9 | 5. | <input type="text"/> |

Line 12

If line 11 is zero or less, enter zero on line 12. Otherwise, figure the tax on the amount on line 11 using:

- The 2000 Tax Rate Schedules below,

• The 2000 Capital Gain Tax Worksheet below, or

• The Schedule D you filed for 2000 (but use the 2000 Tax Rate Schedules below instead of the 2000 Tax Table when figuring the tax on Schedule D, lines 33 and 53).

2000 Tax Rate Schedules—Line 12

Schedule X—Use if your 2000 filing status was Single				Schedule Y-2—Use if your 2000 filing status was Married filing separately			
If Schedule J, line 11, is:	<i>But not over—</i>	Enter on Schedule J, line 12	<i>of the amount over—</i>	If Schedule J, line 11, is:	<i>But not over—</i>	Enter on Schedule J, line 12	<i>of the amount over—</i>
\$0	\$26,250	15%	\$0	\$0	\$21,925	15%	\$0
26,250	63,550	\$3,937.50 + 28%	26,250	21,925	52,975	\$3,288.75 + 28%	21,925
63,550	132,600	14,381.50 + 31%	63,550	52,975	80,725	11,982.75 + 31%	52,975
132,600	288,350	35,787.00 + 36%	132,600	80,725	144,175	20,585.25 + 36%	80,725
288,350		91,857.00 + 39.6%	288,350	144,175		43,427.25 + 39.6%	144,175

Schedule Y-1—Use if your 2000 filing status was Married filing jointly or Qualifying widow(er)				Schedule Z—Use if your 2000 filing status was Head of household			
If Schedule J, line 11, is:	<i>But not over—</i>	Enter on Schedule J, line 12	<i>of the amount over—</i>	If Schedule J, line 11, is:	<i>But not over—</i>	Enter on Schedule J, line 12	<i>of the amount over—</i>
\$0	\$43,850	15%	\$0	\$0	\$35,150	15%	\$0
43,850	105,950	\$6,577.50 + 28%	43,850	35,150	90,800	\$5,272.50 + 28%	35,150
105,950	161,450	23,965.50 + 31%	105,950	90,800	147,050	20,854.50 + 31%	90,800
161,450	288,350	41,170.50 + 36%	161,450	147,050	288,350	38,292.00 + 36%	147,050
288,350		86,854.50 + 39.6%	288,350	288,350		89,160.00 + 39.6%	288,350

2000 Capital Gain Tax Worksheet—Line 12

Keep for Your Records

Use this worksheet **only** if you entered capital gain distributions directly on line 13 of your 2000 Form 1040 (or line 10 of your 2000 Form 1040A) and checked the box on that line **and** you do not have to use Schedule D to figure your tax.

1. Amount from Schedule J, line 11	1.	<input type="text"/>	
2. Amount from your 2000 Form 1040, line 13 (or Form 1040A, line 10)	2.	<input type="text"/>	
3. Subtract line 2 from line 1. If zero or less, enter -0-	3.	<input type="text"/>	
4. Figure the tax on the amount on line 3. Use the 2000 Tax Rate Schedules above	4.	<input type="text"/>	
5. Enter the smaller of:			
• The amount on line 1 above or	}	5.	<input type="text"/>
• \$26,250 if single for 2000; \$43,850 if married filing jointly or qualifying widow(er); \$21,925 if married filing separately; or \$35,150 if head of household.			
6. Enter the amount from line 3	6.	<input type="text"/>	
7. Subtract line 6 from line 5. If zero or less, enter -0- and go to line 9	7.	<input type="text"/>	
8. Multiply line 7 by 10% (.10)	8.	<input type="text"/>	
9. Enter the smaller of line 1 or line 2	9.	<input type="text"/>	
10. Enter the amount from line 7	10.	<input type="text"/>	
11. Subtract line 10 from line 9. If zero or less, enter -0- and go to line 13	11.	<input type="text"/>	
12. Multiply line 11 by 20% (.20)	12.	<input type="text"/>	
13. Add lines 4, 8, and 12	13.	<input type="text"/>	
14. Figure the tax on the amount on line 1. Use the 2000 Tax Rate Schedules above	14.	<input type="text"/>	
15. Tax. Enter the smaller of line 13 or line 14 here and on Schedule J, line 12	15.	<input type="text"/>	

Line 13

If you used Schedule J to figure your tax for 2001 (that is, you entered the amount from line 22 of that Schedule J on Form 1040, line 40, or on Form 1040X), enter on line 13 the amount from line 3 of that Schedule J.

If you did not use Schedule J to figure your tax for 2001, enter on line 13 the taxable income from your 2001 tax return (or as previously adjusted by the IRS, an amended return, etc.). But if that amount is zero or less, complete the worksheet below to figure the amount to enter on line 13.

If you filed your 2001 tax return using TeleFile, enter the taxable income from your TeleFile Tax Record. If you did not file a tax return for 2001, use the amount you would have reported as your taxable income had you been required to file a tax return. Be sure to keep all your records for 2001 until at least 3 years after April 15, 2003 (or the date you file your 2002 tax return, if later), even if you did not file a tax return for 2001.

Instructions for 2001 Taxable Income Worksheet

Line 2. Any net capital loss deduction on your 2001 Schedule D, line 18, is not allowed for farm income averaging purposes to the extent it did not reduce your capital loss carryover to 2002. This could happen if the taxable income before subtracting exemptions shown on your 2001 Form 1040, line 37 (or as previously adjusted), was less than zero. Enter the amount by which your 2001 capital loss carryover to 2002 (the sum of your short- and long-term capital loss carryovers) exceeds the excess of the loss on your 2001 Schedule D, line 17, over the loss on your 2001 Schedule D, line 18.

Line 3. If you had an NOL for 2001, enter the amount of that NOL as figured on line 27 of the 2001 Form 1045, Schedule A, you filed with Form 1045 or Form 1040X. If you did not have an NOL for 2001, enter the portion, if any, of the NOL carryovers and carrybacks to 2001 that were not used in 2001 and were carried to years after 2001.

Example. John Farmington did not use farm income averaging for 1999, 2000, nor 2001. The taxable income before subtracting exemptions on his 2001 Form 1040, line 37, is a negative \$1,000. This amount includes an NOL deduction (NOLD) on his 2001 Form 1040, line 21, of \$2,250. The \$2,250 is the portion of the 2000 NOL that was remaining from 1999 to be carried to 2001. See the examples on pages J-2 and J-4. A deduction for exemptions of \$2,900 is shown on Form 1040, line 38, and line 39, taxable income, is limited to zero. John does not have an NOL for 2001. John subtracts from the \$1,000 negative amount on Form 1040, line 37, the \$2,900 deduction for exemptions. The result is a negative \$3,900, John's 2001 taxable income, which he enters as a positive amount on line 1 of the 2001 worksheet.

John had a \$3,000 net capital loss deduction on Schedule D, line 18 (which was also entered on Form 1040, line 13), a \$7,000 loss on Schedule D, line 17, and a \$5,000 capital loss carryover to 2002 (his 2001 capital loss carryover to 2002 was \$5,000, not \$4,000, because the amount on his Form 1040, line 37, was a negative \$1,000). John adds the \$3,000 from Schedule D, line 18, and the \$5,000 carryover. He reduces the result by the \$7,000 loss on his Schedule D, line 17, and enters \$1,000 on line 2 of the worksheet.

John enters zero on line 3 of the worksheet because he does not have an NOL for 2001 and did not have an NOL carryover from 2001 available to carry to 2002 and later years. The NOLD for 2001 of \$2,250 was reduced to zero because it did not exceed his modified taxable income of \$4,250. Modified taxable income is figured by adding back the \$3,000 net capital loss deduction and the \$2,900 of exemptions to negative taxable income (figured without regard to the NOLD) of \$1,650. John enters \$1,000 on line 4 and \$2,900 on line 5. He enters \$2,900 as a negative amount on Schedule J, line 13. He enters \$6,000 on Schedule J, line 14, and \$3,100 on Schedule J, line 15. If he uses Schedule J to figure his tax for 2003, he will enter \$3,100 on his 2003 Schedule J as his 2001 taxable income for farm income averaging purposes.

2001 Taxable Income Worksheet—Line 13

Keep for Your Records

Complete this worksheet if your 2001 taxable income is zero or less. See the instructions above before completing this worksheet.

1. Figure the taxable income from your 2001 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 2001, **do not** include any NOL carryovers or carrybacks to 2001. Enter the result as a positive amount **1.**
2. If there is a loss on your 2001 Schedule D, line 18, add that loss (as a positive amount) and your 2001 capital loss carryover to 2002. Subtract from that sum the amount of the loss on your 2001 Schedule D, line 17, and enter the result . . . **2.**
3. If you had an NOL for 2001, enter it as a positive amount. Otherwise, enter as a positive amount the portion, if any, of the NOL carryovers and carrybacks to 2001 that were not used in 2001 and were carried to years after 2001 **3.**
4. Add lines 2 and 3 **4.**
5. Subtract line 4 from line 1. Enter the result as a negative amount on Schedule J, line 13 **5.**

Line 16

If line 15 is zero or less, enter zero on line 16. Otherwise, figure the tax on the amount on line 15 using:

- The 2001 Tax Rate Schedules below,
- The 2001 Capital Gain Tax Worksheet below, or
- The Schedule D you filed for 2001 (but use the 2001 Tax Rate Schedules below instead of the 2001 Tax Table when figuring the tax on Schedule D, lines 25 and 39, or

on lines 15 and 36 of the Schedule D Tax Worksheet).

Exception. Use the instructions for the tax return you filed for 2001 to figure the tax on the amount on line 15 if **either** of the following apply.

- You, or your spouse if filing jointly, (a) could be claimed as a dependent on someone's 2001 return and (b) did not receive (before offset) an advance payment of 2001 taxes.

- You filed Form 1040NR for 2001 and you did not receive (before offset) an advance payment of your 2001 taxes.

But, use the 2001 Tax Rate Schedules instead of the 2001 Tax Tables whenever figuring tax.

Lines 18, 19, and 20

If you filed your 1999, 2000, or 2001 tax return using TeleFile, enter your tax from your TeleFile Tax Record. If you amended your return or the IRS made changes to it, enter the corrected amount.

2001 Tax Rate Schedules—Line 16

Schedule X—Use if your 2001 filing status was Single				Schedule Y-2—Use if your 2001 filing status was Married filing separately			
If Schedule J, line 15, is:	<i>But not over—</i>	Enter on Schedule J, line 16	<i>of the amount over—</i>	If Schedule J, line 15, is:	<i>But not over—</i>	Enter on Schedule J, line 16	<i>of the amount over—</i>
\$0	\$27,050	15%	\$0	\$0	\$22,600	15%	\$0
27,050	65,550	\$4,057.50 + 27.5%	27,050	22,600	54,625	\$3,390.00 + 27.5%	22,600
65,550	136,750	14,645.00 + 30.5%	65,550	54,625	83,250	12,196.88 + 30.5%	54,625
136,750	297,350	36,361.00 + 35.5%	136,750	83,250	148,675	20,927.50 + 35.5%	83,250
297,350	.....	93,374.00 + 39.1%	297,350	148,675	.....	44,153.38 + 39.1%	148,675
Schedule Y-1—Use if your 2001 filing status was Married filing jointly or Qualifying widow(er)				Schedule Z—Use if your 2001 filing status was Head of household			
If Schedule J, line 15, is:	<i>But not over—</i>	Enter on Schedule J, line 16	<i>of the amount over—</i>	If Schedule J, line 15, is:	<i>But not over—</i>	Enter on Schedule J, line 16	<i>of the amount over—</i>
\$0	\$45,200	15%	\$0	\$0	\$36,250	15%	\$0
45,200	109,250	\$6,780.00 + 27.5%	45,200	36,250	93,650	\$5,437.50 + 27.5%	36,250
109,250	166,500	24,393.75 + 30.5%	109,250	93,650	151,650	21,222.50 + 30.5%	93,650
166,500	297,350	41,855.00 + 35.5%	166,500	151,650	297,350	38,912.50 + 35.5%	151,650
297,350	.....	88,306.75 + 39.1%	297,350	297,350	.....	90,636.00 + 39.1%	297,350

2001 Capital Gain Tax Worksheet—Line 16

Keep for Your Records

Use this worksheet **only** if you entered capital gain distributions directly on line 13 of your 2001 Form 1040 (or line 10 of your 2001 Form 1040A) and checked the box on that line **and** you do not have to use Schedule D to figure your tax.

1. Amount from Schedule J, line 15	1.	_____	
2. Amount from your 2001 Form 1040, line 13 (or Form 1040A, line 10)	2.	_____	
3. Subtract line 2 from line 1. If zero or less, enter -0-	3.	_____	
4. Figure the tax on the amount on line 3. Use the 2001 Tax Rate Schedules above	4.	_____	
5. Enter the smaller of:			
• The amount on line 1 or			
• \$27,050 if single; \$45,200 if married filing jointly or qualifying widow(er); \$22,600 if married filing separately; or \$36,250 if head of household.	5.	_____	
6. Enter the amount from line 3	6.	_____	
7. Subtract line 6 from line 5. If zero or less, enter -0- and go to line 9	7.	_____	
8. Multiply line 7 by 10% (.10)	8.	_____	
9. Enter the smaller of line 1 or line 2	9.	_____	
10. Enter the amount from line 7	10.	_____	
11. Subtract line 10 from line 9. If zero or less, enter -0- and go to line 13	11.	_____	
12. Multiply line 11 by 20% (.20)	12.	_____	
13. Add lines 4, 8, and 12	13.	_____	
14. Figure the tax on the amount on line 1. Use the 2001 Tax Rate Schedules above	14.	_____	
15. Tax. Enter the smaller of line 13 or line 14 here and on Schedule J, line 16	15.	_____	