

1998 Instructions for Schedule J, Farm Income Averaging

Use Schedule J (Form 1040) to make the election to figure your 1998 tax liability by averaging, over the previous 3 years, all or part of your 1998 taxable income from your trade or business of farming. Making this election may give you a lower tax if your 1998 income from farming is high and your taxable income for one or more of the 3 prior years was low.

General Instructions

Caution: If you owe alternative minimum tax for 1998 (figured without regard to income averaging), filing Schedule J will not reduce your total tax for 1998. Filing Schedule J may, however, increase your credit for prior year minimum tax in a later tax year.

You will need copies of your income tax returns for 1995, 1996, and 1997 in order to figure your tax on Schedule J. If you do not have copies of the returns you filed in those years, you can get them by filing **Form 4506**. See your Form 1040 instruction booklet to find out how to get this form.

This election does not affect your alternative minimum tax. In addition, you do not have to recompute, because of the election, the tax liability of any minor child who was required to use your tax rates in the prior years.

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

- Schedule D,
- Schedule E, Part II,
- Schedule F, and
- Form 4797.

Your **elected farm income** is the amount of your taxable income from farming that you choose 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.



If your taxable income from farming is more than the amount shown on line 1, you should not enter on line 2 more than the amount shown on line 1. Otherwise, you may not receive the maximum benefit from income averaging.

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.

A farming business **does not** include:

- Contract harvesting of an agricultural or horticultural commodity grown or raised by another.
- Merely buying or reselling plants or animals grown or raised by another.

Line 4

Refigure your **1998** tax liability by using the Tax Table or Tax Rate Schedules from your 1998 Form 1040 instruction booklet or Schedule D and enter it on line 4.

Lines 5, 9, and 13

If you did not file a return for any year from 1995 through 1997, enter on the applicable line the amount otherwise reportable. If you filed using TeleFile, enter on the applicable line your taxable income from line E of the 1995 TeleFile Worksheet or line J of the 1996 or 1997 TeleFile Tax Record. If the amount reported on your return for any year was changed by an amended return or by the IRS, enter on the applicable line the corrected amount.

Line 8

Refigure your 1995 tax liability by using one of the following:

- The Tax Rate Schedules shown below, or
- The Capital Gain Tax Worksheet shown below.

1995 Tax Rate Schedules

Schedule X—Use if your filing status is Single				Schedule Y-2—Use if your filing status is Married filing separately			
If the amount on Schedule J, line 7, is:	<i>But not over—</i>	Enter on Schedule J, line 8	<i>of the amount over—</i>	If the amount on Schedule J, line 7, is:	<i>But not over—</i>	Enter on Schedule J, line 8	<i>of the amount over—</i>
\$0	\$23,350	15%	\$0	\$0	\$19,500	15%	\$0
23,350	56,550	\$3,502.50 + 28%	23,350	19,500	47,125	\$2,925.00 + 28%	19,500
56,550	117,950	12,798.50 + 31%	56,550	47,125	71,800	10,660.00 + 31%	47,125
117,950	256,500	31,832.50 + 36%	117,950	71,800	128,250	18,309.25 + 36%	71,800
256,500	.....	81,710.50 + 39.6%	256,500	128,250	.....	38,631.25 + 39.6%	128,250
Schedule Y-1—Use if your filing status is Married filing jointly or Qualifying widow(er)				Schedule Z—Use if your filing status is Head of household			
If the amount on Schedule J, line 7, is:	<i>But not over—</i>	Enter on Schedule J, line 8	<i>of the amount over—</i>	If the amount on Schedule J, line 7, is:	<i>But not over—</i>	Enter on Schedule J, line 8	<i>of the amount over—</i>
\$0	\$39,000	15%	\$0	\$0	\$31,250	15%	\$0
39,000	94,250	\$5,850.00 + 28%	39,000	31,250	80,750	\$4,687.50 + 28%	31,250
94,250	143,600	21,320.00 + 31%	94,250	80,750	130,800	18,547.50 + 31%	80,750
143,600	256,500	36,618.50 + 36%	143,600	130,800	256,500	34,063.00 + 36%	130,800
256,500	.....	77,262.50 + 39.6%	256,500	256,500	.....	79,315.00 + 39.6%	256,500



1995 Capital Gain Tax Worksheet (keep for your records)

Use this worksheet to figure your tax on line 8 of Schedule J **only** if (a) Schedule D applies for 1995 and both lines 17 and 18 of Schedule D (as refigured) are gains, or (b) you reported capital gain distributions directly on your 1995 Form 1040, line 13, **and**:

Your filing status is:	AND	Schedule J, line 7, is over:	Your filing status is:	AND	Schedule J, line 7, is over:
Single		\$56,550	Married filing separately		\$47,125
Married filing jointly or Qualifying widow(er)		\$94,250	Head of household		\$80,750

- Enter the amount from Schedule J, line 7 1. _____
- If Schedule D applies for 1995, enter the **smaller** of Schedule D, line 17 or line 18 (as refigured). Otherwise, enter the capital gain distributions reported on your 1995 Form 1040, line 13 2. _____
- If you filed a 1995 Form 4952, enter the amount from Form 4952, line 4e 3. _____
- Subtract line 3 from line 2. If zero or less, **stop here**; you **cannot** use this worksheet to figure your tax. Instead, use the 1995 Tax Rate Schedules shown above 4. _____
- Subtract line 4 from line 1 5. _____
- Enter \$23,350 if single; \$39,000 if married filing jointly or qualifying widow(er); \$19,500 if married filing separately; or \$31,250 if head of household 6. _____
- Enter the **larger** of line 5 or line 6 7. _____
- Subtract line 7 from line 1 8. _____
- Figure the tax on the amount on line 7. Use the 1995 Tax Rate Schedules shown above 9. _____
- Multiply line 8 by 28% (.28) 10. _____
- Add lines 9 and 10 11. _____
- Figure the tax on the amount on line 1. Use the 1995 Tax Rate Schedules shown above 12. _____
- Tax.** Enter the **smaller** of line 11 or line 12 here and on Schedule J, line 8 13. _____

Line 12

Refigure your **1996** tax liability by using one of the following:

- The 1996 Tax Rate Schedules shown below, or
- The Capital Gain Tax Worksheet shown below.

1996 Tax Rate Schedules

Schedule X—Use if your filing status is Single				Schedule Y-2—Use if your filing status is Married filing separately			
If the amount on Schedule J, line 11, is:	<i>But not over—</i>	Enter on Schedule J, line 12	<i>of the amount over—</i>	If the amount on Schedule J, line 11, is:	<i>But not over—</i>	Enter on Schedule J, line 12	<i>of the amount over—</i>
\$0	\$24,000	15%	\$0	\$0	\$20,050	15%	\$0
24,000	58,150	\$3,600.00 + 28%	24,000	20,050	48,450	\$3,007.50 + 28%	20,050
58,150	121,300	13,162.00 + 31%	58,150	48,450	73,850	10,959.50 + 31%	48,450
121,300	263,750	32,738.50 + 36%	121,300	73,850	131,875	18,833.50 + 36%	73,850
263,750	.....	84,020.50 + 39.6%	263,750	131,875	.....	39,722.50 + 39.6%	131,875
Schedule Y-1—Use if your filing status is Married filing jointly or Qualifying widow(er)				Schedule Z—Use if your filing status is Head of household			
If the amount on Schedule J, line 11, is:	<i>But not over—</i>	Enter on Schedule J, line 12	<i>of the amount over—</i>	If the amount on Schedule J, line 11, is:	<i>But not over—</i>	Enter on Schedule J, line 12	<i>of the amount over—</i>
\$0	\$40,100	15%	\$0	\$0	\$32,150	15%	\$0
40,100	96,900	\$6,015.00 + 28%	40,100	32,150	83,050	\$4,822.50 + 28%	32,150
96,900	147,700	21,919.00 + 31%	96,900	83,050	134,500	19,074.50 + 31%	83,050
147,700	263,750	37,667.00 + 36%	147,700	134,500	263,750	35,024.00 + 36%	134,500
263,750	.....	79,445.00 + 39.6%	263,750	263,750	.....	81,554.00 + 39.6%	263,750

1996 Capital Gain Tax Worksheet (keep for your records)



Use this worksheet to figure your tax on line 12 of Schedule J **only** if (a) Schedule D applies for 1996 and both lines 17 and 18 of Schedule D (as refigured) are gains, or (b) you reported capital gain distributions directly on your 1996 Form 1040, line 13 **and**:

Your filing status is:	AND	Schedule J, line 11, is over:	Your filing status is:	AND	Schedule J, line 11, is over:
Single		\$58,150	Married filing separately		\$48,450
Married filing jointly or Qualifying widow(er)		\$96,900	Head of household		\$83,050

- Enter the amount from Schedule J, line 11 1. _____
- If Schedule D applies for 1996, enter the **smaller** of Schedule D, line 17 or line 18 (as refigured). Otherwise, enter the capital gain distributions reported on your 1996 Form 1040, line 13 2. _____
- If you filed a 1996 Form 4952, enter the amount from Form 4952, line 4e 3. _____
- Subtract line 3 from line 2. If zero or less, **stop here**; you **cannot** use this worksheet to figure your tax. Instead, use the 1996 Tax Rate Schedules shown above 4. _____
- Subtract line 4 from line 1 5. _____
- Enter \$24,000 if single; \$40,100 if married filing jointly or qualifying widow(er); \$20,050 if married filing separately; or \$32,150 if head of household 6. _____
- Enter the **larger** of line 5 or line 6 7. _____
- Subtract line 7 from line 1 8. _____
- Figure the tax on the amount on line 7. Use the 1996 Tax Rate Schedules shown above 9. _____
- Multiply line 8 by 28% (.28) 10. _____
- Add lines 9 and 10 11. _____
- Figure the tax on the amount on line 1. Use the 1996 Tax Rate Schedules shown above 12. _____
- Tax.** Enter the **smaller** of line 11 or line 12 here and on Schedule J, line 12 13. _____

Line 16

Refigure your 1997 tax liability by using one of the following:

- The 1997 Tax Rate Schedules shown below, or
- The Schedule D you filed in 1997 (but use the 1997 Tax Rate Schedules shown below instead of the Tax Table when figuring the tax on Schedule D, lines 33 and 53).

1997 Tax Rate Schedules

Schedule X—Use if your filing status is Single				Schedule Y-2—Use if your filing status is Married filing separately				
If the amount on Schedule J, line 15, is:		Enter on Schedule J, line 16		If the amount on Schedule J, line 15, is:		Enter on Schedule J, line 16		
<i>Over—</i>	<i>But not over—</i>	<i>of the amount over—</i>		<i>Over—</i>	<i>But not over—</i>	<i>of the amount over—</i>		
\$0	\$24,650	.....	15%	\$0	\$20,600	.....	15%	\$0
24,650	59,750	\$3,697.50 +	28%	24,650	49,800	\$3,090.00 +	28%	20,600
59,750	124,650	13,525.50 +	31%	59,750	75,875	11,266.00 +	31%	49,800
124,650	271,050	33,644.50 +	36%	124,650	135,525	19,349.25 +	36%	75,875
271,050	.....	86,348.50 +	39.6%	271,050	.....	40,823.25 +	39.6%	135,525
Schedule Y-1—Use if your filing status is Married filing jointly or Qualifying widow(er)				Schedule Z—Use if your filing status is Head of household				
If the amount on Schedule J, line 15, is:		Enter on Schedule J, line 16		If the amount on Schedule J, line 15, is:		Enter on Schedule J, line 16		
<i>Over—</i>	<i>But not over—</i>	<i>of the amount over—</i>		<i>Over—</i>	<i>But not over—</i>	<i>of the amount over—</i>		
\$0	\$41,200	.....	15%	\$0	\$33,050	.....	15%	\$0
41,200	99,600	\$6,180.00 +	28%	41,200	85,350	\$4,957.50 +	28%	33,050
99,600	151,750	22,532.00 +	31%	99,600	138,200	19,601.50 +	31%	85,350
151,750	271,050	38,698.50 +	36%	151,750	271,050	35,985.00 +	36%	138,200
271,050	.....	81,646.50 +	39.6%	271,050	.....	83,811.00 +	39.6%	271,050

Lines 18, 19, and 20

If you filed using TeleFile, enter on the applicable line your tax from line E of the 1995 TeleFile Worksheet or line J of the 1996 or 1997 TeleFile Tax Record. If the amount reported on your return for any year was changed by an amended return or by the IRS, enter on the applicable line the corrected amount.