

Schedule J (Form 1040) Income Averaging for Farmers and Fishermen

In 2011, Mr. Rosso's taxable income, \$35,565, is substantially higher than in each of the 3 previous years. His taxable income amounts were only \$1,112, \$667, and \$3,968, for 2010, 2009, and 2008, respectively. He elects to use income averaging by completing Schedule J to figure his tax.

He prints his name, his wife's name, and his identifying number at the top of Schedule J (Form 1040).

Line items. He fills in the lines on Schedule J (Form 1040).

Line 1. He enters \$35,565, his taxable income from line 43 of Form 1040.

Line 2. He enters the part of his farm income he is electing to average, \$35,565. He elects to treat this elected farm income as all coming out of ordinary farm income. His ordinary farm income is \$58,366 (\$60,461 of ordinary income from Schedule F (Form 1040), plus \$1,175 of net ordinary gain from Form 4797, minus the \$4,506 deduction for one-half of self-employment tax). Elected farm income is limited to the smaller of the ordinary farm income of \$60,461 or total taxable income of \$35,565. See the Schedule J (1040) instructions for more information on elected farm income.

Line 3. He subtracts the amount on line 2 from the amount on line 1 and enters -0- on line 3.

Line 4. He uses the 2011 tax rates to figure the tax on the amount on line 3 and enters -0-.

Lines 5, 9, and 13. He enters his taxable income from 2010, 2009, and 2008 on lines 5, 9, and 13, respectively.

Lines 6, 10, and 14. He divides the amount on line 2 by 3.0 and enters the result, \$11,855, on lines 6, 10, and 14.

Lines 7, 11, and 15. He figures his adjusted taxable income for the 3 previous years by adding the amounts on lines 6, 10, and 14 to the amounts on lines 5, 9, and 13, respectively.

Lines 8, 12, and 16. He figures the tax on the amounts on lines 7, 11, and 15 using the appropriate Tax Rate Schedules for the appropriate year and enters the results on lines 8, 12, and 16, respectively. (In this case the Rosso's income is taxed at no more than a 10% rate for each prior year.)

Line 17. He adds the amounts on lines 4, 8, 12, and 16 and enters the total, \$4,131, on lines 17 and 18.

Lines 19, 20, and 21. He enters his tax from his 2010, 2009, and 2008 returns on lines 19, 20, and 21, respectively.

Line 21. He adds the amounts on lines 19, 20, and 21 and enters the total, \$575, on line 22.

Line 22. He subtracts the amount on line 22 from the amount on line 18 and enters \$3,556 on line 23. The tax on this line is less than the \$4,486 of tax he figured using the 2011 tax rate schedule, a tax savings of \$930. Therefore, he enters on line 44 of his Form 1040 the amount from this line, \$3,556.



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