Form **4726**

Department of the Treasury
Internal Revenue Service

Maximum Tax on Earned Income

► Attach to Form 1040 (or Form 1041).

1975

Name(s) as shown on Form 1040 (or Form 1041) | Identifying number

Do not complete this form if—(a) Earned taxable income is:
$38,000 or less, and on Form 1040, you checked line 1 or line 4,
$52,000 or less, and on Form 1040, you checked line 2 or line 5,
$26,000 or less, and this is an Estate or Trust return (Form 1041);
(b) You elected income averaging; or
(c) On Form 1040, you checked line 3.

1	Earned income (see instructions)			1	
2	Deductions (see instructions)			2	
3	Earned net income. Subtract line 2 from line 1			3	
4	Enter your adjusted gross income			4	
5	Divide the amount on line 3 by the amount on line 4. Enter percentage result here, but not more than 100%			5	
6	Enter your taxable income			6	
7	Multiply the amount on line 6 by the percentage on line 5			7	
8	a. Enter the larger of either (1) the total of your 1975 tax preference items or (2) one-fifth of the total of your tax preference items for 1971, 1972, 1973, 1974, and 1975	8a			
	b. Less	8b	$30,000		
	c. Subtract line 8b from line 8a			8c	
9	Earned taxable income. Subtract line 8c from line 7 (see instructions)			9	
10	If: on Form 1040, you checked line 1 or line 4, enter $38,000 on Form 1040, you checked line 2 or 5, enter $52,000 Estate or Trust, enter $26,000			10	
11	Subtract line 10 from line 9 (if zero or less, do not complete rest of form)			11	
12	Enter 50% of line 11			12	
13	Tax on amount on line 6 (use Tax Rate Schedule from Form 1040 (or Form 1041) Instructions)	13			
14	Tax on amount on line 9 (use Tax Rate Schedule from Form 1040 (or Form 1041) Instructions)	14			
15	Subtract line 14 from line 13			15	
16	If the amount on line 10 is: $38,000, enter $13,290 ($12,240 if unmarried head of household) $52,000, enter $18,060 $26,000, enter $9,030			16	
17	Add lines 12, 15, and 16. This is your maximum tax. Enter here and on Form 1040, line 16a (or Form 1041, line 24); however, if you had net long-term capital gain in excess of net short-term capital loss, complete Computation of Alternative Tax below			17	

Computation of Alternative Tax

18	Amount from line 6	18	
19	Amount from Schedule D (Form 1040), line 15(a)* (or Form 1041, page 1, line 20)	19	
20	Subtract line 19 from line 18	20	
21	Enter smaller of amount on Sch. D (Form 1040), line 13 or 14* (or enter amount from Sch. D (Form 1041), line 17(e)) **If line 21 does not exceed $50,000, check here ► ☐ and omit lines 22 through 28.**	21	
22	Enter your share of certain long-term gains from partnerships, fiduciaries, and small business corporations referred to as "certain subsection (d) gains"—see Sch. D (Form 1040) or Sch. D (Form 1041) Instructions	22	
23	Amount from line 22 or $50,000, whichever is larger **If line 23 is equal to or greater than line 21, check here ► ☐ and omit lines 24 through 28.**	23	
24	Enter 50% of line 23	24	
25	Add lines 20 and 24	25	
26	Enter amount from line 13	26	
27	Tax on amount on line 25 (use Tax Rate Schedule from Form 1040 (or 1041) Instructions)	27	
28	Subtract line 27 from line 26	28	
29	Tax on amount on line 20 (use Tax Rate Schedule from Form 1040 (or 1041) Instructions). **Caution:** If line 9 is more than line 20, enter instead amount on line 14 less 50% of excess of line 9 over line 20	29	
30	Subtract line 29 from line 13	30	
31	Subtract line 30 from line 17	31	
32	If the block on line 21 or 23 is checked, enter 50% of line 19; otherwise, enter 25% of line 23	32	
33	Alternative tax, add lines 28 (if applicable), 31, and 32	33	
34	Enter here and on Form 1040, line 16a (or Form 1041, line 24 or 25, whichever is applicable), the amount on line 17 or line 33, whichever is smaller	34	

* If you reported capital gain distributions but did not use Schedule D (Form 1040), enter on line 19 the amount shown on Form 1040, line 29b. Also, enter on line 21 the total amount of capital gain distributions received.

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Instructions

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

Line 1—Earned income.—"Earned income" generally means wages, salaries, professional fees, bonuses, commissions on sales or on insurance premiums, tips, and other amounts received as compensation for personal services actually rendered. It includes prizes and awards (other than gambling gains) and group-term life insurance purchased for employees that are includible in gross income. It also includes amounts includible in gross income under section 83.

If you perform personal services for a corporation, "earned income" generally means only that portion of income received from the corporation that represents a reasonable allowance for salaries and other compensation for personal services actually rendered. It also includes gains (other than capital gains) and net earnings derived from the sale or other disposition of, the transfer of any interest in, or the licensing of the use of property (other than goodwill) if your personal efforts created the property.

The entire amount you receive for performing professional services, such as those of a doctor, dentist, lawyer, architect, or accountant, will be treated as earned income if you are individually and personally responsible for the services performed, even though you employ assistants to perform all or part of the services.

If you are engaged in a noncorporate trade or business in which both personal services and capital are material income-producing factors, a reasonable allowance (but not more than 30% of your share of net profits of such trade or business) will be considered to be earned income. See section 1.1348–3(a)(3) of the regulations for rules on earned income from business in which capital is material.

For rules relating to a decedent's income, see section 1.1348–3(a)(4) of the regulations.

If you are a *nonresident alien*, "earned income" includes only income from sources within the United States that is effectively connected with the conduct of a trade or business in the United States.

"Earned income" does not include dividends (including amounts treated as dividends by reason of section 1373(b) and Income Tax Regulations section 1.1373–1), other distributions of corporate earnings and profits, gambling gains, or gains treated as capital gains under chapter 1 of the Code.

"Earned income" does not include any distribution to which section 72(m)(5), 402(a)(2), 402(e), or 403(a)(2)(A) applies, or any deferred compensation within the meaning of section 404. "Deferred compensation" for this purpose does not include any amount received before the end of the taxable year following the first taxable year that the recipient's right to receive the amount is not subject to a substantial risk of forfeiture.

Section 72(m)(5) deals with premature or excessive distributions from a qualified employees' pension plan or trust to an employee who is (or was) also an owner of the business.

Sections 402(a)(2), 402(e), and 403(a)(2)(A) deal with certain lump-sum distributions from qualified plans that are treated as capital gains or are subject to special averaging rules.

See section 1.1348–3(a)(5) of the regulations for exceptions to the definition of earned income.

See section 1.1348–3(b) of the regulations for the definition and examples of deferred compensation.

If you are a nonresident alien, "earned income" does not include salaries, wages, compensations, remunerations, emoluments, and other fixed or determinable annual or periodic gains, profits, and income subject to tax at the rate of 30 percent (or lower treaty rate) under section 871(a)(1)(A).

Line 2—Deductions.—Include on this line any deductions that are required to be taken into account under section 62 in determining adjusted gross income and are properly allocable to or chargeable against earned income. These deductions include:

(1) deductions attributable to a trade or business from which earned income is or may be derived,

(2) expenses paid or incurred in connection with the performance of services as an employee,

(3) deductions allowable by sections 404 (employer contributions to an employer's trust or annuity plan) and 405(c) (employer contributions to qualified bond purchase plans),

(4) deductions allowable by section 217 (moving expense),

(5) deductions allowable by section 1379(b)(3) (employer contributions to qualified pension, etc., plans), and

(6) 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 earned income. See section 1.1348–2(d)(2)(vi) of the regulations for more information on net operating loss deduction.

Line 8—Tax preference offset.—See section 1.1348–2(d)(3) of the regulations for detailed information concerning tax preference items to be taken into account to determine the tax preference offset.

Line 9—Earned taxable income.—"Earned taxable income" means the excess of the portion of taxable income attributable to earned net income over the tax preference offset.

See section 1.1348–2(d)(4) of the regulations for illustrations showing computation of earned taxable income.

NOTE: If this is a short period return, see section 1.1348–2(c) of the regulations.

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