Handling Taxes in Employment Law Cases*

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Abstract

Damages awarded in employment law cases (e.g., cases involving age, race or gender discrimination leading to or causing termination, constructive discharge, failure to hire or promote, or pay differences) are taxable. This has led forensic economists to compute losses in such cases on a before-tax basis. Ignoring taxes both on the lost earnings and on the award is a kind of "offset" that is very appealing in that it avoids the complex, tedious endeavor of computing taxes on both the lost earnings and on the award. However, using the offset assumption is only valid if the taxes on the earnings and the taxes on the award are approximately equal. A recent appraisal I prepared found that this offset assumption was not met, and that losses taking taxes into account resulted in estimated damages being about 20% to 27% higher than if taxes were ignored. Therefore, the simplicity of ignoring taxes may come at too high a cost due to the inaccuracy of the estimate of damages. In addition, this "adverse tax consequence" is not the only tax problem. The inclusion in the taxable income of the plaintiff the total award for employment discrimination–if the award includes an amount for attorney fees and costs–may trigger the operation of the alternative minimum tax and thereby cause an even larger problem as measured by the increase in the size of the award needed to make the plaintiff whole. This paper attempts to extend the economic literature by looking at more complex types of situations than other literature has examined, and by showing the impact of attorney fees and the alternative minimum tax on the size of awards needed to compensate plaintiffs in employment law cases.

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I. Introduction

The Small Business Job Protection Act of 1996 (Public Law No. 104-88, Sec. 1605; 26 U.S.C. §104(a)(2)) makes it clear that damages not resulting from a personal physical injury are subject to federal income taxes. Therefore, damages awarded in employment law cases (e.g., cases involving age, race or gender discrimination leading to or causing termination, constructive discharge, failure to hire or promote, or pay differences) are taxable. Because the damages are taxable just as are the earnings that would have been received but for the employment discrimination, some forensic economists have concluded that losses in such cases should be computed on a before-tax basis with taxes ignored altogether by making the assumption that the taxes on the award and the taxes that would have been levied on the lost wages year by year more or less cancel out. Ignoring taxes both on the lost earnings and on the award is a kind of "offset" that is very appealing in that it avoids the complex, tedious endeavor of computing taxes on both the lost earnings and the award. However, this offset assumption is only valid if the taxes on the earnings and the taxes on the award are approximately equal. Two papers in the forensic literature that deal with this topic, one by Bowles and Lewis (1996) and the other by Ben-Zion (2000), both conclude that ignoring taxes is a mistake because the taxes levied on the award will virtually always exceed the taxes that would have been paid on the lost earnings year by year.

While the papers by Bowles and Lewis and Ben-Zion do a good job of pointing out and illustrating one of the key issues–the adverse tax consequence–both papers make a number of simplifying assumptions that leave a number of issues unaddressed. For example, Bowles and Lewis consider only future losses and ignore (i) back pay, (ii) taxes on interest earnings, (iii) the family situation of the plaintiff and whether other members of the household earn income, (iv) the treatment of taxes other than federal income taxes, and (v) the tax treatment of attorney fees. Ben-Zion makes calculations based on the assumption that the plaintiff is single and notes that there would be additional complications if the plaintiff is married and has dependent children. Further, Ben-Zion does not consider the implications of the tax treatment of attorney fees and the alternative minimum tax (ATM).

This paper has the objective of supplementing the excellent work presented in the foregoing papers in order to deal more comprehensively with the types of issues that forensic economists are likely to confront in employment law cases. Damages are presented for an actual case. In this case a wrongfully terminated plaintiff is part of a family. The appraisal takes into account other family income, and all taxes, including not only federal income taxes, but also state and local income taxes and Social Security taxes. After the case is presented, there is a discussion of how the case would need to be modified to handle the key issue of attorneys fees. Not dealing with attorney fees can actually cause more of a distortion in the estimation of the plaintiff's appropriate compensation than neglecting to compute the adverse tax consequence for earnings. As papers by Sager and Cohen (2000) and (2003) have emphasized, the award of attorney's fees to the plaintiff has been treated as income to the plaintiff by the Internal Revenue Service (IRS). The regular income tax puts limits on the amount of miscellaneous deductions, and the deduction of attorney fees as a miscellaneous expense may trigger the AMT. The AMT does not allow for any miscellaneous deductions, meaning no deduction for attorney fees is allowed. Hence, the plaintiff could wind up paying taxes on the attorney fees. If these fees are large in relation to the award of back pay and front pay, it is possible that the plaintiff could win the discrimination suit but obtain little or no compensation, or actually be worse off than if the suit had never been filed.[1]

The plan of the paper is as follows. I first present the sample case that explains how the damages were computed and the handling of the adverse tax consequence. The computations show the effect of damages with and without taking taxes into account in order to deal with the situation in which the court disallows any effort to deal with taxes and the adverse tax consequence. Following the presentation of the sample case, I then provide a summary of how taking taxes into account compares to leaving taxes out of account. Next, an additional section discusses how the analysis must be modified if attorney fees are treated as income and the award triggers the use of the AMT to compute taxes. This section shows the computation of the tax when attorney fees are added, the deduction of which as a miscellaneous expense on Schedule A triggers a tax liability under the AMT rules. To assist the reader, I also attach in the Appendix the relevant federal individual income tax forms (Form 1040, Schedule A and Form 6251) showing the federal income tax computation in the age 62 and age 66 scenarios from the sample case.

II. Sample Case

Background Information. Jane Doe is a white female born 5/3/44. She is married and lives with John Doe, a white male born 7/17/41, at R.D. #2, Box 640, Montgomery

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[1]For an actual case in which the winning plaintiff was made financially worse off, see Liptak (2002). In a sex bias suit, officer Cynthia Spina was awarded $300,000 in damages and $950,000 in attorney fees and costs. Federal income taxes of $399,000 were owed on the total of $1,250,000, consuming the entire $300,000 award and $99,000 more, leaving Spina $99,000 worse off winning the suit than if she had never filed it.

County, Intercourse, Pennsylvania 19994. The Does have two children, a daughter Sally and a son Joe. Sally stopped being claimed as a dependent on the Does' tax return in 1998, and Joe's last year to be claimed as a dependent was 2001.

Mrs. Doe received her registered nurse (RN) certification in 1974 after graduating from the Blessed Jesus Hospital School of Nursing.

Mrs. Doe has worked as a registered nurse for most of the period since she obtained her RN certification. Her most recent spell of employment for Our Most Merciful Hospital began on or about April 1991, when she was hired as an emergency room staff nurse. In June of 1992, Mrs. Doe transferred to the Home Health Department and continued to work on a part time basis in the emergency room. On 1/10/97, while driving in the course of her employment, Mrs. Doe was involved in an automobile accident in which she sustained an injury to her cervical spine. She returned to work in a light duty position from 1/15/97 to 1/27/97, after which she returned to her nursing duties with no restrictions. On or about 5/5/97, Mrs. Doe suffered a strain in the lumbar area of her back while caring for a patient. This strain exacerbated the previous cervical spine injury. On 5/15/97, Mrs. Doe returned to light duty with her days and lifting restricted. Dr. Paul Brugler, M.D., imposed lifting restrictions on Mrs. Doe of carrying no more than ten pounds and lifting no more than twenty-five pounds, with a rare lift of forty pounds. On or about 7/14/97, Mrs. Doe was informed the she would be terminated because of the restrictions imposed by Dr. Brugler. She was laid off from her job on 8/4/97, and automatically terminated one year later as per hospital policy. After her layoff, the hospital refused to call her back for positions as manager of the home health office or as a staff nurse in the chemotherapy department, or any other position, contending that the lifting requirements for nurses apply to all nursing positions. Mrs. Doe received no severance pay. She was not a member of a union. She has sought but found no employment since she left the job with Our Most Merciful Hospital.

The pertinent information from the tax returns and employer W-2 forms for the Does is summarized in Table 2. Mrs. Doe's record of earnings from 1992 to the date of her layoff is shown in Column (2) of Table 3. Mrs. Doe also received unemployment compensation benefits of $5,448 in 1997 and $2,044 in 1998. Her work expenses are shown in Column (3) of Table 3, based on the data shown at the bottom of Table 2.

Mrs. Doe was provided with a retirement salary match of 5% for retirement via a 401(k) plan. The hospital paid $721.18 in 1994, $1,092.51 in 1995, $900.76 in 1996 and $962.99 in 1997, comprising an average of about 3.85% of Mrs. Doe's pay in these years. Mrs. Doe was vested in this plan and the money in the plan was distributed to her after her termination. Mrs. Doe also had the option of being covered at no cost by health insurance from her employer, but she chose to be covered under a plan from her husband's place of employment. She was also told in 1991 that she could cover her family for a cost of approximately $180.00 per month. Mrs. Doe indicates that she currently pays $720.00 per month ($240.00 per person) to purchase health insurance coverage for herself, her husband and her son, Joe.

Mrs. Doe smokes a pack of Lucky Strike cigarettes per day. She is 6'1" tall and weighs 132 pounds. She had disc surgery in 1994 as a result of an automobile in 1992, then returned to work, after being off from 1/10/94 to 4/9/94, as a home health nurse with a lifting restriction of forty pounds. Our Most Merciful Hospital accommodated this restriction until the aforementioned restriction imposed by Dr. Brugler in 1997, leading to the subsequent layoff. Mrs. Doe continues to be limited to a forty-pound lifting limit (no more than one-third of her body weight). She has limited range of motion of her back and right leg and continues to have chronic pain and paresthesia in both legs, and pain in her neck and arms, and increased weakness in both arms and some loss of manual dexterity in her hands and fingers. Surgery did relieve her lower back and right leg pain to a degree. It also stopped the progression of right foot drop and further nerve damage from pressure on nerves.

After her layoff, Dr. Brugler further restricted her to carrying ten pounds and lifting twenty-five pounds. His report of November 1997 indicates that Mrs. Doe is permanently disabled from lifting greater than twenty-five pounds or carrying more than ten pounds due to the bulging disc in her back. However, he indicates that she could occasionally lift up to forty or fifty pounds, and he feels that she could work within her limitations until she is 70 years old.

Prior to the layoff, Dr. Carefulman performed an IME for the worker’s compensation carrier for Our Most Merciful on 6/24/97 and concluded that Mrs. Doe had recovered from the 1/10/97 and 5/5/97 incidents and could return to work. Mrs. Doe also saw her treating physician, Dr. Junkbondman, on 7/23/97 for a physical. He also stated that Mrs. Doe could return to work with a fifty-pound lifting limitation. Another physician, Dr. Politicanman, also indicated that Mrs. Doe could return to work three times per week beginning 7/28/97.

Mr. Doe was employed as a foreman for the Build-It-Fast Contracting Company until he was laid off in June of 2000. He worked for a few weeks for Dirt Movers until September 2000, when he suffered a heart attack and had open heart surgery. Mr. Doe has not returned to work since his heart attack and began to collect Social Security disability in April of 2001, drawing about $1,506.00 per month. Mr. Doe also operated a Christmas tree farm as a self-employed businessman. Mr. Doe is an insulin-dependent diabetic and suffers from arthritis. His earnings prior to his disability are shown in Table 2. After Mr. Doe lost his job with Build-It-Fast, Mrs. Doe would have put him on her insurance at her work on or about July 2000, if she had still been employed at Our Most Merciful Hospital. The cost would have been an estimated $242.70 per month, reflecting an increase of about 35% since the 1991 cost of $180.00 per month.[2]

The Does owned some land from which they received rent and royalty income. Royalty income from mineral rights had been running about $10,000 per year from 1997-2001, but is due to cease after 2001. A set screw manufacturer paid rent in 2001 of $4,000 per year, up from $3,044 in 1999, and $3,600 in 2000. The Does also receive a small amount of income from interest and dividends, estimated by Mrs. Doe to level off in 2001 and beyond to about $1,000.00 per year.

Estimating the Economic Damages. The economic damages arising from Mrs. Doe's alleged wrongful termination are composed of (a) the back pay and (b) front pay she has lost, (c) the employer 401(k) contributions that she has lost, and (d) the extra costs of health insurance she has had to incur. From the loss of earnings is deducted an estimate of the work expenses Mrs. Doe would have incurred as part of her job. In addition, a deduction is made for the federal, FICA, state and local income taxes that she would have had to pay on her earnings. Future earnings are discounted to present worth as of the estimated date of trial, assumed to occur on 7/1/02. Finally, an amount is added to the total damages to compensate for the taxes that will be levied on any award. (Attorney fees awarded and the tax consequence of such an award are not included in the calculations.) Losses are estimated assuming that Mrs. Doe would have worked to age 62 and age 66.

It is assumed in this report that Mrs. Doe will live to the end of the average remaining life expectancy of all persons of her sex, race, education and age as of the date of her layoff, namely to age 82.325, as shown in Table 1. The middle 50% of such persons live between ages 75.406 and 90.215. But for the layoff on 8/4/97, it is assumed that Mrs. Doe would have continued to work at Our Most Merciful Hospital until she would have attained age 62, or alternatively, age 66. With continuous employment, these two dates imply lengths of working life that bracket the average statistical worklife expectancy of 10.325 years. It is further assumed that Mr. Doe will live at least to the time when Mrs. Doe reaches the age of 66. Relevant dates and expectancies are shown in Table 1.

Mrs. Doe's earnings over the 1992-1997 period, expressed in 1997 dollars, averaged $26,308 per year, as shown in Column (7) of Table 3. But for the alleged wrongful termination, It is assumed that these earnings would have increased at the

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[2]The 35% increase is based on the increase in the benefits component of the Employment Cost Index for service-producing industries from December 1991 (115.7) to June 2000 (156.0). See *February 2001 Economic Report of the President*, Table B-48, and U.S. Dept. of Labor, Bureau of Labor Statistics, *Monthly Labor Review*, July, 2001, Current Labor Statistics, Table 23.

same rate at the increase in the wage and salary component of the employment cost index in the service producing sector of the economy over the 1991-2000 period. This increase was from 110.2 in December 1991 to 148.9 in December 2000, which represents an average annual geometric rate of growth of about 3.4% per year. Nominal earnings are forecast in Column (5) of Tables 6 and 8.

Back pay, from the date of Mrs. Doe's layoff on 8/4/97 to the estimated date of trial of 7/1/02, is estimated to be $140,725. This amount is reduced by Mrs. Doe's estimated work expenses and augmented by the value of the 401(k) hospital contributions she would have received from her employment and the value of health insurance cost she could have saved if she could have insured herself and her husband through her work beginning in July of 2000. Work expenses are estimated as $2,023 per year in 1997 dollars in Column (8) of Table 3. These expenses are assumed to increase with the average geometric growth in the consumer price index (CPI-U) over the period 1991 to 2000 period, which grew from 136.2 in 1991 to 172.2 in 2000, a growth rate of about 2.6% per year.[3] These expenses are shown in Column (9) of Tables 6 and 8. Fringe benefits are estimated in Column (11) of Tables 6 and 8. The net result of deducting work expenses and adding fringe benefits is shown in Column (12) of Tables 6 and 8. The adjusted value of back pay is estimated to be $141,386.

The figure of $141,386 does not include any deduction for income and payroll taxes that would have been levied on Mrs. Doe's money earnings. Column (14) of Tables 6 and 8 estimates the federal income tax that would have been paid by Mrs. Doe on her earnings. The figures in Column (14) are taken from "Extra Tax" rows for the various years in Table 4. This table estimates what the U.S. individual income tax 1040 form would have looked like for the Does given the alleged wrongful termination and but for the alleged wrongful termination. The difference in their federal income tax liability given and but for the termination is the amount shown in Column (14) of Tables 6 and 8. State and local income taxes are estimated as 2.8% and 1% of Mrs. Doe's money earnings, respectively. FICA taxes are estimated at 7.65% of her earnings.[4] Taxes on

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[3]Ibid.

[4]Strictly speaking, if FICA taxes are deducted from earnings, this deduction should be offset by whatever reduction will occur in Mrs. Doe's Social Security retirement benefits as a result of the loss of earnings due to the wrongful termination. However, given Mrs. Doe's age at the time of her termination, her Social Security retirement benefits will be reduced by only a relatively small amount and the loss in such benefits has not been computed. Martin Duffy, one of the person's giving me comments on this paper, made a calculation (using some assumptions in lieu of information about the plaintiff's earnings history) showing that the loss of Social Security benefits could be in the range of $1,800.00 to $3,600.00 per year. A complete analysis

back pay amount to $40,490 and when these are deducted from $141,386, one arrives at a final net back pay figure of $100,896.

Front pay is computed from the estimated date of trial to two alternative ages: 62 and 66. These future amounts are discounted to present worth at interest rates of 3.4564% and 3.9233%, respectively, as shown in Table 5. These rates are weighted averages of current yields (yields over the past four weeks) on Treasury securities. The yields on securities maturing further in the future are higher than for those maturing nearer the present. The future loss period under the assumption that Mrs. Doe would have worked to age 62 is 4.587 years. The future loss period if she had worked to age 66 is 8.587 years. The interest rate used for computing present values in the age 62 scenario is the weighted average of maturities up to 10 years, as is that for computing present values in the age 66 scenario. Because the later has more weight on the longer maturities, the interest rate used for discounting in the age 66 scenario is higher that than used in the age 62 scenario.

Front pay under the assumption that Mrs. Doe would have worked at Our Most Merciful Hospital to age 62 is estimated to be $98,044. This is based on a present value of future money earnings of $117,253 less work expenses of $8,478, plus fringe benefits of $14,692, and less income and payroll taxes of $25,423. These computations are shown in Table 6. Front pay under the assumption that Mrs. Doe would have worked at Our Most Merciful Hospital to age 66 is estimated to be $191,936. This is based on a present value of future money earnings of $234,426 less work expenses of $16,693, plus fringe benefits of $26,001, and less income and payroll taxes of $51,797. These computations are shown in Table 8.

For the scenario where Mrs. Doe is assumed to work to age 62, the combined amount of back and front pay is $198,939, the sum of back pay of $100,896 and front pay of $98,044. For the scenario where Mrs. Doe is assumed to work to age 66, the combined amount of back and front pay is $292,832, the sum of back pay of $100,896 and front pay of $191,936.

Taxes are levied on awards for back pay and front pay arising from wrongful termination. If no upward adjustment is made in the size of the award, the amount of the award will be insufficient to compensate Mrs. Doe for the back pay and front pay she has lost. $198,939 is too small to compensate her fully in the age 62 scenario, and $292,832 is too small to compensate her fully in the age 66 scenario. In part, this is because these figures are after-tax figures, and taxing these amounts when an award is made would involve taxing the same income twice. In addition, because federal tax

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based on Mrs. Doe’s actual Social Security earning history would incorporate this element of loss.

rates are progressive, rising with taxable income, the award of back and front pay in one lump sum increases the federal tax liability owed on the award, compared to the tax liability that Mrs. Doe would have incurred if she had earned the wages year by year. This increase in federal tax liability is known as the "adverse tax consequence" of a lump sum award.[5] Table 7 determines the upward adjustment in the award needed for taxes in the age 62 scenario. The adjustment is $118,593, meaning the total award needs to be $317,532. Table 9 shows the same adjustment for the age 66 scenario. The upward adjustment in the size of the award needed for taxes is $196,438, meaning the total award needs to be $489,270. The fact that the award is exactly exhausted (i.e., reduced to a $0 balance) at the end of the loss period means that the award is just sufficient to pay the losses that Mrs. Doe has incurred as a result of the alleged wrongful termination.

<u>Summary of Economic Damages</u>. Tables 7 and 9 summarize the economic losses sustained by Mrs. Doe. The loss is estimated to be $317,532 if she would have worked at Our Most Merciful Hospital to age 62 and $489,270 if she had worked there to age 66.

III. Summary of the Report–Ignoring Attorney Fees

Here are the estimated damages with and without taking taxes into account:

Working to Age 62:

Ignoring taxes		Including taxes	
Back pay	$141,386	Back pay	$100,896
Front pay	$123,467	Front pay	$98,044
Taxes owed on award	$0	Taxes owed on award	$118,593
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Total	$264,853		$317,532

Working to Age 66:

Ignoring taxes		Including taxes	
Back pay	$141,386	Back pay	$100,896
Front pay	$243,736	Front pay	$191,936

[5]See Barry Ben-Zion, "Neutralizing the Adverse Tax Consequence of a Lump-Sum Award in Employment Cases," *Journal of Forensic Economics*, Vol. 13, No. 3 (Fall 2000), pp. 233-44.

Taxes owed on award	$0	Taxes owed on award	$196,438
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Total	$384,122		$489,270

IV. Dealing with Attorney Fee’s and the Alternative Minimum Tax

Whether there is a need for dealing with attorney fees depends on whether these fees are considered to be part of the plaintiff’s income. The U.S. courts of appeals are split over this issue. In Raymond v. United States (2002), the court ruled that attorney fees can be paid directly to the attorney and excluded from the client’s gross income because it was income to the attorney and not to the client. It is further noted in the *Raymond* decision that the fifth, sixth and eleventh circuits also exclude attorney contingency fees from clients’ gross income, while the third, fourth, seventh, ninth, tenth and federal circuits include them. A subsequent decision by the court of appeals in the ninth circuit (Banaitis v. Commissioner of Internal Revenue (2003)) ruled that attorney fees paid under a contingent contract with the plaintiff are not to be included in the plaintiff’s gross income. Hence, whether the discussion in this section is relevant to a given case depends on the particular jurisdiction where the case is brought.[6]

If attorney fees are awarded and included in the plaintiff’s income, Sager and Cohen (2000) make clear that the deduction of these fees as a miscellaneous expense on Schedule A will either be incomplete (excluding an amount equal to 2% of adjusted gross income) or cause an AMT liability. In order to compensate the plaintiff properly, it is necessary to take into account the tax consequences of having to declare attorney fees as income and of not being able to fully deduct these attorney fees in the computation of the plaintiff’s tax liability. The need for taking account of the tax consequences of attorney fees would be present, it should be emphasized, whether the AMT is triggered or not, but the negative financial consequences for the plaintiff are much greater if the AMT is triggered.

Attorney fees are rarely discussed in economic damage reports and are typically not permitted to be mentioned by a damage expert in court testimony. Indeed, mention of such fees in an expert’s court testimony may be grounds for a mistrial. However, the existence of these fees and their tax impact loom like the proverbial “elephant in the room” and will have an impact on settlement negotiations. Hence, having a section of a report that deals with the impact of attorney fees and the tax liability from treating such fees as income to the plaintiff provides the parties with information that is very useful for settlement purposes even if discussion of the report’s conclusions about attorney fees

[6] I am not aware of whether the federal circuit rulings would also apply to employment cases brought under state rather than federal laws.

and taxation cannot be mentioned in trial testimony.

Before describing the tax adjustments when attorney fees are taken into account, it is useful to provide a brief description of the AMT. It is important to consider the impact of the AMT in employment discrimination cases because the award of attorney fees may cause the AMT to the replace the ordinary income tax as the tax that must be applied in the year an award or settlement is received by the plaintiff. The AMT is triggered in the sample case described in this paper.

History and Purpose of the AMT.[7] The purpose of the AMT is to keep persons who have high incomes from taking advantage of various deductions, credits and exclusions, which are part of the ordinary income tax, so as to pay little or no income tax. Sager and Cohen (2000) review the history of the AMT. The first minimum tax was enacted by Congress in 1969, as an add-on tax, rather than as a alternative to the regular income tax. Specified tax preference items were taxed at a 10% rate, but these items did not include itemized deductions. In 1976, Congress added "excess itemized deductions," defined as deductions, excluding medical and casualty losses, that exceeded 60% of the taxpayer's adjusted gross income (AGI). In 1978 Congress enacted a new AMT, payable as an alternative to the regular income tax, when AMT liability exceeded regular tax liability. In 1982, the add-on tax enacted in 1969 was repealed and the calculation of tax under the AMT made no allowance for any itemized deductions. In 1986, Congress created a new category of itemized deductions, which includes most non-reimbursed employee business expenses and made items in this category deductible under the regular income tax only to the extent the total amount of such deductions exceeded 2% of AGI.[8] At the same time, Congress chose to disallow any miscellaneous itemized deduction in the computation of the AMT.

Computing the AMT Liability. The name "alternative minimum tax" implies that an individual must pay the tax as an alternative to the regular income tax if the amount owed under the regular income tax is smaller than the amount owed under the AMT. Strictly speaking, however, only the difference between the amount owed under the AMT rules and under the regular rules is considered AMT tax. Consider these

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[7]The discussion of the AMT that follows was taken in large part from http://www.fairmark.com/amt/ and from IRS Forms 6251 and 8801 and the instructions for these forms. Further recent discussion of the taxability of awards in employment law cases is found in Fatino (2002). Also very useful is the paper by Burman, et al. (2002)

[8]There is a phase-out of the amount allowed for itemized deductions computed as 3% of AGI in excess of $137,300 for couples filing joint returns in 2002. However, the reduction for having a high AGI cannot exceed 80% of otherwise allowable itemized deductions.

examples:

Example 1: John Smith's regular income tax is $47,000. When he calculates his AMT tax liability, he owes AMT of $39,000. That's less than $47,000, so he does not owe any AMT.

Example 2: John Smith's regular income tax is $47,000. When he calculates the tax he owes using the AMT rules, the calculation says he owes AMT of $58,000. That's more than $47,000, so he owes $47,000 of regular income tax and $11,000 of AMT on top of the regular income tax.

The alternative minimum tax is computed by first calculating alternative minimum taxable income and then computing the tax on that income. For married couples filing a joint return, the exemption in 2001 was $49,000. A tax rate of 26% is applied to the first $175,000 of ATM income above the exemption, and a rate of 28% is applied to amounts in excess of $175,000. The exemption of $49,000 is reduced by 25 cents for each dollar of AMT taxable income above $150,000 for couples filing a joint return, meaning that the exemption disappears altogether at AMT taxable income of $346,000.

In order to compute AMT income, the taxpayer must complete Form 6251. This form requires adding to one's regular taxable income one's ATM preferences and adjustments. The beginning point is adjusted gross income (AGI) less itemized deductions, or AGI if the standard deduction is claimed. Added back are the personal and dependent exemption deductions, and the standard deduction if the taxpayer does not itemize. Also added are miscellaneous deductions in excess of 2% of AGI, plus a number of other items, such as state and local taxes, real estate taxes, home-equity loan interest on a mortgage not used to buy, build or improve one's home, and a number of other items not relevant for purposes of this paper.[9]

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[9]Some or all of the AMT tax liability in a particular year may be used as a credit to reduce the tax owed in future years. The amount of such future reductions depends on (a) the amount of AMT credit available and (b) the amount of this credit that can be used. To find out the amount of the AMT that is available, it is necessary to calculate using Form 8801 the alternative minimum tax under a different set of rules than was used to calculate the AMT in the first place--a kind of alternative AMT. The purpose is to determine how much of the AMT arises from "deferral" or timing items, i.e., items that allow the reporting of income to be delayed, such as depreciation, but do not cause a permanent difference in taxable income over time, as opposed to "exclusion" items that actually reduce permanently the amount of taxable income that is reported. The minimum tax credit is allowed only for the AMT attributable to deferral items. To find out how much of the available credit can be used, certain conditions are examined. Credit can only be used in a year when no AMT is owed. The amount of the credit that can be

Dealing with Attorney Fees and the AMT in the Case Example. Given that the plaintiff has to pay taxes on the attorney fees, an amount must be added to the award to pay the taxes that will be due if the attorney fee is added to the award. In effect, the proper award size is determined, given the AMT, by treating the attorney fees in the same manner as the treatment of the award for back pay. This is illustrated in Tables 7A and 9A, which show the compensation needed for the plaintiff under the assumptions that she would have worked, alternatively, to ages 62 and 66. The assumption made about attorney fees is that these fees are computed as one-third of the award that would be made if these fees were either fully tax deductible or permitted to be excluded from income, i.e., as one-third of the award shown in Tables 7 and 9, respectively.[10] As can be seen, the level of the award needed to insure that the plaintiff receives the proper amount of back and front pay is elevated by $147,845 (= $465,377 - $317,532) in the age 62 scenario. In the age 66 scenario, the increase in the level of the award is

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used in a given year depends on the difference between the amount of regular tax owed and the amount of tax computed under AMT rules. Assuming the miscellaneous expense deduction for attorney fees is an exclusion item rather than a deferral item, no AMT credit may be typically available for plaintiff taxpayers who do not pay the AMT for other reasons. It is assumed in this paper that no such credit will be available in future tax years.

As an example of how the AMT credit works, suppose that $8,000 of AMT credit is available from 1997. In 1998, John Smith’s regular income tax liability is $37,000. His tax under AMT rules is $32,000. Hence, no AMT is owed. John Smith can claim $5,000 of AMT credit, reducing the regular income tax owed from $37,000 to $32,000. There remains $3,000 of AMT credit that can be carried forward and used in a future year. If only $2,000 of AMT credit was available from 1997 (instead of $8,000), then the full amount of the credit would be used in 1998, reducing the regular income tax owed from $37,000 to $35,000.

[10]As Sager and Cohen (2000) discuss, attorneys representing plaintiffs in civil rights cases usually rely on the fee-shifting provisions of the civil rights laws. Under these provisions, the plaintiff is entitled to reasonable attorney fees and these fees are not calculated as a percentage of damages. Rather, these fees are determined by a reasonable hourly rate and a reasonable number of hours spent working on the case. This fee-shifting provision and method for determining the total attorney fee is intended to provide the attorney with an incentive to represent plaintiffs in such cases even where the potential damages are relatively small. For purposes of this paper, I have simply assumed that a reasonable attorney fee could be approximated by an award equal to one-third of what the proper total award would be without taking attorney fees into account. In an actual case, an estimate of the total attorney fees to be charged could be obtained from the plaintiff’s attorney.

$203,392 (= $692,662 - $489,270) in order to compensate for attorney fees. And relative to the situation where taxes are totally ignored, the gap is even greater ($465,377 vs. $236,446 in the age 62 scenario, and $692,662 vs. $380,865 in the age 66 scenario).

The federal income taxes are computed in Table 7A and 9A by using the TurboTax software program for computing taxes in the 2001 tax year. State and local income taxes of 2.8% and 1%, respectively, are added, as is the Medicare tax of 1.45% and the OASDI tax of 6.2% of $84,700 (maximum taxable earnings in 2002). Iteration is used until the amount of the award is just sufficient to pay out the back pay and front pay, attorney fees and taxes on the award. In the Appendix, I provide Form 1040, Schedule A, and Form 6251 showing the computation of the federal tax for Tables 7A and 9A.

Incentive to Cut a Deal and Avoid Tax. One would expect that the huge wedge created by the joint effect of the “adverse tax consequence” described in the papers by Bowles and Lewis (1996) and Ben-Zion (2000), and the AMT, would generate creative efforts to circumvent these severe tax effects. When the defendant has to pay far more than the plaintiff stands to receive, a strong incentive is created to find other solutions that make both the plaintiff and the defendant better off by cutting the government tax collector out of the picture either partially or completely. Robert Male has described to me a type of structured settlement that was arranged by the defendant in a wrongful termination case whereby a substantial portion, if not all, of the tax effects caused by federal tax progressivity and the AMT were avoided. Part of the structure involved paying attorney fees over more than one tax year to reduce the size of the miscellaneous deduction claimed in any one year to avoid triggering the AMT. Unfortunately, the details of this settlement are not at present available. Until Congress alters the law to allow attorney fees to be fully deducted or excluded from income, there will remain a very strong incentive for such creative maneuvers.[11] And even with the AMT problem eliminated, as long as there is a progressive federal income tax, there will still remain a need to adjust awards for the adverse tax consequence.

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[11]However, it should be noted that in Bagley v. C.I.R. (1997), it was ruled that even if settlement follows a verdict, the parties cannot negotiate away taxable obligations. Hence, there are limits on what such negotiation can accomplish.

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TABLE 1

RELEVANT DATES
IN THE CASE OF
JANE DOE
vs.
OUR MOST MERCIFUL HOSPITAL

	DATE	YEAR AND FRACTIONAL EQUIVALENT	NUMBER OF YEARS	AGE	50% OF GROUP WILL HAVE EXPECTANCY BETWEEN APPROXIMATELY AGE (LOW) (c)	AGE (HIGH) (c)
JANE DOE:						
1. DATE OF BIRTH	3-May-1944	1944.340	--	--	--	--
2. DATE OF TERMINATION	4-Aug-1997	1997.594	53.254	53.254	--	--
3. DATE OF THIS REPORT	1-Oct-2001	2001.752	4.159	57.413	--	--
4. ESTIMATED DATE OF TRIAL	1-Jul-2002	2002.500	0.747	58.160	--	--
5. "EARLY" SOCIAL SECURITY RETIREMENT AGE (a)	May-2006	2006.340	8.746	62.000	--	--
6. AVERAGE STATISTICAL WORKLIFE EXPECTANCY (b)	Dec-2007	2007.919	10.325	63.579	--	--
7. "FULL" SOCIAL SECURITY RETIREMENT AGE (a)	May-2010	2010.340	12.746	66.000	--	--
8. AVERAGE STATISTICAL LIFE EXPECTANCY (c)	Aug-2026	2026.665	29.071	82.325	75.406	90.215
JOHN DOE:						
1. DATE OF BIRTH	17-Jul-1941	1941.544	--	--	--	--
2. AGE AT DATE OF WIFE'S TERMINATION	4-Aug-1997	1997.594	56.049	56.049	--	--
3. DATE OF THIS REPORT	1-Oct-2001	2001.752	4.159	60.208	--	--
4. AVERAGE STATISTICAL LIFE EXPECTANCY (c)	Jun-2020	2020.450	22.856	78.905	71.451	86.520

(a) For retirement ages under Social Security, see "2000 Social Security Explained," Commerce Clearing House, Chicago, 2000.

(b) The average statistical worklife expectancy for someone with Mrs. Doe's characteristics is 10.325 years to age 63.579, as based on Tamorah Hunt, Joyce Pickersgill and Herbert Rutemiller, "Median Years to Retirement and Worklife Expectancy for the U.S. Civilian Population," Journal of Forensic Economics, Spring/Summer 1997, Vol. X, No. 2, Appendix A -Table 7. This paper updates with recent dat the older worklife expectancy estimates found in U.S. Dept. of Labor, Bureau of Labor Statistics, "Worklife Estimates:Effects of Race and Education," Bulletin 2254, (Feb. 1986).

(c) Computed from Mr. and Mrs. Doe's ages as of the date of the termination using Robert N. Anderson, "United States Life Tables, 1998," National Vital Statistics Reports, Vol. 48, No. 18, February 7, 2001, U.S. Dept. of Health and Human Services, Tables 6 and 5, respectively

TABLE 2
EARNINGS, WORK EXPENSE AND TAX INFORMATION FROM TAX RETURNS AND EMPLOYER W-2 STATEMENTS
FOR THE YEARS 1992-99

	1992	1993	1994	1995	1996	1997	1998	1999
U.S. Individual IncomeTax Return Information:								
Wages (1040, Line 7)	$48,213	$57,331	$51,989	$56,373	$59,488	$50,887	$33,749	$29,959
Interest & Dividends (1040, Lines 8a & 9)	$2,320	$1,485	$1,208	$1,005	$1,116	$1,598	$1,240	$848
Taxable refunds, credits, or offsets of state & local income tax	$43	$38	$29	$10	$39	$37	$26	$0
Business income (John Doe, Christmas Trees)	-$3,732	-$2,850	-$2,180	-$2,567	-$786	$235	-$1,977	$1,093
Total pensions & annuities	$0	$0	$0	$0	$0	$0	$0	$5,244
Rents, royalties, etc.	$26,100	$24,750	$23,200	$7,200	$3,600	$3,440	$22,964	$13,044
Unemployment Compensation	$0	$0	$0	$0	$0	$5,448	$2,044	$642
One-half of self-employment tax	$0	$0	$0	$0	$0	$0	$0	-$77
Penality on early withdrawal of savings	$0	$0	$0	$0	$0	$0	$0	-$40
AGI (1040, Line 32)	$72,944	$80,754	$74,246	$62,021	$63,457	$61,645	$58,046	$50,713
Deductions	$8,923	$8,567	$8,015	$7,140	$9,204	$7,340	$8,473	$7,200
Exemptions	$9,200	$9,400	$9,800	$10,000	$10,200	$10,600	$8,100	$8,250
Taxable income	$54,821	$62,787	$56,431	$44,881	$44,053	$43,705	$41,473	$35,263
Federal Tax Owed	$10,697	$12,780	$10,859	$7,495	$7,114	$6,881	$6,221	$5,289
Less Education Credits	$0	$0	$0	$0	$0	$0	-$701	-$1,000
Tax After Education Credits	$10,697	$12,780	$10,859	$7,495	$7,114	$6,881	$5,520	$4,289
Plus Self-Employment Tax	$0	$0	$0	$0	$0	$0	$0	$154
Tax Owed	$10,697	$12,780	$10,859	$7,495	$7,114	$6,881	$5,520	$4,443
Employer W-2 Information:								
W-2 Jane Doe, Our Most Merciful Hospital	$24,516	$27,079	$18,819	$26,460	$25,155	$15,053	$0	$0
Social Security Tax, Jane Doe	$1,478	$1,633	$1,126	$1,615	$1,532	$917	$0	$0
Medicare Tax, Jane Doe	$346	$382	$263	$378	$358	$215	$0	$0
State Income Tax, Jane Doe	$731	$758	$527	$741	$704	$422	$0	$0
Local Income Tax, Jane Doe	$245	$271	$188	$265	$252	$151	$0	$0
W-2 John Doe, Build-It-Fast Contracting Company	$24,371	$30,993	$33,820	$30,521	$34,773	$36,091	$32,539	$29,959
Social Security Tax, John Doe	$1,511	$1,922	$2,097	$1,892	$2,156	$2,238	N.A.	$1,857
Medicare Tax, John Doe	$353	$353	$490	$443	$504	$523	N.A.	$434
State Income Tax, John Doe	$719	$868	$947	$855	$974	$1,011	N.A.	$835
Local Income Tax, John Doe	$244	$244	$338	$305	$348	$361	N.A.	$298
Pennsylvania Tax Return Information:								
Union dues			$247	$341	$0	$0	$0	$0
Work clothes & uniforms			$135	$0	$0	$0	$0	$0
Small tools and supplies			$0	$222	$0	$0	$0	$0
Professional license fees			$43	$0	$0	$0	$0	$0
Travel and milage			$0	$750	$3,160	$2,195	$0	$0
			$425	$1,313	$3,160	$2,195	$0	$0

TABLE 3

EARNINGS AND WORK EXPENSES OF JANE DOE
1992-1997

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
YEAR	MONEY EARNINGS IN CURRENT DOLLARS (a)	WORK EXPENSES IN CURRENT DOLLARS (a)	LENGTH OF PERIOD	CPI FOR YEAR (b)	Value of a Dollar in Given Year Relative to 1997 Value (c)	MONEY EARNINGS IN 1997 DOLLARS (4) x (7)	WORK EXPENSES IN 1997 DOLLARS (d)
1992	$24,516	$0	1.000	140.3	1.1440	$28,045	N.A.
1993	$27,079	$0	1.000	144.5	1.1107	$30,077	N.A.
1994	$18,819	$425	1.000	148.2	1.0830	$20,381	$460
1995	$26,460	$1,313	1.000	152.4	1.0531	$27,866	$1,383
1996	$25,155	$3,160	1.000	156.9	1.0229	$25,733	$3,233
1997	$15,053	$2,195	0.594	160.5	1.0000	$15,053	$2,195
Totals			5.594			$147,155	$7,271
Average, 1/1/92 to 8/4/07, in year 1997 dollars						$26,308	$2,023

(a) Source: Tax returns and employer W-2 forms.

(b) U.S. Dept. of Labor, Bureau of Labor Statistics, "Monthly Labor Review," June 2001, Current Labor Statistics, Table 30.

(c) The value of the CPI in 1997 divided by its value in the indicated year.

(d) Work expenses were not available (N.A.) for these years and the average of work expenses is taken over the years for which data were available.

TABLE 4
Incremental Federal Income Tax Calculation

Given & But for Termination	Year	John Doe's Earnings	Jane Doe's Earnings	Interest & dividends	Taxable Refunds	X-Mas Tree Profits	Pensions	Rents & Royalties	Unemp. Comp.	Adjusted Gross Income	Itemized or Stand. Deduct.	Exemp-tions	Taxable Income	Tax
Given T.	1997	$36,091	$15,053	$1,598	$37	$235	$0	$3,440	$5,448	$61,645	$7,340	$10,600	$43,705	$6,881
But For T.	1997	$36,091	$25,745	$1,598	$37	$235	$0	$3,440	$0	$66,889	$7,340	$10,600	$48,949	$8,350
Extra Tax														$1,468
Given T.	1998	$33,749	$0	$1,240	$26	-$1,977	$0	$22,964	$2,044	$58,046	$8,473	$8,100	$41,473	$5,520
But For T.	1998	$33,749	$27,202	$1,240	$26	-$1,977	$0	$22,964	$0	$83,204	$8,473	$8,100	$66,631	$12,450
Extra Tax														$6,930
Given T.	1999	$29,959	$0	$848	$0	$1,093	$5,244	$13,044	$642	$50,713	$7,200	$8,250	$35,263	$5,289
But For T.	1999	$29,959	$28,127	$848	$0	$1,093	$0	$13,044	$642	$73,713	$7,200	$8,250	$58,263	$10,717
Extra Tax														$5,428
Given T.	2000	$17,254	$0	$1,176	$0	$437	$0	$13,600	$2,520	$34,987	$7,350	$8,400	$19,237	$2,886
But For T.	2000	$17,254	$29,084	$1,176	$0	$437	$0	$13,600	$642	$62,192	$7,350	$8,400	$46,442	$7,303
Extra Tax														$4,418
Given T.	2001	$0	$0	$1,000	$0	$450	$0	$14,000	$0	$15,450	$7,541	$8,618	-$710	$0
But For T.	2001	$0	$30,072	$1,000	$0	$450	$0	$14,000	$0	$45,522	$7,541	$8,618	$29,363	$4,404
Extra Tax														$4,404
Given T.	2002	$0	$0	$1,000	$0	$450	$0	$4,132	$0	$5,582	$7,737	$5,895	-$8,050	$0
But For T.	2002	$0	$31,095	$1,000	$0	$450	$0	$4,132	$0	$36,677	$7,737	$5,895	$23,045	$3,457
Extra Tax														$3,457
Given T.	2003	$0	$0	$1,000	$0	$0	$0	$4,268	$0	$5,268	$7,938	$6,048	-$8,718	$0
But For T.	2003	$0	$32,152	$1,000	$0	$0	$0	$4,268	$0	$37,420	$7,938	$6,048	$23,434	$3,515
Extra Tax														$3,515
Given T.	2004	$0	$0	$1,000	$0	$0	$0	$4,409	$0	$5,409	$8,145	$6,206	-$8,941	$0
But For T.	2004	$0	$33,245	$1,000	$0	$0	$0	$4,409	$0	$38,654	$8,145	$6,206	$24,304	$3,646
Extra Tax														$3,646
Given T.	2005	$0	$0	$1,000	$0	$0	$0	$4,555	$0	$5,555	$8,356	$6,367	-$9,169	$0
But For T.	2005	$0	$34,376	$1,000	$0	$0	$0	$4,555	$0	$39,930	$8,356	$6,367	$25,207	$3,781
Extra Tax														$3,781
Retires at 62														
Given T.	2006	$0	$0	$1,000	$0	$0	$0	$4,705	$0	$5,705	$8,574	$6,532	-$9,401	$0
But For T.	2006	$0	$11,374	$1,000	$0	$0	$0	$4,705	$0	$17,079	$8,574	$6,532	$1,973	$296
Extra Tax														$296
Does not retire at 62														
Given T.	2006	$0	$0	$1,000	$0	$0	$0	$4,705	$0	$5,705	$8,574	$6,702	-$9,571	$0
But For T.	2006	$0	$35,544	$1,000	$0	$0	$0	$4,705	$0	$41,249	$8,574	$6,702	$25,973	$3,896
Extra Tax														$3,896
Given T.	2007	$0	$0	$1,000	$0	$0	$0	$4,860	$0	$5,860	$8,797	$6,876	-$9,813	$0
But For T.	2007	$0	$36,753	$1,000	$0	$0	$0	$4,860	$0	$42,613	$8,797	$6,876	$26,940	$4,041
Extra Tax														$4,041
Given T.	2008	$0	$0	$1,000	$0	$0	$0	$5,021	$0	$6,021	$9,025	$7,055	-$10,060	$0
But For T.	2008	$0	$38,002	$1,000	$0	$0	$0	$5,021	$0	$44,023	$9,025	$7,055	$27,942	$4,191
Extra Tax														$4,191
Given T.	2009	$0	$0	$1,000	$0	$0	$0	$5,186	$0	$6,186	$9,260	$7,239	-$10,312	$0
But For T.	2009	$0	$39,295	$1,000	$0	$0	$0	$5,186	$0	$45,481	$9,260	$7,239	$28,982	$4,347
Extra Tax														$4,347
Given T.	2010	$0	$0	$1,000	$0	$0	$0	$5,358	$0	$6,358	$9,501	$7,427	-$10,570	$0
But For T.	2010	$0	$13,002	$1,000	$0	$0	$0	$5,358	$0	$19,359	$9,501	$7,427	$2,432	$365
Extra Tax														$365

TABLE 5
DISCOUNT RATE DETERMINATION

Calculation Date: 9/26/01

	1 mo	3 mo	6 mo	1 yr	2 yr	3 yr	5 yr	7 yr	10 yr	LT Comp.
Week of Aug. 29-Sept. 4, 2001 (a)										
08/29/01	3.48	3.42	3.33	3.44	3.67	3.92	4.43	4.67	4.78	5.41
08/30/01	3.41	3.36	3.28	3.38	3.61	3.88	4.42	4.68	4.79	5.42
08/31/01	3.40	3.37	3.41	3.41	3.64	3.91	4.46	4.72	4.85	5.44
09/04/01	3.43	3.44	3.43	3.55	3.83	4.10	4.63	4.88	4.99	5.56
Average	3.43	3.40	3.36	3.45	3.69	3.95	4.49	4.74	4.85	5.46
Week of Sept. 5-11, 2001										
09/05/01	3.49	3.41	3.39	3.47	3.79	4.07	4.61	4.86	4.97	5.55
09/06/01	3.44	3.34	3.33	3.40	3.65	3.93	4.48	4.73	4.86	5.47
09/07/01	3.40	3.27	3.20	3.29	3.53	3.82	4.39	4.67	4.80	5.43
09/10/01	3.40	3.26	3.23	3.31	3.53	3.82	4.41	4.69	4.84	5.48
09/11/01	na	na	na	na	na	na	na	na	na	na
Average	3.43	3.32	3.29	3.37	3.62	3.91	4.47	4.74	4.87	5.48
Week of Sept. 12-18, 2001										
09/12/01	na	na	na	na	na	na	na	na	na	na
09/13/01	2.73	2.74	2.75	2.81	2.99	3.32	4.03	4.41	4.64	5.37
09/14/01	2.54	2.64	2.67	2.73	2.87	3.17	3.92	4.31	4.57	5.35
09/17/01	2.47	2.59	2.62	2.72	2.96	3.30	3.99	4.38	4.63	5.41
09/18/01	2.34	2.48	2.56	2.69	2.96	3.31	4.01	4.46	4.72	5.55
Average	2.52	2.61	2.65	2.74	2.95	3.28	3.99	4.39	4.64	5.42
Week of Sept. 19-25, 2001										3.48
09/19/01	2.00	2.19	2.33	2.49	2.81	3.18	3.90	4.41	4.69	5.55
09/20/01	2.04	2.22	2.38	2.56	2.91	3.27	3.97	4.47	4.75	5.62
09/21/01	2.12	2.25	2.34	2.53	2.91	3.27	3.94	4.43	4.70	5.57
09/24/01	2.38	2.38	2.39	2.56	2.94	3.30	4.00	4.47	4.73	5.57
09/25/01	2.58	2.40	2.37	2.51	2.88	3.25	3.97	4.45	4.72	5.56
Average	2.22	2.29	2.36	2.53	2.89	3.25	3.96	4.45	4.72	5.57
Weighted Average (b)	2.68	2.70	2.73	2.85	3.13	3.46	4.12	4.52	4.74	5.50

0-3 yr	2.93
4-10 yr	4.46
Over 10 yr	5.50

Discount Rate Working to Age 62: 4.587 future years: 3.4564
Discount Rate Working to Age 66: 8.587 future years: 3.9233

(a) Source for interest rates: http://www.treas.gov/domfin/statistics.htm
(b) In computing these averages, the interest rates in the most recent week are given a weight of 4, the week before a weight of 3, the week before that a weight of 2, and the first week a weight of 1.

TABLE 6

ESTIMATION OF MRS. DOE'S LOSS FROM ALLEDGED WRONGFUL TERMINATION IF SHE HAD WORKED TO AGE 62

(1) YEAR	(2) AGE AT START OF YEAR	(3) YEAR OR FRACTION OF YEAR	(4) PRESENT VALUE DISCOUNT FACTOR	(5) ANNUAL MONEY EARNINGS (a)	(6) EARNINGS IN PERIOD (3) X (5)	(7) PRESENT VALUE OF MONEY EARNINGS (4) X (6)	(8) WORK EXPENSES	(9) PRESENT VALUE OF WORK EXPENSES (4) X (8)	(10) FRINGE BENEFITS (b)	(11) PRESENT VALUE OF FRINGE BENEFITS (4) X (10)	(12) PRESENT VALUE OF LOST TOTAL COMPEN-SATION (7) - (9) + (11)	(13) ESTIMATED PERIOD EARNINGS	(14) ESTIMATED FEDERAL INCOME TAX ON MRS. DOE'S EARNINGS	(15) ESTIMATED PENN-SYLVANIA STATE & LOCAL INCOME TAXES	(16) ESTIMATED FICA TAXES	(17) ESTIMATED TOTAL INCOME & PAYROLL TAXES (14) + (15) + (16)	(18) NOMINAL NET ANNUAL LOSS (12) - (17)	(19) PRESENT VALUE OF ESTIMATED INCOME & PAYROLL TAXES (4) X (17)	(20) PRESENT VALUE OF NET ANNUAL AFTER-TAX LOSS (12) - (19)	(21) CUMULATIVE NET LOSS
DATE OF TERMINATION TO ESTIMATED DATE OF TRIAL:																				
1997	52.660	0.406	1.00000	$26,308	$10,692	$10,692	$822	$822	$412	$412	$10,282	$10,692	$1,468	$406	$818	$2,693	$7,589	$2,693	$7,589	$7,589
1998	53.660	1.000	1.00000	$27,202	$27,202	$27,202	$2,055	$2,055	$1,047	$1,047	$26,195	$27,202	$6,930	$1,034	$2,081	$10,045	$16,150	$10,045	$16,150	$23,739
1999	54.660	1.000	1.00000	$28,127	$28,127	$28,127	$2,100	$2,100	$1,083	$1,083	$27,110	$28,127	$5,428	$1,069	$2,152	$8,648	$18,462	$8,648	$18,462	$42,201
2000	55.660	1.000	1.00000	$29,084	$29,084	$29,084	$2,171	$2,171	$2,560	$2,560	$29,473	$29,084	$4,418	$1,105	$2,225	$7,748	$21,725	$7,748	$21,725	$63,925
2001	56.660	1.000	1.00000	$30,072	$30,072	$30,072	$2,227	$2,227	$4,038	$4,038	$31,883	$30,072	$4,404	$1,143	$2,301	$7,848	$24,035	$7,848	$24,035	$87,961
2002	57.660	0.500	1.00000	$31,095	$15,547	$15,547	$1,143	$1,143	$2,039	$2,039	$16,443	$15,547	$1,728	$591	$1,189	$3,509	$12,935	$3,509	$12,935	$100,896
BACK PAY		4.906				$140,725		$10,518		$11,178	$141,386							$40,490	$100,896	
FROM THE ESTIMATED DATE OF TRIAL UNTIL THE END OF MRS. DOE'S WORKING LIFE:																				
2002	57.660	0.500	0.98301	$31,095	$15,547	$15,283	$1,142	$1,123	$2,039	$2,004	$16,165	$15,547	$1,728	$591	$1,189	$3,509	$12,936	$3,449	$12,716	$113,611
2003	58.660	1.000	0.95017	$32,152	$32,152	$30,550	$2,341	$2,224	$4,118	$3,913	$32,238	$32,152	$3,515	$1,222	$2,460	$7,196	$26,732	$6,838	$25,400	$139,012
2004	59.660	1.000	0.91842	$33,245	$33,245	$30,533	$2,402	$2,206	$4,160	$3,821	$32,148	$33,245	$3,646	$1,263	$2,543	$7,452	$27,551	$6,844	$25,304	$164,315
2005	60.660	1.000	0.88774	$34,376	$34,376	$30,517	$2,464	$2,188	$4,203	$3,732	$32,061	$34,376	$3,781	$1,306	$2,630	$7,717	$28,398	$6,851	$25,210	$189,525
2006	61.660	0.340	0.85808	$35,544	$12,085	$10,370	$860	$738	$1,425	$1,223	$10,855	$12,085	$296	$459	$925	$1,680	$10,971	$1,441	$9,414	$198,939
FRONT PAY TO AGE 62		3.840				$117,253		$8,478		$14,692	$123,467							$25,423	$98,044	

(a) Source: Table 3. Earnings are assumed to grow at 3.4% per year, based on wage growth in the 1991-00 period. Work expenses are assumed to grow at the rate of inflation of 2.6% per year.

(b) Source: Employer contributed a salary match of up to 5% of earnings. In 1996-98, Mrs. Doe contributed an average of 3.85% of her salary. That percentage has been used to forecast the contributions she would have made. In addition, health insurance costs of $240.00 per month for Mrs. Doe and her husband are added from 7/1/00 to 4/1/03, when Mr. Doe will be eligible for Medicare, and thereafter for Mrs. Doe until the end of her working life.

TABLE 7

LOSS TAKING AWARD TAXES INTO ACCOUNT
WORKING TO AGE 62

(1) YEAR	(2) BEGIN-NING BALANCE	(3) BACK PAY DEDUCTION	(4) INTEREST EARNED AT 3.45643 PERCENT	(5) TAXES INCURRED	(6) FUTURE ANNUAL LOSS TO BE COV-ERED	(7) ENDING BALANCE (2)-(3)+(4)-(5)-(6)
2002	$317,532	$100,896	$1,694	$118,593	$12,936	$86,802
2003	$86,802	$0	$3,000	$0	$26,732	$63,070
2004	$63,070	$0	$2,180	$0	$27,551	$37,699
2005	$37,699	$0	$1,303	$0	$28,398	$10,605
2006	$10,605	$0	$367	$0	$10,971	$0

AWARD NEEDED TO PAY TAXES, BACK PAY AND FRONT PAY	$317,532

COMPOSED OF:

PRESENT VALUE OF BACK PAY	$100,896
PRESENT VALUE OF FRONT PAY	$98,044
TAXES OWED ON AWARD	$118,593
TOTAL	$317,532

TABLE 8

ESTIMATION OF MRS. DOE'S LOSS FROM ALLEDGED WRONGFUL TERMINATION IF SHE HAD WORKED TO AGE 66

(1) YEAR	(2) AGE AT START OF YEAR	(3) YEAR OR FRACTION OF YEAR	(4) PRESENT VALUE DISCOUNT FACTOR	(5) ANNUAL MONEY EARNINGS (a)	(6) EARNINGS IN PERIOD (3) X (5)	(7) PRESENT VALUE OF MONEY EARNINGS (4) X (6)	(8) WORK EXPENSES	(9) PRESENT VALUE OF WORK EXPENSES (4) X (8)	(10) FRINGE BENEFITS (b)	(11) PRESENT VALUE OF FRINGE BENEFITS (4) X (10)	(12) PRESENT VALUE OF LOST TOTAL COMPEN-SATION (7) - (9) + (11)	(13) ESTIMATED PERIOD EARNINGS	(14) ESTIMATED FEDERAL INCOME TAX ON MRS. DOE'S EARNINGS	(15) ESTIMATED PENN-SYLVANIA STATE & LOCAL INCOME TAXES	(16) ESTIMATED FICA TAXES	(17) ESTIMATED TOTAL INCOME & PAYROLL TAXES (14) + (15) + (16)	(18) NOMINAL NET ANNUAL LOSS (12) - (17)	(19) PRESENT VALUE OF ESTIMATED INCOME & PAYROLL TAXES (4) X (17)	(20) PRESENT VALUE OF NET ANNUAL AFTER-TAX LOSS (12) - (19)	(21) CUMULATIVE NET LOSS
DATE OF TERMINATION TO ESTIMATED DATE OF TRIAL:																				
1997	52.660	0.406	1.00000	$26,308	$10,692	$10,692	$822	$822	$412	$412	$10,282	$10,692	$1,468	$406	$818	$2,693	$7,589	$2,693	$7,589	$7,589
1998	53.660	1.000	1.00000	$27,202	$27,202	$27,202	$2,055	$2,055	$1,047	$1,047	$26,195	$27,202	$6,930	$1,034	$2,081	$10,045	$16,150	$10,045	$16,150	$23,739
1999	54.660	1.000	1.00000	$28,127	$28,127	$28,127	$2,100	$2,100	$1,083	$1,083	$27,110	$28,127	$5,428	$1,069	$2,152	$8,648	$18,462	$8,648	$18,462	$42,201
2000	55.660	1.000	1.00000	$29,084	$29,084	$29,084	$2,171	$2,171	$2,560	$2,560	$29,473	$29,084	$4,418	$1,105	$2,225	$7,748	$21,725	$7,748	$21,725	$63,925
2001	56.660	1.000	1.00000	$30,072	$30,072	$30,072	$2,227	$2,227	$4,038	$4,038	$31,883	$30,072	$4,404	$1,143	$2,301	$7,848	$24,035	$7,848	$24,035	$87,961
2002	57.660	0.500	1.00000	$31,095	$15,547	$15,547	$1,143	$1,143	$2,039	$2,039	$16,443	$15,547	$1,728	$591	$1,189	$3,509	$12,935	$3,509	$12,935	$100,896
BACK PAY		4.906				$140,725		$10,518		$11,178	$141,386							$40,490	$100,896	
FROM THE ESTIMATED DATE OF TRIAL UNTIL THE END OF MRS. DOE'S WORKING LIFE:																				
2002	57.660	0.500	0.98076	$31,095	$15,547	$15,248	$1,142	$1,120	$2,039	$1,999	$16,128	$15,547	$1,728	$591	$1,189	$3,509	$12,936	$3,441	$12,687	$113,582
2003	58.660	1.000	0.94373	$32,152	$32,152	$30,343	$2,341	$2,209	$4,118	$3,886	$32,020	$32,152	$3,515	$1,222	$2,460	$7,196	$26,732	$6,792	$25,228	$138,811
2004	59.660	1.000	0.90811	$33,245	$33,245	$30,190	$2,402	$2,181	$4,160	$3,778	$31,787	$33,245	$3,646	$1,263	$2,543	$7,452	$27,551	$6,767	$25,019	$163,830
2005	60.660	1.000	0.87382	$34,376	$34,376	$30,038	$2,464	$2,153	$4,203	$3,673	$31,558	$34,376	$3,781	$1,306	$2,630	$7,717	$28,398	$6,743	$24,815	$188,645
2006	61.660	1.000	0.84084	$35,544	$35,544	$29,887	$2,528	$2,126	$4,248	$3,572	$31,333	$35,544	$3,896	$1,351	$2,719	$7,966	$29,299	$6,698	$24,635	$213,280
2007	62.660	1.000	0.80909	$36,753	$36,753	$29,736	$2,594	$2,099	$4,295	$3,475	$31,113	$36,753	$4,041	$1,397	$2,812	$8,249	$30,205	$6,674	$24,438	$237,718
2008	63.660	1.000	0.77855	$38,002	$38,002	$29,587	$2,662	$2,072	$4,343	$3,381	$30,896	$38,002	$4,191	$1,444	$2,907	$8,543	$31,141	$6,651	$24,245	$261,963
2009	64.660	1.000	0.74916	$39,295	$39,295	$29,438	$2,731	$2,046	$2,473	$1,853	$29,244	$39,295	$4,347	$1,493	$3,006	$8,847	$30,190	$6,627	$22,617	$284,580
2010	65.660	0.340	0.72087	$40,631	$13,814	$9,958	$953	$687	$532	$383	$9,655	$13,814	$365	$525	$1,057	$1,946	$11,447	$1,403	$8,252	$292,832
FRONT PAY TO AGE 66		7.840				$234,426		$16,693		$26,001	$243,734							$51,797	$191,936	

(a) Source: Table 3. Earnings are assumed to grow at 3.4% per year, based on wage growth in the 1991-00 period. Work expenses are assumed to grow at the rate of inflation of 2.6% per year.

(b) Source: Employer contributed a salary match of up to 5% of earnings. In 1996-98, Mrs. Doe contributed an average of 3.85% of her salary. That percentage has been used to forecast the contributions she would have made. In addition, health insurance costs of $240.00 per month for Mrs. Doe and her husband are added from 7/1/00 to 4/1/03, when Mr. Doe will be eligible for Medicare, and thereafter for Mrs. Doe until the end of her working life.

TABLE 9

LOSS TAKING AWARD TAXES INTO ACCOUNT
WORKING TO AGE 66

(1) YEAR	(2) BEGIN-NING BALANCE	(3) BACK PAY DEDUCTION	(4) INTEREST EARNED AT 3.92333 PERCENT	(5) TAXES INCURRED	(6) FUTURE ANNUAL LOSS TO BE COV-ERED	(7) ENDING BALANCE (2)-(3)+(4)-(5)-(6)
2002	$489,270	$100,896	$3,765	$196,438	$12,936	$182,766
2003	$182,766	$0	$7,171	$0	$26,732	$163,204
2004	$163,204	$0	$6,403	$0	$27,551	$142,056
2005	$142,056	$0	$5,573	$0	$28,398	$119,232
2006	$119,232	$0	$4,678	$0	$29,299	$94,611
2007	$94,611	$0	$3,712	$0	$30,205	$68,119
2008	$68,119	$0	$2,673	$0	$31,141	$39,650
2009	$39,650	$0	$1,556	$0	$30,190	$11,015
2010	$11,015	$0	$432	$0	$11,447	$0

AWARD NEEDED TO PAY TAXES, BACK PAY AND FRONT PAY	$489,270

COMPOSED OF:

PRESENT VALUE OF BACK PAY	$100,896
PRESENT VALUE OF FRONT PAY	$191,936
TAXES OWED ON AWARD	$196,438
TOTAL	$489,270

TABLE 7A

LOSS TAKING AWARD TAXES, INCLUDING AMT, AND ATTORNEY FEES INTO ACCOUNT
WORKING TO AGE 62

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
YEAR	BEGIN-NING BALANCE	BACK PAY DEDUCTION	ATTORNEY FEE DEDUCTION 33.33% OF TABLE 7 AWARD	INTEREST EARNED AT 3.45643 PERCENT	TAXES INCURRED	FUTURE ANNUAL LOSS TO BE COV-ERED	ENDING BALANCE (2)-(3)-(4)-(5)-(6)-(7)
2002	$465,377	$100,896	$105,834	$1,694	$160,604	$12,936	$86,803
2003	$86,803	$0	$0	$3,000	$0	$26,732	$63,070
2004	$63,070	$0	$0	$2,180	$0	$27,551	$37,699
2005	$37,699	$0	$0	$1,303	$0	$28,398	$10,605
2006	$10,605	$0	$0	$367	$0	$10,971	$0

AWARD NEEDED TO PAY ATTORNEY FEES, TAXES, BACK PAY AND FRONT PAY	$465,377

COMPOSED OF:

PRESENT VALUE OF BACK PAY	$100,896
PRESENT VALUE OF FRONT PAY	$98,044
ATTORNEY FEES	$105,834
TAXES OWED ON AWARD	$160,604
TOTAL	$465,377

TABLE 9A

LOSS TAKING AWARD TAXES AND ATTORNEY FEES INTO ACCOUNT
WORKING TO AGE 66

(1) YEAR	(2) BEGIN-NING BALANCE	(3) BACK PAY DEDUCTION	(4) ATTORNEY FEE DEDUCTION 33.33% OF TABLE 9 AWARD	(5) INTEREST EARNED AT 3.92333 PERCENT	(6) TAXES INCURRED	(7) FUTURE ANNUAL LOSS TO BE COV-ERED	(8) ENDING BALANCE (2)-(3)-(4)-(5)-(6)-(7)
2002	$692,662	$100,896	$163,074	$3,765	$236,756	$12,936	$182,766
2003	$182,766	$0		$7,171	$0	$26,732	$163,204
2004	$163,204	$0		$6,403	$0	$27,551	$142,056
2005	$142,056	$0		$5,573	$0	$28,398	$119,232
2006	$119,232	$0		$4,678	$0	$29,299	$94,611
2007	$94,611	$0		$3,712	$0	$30,205	$68,118
2008	$68,118	$0		$2,673	$0	$31,141	$39,650
2009	$39,650	$0		$1,556	$0	$30,190	$11,015
2010	$11,015	$0		$432	$0	$11,447	$0

AWARD NEEDED TO PAY TAXES, BACK PAY AND FRONT PAY	$692,662

COMPOSED OF:

PRESENT VALUE OF BACK PAY	$100,896
PRESENT VALUE OF FRONT PAY	$191,936
ATTORNEY FEES	$163,074
TAXES OWED ON AWARD	$236,756
TOTAL	$692,662

APPENDIX

Form **1040** Department of the Treasury ' Internal Revenue Service
U.S. Individual Income Tax Return 2001
(99) IRS use only ' Do not write or staple in this space.

For the year Jan 1 - Dec 31, 2001, or other tax year beginning , 2001, ending , 20

OMB No. 1545-0074

Label (See instructions.)

Use the IRS label. Otherwise, please print or type.

Your First Name / MI	Last Name	Your Social Security Number
Jane	Doe	555-45-3333
If a Joint Return, Spouse's First Name / MI	Last Name	Spouse's Social Security Number
John	Doe	555-45-2222
Home Address (number and street). If You Have a P.O. Box, See Instructions.	Apartment No.	
R.D.2		
City, Town or Post Office. If You Have a Foreign Address, See Instructions.	State / ZIP Code	
Intercourse	PA 19023	

J **Important!** J You **must** enter your social security number(s) above.

Presidential Election Campaign (See instructions.)

A **Note:** Checking 'Yes' will not change your tax or reduce your refund.
Do you, or your spouse if filing a joint return, want $3 to go to this fund? G

You: X Yes ☐ No — Spouse: X Yes ☐ No

Filing Status

Check only one box.

1. ☐ Single
2. X Married filing joint return (even if only one had income)
3. ☐ Married filing separate return. Enter spouse's SSN above & full name here G
4. ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here G
5. ☐ Qualifying widow(er) with dependent child (year spouse died G). (See instructions.)

Exemptions

6a X **Yourself.** If your parent (or someone else) can claim you as a dependent on his or her tax return, **do not** check box 6a

b X **Spouse**

No. of boxes checked on 6a and 6b: 2

c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) b if qualifying child for child tax credit (see instrs)

If more than six dependents, see instructions.

No. of your children on 6c who:
? lived with you
? did not live with you due to divorce or separation (see instrs)
Dependents on 6c not entered above
Add numbers entered on lines above G 2

d Total number of exemptions claimed

Income

Attach Forms W-2 and W-2G here. Also attach Form(s) 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

Enclose, but do not attach, any payment. Also, please use **Form 1040-V.**

7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	0.
8a	**Taxable** interest. Attach Schedule B if required	8a	1,694.
b	**Tax-exempt** interest. **Do not** include on line 8a — 8b		
9	Ordinary dividends. Attach Schedule B if required	9	
10	Taxable refunds, credits, or offsets of state and local income taxes (see instructions)	10	
11	Alimony received	11	
12	Business income or (loss). Attach Schedule C or C-EZ	12	
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here G ☐	13	
14	Other gains or (losses). Attach Form 4797	14	
15a	Total IRA distributions — 15a — b Taxable amount (see instrs)	15b	
16a	Total pensions & annuities — 16a — b Taxable amount (see instrs)	16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	14,000.
18	Farm income or (loss). Attach Schedule F	18	
19	Unemployment compensation	19	
20a	Social security benefits — 20a — b Taxable amount (see instrs)	20b	
21	Other income Court Award	21	465,377.
22	Add the amounts in the far right column for lines 7 through 21. This is your **total income** G	22	481,071.

Adjusted Gross Income

23	IRA deduction (see instructions)	23	
24	Student loan interest deduction (see instructions)	24	
25	Archer MSA deduction. Attach Form 8853	25	
26	Moving expenses. Attach Form 3903	26	
27	One-half of self-employment tax. Attach Schedule SE	27	
28	Self-employed health insurance deduction (see instructions)	28	
29	Self-employed SEP, SIMPLE, and qualified plans	29	
30	Penalty on early withdrawal of savings	30	
31a	Alimony paid b Recipient's SSN G	31a	
32	Add lines 23 through 31a	32	
33	Subtract line 32 from line 22. This is your **adjusted gross income** G	33	481,071.

Tax and Credits

Standard Deduction for '
? People who checked any box on line 35a or 35b **or** who can be claimed as a dependent, see instructions.
? All others:
Single: $4,550
Head of household, $6,650
Married filing jointly or Qualifying widow(er), $7,600
Married filing separately, $3,800

34	Amount from line 33 (adjusted gross income)	34	481,071.
35 a	Check if: ☐ **You** were 65/older, ☐ Blind; ☐ **Spouse** was 65/older, ☐ Blind. Add the number of boxes checked above and enter the total here G 35 a		
b	If you are married filing separately and your spouse itemizes deductions, or you were a dual-status alien, see instructions and check here G 35 b ☐		
36	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)	36	106,453.
37	Subtract line 36 from line 34	37	374,618.
38	If line 34 is $99,725 or less, multiply $2,900 by the total number of exemptions claimed on line 6d. If line 34 is over $99,725, see the worksheet in the instructions	38	0.
39	**Taxable income.** Subtract line 38 from line 37. If line 38 is more than line 37, enter -0-	39	374,618.
40	**Tax** (see instrs). Check if any tax is from a ☐ Form(s) 8814 b ☐ Form 4972	40	118,519.
41	**Alternative minimum tax** (see instructions). Attach Form 6251	41	12,401.
42	Add lines 40 and 41 G	42	130,920.
43	Foreign tax credit. Attach Form 1116 if required	43	
44	Credit for child and dependent care expenses. Attach Form 2441	44	
45	Credit for the elderly or the disabled. Attach Schedule R	45	
46	Education credits. Attach Form 8863	46	
47	Rate reduction credit. See the worksheet	47	
48	Child tax credit (see instructions)	48	
49	Adoption credit. Attach Form 8839	49	
50	Other credits from . a ☐ Form 3800 b ☐ Form 8396 c ☐ Form 8801 d ☐ Form (specify)	50	
51	Add lines 43 through 50. These are your **total credits**	51	
52	Subtract line 51 from line 42. If line 51 is more than line 42, enter -0- G	52	130,920.

Other Taxes

53	Self-employment tax. Attach Schedule SE	53	
54	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	54	
55	Tax on qualified plans, including IRAs, and other tax-favored accounts. Attach Form 5329 if required	55	
56	Advance earned income credit payments from Form(s) W-2	56	
57	Household employment taxes. Attach Schedule H	57	
58	Add lines 52-57. This is your **total tax** G	58	130,920.

Payments

If you have a qualifying child, attach Schedule EIC.

59	Federal income tax withheld from Forms W-2 and 1099	59	
60	2001 estimated tax payments and amount applied from 2000 return	60	
61 a	**Earned income credit (EIC)**	61 a	
b	Nontaxable earned income 61 b		
62	Excess social security and RRTA tax withheld (see instrs)	62	
63	Additional child tax credit. Attach Form 8812	63	
64	Amount paid with request for extension to file (see instructions)	64	
65	Other payments. Check if from a ☐ Form 2439 b ☐ Form 4136	65	
66	Add lines 59, 60, 61a, and 62 through 65. These are your **total payments** G	66	

FDIA0112 10/11/01

Refund

Direct deposit? See instructions and fill in 68b, 68c, and 68d.

67	If line 66 is more than line 58, subtract line 58 from line 66. This is the amount you **overpaid**	67	
68 a	Amount of line 67 you want **refunded to you** G	68 a	
G b	Routing number G c Type: ☐ Checking ☐ Savings		
G d	Account number		
69	Amount of line 67 you want **applied to your 2002 estimated tax** G 69		

Amount You Owe

70	**Amount you owe.** Subtract line 66 from line 58. For details on how to pay, see instructions G	70	130,920.
71	Estimated tax penalty. Also include on line 70 71		

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see instructions)? ☐ **Yes.** Complete the following. ☒ **No**

Designee's Name G Phone No. G Personal Identification Number (PIN) G

Sign Here

Joint return? See instructions.
Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

A Your Signature | Date | Your Occupation: Nurse | Daytime Phone Number

A Spouse's Signature. If a Joint Return, **Both** Must Sign. | Date | Spouse's Occupation: Retired

Paid Preparer's Use Only

Preparer's Signature A | Date | Check if self-employed ☐ | Preparer's SSN or PTIN

Firm's Name (or yours if self-employed), Address, and ZIP Code A Self-Prepared | EIN | Phone No.

Smart Worksheet for: Form 1040: Individual Tax Return

Tax Smart Worksheet

A	Tax	118,519.
	Check if from:	
1	Tax table	
2	Tax rate schedules	X
3	Schedule D	
4	Capital gain tax worksheet	
5	Schedule J	
6	Form 8615	
7	Tax Computation Worksheet for Certain Dependents	
B	Additional tax from Form 8814	
C	Additional tax from Form 4972	
D	Recapture tax from Form 8863	
E	**Tax**. Add lines A through D. Enter the result here and on line **40**	118,519.

Schedule A
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Itemized Deductions

G **Attach to Form 1040.**
G **See Instructions for Schedule A (Form 1040).**

OMB No. 1545-0074

2001

07

Name(s) Shown on Form 1040: Jane & John Doe

Your Social Security Number: 555-45-3333

Medical and Dental Expenses		**Caution.** Do not include expenses reimbursed or paid by others.				
	1	Medical and dental expenses (see instructions)	1			
	2	Enter amount from Form 1040, line 34 2				
	3	Multiply line 2 above by 7.5% (.075)	3			
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			4	
Taxes You Paid	5	State and local income taxes	5	17,684.		
	6	Real estate taxes (see instructions)	6	2,000.		
(See instructions.)	7	Personal property taxes	7			
	8	Other taxes. List type and amount G	8			
	9	Add lines 5 through 8			9	19,684.
Interest You Paid	10	Home mtg interest and points reported to you on Form 1098	10			
(See instructions.)	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying number, and address G	11			
Note. Personal interest is not deductible.	12	Points not reported to you on Form 1098. See instrs for spcl rules	12			
	13	Investment interest. Attach Form 4952 if required. (See instrs.)	13			
	14	Add lines 10 through 13			14	
Gifts to Charity	15	Gifts by cash or check. If you made any gift of $250 or more, see instructions	15	1,000.		
If you made a gift and got a benefit for it, see instructions.	16	Other than by cash or check. If any gift of $250 or more, see instructions. You **must** attach Form 8283 if over $500	16			
	17	Carryover from prior year	17			
	18	Add lines 15 through 17			18	1,000.
Casualty and Theft Losses	19	Casualty or theft loss(es). Attach Form 4684. (See instructions.)			19	
Job Expenses and Most Other Miscellaneous Deductions	20	Unreimbursed employee expenses ' job travel, union dues, job education, etc. You **must** attach Form 2106 or 2106-EZ if required. (See instructions.) G	20			
	21	Tax preparation fees	21			
(See instructions for expenses to deduct here.)	22	Other expenses ' investment, safe deposit box, etc. List type and amount G Attorney Fees 105,834.	22	105,834.		
	23	Add lines 20 through 22	23	105,834.		
	24	Enter amount from Form 1040, line 34 . . . . . . 24 481,071.				
	25	Multiply line 24 above by 2% (.02)	25	9,621.		
	26	Subtract line 25 from line 23. If line 25 is more than line 23, enter -0-			26	96,213.
Other Miscellaneous Deductions	27	Other ' from list in the instructions. List type and amount G			27	
Total Itemized Deductions	28	Is Form 1040, line 34, over $132,950 (over $66,475 if MFS)? ☐ **No.** Your deduction is not limited. Add the amts in the far right col for lines 4 through 27. Also, enter this amt on Form 1040, line 36. ☒ **Yes.** Your deduction may be limited. See instructions for the amount to enter. G			28	106,453.

Itemized Deductions Limited per IRC Sec. 68.

Form **6251**

Department of the Treasury
Internal Revenue Service (99)

Alternative Minimum Tax ' Individuals

G **See separate instructions.**
G **Attach to Form 1040 or Form 1040NR.**

OMB No. 1545-0227

2001

32

Name(s) Shown on Form 1040: Jane & John Doe

Your Social Security Number: 555-45-3333

Part I Alternative Minimum Taxable Income

1	If you itemized deductions on Schedule A (Form 1040), go to line 2. Otherwise, enter your standard deduction from Form 1040, line 36, here and go to line 6	1	
2	Medical and dental. Enter the **smaller** of Schedule A (Form 1040), line 4 **or** 2-1/2% of Form 1040, line 34	2	0.
3	Taxes. Enter the amount from Schedule A (Form 1040), line 9	3	19,684.
4	Certain interest on a home mortgage **not** used to buy, build, or improve your home	4	
5	Miscellaneous itemized deductions. Enter the amount from Schedule A (Form 1040), line 26	5	96,213.
6	Refund of taxes. Enter any tax refund from Form 1040, line 10 or line 21. **Enter amount as negative**	6	
7	Investment interest. Enter difference between regular tax and AMT deduction	7	
8	Post-1986 depreciation. Enter difference between regular tax and AMT depreciation	8	
9	Adjusted gain or loss. Enter difference between AMT and regular tax gain or loss	9	
10	Incentive stock options. Enter excess of AMT income over regular tax income	10	
11	Passive activities. Enter difference between AMT and regular tax income or loss	11	
12	Beneficiaries of estates and trusts. Enter the amount from Schedule K-1 (Form 1041), line 9	12	
13	Tax-exempt interest income from private activity bonds issued after August 7, 1986	13	
14	Other. Enter the amount, if any, for each item below and enter the total on line 14.	14	

a Circulation expenditures		**i** Mining costs	
b Depletion		**j** Patron's adjustment	
c Depreciation (pre-1987)		**k** Pollution control facilities	
d Installment sales		**l** Research & experimental	
e Intangible drilling costs		**m** Section 1202 exclusion	
f Large partnerships		**n** Tax shelter farm activities	
g Long-term contracts		**o** Related adjustments	
h Loss limitations			

15	Total adjustments and preferences. Combine lines 1 through 14	15	115,897.		
16	Enter the amount from Form 1040, line 37. If less than zero, enter as a (loss)	16	374,618.		
17	Enter as a positive amount any net operating loss deduction from Form 1040, line 21	17			
18	If Form 1040, line 34, is over $132,950 (over $66,475 if married filing separately), and you itemized deductions, enter the amount, if any, from line 9 of the worksheet for Schedule A (Form 1040), line 28. **Enter amount as negative**	18	-10,444.		
19	Combine lines 15 through 18			19	480,071.
20	Alternative tax net operating loss deduction (see instructions)			20	
21	**Alternative Minimum Taxable Income.** Subtract line 20 from line 19. (If married filing separately and line 21 is more than $173,000, see instructions.)			21	480,071.

Part II Alternative Minimum Tax

22 Exemption amount. (If this form is for a child under age 14, see instructions.)

If your filing status is . . .	**And line 21 is not over . . .**	**Then enter on line 22 . . .**
Single or head of household	$112,500	$35,750
Married filing jointly or qualifying widow(er)	150,000	49,000
Married filing separately	75,000	24,500

If line 21 is **over** the amount shown above for your filing status, see instructions.

22	Exemption amount	22	0.
23	Subtract line 22 from line 21. If zero or less, enter -0- here and on lines 26 and 28 and stop here	23	480,071.
24	Go to Part III of Form 6251 to figure line 24 if you reported capital gain distributions directly on Form 1040, line 13, **or** you had a gain on both lines 16 and 17 of Schedule D (Form 1040) (as refigured for the AMT, if necessary). **All others:** If line 23 is $175,000 or less ($87,500 or less if married filing separately), multiply line 23 by 26% (.26). Otherwise, multiply line 23 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result	24	130,920.
25	Alternative minimum tax foreign tax credit (see instructions)	25	
26	Tentative minimum tax. Subtract line 25 from line 24	26	130,920.
27	Enter your tax from Form 1040, line 40 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 43)	27	118,519.
28	**Alternative minimum tax.** Subtract line 27 from line 26. If zero or less, enter -0-. Enter here and on Form 1040, line 41	28	12,401.

Part III Line 24 Computation Using Maximum Capital Gains Rates

Caution: *If you **did not** complete Part IV of Schedule D (Form 1040), see the instructions before you complete this part.*

29	Enter the amount from Form 6251, line 23			29	
30	Enter the amount from Schedule D (Form 1040), line 23, or line 9 of the Schedule D tax worksheet in the instructions for Schedule D (Form 1040), whichever applies (as refigured for the AMT, if necessary) (see instructions)	30			
31	Enter the amount from Schedule D (Form 1040), line 19 (as refigured for the AMT, if necessary) (see instructions)	31			
32	Add lines 30 and 31	32			
33	Enter the amount from Schedule D (Form 1040), line 23, or line 4 of the Schedule D tax worksheet in the instructions for Schedule D (Form 1040), whichever applies (as refigured for the AMT, if necessary) (see instructions)	33			
34	Enter the **smaller** of line 32 or line 33			34	
35	Subtract line 34 from line 29. If zero or less, enter -0-			35	
36	If line 35 is $175,000 or less ($87,500 or less if married filing separately), multiply line 35 by 26% (.26). Otherwise, multiply line 35 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result			36	
37	Enter the amount from Schedule D (Form 1040), line 28, or line 16 of the Schedule D tax worksheet in the instructions for Schedule D (Form 1040), whichever applies (as figured for the regular tax) (see instructions)	37			
38	Enter the **smallest** of line 29, line 30, or line 37. If zero, go to line 44	38			
39	Enter your qualified 5-year gain, if any, from Schedule D (Form 1040), line 29 (as refigured for the AMT, if necessary) (see instructions) — 39				
40	Enter the **smaller** of line 38 or line 39	40			
41	Multiply line 40 by 8% (.08)			41	
42	Subtract line 40 from line 38	42			
43	Multiply line 42 by 10% (.10)			43	
44	Enter the **smaller** of line 29 or line 30	44			
45	Enter the amount from line 38	45			
46	Subtract line 45 from line 44	46			
47	Multiply line 46 by 20% (.20)			47	
	If line 31 is zero or blank, skip lines 48 through 51 and go to line 52. Otherwise, go to line 48.				
48	Enter the amount from line 29	48			
49	Add lines 35, 38, and 46	49			
50	Subtract line 49 from line 48	50			
51	Multiply line 50 by 25% (.25)			51	
52	Add lines 36, 41, 43, 47, and 51			52	
53	If line 29 is $175,000 or less ($87,500 or less if married filing separately), multiply line 29 by 26% (.26). Otherwise, multiply line 29 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result			53	
54	Enter the **smaller** of line 52 or line 53 here and on line 24			54	

Form **1040** Department of the Treasury ' Internal Revenue Service
U.S. Individual Income Tax Return **2001** (99) IRS use only ' Do not write or staple in this space.

For the year Jan 1 - Dec 31, 2001, or other tax year beginning , 2001, ending , 20 — OMB No. 1545-0074

Label (See instructions.)
Use the IRS label. Otherwise, please print or type.

Your First Name	MI	Last Name	Your Social Security Number
Jane		Doe	555-45-3333
If a Joint Return, Spouse's First Name	MI	Last Name	Spouse's Social Security Number
John		Doe	555-45-2222

Home Address (number and street). If You Have a P.O. Box, See Instructions. Apartment No.
R.D.2

City, Town or Post Office. If You Have a Foreign Address, See Instructions. State ZIP Code
Intercourse PA 19023

J **Important!** J You **must** enter your social security number(s) above.

Presidential Election Campaign (See instructions.)
A **Note:** Checking 'Yes' will not change your tax or reduce your refund.
Do you, or your spouse if filing a joint return, want $3 to go to this fund? G
You: [X] Yes [ ] No — Spouse: [X] Yes [ ] No

Filing Status

Check only one box.

1 [ ] Single
2 [X] Married filing joint return (even if only one had income)
3 [ ] Married filing separate return. Enter spouse's SSN above & full name here G
4 [ ] Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here G
5 [ ] Qualifying widow(er) with dependent child (year spouse died G). (See instructions.)

Exemptions

6a [X] **Yourself.** If your parent (or someone else) can claim you as a dependent on his or her tax return, **do not** check box 6a — No. of boxes checked on 6a and 6b: 2
b [X] **Spouse**
c **Dependents:**

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) b if qualifying child for child tax credit (see instrs)

If more than six dependents, see instructions.

No. of your children on 6c who: ? lived with you ___
? did not live with you due to divorce or separation (see instrs) ___
Dependents on 6c not entered above ___

d Total number of exemptions claimed — Add numbers entered on lines above G 2

Income

Attach Forms W-2 and W-2G here. Also attach Form(s) 1099-R if tax was withheld.
If you did not get a W-2, see instructions.
Enclose, but do not attach, any payment. Also, please use **Form 1040-V.**

7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	0.
8a	**Taxable** interest. Attach Schedule B if required	8a	3,765.
b	**Tax-exempt** interest. **Do not** include on line 8a — 8b		
9	Ordinary dividends. Attach Schedule B if required	9	
10	Taxable refunds, credits, or offsets of state and local income taxes (see instructions)	10	
11	Alimony received	11	
12	Business income or (loss). Attach Schedule C or C-EZ	12	
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here G [ ]	13	
14	Other gains or (losses). Attach Form 4797	14	
15a	Total IRA distributions — 15a — b Taxable amount (see instrs)	15b	
16a	Total pensions & annuities — 16a — b Taxable amount (see instrs)	16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	14,000.
18	Farm income or (loss). Attach Schedule F	18	
19	Unemployment compensation	19	
20a	Social security benefits — 20a — b Taxable amount (see instrs)	20b	
21	Other income Court Award	21	692,662.
22	Add the amounts in the far right column for lines 7 through 21. This is your **total income** G	22	710,427.

Adjusted Gross Income

23	IRA deduction (see instructions)	23	
24	Student loan interest deduction (see instructions)	24	
25	Archer MSA deduction. Attach Form 8853	25	
26	Moving expenses. Attach Form 3903	26	
27	One-half of self-employment tax. Attach Schedule SE	27	
28	Self-employed health insurance deduction (see instructions)	28	
29	Self-employed SEP, SIMPLE, and qualified plans	29	
30	Penalty on early withdrawal of savings	30	
31a	Alimony paid b Recipient's SSN G	31a	
32	Add lines 23 through 31a	32	
33	Subtract line 32 from line 22. This is your **adjusted gross income** G	33	710,427.

Tax and Credits

Standard Deduction for
- People who checked any box on line 35a or 35b **or** who can be claimed as a dependent, see instructions.
- All others:
  Single: $4,550
  Head of household, $6,650
  Married filing jointly or Qualifying widow(er), $7,600
  Married filing separately, $3,800

34	Amount from line 33 (adjusted gross income)	34	710,427.
35 a	Check if: ☐ **You** were 65/older, ☐ Blind; ☐ **Spouse** was 65/older, ☐ Blind. Add the number of boxes checked above and enter the total here G 35 a		
b	If you are married filing separately and your spouse itemizes deductions, or you were a dual-status alien, see instructions and check here G 35 b ☐		
36	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)	36	160,862.
37	Subtract line 36 from line 34	37	549,565.
38	If line 34 is $99,725 or less, multiply $2,900 by the total number of exemptions claimed on line 6d. If line 34 is over $99,725, see the worksheet in the instructions	38	0.
39	**Taxable income.** Subtract line 38 from line 37. If line 38 is more than line 37, enter -0-	39	549,565.
40	**Tax** (see instrs). Check if any tax is from a ☐ Form(s) 8814 b ☐ Form 4972	40	186,923.
41	**Alternative minimum tax** (see instructions). Attach Form 6251	41	8,217.
42	Add lines 40 and 41 G	42	195,140.
43	Foreign tax credit. Attach Form 1116 if required — 43		
44	Credit for child and dependent care expenses. Attach Form 2441 — 44		
45	Credit for the elderly or the disabled. Attach Schedule R — 45		
46	Education credits. Attach Form 8863 — 46		
47	Rate reduction credit. See the worksheet — 47		
48	Child tax credit (see instructions) — 48		
49	Adoption credit. Attach Form 8839 — 49		
50	Other credits from . a ☐ Form 3800 b ☐ Form 8396 c ☐ Form 8801 d ☐ Form (specify) — 50		
51	Add lines 43 through 50. These are your **total credits**	51	
52	Subtract line 51 from line 42. If line 51 is more than line 42, enter -0- G	52	195,140.

Other Taxes

53	Self-employment tax. Attach Schedule SE	53	
54	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	54	
55	Tax on qualified plans, including IRAs, and other tax-favored accounts. Attach Form 5329 if required	55	
56	Advance earned income credit payments from Form(s) W-2	56	
57	Household employment taxes. Attach Schedule H	57	
58	Add lines 52-57. This is your **total tax** G	58	195,140.

Payments

If you have a qualifying child, attach Schedule EIC.

59	Federal income tax withheld from Forms W-2 and 1099 — 59		
60	2001 estimated tax payments and amount applied from 2000 return — 60		
61 a	**Earned income credit (EIC)** — 61 a		
b	Nontaxable earned income — 61 b		
62	Excess social security and RRTA tax withheld (see instrs) — 62		
63	Additional child tax credit. Attach Form 8812 — 63		
64	Amount paid with request for extension to file (see instructions) — 64		
65	Other payments. Check if from a ☐ Form 2439 b ☐ Form 4136 — 65		
66	Add lines 59, 60, 61a, and 62 through 65. These are your **total payments** G	66	

FDIA0112 10/11/01

Refund

Direct deposit? See instructions and fill in 68b, 68c, and 68d.

67	If line 66 is more than line 58, subtract line 58 from line 66. This is the amount you **overpaid**	67	
68 a	Amount of line 67 you want **refunded to you** G	68 a	
G b	Routing number G c Type: ☐ Checking ☐ Savings		
G d	Account number		
69	Amount of line 67 you want **applied to your 2002 estimated tax** G 69		

Amount You Owe

70	**Amount you owe.** Subtract line 66 from line 58. For details on how to pay, see instructions G	70	195,140.
71	Estimated tax penalty. Also include on line 70 — 71		

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see instructions)? ☐ **Yes.** Complete the following. ☒ **No**

Designee's Name G Phone No. G Personal Identification Number (PIN) G

Sign Here

Joint return? See instructions.

Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your Signature	Date	Your Occupation	Daytime Phone Number
A		Nurse	
Spouse's Signature. If a Joint Return, **Both** Must Sign.	Date	Spouse's Occupation	
A		Retired	

Paid Preparer's Use Only

Preparer's Signature A	Date	Check if self-employed ☐	Preparer's SSN or PTIN
Firm's Name (or yours if self-employed), Address, and ZIP Code A	Self-Prepared	EIN	
		Phone No.	

Smart Worksheet for: Form 1040: Individual Tax Return

Tax Smart Worksheet

A	Tax	186,923.
	Check if from:	
1	Tax table	
2	Tax rate schedules	X
3	Schedule D	
4	Capital gain tax worksheet	
5	Schedule J	
6	Form 8615	
7	Tax Computation Worksheet for Certain Dependents	
B	Additional tax from Form 8814	
C	Additional tax from Form 4972	
D	Recapture tax from Form 8863	
E	**Tax**. Add lines A through D. Enter the result here and on line **40**	186,923.

Schedule A (Form 1040)

Department of the Treasury Internal Revenue Service (99)

Itemized Deductions

G Attach to Form 1040.
G See Instructions for Schedule A (Form 1040).

OMB No. 1545-0074

2001

07

Name(s) Shown on Form 1040: Jane & John Doe

Your Social Security Number: 555-45-3333

Medical and Dental Expenses		**Caution.** Do not include expenses reimbursed or paid by others.				
	1	Medical and dental expenses (see instructions)	1			
	2	Enter amount from Form 1040, line 34 — 2				
	3	Multiply line 2 above by 7.5% (.075)	3			
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			4	
Taxes You Paid (See instructions.)	5	State and local income taxes	5	26,321.		
	6	Real estate taxes (see instructions)	6	2,000.		
	7	Personal property taxes	7			
	8	Other taxes. List type and amount G	8			
	9	Add lines 5 through 8			9	28,321.
Interest You Paid (See instructions.)	10	Home mtg interest and points reported to you on Form 1098	10			
	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying number, and address G	11			
Note. Personal interest is not deductible.	12	Points not reported to you on Form 1098. See instrs for spcl rules	12			
	13	Investment interest. Attach Form 4952 if required. (See instrs.)	13			
	14	Add lines 10 through 13			14	
Gifts to Charity	15	Gifts by cash or check. If you made any gift of $250 or more, see instructions	15	1,000.		
If you made a gift and got a benefit for it, see instructions.	16	Other than by cash or check. If any gift of $250 or more, see instructions. You **must** attach Form 8283 if over $500	16			
	17	Carryover from prior year	17			
	18	Add lines 15 through 17			18	1,000.
Casualty and Theft Losses	19	Casualty or theft loss(es). Attach Form 4684. (See instructions.)			19	
Job Expenses and Most Other Miscellaneous Deductions	20	Unreimbursed employee expenses ' job travel, union dues, job education, etc. You **must** attach Form 2106 or 2106-EZ if required. (See instructions.) G	20			
	21	Tax preparation fees	21			
(See instructions for expenses to deduct here.)	22	Other expenses ' investment, safe deposit box, etc. List type and amount G Attorney Fees 163,074.	22	163,074.		
	23	Add lines 20 through 22	23	163,074.		
	24	Enter amount from Form 1040, line 34 — 24 — 710,427.				
	25	Multiply line 24 above by 2% (.02)	25	14,209.		
	26	Subtract line 25 from line 23. If line 25 is more than line 23, enter -0-			26	148,865.
Other Miscellaneous Deductions	27	Other ' from list in the instructions. List type and amount G			27	
Total Itemized Deductions	28	Is Form 1040, line 34, over $132,950 (over $66,475 if MFS)? ☐ **No.** Your deduction is not limited. Add the amts in the far right col for lines 4 through 27. Also, enter this amt on Form 1040, line 36. ☒ **Yes.** Your deduction may be limited. See instructions for the amount to enter. G			28	160,862.

Itemized Deductions Limited per IRC Sec. 68.

Form **6251**

Department of the Treasury
Internal Revenue Service (99)

Alternative Minimum Tax ' Individuals

G **See separate instructions.**
G **Attach to Form 1040 or Form 1040NR.**

OMB No. 1545-0227

2001

32

DO NOT FILE

Name(s) Shown on Form 1040	Your Social Security Number
Jane & John Doe	555-45-3333

Part I Alternative Minimum Taxable Income

1	If you itemized deductions on Schedule A (Form 1040), go to line 2. Otherwise, enter your standard deduction from Form 1040, line 36, here and go to line 6	1	
2	Medical and dental. Enter the **smaller** of Schedule A (Form 1040), line 4 **or** 2-1/2% of Form 1040, line 34	2	0.
3	Taxes. Enter the amount from Schedule A (Form 1040), line 9	3	28,321.
4	Certain interest on a home mortgage **not** used to buy, build, or improve your home	4	
5	Miscellaneous itemized deductions. Enter the amount from Schedule A (Form 1040), line 26	5	148,865.
6	Refund of taxes. Enter any tax refund from Form 1040, line 10 or line 21. **Enter amount as negative**	6	
7	Investment interest. Enter difference between regular tax and AMT deduction	7	
8	Post-1986 depreciation. Enter difference between regular tax and AMT depreciation	8	
9	Adjusted gain or loss. Enter difference between AMT and regular tax gain or loss	9	
10	Incentive stock options. Enter excess of AMT income over regular tax income	10	
11	Passive activities. Enter difference between AMT and regular tax income or loss	11	
12	Beneficiaries of estates and trusts. Enter the amount from Schedule K-1 (Form 1041), line 9	12	
13	Tax-exempt interest income from private activity bonds issued after August 7, 1986	13	
14	Other. Enter the amount, if any, for each item below and enter the total on line 14.		

a Circulation expenditures		**i** Mining costs	
b Depletion		**j** Patron's adjustment	
c Depreciation (pre-1987)		**k** Pollution control facilities	
d Installment sales		**l** Research & experimental	
e Intangible drilling costs		**m** Section 1202 exclusion	
f Large partnerships		**n** Tax shelter farm activities	
g Long-term contracts		**o** Related adjustments	
h Loss limitations			

				14	
15	Total adjustments and preferences. Combine lines 1 through 14	15	177,186.		
16	Enter the amount from Form 1040, line 37. If less than zero, enter as a (loss)	16	549,565.		
17	Enter as a positive amount any net operating loss deduction from Form 1040, line 21	17			
18	If Form 1040, line 34, is over $132,950 (over $66,475 if married filing separately), and you itemized deductions, enter the amount, if any, from line 9 of the worksheet for Schedule A (Form 1040), line 28. **Enter amount as negative**	18	-17,324.		
19	Combine lines 15 through 18			19	709,427.
20	Alternative tax net operating loss deduction (see instructions)			20	
21	**Alternative Minimum Taxable Income.** Subtract line 20 from line 19. (If married filing separately and line 21 is more than $173,000, see instructions.)			21	709,427.

Part II Alternative Minimum Tax

22 Exemption amount. (If this form is for a child under age 14, see instructions.)

If your filing status is . . .	**And line 21 is not over . . .**	**Then enter on line 22 . . .**
Single or head of household	$112,500	$35,750
Married filing jointly or qualifying widow(er)	150,000	49,000
Married filing separately	75,000	24,500

If line 21 is **over** the amount shown above for your filing status, see instructions.

22	Exemption amount	22	0.
23	Subtract line 22 from line 21. If zero or less, enter -0- here and on lines 26 and 28 and stop here	23	709,427.
24	Go to Part III of Form 6251 to figure line 24 if you reported capital gain distributions directly on Form 1040, line 13, **or** you had a gain on both lines 16 and 17 of Schedule D (Form 1040) (as refigured for the AMT, if necessary). **All others:** If line 23 is $175,000 or less ($87,500 or less if married filing separately), multiply line 23 by 26% (.26). Otherwise, multiply line 23 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result	24	195,140.
25	Alternative minimum tax foreign tax credit (see instructions)	25	
26	Tentative minimum tax. Subtract line 25 from line 24	26	195,140.
27	Enter your tax from Form 1040, line 40 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 43)	27	186,923.
28	**Alternative minimum tax.** Subtract line 27 from line 26. If zero or less, enter -0-. Enter here and on Form 1040, line 41	28	8,217.

Part III Line 24 Computation Using Maximum Capital Gains Rates

Caution: *If you **did not** complete Part IV of Schedule D (Form 1040), see the instructions before you complete this part.*

29 Enter the amount from Form 6251, line 23 . . . 29

30 Enter the amount from Schedule D (Form 1040), line 23, or line 9 of the Schedule D tax worksheet in the instructions for Schedule D (Form 1040), whichever applies (as refigured for the AMT, if necessary) (see instructions) . . . 30

31 Enter the amount from Schedule D (Form 1040), line 19 (as refigured for the AMT, if necessary) (see instructions) . . . 31

32 Add lines 30 and 31 . . . 32

33 Enter the amount from Schedule D (Form 1040), line 23, or line 4 of the Schedule D tax worksheet in the instructions for Schedule D (Form 1040), whichever applies (as refigured for the AMT, if necessary) (see instructions) . . . 33

34 Enter the **smaller** of line 32 or line 33 . . . 34

35 Subtract line 34 from line 29. If zero or less, enter -0- . . . 35

36 If line 35 is $175,000 or less ($87,500 or less if married filing separately), multiply line 35 by 26% (.26). Otherwise, multiply line 35 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result . . . 36

37 Enter the amount from Schedule D (Form 1040), line 28, or line 16 of the Schedule D tax worksheet in the instructions for Schedule D (Form 1040), whichever applies (as figured for the regular tax) (see instructions) . . . 37

38 Enter the **smallest** of line 29, line 30, or line 37. If zero, go to line 44 . . . 38

39 Enter your qualified 5-year gain, if any, from Schedule D (Form 1040), line 29 (as refigured for the AMT, if necessary) (see instructions) . . . 39

40 Enter the **smaller** of line 38 or line 39 . . . 40

41 Multiply line 40 by 8% (.08) . . . 41

42 Subtract line 40 from line 38 . . . 42

43 Multiply line 42 by 10% (.10) . . . 43

44 Enter the **smaller** of line 29 or line 30 . . . 44

45 Enter the amount from line 38 . . . 45

46 Subtract line 45 from line 44 . . . 46

47 Multiply line 46 by 20% (.20) . . . 47

If line 31 is zero or blank, skip lines 48 through 51 and go to line 52. Otherwise, go to line 48.

48 Enter the amount from line 29 . . . 48

49 Add lines 35, 38, and 46 . . . 49

50 Subtract line 49 from line 48 . . . 50

51 Multiply line 50 by 25% (.25) . . . 51

52 Add lines 36, 41, 43, 47, and 51 . . . 52

53 If line 29 is $175,000 or less ($87,500 or less if married filing separately), multiply line 29 by 26% (.26). Otherwise, multiply line 29 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result . . . 53

54 Enter the **smaller** of line 52 or line 53 here and on line 24 . . . 54