Self-Employment Tax

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Purpose

Social Security self-employment tax is part of a system that provides farmers and other self-employed individuals with Social Security and medical insurance coverage. Social Security benefits are available to self-employed farmers, and payments of self-employment tax contribute to coverage under the Social Security system.

Who must pay?

If you engage in farming or ranching as a business, you probably have to pay self-employment tax. A business is generally an activity that is carried on for a livelihood, or in good faith to make a profit. You do not have to carry on regular full-time activities to be self-employed. Part-time work, including work you do on the side in addition to your regular job, may also be self-employment.

Tax rate and income limits

The self-employment tax rate is 15.30% for 1990. This tax applies to net earnings of $400 or more from self-employment, up to a maximum of $51,300. Beginning in 1990, one-half of your self-employment tax is a deductible expense for figuring your federal income tax, provided you earn less than $55,550.

Figuring the tax

There are three steps to figure the amount of self-employment tax you owe:

1. Determine your net earnings from self-employment.

2. Determine how much of those net earnings are subject to the tax (adjust for wages on which Social Security tax has already been paid).

3. Multiply that amount by the tax rate.

Net earnings from self-employment may be figured using the regular method, the farm optional method, or the nonfarm optional method. Schedule SE, *Social Security Self-Employment Tax*, is used to figure the tax. Form 1040 is used to report self-employment tax.

The regular method is the one most often used. The optional methods allow continued coverage for self-employment tax purposes when your net profit for the year is small or you sustain a loss. The optional methods are used only to figure self-employment tax.

Employing family members

You and your spouse cannot file a joint Schedule SE even if you file a joint income tax return. Each spouse's income is independently subject to self-employment tax. Joint ownership of farm property does not qualify a spouse for self-employment tax.

Wages paid to a spouse as an employee *are not* subject to self-employment tax, but *are* subject to Social Security tax. If you and your spouse operate a farm as partners, you must report the income on a partnership return, Form 1065, and attach separate Schedules K-1 to show each partner's share of the net income. Each partner also files a separate Schedule SE.

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Your child may be required to file a self-employment tax return and pay the tax if he or she has net earnings from 4-H or FFA projects of $400 or more. Income from these projects is self-employment income.

- dividends on securities;

- capital gains and losses; and

- wages received as an employee and covered by Social Security tax.

Items included in net earnings

Net earnings from self-employment normally include all of the items of business income and take into account deductions allowed for income tax purposes. Some specific items included in determining net income from self-employment are:

- taxable patronage dividends from cooperatives,

- government program payments,

- taxable commodity credit loans,

- crop damage payments, and

- crop shares received as rent if you materially participate in management.

Requesting benefits statement

The Social Security Administration provides free statements that detail your past Social Security earnings, Social Security taxes paid, and estimated Social Security benefits. Obtain the *Request for Earnings and Benefit Estimate Statement* form from your local Social Security Administration office.

Paying the tax

Self-employment taxes must be included in your estimated tax payments. However, if at least two-thirds of your income is from farming and if you file your return and pay the tax by the first day of the third month after the end of your tax year, no estimated tax payments are required.

Items excluded from net earnings

Some kinds of income and deductions are not included in your net earnings from self-employment, even though they are included in figuring your income tax. Examples include:

- rent from real estate and personal property leased with real estate;

- interest, unless you receive it in your business, such as interest on accounts receivable;

For more information

Call or write for these materials; single copies available at no charge:

Internal Revenue Service
Forms Distribution Center
Rancho Cordova, CA 95743-0001
1-800-424-3676

Publication 533,
Self-Employment Tax

Publication 225,
Farmer's Tax Guide

ES Pub 231(12/89)

Oregon
EMPLOYMENT DIVISION
DEPARTMENT OF HUMAN RESOURCES

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