

In general, every individual deriving self-employment income during the taxable year from a trade or business carried on by him or from a partnership of which he is a member is subject to the self-employment tax. This computation is made on lines 1 through 11. This tax must be paid regardless of age and even though the individual is receiving social security benefits.

Ministers, members of religious orders, and Christian Science practitioners.—Duly ordained, commissioned, or licensed ministers of churches, members of religious orders (who have not taken a vow of poverty), and Christian Science practitioners are not automatically covered by the Social Security Act, but may elect to be covered by filing Form 2031. Copies are available in the office of any district director of Internal Revenue. The instructions on the form set out the provisions of the law which permit these forms under certain conditions to be filed to cover ministers, and others mentioned above. Do not delay filing your income tax return beyond the due date even though you have not obtained a Form 2031. In such case, complete this Schedule, file it with Form 1040, and then file Form 2031 as promptly as possible to make your election.

Ministers and members of religious orders who desire coverage shall in addition to their other items of income include for the purpose of determining net earnings from self-employment (but not for income tax purposes) the rental value of a parsonage or allowance for the rental value of the parsonage, and the value of meals and lodging furnished them for the convenience of their employers.

U. S. citizens employed by foreign governments or international organizations.—A U. S. citizen employed in the United States, Puerto Rico, Guam, American Samoa, or the Virgin Islands by a foreign government, an instrumentality wholly owned by a foreign government, or an international organization which is organized under the International Organizations Immunities Act, is subject to the social security self-employment tax. These employees should report their income from such employment on line 5(e), of this Schedule, compute their self-employment tax, and file the schedule with their Form 1040. In item B of Schedule SE, enter "Employee of foreign government, etc."

Farm income.—Farmers report farm income and net earnings from farm self-employment on separate Schedules F and F-1 (Form 1040).

EXCLUSIONS

Income (or loss) from the following sources and deductions attributable thereto are not taken into account in figuring net earnings from self-employment. Use line 4 to exclude any such amounts reported on separate Schedule C (Form 1040) that should not be taken into account in figuring your self-employment income.

Doctors of medicine.—Income from the performance of service as a doctor of medicine or income from the performance of such service by a partnership.

Christian Science practitioners.—Income from the performance of service as a Christian Science practitioner, unless such Christian Science practitioner elects by filing Form 2031 to be covered by the Social Security Act, as explained above.

Religious services.—Income from the performance of service by a duly ordained, commissioned, or licensed minister of a church in the exercise of his ministry or by a member of a religious order in the exercise of duties required by such order, unless such minister or member of a religious order elects by filing Form 2031 to be covered by the Social Security Act, as explained above.

Employees and public officials.—Income (fees, salaries, etc.) from the performance of service as:

- (a) a public official, including a notary public;
- (b) an employee or employee representative under the railroad retirement system; or
- (c) an employee (except as indicated above).

Note.—The income of an employee over the age of 18 from the sale of newspapers or magazines to an ultimate consumer is subject to the self-employment tax if the income consists of retained profits from such sales.

Real estate rentals.—Rentals from real estate, except rentals received in the course of a trade or business as a real estate dealer. This includes cash and crop shares received from a tenant or sharefarmer. These amounts should be reported in Part IV, Schedule B (Form 1040). However, rental income from a farm is not excluded if the rental arrangement provides for material participation by the landlord and he does participate materially in the production or in the management of the production of one or more farm products on his land. Such income represents farm earnings and should be reported on separate Schedules F and F-1.

Payments for the use or occupancy of rooms or other space where services are also rendered to the occupant, such as rooms in hotels, boarding houses, apartment houses furnishing hotel services, tourist camps, or homes, or space in parking lots, warehouses, or storage garages do not constitute rentals from real estate and are included in determining net earnings from self-employment on this Schedule.

Interest and dividends.—Dividends on shares of stock, and interest on bonds, debentures, notes, certificates, or other evidences

of indebtedness, issued with interest coupons or in registered form by a corporation, or by a government or political subdivision thereof, unless received in the course of a trade or business as a dealer in stocks or securities. These amounts should be reported in Parts I and II of Schedule B.

Property gains and losses.—Gain or loss: (a) from the sale or exchange of a capital asset; (b) to which sections 631 and 1231 are applicable; or (c) from the sale, exchange, involuntary conversion, or other disposition of property if such property is neither (1) stock in trade or other property of a kind which would properly be includable in inventory if on hand at the close of the taxable year, nor (2) property held primarily for sale to customers in the ordinary course of the trade or business. These amounts should be reported on separate Schedule D (Form 1040).

Net operating losses.—No deduction for net operating losses of other years shall be allowed in determining the net earnings from self-employment. Such deduction should be entered on line 3, Part V of Schedule B.

No deductions for personal exemptions.—The deductions for personal exemptions are not allowable in determining net earnings from self-employment.

MORE THAN ONE TRADE OR BUSINESS

If an individual is engaged in more than one trade or business, his net earnings from self-employment are the combined net earnings from self-employment of all his trades or businesses. Thus, the loss sustained in one trade or business will operate to reduce the income derived from another trade or business. An individual shall fill in and file only one Schedule C-3, including Schedule SE, for any one year.

JOINT RETURNS

Where husband and wife file a joint income tax return, Schedule C-3 (Form 1040) should show the name of the one with self-employment income. Where husband and wife each have self-employment income, separate Schedules C and C-3 must be attached for each. In such cases the total of amounts shown on line 26 of each separate Schedule C should be entered on line 6, page 1, Form 1040, and the aggregate self-employment tax (line 11) Schedule C-3 should be entered on line 13, page 1, Form 1040.

COMMUNITY INCOME

For the purpose of computing net earnings from self-employment, if any of the income from a trade or business is community income, all the income from such trade or business is considered the income of the husband unless the wife exercises substantially all the management and control of the trade or business, in which case all of such income is considered the income of the wife. (Also see instructions on partnerships below.)

If separate income tax returns are filed by husband and wife, Schedules C and C-3 should be attached to the return of the one with self-employment income. Community income included on Schedule C must be allocated between the two returns (on line 6, page 1, Form 1040) on the basis of the community property laws.

PARTNERSHIPS

In computing his combined net earnings from self-employment, a partner should include his entire share of such earnings from a partnership including any guaranteed payments. No part of that share may be allocated to the partner's wife (or husband) even though the income may, under State law, be community income. In the case of a husband and wife partnership, like other partnerships, the distributive share of each should be entered in Part V of Schedule B (Form 1040), for income tax purposes. For self-employment tax purposes the distributive share of each partner should be entered on line 5(b), of this Schedule (except that farm partnership earnings are to be reported on line 1(b), Schedule F-1 (Form 1040) rather than on line 5(b) of this schedule).

Note.—If a member of a continuing partnership dies, a portion of the deceased partner's distributive share of the partnership's ordinary income (or loss) for the taxable year of the partnership in which he died must be included in the partner's net earnings from self-employment. In such cases consult your nearest Internal Revenue Service office as to how to report.

SCHEDULE SE (Form 1040)

Schedule SE, which is the lower portion of this Schedule, provides the Social Security Administration with the information on self-employment income necessary for computing benefits.

To assure proper credit to your account, be sure to enter your name and social security account number on Schedule SE (Form 1040) exactly as they are shown on your social security card. If you do not have a social security account number, you must get one. These account numbers are obtainable from any social security district office. Your local post office will give you the address. Do not delay filing your return beyond the due date.

Regardless of whether joint or separate returns are filed by husband and wife, Schedule SE (Form 1040) must show only the name of the one with the self-employment income. However, if both had self-employment income, a separate Schedule SE must be filed by each.