

Computation of Social Security Self-Employment Tax

1970

- ▶ Each self-employed person must file a separate Schedule SE.
- ▶ Attach to Form 1040.

▶ If you had wages, including tips, of \$7,800 or more that were subject to social security taxes, do not fill in this page.
▶ If you had more than one business, combine profits (or losses) from all of your businesses and farms on this Schedule SE.

Important.—The self-employment income reported below will be credited to your social security record and used in figuring social security benefits.

Name of self-employed person (as shown on social security card)	Social security number	Check applicable block 1 <input type="checkbox"/> Male 2 <input type="checkbox"/> Female
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Business activities subject to self-employment tax (grocery store, restaurant, farm, etc.) ▶

Part I Computation of Net Earnings from BUSINESS Self-Employment (other than farming)

1 Net profit (or loss) shown in Schedule C (Form 1040), line 26. (Enter combined amount if more than one business.)		
2 Net income (or loss) from excluded services or sources included on line 1 Specify excluded services or sources		
3 Net earnings (or loss) from business self-employment. (Subtract line 2 from line 1, and enter here and on line 1(a), Part III, below.)		

Part II Computation of Net Earnings from FARM Self-Employment

SE

A farmer may elect to compute net farm earnings using the OPTIONAL METHOD (line 3, below) INSTEAD OF THE REGULAR METHOD (line 2, below) if his gross profits are: (1) \$2,400 or less, or (2) more than \$2,400 and net profits are less than \$1,600. If your gross profits from farming are not more than \$2,400 and you elect to use the optional method, you need not complete lines 1 and 2.

Computation under Regular Method

1 Net farm profit (or loss) from:			
(a) Schedule F, line 52 (cash method), or line 69 (accrual method)			
(b) Farm partnerships			
2 Net earnings from self-employment from farming. Add lines 1(a) and (b)			

Computation under Optional Method

3 If gross profits from farming are:*			
(a) Not more than \$2,400, enter two-thirds of the gross profits			
(b) More than \$2,400 and the net farm profit is less than \$1,600, enter \$1,600			
* Note.—Gross profits from farming are the total of the gross profits from Schedule F, line 28 (cash method), or line 67 (accrual method), plus the distributive share of gross profit from farm partnerships as explained in Instructions for Schedule SE.			
4 Enter here and on line 1(b), Part III, below, the amount on line 2 (or line 3, if you use the optional method)			

Part III Computation of Social Security Self-Employment Tax

1 Net earnings (or loss) from self-employment—			
(a) From business (other than farming—from line 3, Part I, above)			
(b) From farming (from line 4, Part II, above)			
(c) From partnerships, joint ventures, etc. (other than farming)			
(d) From service as a minister, member of a religious order, or a Christian Science practitioner. If you filed Form 4361, check here <input type="checkbox"/> and enter zero on this line			
(e) From service with a foreign government or international organization			
(f) Other (director's fees, etc.). Specify			
2 Total net earnings (or loss) from self-employment reported on line 1 (If line 2 is less than \$400, you are not subject to self-employment tax. Do not fill in rest of page.)			
3 The largest amount of combined wages and self-employment earnings subject to social security tax is		\$7,800	00
4 (a) Total "FICA" wages as indicated on Form W-2			
(b) Unreported tips, if any, subject to FICA tax from Form 4137, line 9			
(c) Total of lines 4(a) and 4(b)			
5 Balance (subtract line 4(c) from line 3)			
6 Self-employment income—line 2 or 5, whichever is smaller			
7 If line 6 is \$7,800, enter \$538.20; if less, multiply the amount on line 6 by .069			
8 Railroad employee's and railroad employee representative's adjustment for hospital insurance benefits tax from Form 4469			
9 Self-employment tax (subtract line 8 from line 7). Enter here and on Form 1040, line 56			

Instructions for Schedule SE (Form 1040)—1970

Schedule SE provides the Social Security Administration with information on self-employment income necessary for computing benefits under the social security program. You must pay self-employment tax regardless of age, and even though you are receiving social security benefits.

To assure proper credit to your account, enter your name and social security number on Schedule SE exactly as they are shown on your social security card.

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 now subject to self-employment tax, but may, under certain conditions, request to exempt their income from service as a minister, member or practitioner by filing Form 4361. If you file Form 4361, write "Exempt-Form 4361" in the bottom margin on the back of Form 1040. Forms, schedules and publications may be obtained from the District Director. If you previously filed an effective waiver certificate, Form 2031, to pay self-employment tax, you may not now file for an exemption. See Publication 484, Social Security for Clergymen.

Ministers and members of religious orders must include in their 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.

Members of certain religious faiths.—If you have conscientious objections to social security insurance by virtue of your adherence to the established teachings of a recognized religious sect of which you are a member, you may File Form 4029 to obtain exemption from self-employment tax. If you filed Form 4029, do not file Schedule SE. Instead, write "Exempt-Form 4029" in the bottom margin on the back of Form 1040.

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 organized under the International Organizations Immunities Act, is subject to the social security self-employment tax. Report income from such employment on line 1(e), Part III, Schedule SE.

Fee basis State or local government employees.—Fees received for functions and services performed by these employees (including public officers who in such capacity are employees) are subject to self-employment tax if their functions and services are performed in positions which are: (1) compensated solely on a fee basis; and (2) not covered under a Federal-State social security coverage agreement. If you filed Form 4415, write, "Exempt-Form 4415" in the bottom margin on the back of Form 1040.

Exclusions

In figuring net earnings from self-employment, do not take into account income (or loss) from the following sources, or any resultant deductions. Use Part I, line 2 to exclude any such amounts reported in separate Schedule C that should not be taken into account in figuring your self-employment income. Exclude from Part II, line 2, any item of income or expense that is not included in the computation of net earnings from farm self-employment and attach an explanation.

Employees and public officials.—Income

(fees, salaries, etc.) from the performance of service as: (a) a public official (except as noted above); (b) an employee or employee representative under the railroad retirement system; or (c) an employee (except as indicated above).

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

Certain payments to retired partners.—Income received by a retired partner under a written partnership plan that provides for life-long periodic retirement payments if the retired partner has no interest in the partnership (except for the right to the retirement payments) and did not perform services for the partnership during the year.

Real estate rentals.—Rentals from real estate, except rentals received in the course of a trade or business as a real estate dealer. These include cash and crop shares received from a tenant or sharefarmer. Report these amounts in Schedule E, Part II. 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 Schedules F and SE.

The following does not constitute real estate rentals: 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. They must be included in determining net earnings from self-employment.

Dividends and interest.—Dividends on shares of stock, and interest on bonds, debentures, notes, certificates, or other evidence of indebtedness, issued with interest coupons or in registered form by a corporation, or by a government or its political subdivisions, unless received in the course of a trade or business as a dealer in stocks or securities.

Property gains and losses.—Gain or loss: (a) from the sale or exchange of a capital asset; (b) to which sections 631 and 1231 of the Internal Revenue Code are applicable; or (c) from the sale, exchange, involuntary conversion, or other disposition of property if that property is neither (1) stock in trade or other property of a kind which would properly be includible 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.

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 included as a "minus" figure on Form 1040, line 39.

More Than One Trade or Business

If an individual is engaged in farming and in one or more other trades or businesses, his net earnings from self-employment are the combined net earnings from self-employment of all his trades and businesses. Thus, a loss sustained in one trade or business will reduce the income from another trade or business. In such cases, use both Schedule F and Schedule C to determine net profit from the farm and nonfarm activities, respectively. Make the combined computation of self-employment tax on Schedule SE.

Joint Returns

For a joint return, show the name of the one with self-employment income on Schedule SE. If both husband and wife have self-employment income, each must file a separate Schedule SE. However, include the total of profits (or losses) from all businesses on Form 1040, line 35 or 38, whichever is applicable, and enter the combined self-employment tax on Form 1040, line 56.

Community Income

For the purpose of computing net earnings from self-employment, if any of the income from a trade or business, including farming, is community income, all the income from that trade or business is considered the income of the husband, unless the wife exercises substantially all the management and control of the operation. In that case, all such income is considered the wife's. (See "Partnerships" below.)

If separate returns are filed, Schedules C and SE or Schedules F and SE must be attached to the return of the one with self-employment income. Community income included on such schedules must be allocated for income tax purposes 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. However, in the case of a husband and wife farm partnership, as in other partnerships, the distributive share of each must be entered as partnership income in Schedule E, Part III, for income tax purposes, and in Schedule SE, Part II, line 1(b), for self-employment tax purposes. (Report nonfarm partnership income in Part III, line 1(c), for social security purposes.)

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.

Optional Method for Computing Net Earnings From Farm Self-Employment

If a farmer's gross profits for the year from farming are not more than \$2,400, he may report two-thirds of his gross profits from farming instead of his actual net earnings from farming. If his gross profits from farm self-employment are more than \$2,400, and his actual net earnings from farm self-employment are less than \$1,600, he may report \$1,600. For the optional method, a partner should compute his share of gross profits from a farm partnership in accordance with the partnership agreement. In the case of guaranteed payments, his share of the partnership's gross profits is his guaranteed payments plus his share of the gross profits, after such gross profits are reduced by all guaranteed payments of the partnership.

Share-Farming Arrangements

An individual who undertakes to produce a crop or livestock on land belonging to another for a proportionate share of the crop or livestock produced, or the proceeds from them, is considered to be an independent contractor and a self-employed person rather than an employee. His net earnings should be reported on Schedule F for income tax purposes and on Schedule SE for self-employment tax purposes.