### Computation of Social Security Self-Employment Tax

Each self-employed person must file a 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 and losses from all 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.

#### Business activity 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 8(a), Part III below.)

#### Part II

**Computation of Net Earnings from FARM Self-Employment**

A farmer may elect to compute net farm earnings using the OPTIONAL METHOD (line 6, below) INSTEAD OF THE REGULAR METHOD (line 5, 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 4 and 5.

**Computation under Regular Method**

4. Net farm profit (or loss) from:
   - (a) Schedule F, line 52 (cash method), or line 71 (accrual method)
   - (b) Farm partnerships

5. Net earnings from self-employment from farming. Add lines 4(a) and (b).

**Computation under Optional Method**

6. 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 69 (accrual method), plus the distributive share of gross profit from farm partnerships as explained in instructions for Schedule SE.

7. Enter here and on line 8(b), Part III, below, the amount on line 5 (or line 6, if you use the optional method)

#### Part III

**Computation of Social Security Self-Employment Tax**

8. Net earnings (or loss) from self-employment—
   - (a) From business (other than farming) from line 3, Part I, above
   - (b) From farming (from line 7, 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 and enter zero on this line
   - (e) From service with a foreign government or international organization
   - (f) Other (director's fees, etc.). Specify

9. Total net earnings (or loss) from self-employment reported on line 8
   
   (If line 9 is less than $400, you are not subject to self-employment tax. Do not fill in rest of page.)

10. The largest amount of combined wages and self-employment earnings subject to social security tax is. $7,800

11. (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 11(a) and 11(b)

12. Balance (subtract line 11(c) from line 10)

13. Self-employment income—line 9 or 12, whichever is smaller

14. If line 13 is $7,800, enter $585.00; if less, multiply the amount on line 13 by .075

15. Railroad employee's and railroad employee representative's adjustment for hospital insurance benefits tax from Form 4469

16. Self-employment tax (subtract line 15 from line 14). Enter here and on Form 1040, line 55.
Instructions

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 agreement or contract 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.

Rental 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 F, Part II. However, report the following in Schedule E, Part I: (a) rental from 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 income from self-employment and should be reported on Schedules E 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, tour 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 reported as part of 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 section 631 of the Internal Revenue Code is applicable; or (c) from the sale exchange, involuntary conversion, or cancellation of a debt. Report the resulting gain or loss on Schedule F and any item of income from the farm and nonfarm activities, respectively. Make the combined computation of self-employment tax on Schedule SE.

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. Exclusions from Part II, line 5, any item of income or expense that is not included in the computation of net earnings from farm self-employment and attach an explanation.

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 (or losses) from all businesses on Form 1040, line 28, whichever is applicable, and enter the combined self-employment tax on Form 1040, line 55.

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 essentially or 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 should 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 payment, and the net 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 member should be considered partnership income in Schedule E, Part III, for income tax purposes, and in Schedule SE, Part II, line 4(b), for self-employment tax purposes. (Report nonfarm partnership income in Part III, line 8c, for self-employment tax purposes. (Report nonfarm partnership income in Part III, line 8c, for self-employment tax purposes.

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 his share 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 a year in which no such share of gross profits is included in the partner’s share of gross profits, the shares of gross profits for prior years 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.