

# Computation of Social Security Self-Employment Tax

# 1972

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

▶ If you had wages, including tips, of \$9,000 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.

<b>NAME OF SELF-EMPLOYED PERSON (AS SHOWN ON SOCIAL SECURITY CARD)</b>	Social security number of self-employed person
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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 21. (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), 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 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 54 (cash method), or line 74 (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 72 (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), below, the amount on line 5 (or line 6, if you use the optional method)		
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## 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, above		
(b) From farming (from line 7, 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		
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 for 1972 is	\$9,000	00
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 \$9,000, enter \$675.00; 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 62		

# Instructions

Schedule SE provides the Social Security Administration with information on self-employment income necessary for figuring benefits under the social security program. You have to 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 they can, under certain conditions, request to exempt their income from service as a minister, member or practitioner by filing Form 4361. If you filed Form 4361 and you have no other income subject to self-employment tax, write "Exempt-Form 4361" on line 62 of Form 1040. (**Note:** If you filed Form 4361 but have \$400 or more from other net earnings subject to self-employment tax, you must complete Schedule SE). You can get forms, schedules, and publications from your local Internal Revenue Service office. If you previously filed an effective waiver certificate, Form 2031, to pay self-employment tax, you cannot file for an exemption. For more information get Publication 517, Social Security for Clergymen and Religious Workers.

Ministers and members of religious orders must include in their earnings from self-employment (but not for income tax purposes) the rental value of the parsonage or allowance for the rental value of the parsonage. They also must include 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 because of your belief in the teachings of a recognized religious sect of which you are a member, you can file Form 4029 to get exemption from self-employment tax. If you filed Form 4029, do not file Schedule SE. Instead, write "Exempt-Form 4029" on line 62 of Form 1040.

**U.S. citizens employed by foreign governments or international organizations.**—You are subject to the social security self-employment tax if you are 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. Report income from such employment on line 8(e), 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, exempting your fees from self-employment tax, write, "Exempt-Form 4415" on line 62 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 deductions for expenses in connection with this income. Use Schedule SE, 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 line 5, Schedule SE, 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: (1) a public official (except as noted above); (2) an employee or employee representative under the railroad retirement system; or (3) 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 employee kept the 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 are not real estate rentals: payments for the use or occupancy of rooms or other space where services are also furnished 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. These payments must be included in figuring 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: (1) from the sale or exchange of a capital asset; (2) to which section 631 of the Internal Revenue Code applies; or (3) from the sale, exchange, involuntary conversion, or other disposition of property if that property is neither (a) stock in trade or other property of a kind which would properly be includible in inventory if on hand at the close of the tax year; nor (b) 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 will be allowed in figuring the net earnings from self-employment. Such deduction should be included as a "minus" figure on Form 1040, line 44.

## More Than One Trade or Business

If you farmed and also had one or more other trades or businesses, your net earnings from self-employment are the combined net earnings from self-employment of all your trades and businesses. Thus, if you had a loss in one trade or business, it will reduce the income from another trade or business. In such cases, use both Schedule F and Schedule C to figure 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 39, as appropriate. Then enter the combined self-employment tax on Form 1040, line 62.

## Community Income

For the purpose of figuring 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 divided, for income tax purposes, on the basis of the community property laws.

## Partnerships

In figuring 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 can 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, line 4(b), for self-employment tax purposes. (Report nonfarm partnership income in Schedule SE, line 8(c), for social security purposes.)

**Note.**—*If a member of a continuing partnership dies, part 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 your gross profits for the year from farming were not more than \$2,400, you can report two-thirds of your gross profits from farming instead of your actual net earnings from farming. If your gross profits from farming were more than \$2,400, and your actual net earnings from farming were less than \$1,600, you can report \$1,600.

For the optional method, a partner should figure 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

A person who produces crops 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.

For more information on self-employment tax, get Publication 533, Information on Self-Employment Tax.