Use Schedule SE (Form 1040) to figure the tax due on net earnings from self-employment. The Social Security Administration uses the information from Schedule SE to figure your benefits under the social security program. This tax applies no matter how old you are and even if you are already getting social security or Medicare benefits.

**Additional Information.** See Pub. 533 for more details.

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**1998 Instructions for Schedule SE, Self-Employment Tax**

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**General Instructions**

**Changes To Note**

- For 1998, the maximum amount of self-employment income subject to social security tax is $68,400.
- Beginning in 1998, certain termination payments received by former insurance salespersons are not included in net earnings from self-employment. See page SE-3 for more details.

**Who Must File Schedule SE**

You must file Schedule SE if:

1. You were self-employed and your net earnings from self-employment from other than church employee income were $400 or more, or
2. You had church employee income of $108.28 or more—see Employees of Churches and Church Organizations below.

**Who Must Pay Self-Employment (SE) Tax?**

**Self-Employed Persons**

You must pay SE tax if you had net earnings of $400 or more as a self-employed person. If you are in business for yourself or you are a farmer, you are self-employed.

You must also pay SE tax on your share of certain partnership income and your guaranteed payments. See Partnership Income or Loss on page SE-2.

**Employees of Churches and Church Organizations**

If you had church employee income of $108.28 or more, you must pay SE tax. Church employee income is wages you received as an employee (other than as a minister or member of a religious order) from a church or qualified church-controlled organization that has a certificate in effect electing an exemption from employer social security and Medicare taxes.

**Ministers and Members of Religious Orders**

In most cases, you must pay SE tax on salaries and other income for services you performed as a minister, a member of a religious order who has not taken a vow of poverty, or a Christian Science practitioner. But if you filed Form 4361 and received IRS approval, you will be exempt from paying SE tax on those net earnings. If you had no other income subject to SE tax, write “Exempt-Form 4361” on line 50 of Form 1040. However, if you had other earnings of $400 or more subject to SE tax, see line A at the top of Long Schedule SE.

**Note:** If you have ever filed Form 2031 to elect social security coverage on your earnings as a minister, you cannot revoke that election now.

If you must pay SE tax, include this income on line 2 of either Short or Long Schedule SE. But do not report it on line 5a of Long Schedule SE; it is not considered church employee income. Also, include on line 2:

- The rental value of a home or an allowance for a home furnished to you (including payments for utilities) and
- The value of meals and lodging provided to you, your spouse, and your dependents for your employer’s convenience.

However, do not include on line 2:

- Retirement benefits you received from a church plan after retirement, or
- The rental value of a home or an allowance for a home furnished to you (including payments for utilities) after retirement.

If you were a duly ordained minister who was an employee of a church and you must pay SE tax, the unreimbursed business expenses that you incurred as a church employee are allowed only as an itemized deduction for income tax purposes. Subtract the allowable amount from your SE earnings when figuring your SE tax.

If you were a U.S. citizen or resident alien serving outside the United States as a minister or member of a religious order and you must pay SE tax, you may not reduce your net earnings by the foreign housing exclusion or deduction.

For more details, see Pub. 517.

**Members of Certain Religious Sects**

If you have conscientious objections to social security insurance because of your membership in and belief in the teachings of a religious sect recognized as being in existence at all times since December 31, 1950, and which has provided a reasonable level of living for its dependent members, you are exempt from SE tax if you received IRS approval by filing Form 4029. In this case, do not file Schedule SE. Instead, write “Exempt-Form 4029” on Form 1040, line 50. See Pub. 517 for more details.

**U.S. Citizens Employed by Foreign Governments or International Organizations**

You must pay SE tax on income you earned as a U.S. citizen employed by a foreign government (or, in certain cases, by a wholly owned instrumentality of a foreign government or an international organization under the International Organizations Immunities Act) for services performed in the United States, Puerto Rico, Guam, American Samoa, the Commonwealth of the Northern Marianas Islands (CNMI), or the Virgin Islands. Report income from this employment on Schedule SE (Section A or B), line 2. If you performed services elsewhere as an employee of a foreign government or an international organization, those earnings are exempt from SE tax.
U.S. Citizens or Resident Aliens Living Outside the United States

If you are a self-employed U.S. citizen or resident alien living outside the United States, in most cases you must pay SE tax. You may not reduce your foreign earnings from self-employment by your foreign earned income exclusion.

Exception. The United States has social security agreements with many countries to eliminate dual taxes under two social security systems. Under these agreements, you must generally pay social security and Medicare taxes to only the country you live in.

The United States now has social security agreements with the following countries: Austria, Belgium, Canada, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. Additional agreements are expected in the future. For more information, contact:

Social Security Administration
Office of International Programs
P.O. Box 17741
Baltimore, MD 21235

More Than One Business

If you were a farmer and had at least one other business or you had two or more businesses, your net earnings from self-employment are the combined net earnings from all of your businesses. If you had a loss in one business, it reduces the income from another. Figure the combined SE tax on one Schedule SE.

Joint Returns

Show the name of the spouse with SE income on Schedule SE. If both spouses have SE income, each must file a separate Schedule SE. However, if one spouse qualifies to use Short Schedule SE and the other has to use Long Schedule SE, both can use the same form. One spouse should complete the front and the other the back.

Include the total profits or losses from all businesses on Form 1040, as appropriate. Enter the combined SE tax on Form 1040, line 50.

Community Income

In most cases, if any of the income from a business (including farming) is community income, all of the income from that business is SE earnings of the spouse who carried on the business.

The facts in each case will determine which spouse carried on the business. If you and your spouse are partners in a partnership, see Partnership Income or Loss below.

If you and your spouse had community income and file separate returns, attach Schedule SE to the return of the spouse with the SE income. Also, attach Schedule(s) C, C-EZ, or F.

Caution: Community income included on Schedule(s) C, C-EZ, or F must be divided for income tax purposes on the basis of the community property laws.

Fiscal Year Filers

If your tax year is a fiscal year, use the tax rate and earnings base that apply at the time the fiscal year begins. Do not prorate the tax or earnings base for a fiscal year that overlaps the date of a rate or earnings base change.

Specific Instructions

Read the chart on page 1 of Schedule SE to see if you can use Section A, Short Schedule SE, or if you must use Section B, Long Schedule SE. For either section, you need to know what to include as net earnings from self-employment. Read the following instructions to see what to include as net earnings and how to fill in lines 1 and 2 of either Short or Long Schedule SE. Enter all negative amounts in parentheses.

Net Earnings From Self-Employment

What Is Included in Net SE Earnings?

In most cases, net earnings include your net profit from a farm or nonfarm business. If you were a partner in a partnership, see the following instructions.

Partnership Income or Loss

If you were a general or limited partner in a partnership, include on line 1 or line 2, whichever applies, the amount from line 15a of Schedule K-1 (Form 1065) or the amount identified as net earnings from self-employment in box 9 of Schedule K-1 (Form 1065-B). General partners should reduce this amount before entering it on Schedule SE by any section 179 expense deduction claimed, unreimbursed partnership expenses claimed, and depletion claimed on oil and gas properties. If you reduce the amount you enter on Schedule SE, attach an explanation.

If a partner died and the partnership continued, include in SE income the deceased’s distributive share of the partnership’s ordinary income or loss through the end of the month in which he or she died. See Internal Revenue Code section 1402(f).

If you were married and both you and your spouse were partners in a partnership, each of you must pay SE tax on your own share of the partnership income. Each of you must file a Schedule SE and report the partnership income or loss on Schedule E (Form 1040), Part II, for income tax purposes.

SE income belongs to the person who is the member of the partnership and cannot be treated as SE income by the nonmember spouse even in community property states.

Share Farming

You are considered self-employed if you produced crops or livestock on someone else’s land for a share of the crops or livestock produced (or a share of the proceeds from the sale of them). This applies even if you paid another person (an agent) to do the actual work or management for you. Report your net earnings for income tax purposes on Schedule F (Form 1040) and for SE tax purposes on Schedule SE. For more details, see Pub. 225.

Other Income and Losses Included in Net Earnings From Self-Employment

- Rental income from a farm if, as landlord, you materially participated in the production or management of the production of farm products on this land. This income is farm earnings. To determine whether you materially participated in farm management or production, do not consider the activities of any agent who acted for you. The material participation tests are explained in Pub. 225.

- Cash or a payment-in-kind from the Department of Agriculture for participation in a land diversion program.

- Payments for the use of rooms or other space when you also provided substantial services. Examples are hotel rooms, boarding houses, tourist camps or homes, parking lots, warehouses, and storage garages.

- Income from the retail sale of newspapers and magazines if you were age 18 or older and kept the profits.
amounts you recaptured on the property dropped to 50% or less. Do not include amounts you recaptured under section 179 and 280F that you included in gross income from any trade or business, such as interest on notes or accounts receivable.

- Fees and other payments received by you for services as a director of a corporation.
- Recapture amounts under sections 179 and 280F that you included in gross income because the business use of the property dropped to 50% or less. Do not include amounts you recaptured on the disposition of property. See Form 4797.
- Fees you received as a professional employee if you were paid only on a fee basis and the job was not covered under a Federal-state social security coverage agreement.
- Interest received in the course of any trade or business, such as interest on notes or accounts receivable.
- Fees and other payments received by you for services as a director of a corporation.

**Optional Methods**

**How Can the Optional Methods Help You?**

**Social Security Coverage.** The optional methods may give you credit toward your social security coverage even though you have a small amount of income from self-employment.

**Earned Income Credit.** Using the optional methods may qualify you to claim the earned income credit or give you a larger credit if your net SE earnings (determined without using the optional methods) are less than $1,600. Figure the earned income credit with and without using the optional methods to see if the optional methods will benefit you.

**Child and Dependent Care Credit.** The optional methods may also help you qualify for this credit or give you a larger credit if your net SE earnings (determined without using the optional methods) are less than $1,600. Figure this credit with and without using the optional methods to see if the optional methods will benefit you.

**Note:** Using the optional methods may give you the benefits described above but they may also increase your self-employment tax.
Farm Optional Method
You may use this method to figure your net earnings from farm self-employment if your gross farm income was $2,400 or less OR your gross farm income was more than $2,400 but your net farm profits (defined below) were less than $1,733. There is no limit on how many years you can use this method.

Under this method, you report on line 15, Part II, two-thirds of your gross farm income, up to $1,600, as your net earnings. This method can increase or decrease your net SE farm earnings even if the farming business had a loss.

You may change the method after you file your return. That is, you can change from the regular to the optional method or from the optional to the regular method.

For a farm partnership, figure your share of gross income based on the partnership agreement. With guaranteed payments, your share of the partnership’s gross income is your guaranteed payments plus your share of the gross income after it is reduced by all guaranteed payments made by the partnership. If you were a limited partner, include only guaranteed payments for services you actually rendered to or on behalf of the partnership.

Net farm profits is the total of the amounts from Schedule F (Form 1040), line 36, and Schedule K-1 (Form 1065), line 15a, from farm partnerships.

Nonfarm Optional Method
You may be able to use this method to figure your net earnings from nonfarm self-employment if your nonfarm profits (defined below) were less than $1,733 and also less than 72.189% of your gross nonfarm income. To use this method, you also must be regularly self-employed. You meet this requirement if your actual net earnings from self-employment were $400 or more in 2 of the 3 years preceding the year you use the nonfarm method. The net earnings of $400 or more could be from either farm or nonfarm earnings or both. The net earnings include your distributive share of partnership income or loss subject to SE tax. Use of the nonfarm optional method from nonfarm self-employment is limited to 5 years. The 5 years do not have to be consecutive.

Under this method, you report on line 17, Part II, two-thirds of your gross nonfarm income, up to $1,600, as your net earnings. But you may not report less than your actual net earnings from nonfarm self-employment.

You may change the method after you file your return. That is, you can change from the regular to the optional method or from the optional to the regular method.

Figure your share of gross income from a nonfarm partnership in the same manner as a farm partnership. See Farm Optional Method on this page for details.

Net nonfarm profits is the total of the amounts from Schedule C (Form 1040), line 31 (or Schedule C-EZ (Form 1040), line 3), Schedule K-1 (Form 1065), line 15a (from other than farm partnerships), and Schedule K-1 (Form 1065-B), box 9.

Using Both Optional Methods
If you can use both methods, you may report less than your total actual net earnings from farm and nonfarm self-employment, but you cannot report less than your actual net earnings from nonfarm self-employment alone.

If you use both methods to figure net earnings, you cannot report more than $1,600 of net SE earnings.