



Most people who pay into Social Security work for an employer. Their employer deducts Social Security taxes from their paycheck, matches that contribution, sends taxes to the Internal Revenue Service (IRS), and reports wages to Social Security. But self-employed people must report their earnings and pay their taxes directly to IRS.

You're self-employed if you operate a trade, business or profession, either by yourself or as a partner. You report your earnings for Social Security when you file your federal income tax return. If your net earnings are \$400 or more in a year, you must report your earnings on Schedule SE, in addition to the other tax forms you must file.

Paying Social Security and Medicare taxes

If you work for an employer, you and your employer each pay a 6.2 percent Social Security tax on up to \$118,500 of your earnings and a 1.45 percent Medicare tax on all earnings. If you're self-employed, you pay the combined employee and employer amount, which is a 12.4 percent Social Security tax on up to \$118,500 of your net earnings and a 2.9 percent Medicare tax on your entire net earnings. If your earned income is more than \$200,000 (\$250,000 for married couples filing jointly), you must pay 0.9 percent more in Medicare taxes.

There are two income tax deductions that reduce your taxes.

First, your net earnings from self-employment are reduced by half the amount of your total Social Security tax. This is similar to the way employees are treated under the tax laws, because the employer's share of the Social Security tax is not considered wages to the employee.

Second, you can deduct half of your Social Security tax on IRS Form 1040. But the deduction must be taken from your gross income in determining your adjusted gross income. It cannot be an itemized deduction and must not be listed on your Schedule C.

If you have wages, as well as self-employment earnings, the tax on your wages is paid first. But this rule only applies if your total earnings

are more than \$118,500. For example, if you will have \$30,000 in wages and \$40,000 in self-employment income in 2016, you will pay the appropriate Social Security taxes on both your wages and business earnings. In 2016, however, if your wages are \$78,000, and you have \$40,700 in net earnings from a business, you don't pay dual Social Security taxes on earnings more than \$118,500. Your employer will withhold 7.65 percent in Social Security and Medicare taxes on your \$78,000 in earnings. You must pay 15.3 percent in Social Security and Medicare taxes on your first \$40,500 in self-employment earnings and 2.9 percent in Medicare tax on the remaining \$200 in net earnings.

Work credits

You must have worked and paid Social Security taxes for a certain length of time to get Social Security benefits. The amount of time you need to work depends on your date of birth, but no one needs more than 10 years of work (40 credits).

In 2016, if your net earnings are \$5,040 or more, you earn the yearly maximum of four credits—one credit for each \$1,260 of earnings during the year. If your net earnings are less than \$5,040, you still may earn credit by using the optional method described later in this fact sheet.

We use all your earnings covered by Social Security to figure your Social Security benefit, so, report all earnings up to the maximum, as required by law.

Figuring your net earnings

Net earnings for Social Security are your gross earnings from your trade or business, minus your allowable business deductions and depreciation.

Some income doesn't count for Social Security and shouldn't be included in figuring your net earnings:

- Dividends from shares of stock and interest on bonds, unless you receive them as a dealer in stocks and securities;
- Interest from loans, unless your business is lending money;

(over)

- Rentals from real estate, unless you're a real estate dealer or regularly provide services mostly for the convenience of the occupant; or
- Income received from a limited partnership.

Optional method

If your actual net earnings are less than \$400, your earnings can still count for Social Security under an optional method of reporting. You can use the optional method when you have income from farming, non-farm income, or a combination from both. You can use the optional method only five times in your life when reporting non-farm income. There is no limit on using the optional method of reporting farm income. Here is how it works:

- If your gross income from farm self-employment was not more than \$7,560, or your net farm profits were less than \$5,457, you may report the smaller of two-thirds (2/3) of gross farm income (not less than 0) or \$5,040; or
- If your net income from non-farm self-employment is less than \$5,457 and also less than 72.189% of your gross non-farm income, and you had net earnings from self-employment of at least \$400 in 2 of the prior 3 years.
- You can use both the farm and non-farm methods of reporting, and can report less than your total actual net earnings from farm and non-farm self-employment, but you can't report less than your actual net earnings from non-farm self-employment alone. If you use both methods to figure net earnings, you can't report more than \$5,040.

Special note: *If you're a farmer, you can use the optional reporting method every year. Having actual net earnings of at least \$400 in a preceding year isn't necessary. Also, other gross farm profit, net farm and non-farm profit amounts may change each year.*

IRS Publication 334, *Tax Guide for Small Business*, and IRS Schedule SE and Instructions have additional helpful information. You can find them at www.irs.gov or call 1-800-829-4933.

How to report earnings

You must complete the following federal tax forms by April 15, after any year in which you have net earnings of \$400 or more:

- Form 1040 (*U.S. Individual Income Tax Return*);
- Schedule C (*Profit or Loss from Business*) or Schedule F (*Profit or Loss from Farming*) as appropriate; and
- Schedule SE (*Self-Employment Tax*).

You can get these forms from the IRS on their website at www.irs.gov. Send the tax return and schedules, along with your self-employment tax, to the IRS.

Even if you don't owe any income tax, you must complete Form 1040 and Schedule SE to pay self-employment Social Security tax. This is true even if you already get Social Security benefits.

Family business arrangements

Family members may operate a business together. For example, a husband and a wife may be partners or run a joint venture. If you operate a business together as partners, you should each report your share of the business profits as net earnings on separate self-employment returns (Schedule SE), even if you file a joint income tax return. The partners must decide the amount of net earnings each should report (for example 50 percent and 50 percent). Also, a husband and wife who both materially participate in a jointly owned business, and file a joint return, can make an election to be taxed as a qualified joint venture instead of a partnership. Each must file a separate Schedule C or C-EZ.

Contacting Social Security

Visit www.socialsecurity.gov anytime to apply for benefits, open a **my Social Security** account, find publications, and get answers to frequently asked questions. Or, call us toll-free at **1-800-772-1213** (for the deaf or hard of hearing, call our TTY number, **1-800-325-0778**). We can answer case-specific questions from 7 a.m. to 7 p.m., Monday through Friday. Generally, you'll have a shorter wait time if you call after Tuesday. We treat all calls confidentially. We also want to make sure you receive accurate and courteous service, so a second Social Security representative monitors some telephone calls. We can provide general information by automated phone service 24 hours a day. And, remember, our website, www.socialsecurity.gov, is available to you anytime and anywhere!



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