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Self-Employment Tax

For use in preparing
2004 Returns



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What's New

Tax rates and maximum net earnings. The self-employment tax rate on net earnings remains the same for 2004 and 2005. This rate, 15.3%, is a total of 12.4% for social security (old-age, survivors, and disability insurance) and 2.9% for Medicare (hospital insurance).

The maximum amount subject to the social security part for tax years beginning in 2004 is \$87,900. For 2005, that amount increases to \$90,000. All net earnings of at least \$400 are subject to the Medicare part.

Reminder

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

The purpose of this publication is to help you understand self-employment tax. It explains:

- What is self-employment tax,
- Why you pay it,
- How you pay it,
- Who must pay it, and
- How to report it on your tax return.

How to use this publication. This publication is designed to be used with Schedule SE (Form 1040) and its instructions. Schedule SE is used to figure and report self-employment tax. This publication may help you if you need more information than the form or instructions provide.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can write to us at the following address:

Internal Revenue Service
Business Forms and Publications Branch
SE:W:CAR:MP:T:B
1111 Constitution Ave. NW
Washington, DC 20224

We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

You can email us at [*taxforms@irs.gov](mailto:taxforms@irs.gov). (The asterisk must be included in the address.) Please put "Publications Comment" on the subject line. Although we cannot respond individually to each email, we do appreciate your feedback and will consider your comments as we revise our tax products.

Tax questions. If you have a tax question, visit www.irs.gov or call 1-800-829-1040. We cannot answer tax questions at either of the addresses listed above.

Ordering forms and publications. Visit www.irs.gov/formspubs to download forms and publications, call 1-800-829-3676, or write to one of the three addresses shown under *How To Get Tax Help* in the back of this publication.

Useful Items

You may want to see:

Publication

- 15** (Circular E), Employer's Tax Guide
- 15-A** Employer's Supplemental Tax Guide
- 225** Farmer's Tax Guide
- 334** Tax Guide for Small Business
- 505** Tax Withholding and Estimated Tax
- 517** Social Security and Other Information for Members of the Clergy and Religious Workers
- 541** Partnerships
- 595** Tax Highlights for Commercial Fishermen
- 911** Direct Sellers

Form (and Instructions)

- 1040** U.S. Individual Income Tax Return
- Sch C (Form 1040)** Profit or Loss From Business

- Sch C-EZ (Form 1040)** Net Profit From Business
- Sch F (Form 1040)** Profit or Loss From Farming
- Sch K-1 (Form 1065)** Partner's Share of Income, Deductions, Credits, etc.
- Sch K-1 (Form 1065-B)** Partner's Share of Income (Loss) From an Electing Large Partnership
- Sch SE (Form 1040)** Self-Employment Tax
- 4029** Application for Exemption From Social Security and Medicare Taxes and Waiver of Benefits
- 4361** Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners

See *How To Get Tax Help* near the end of this publication for information about getting publications and forms.

What Is Self-Employment Tax?

Self-employment tax (SE tax) is a social security and Medicare tax primarily for individuals who work for themselves. It is similar to the social security and Medicare taxes withheld from the pay of most wage earners.

You figure SE tax yourself using Schedule SE (Form 1040). Social security and Medicare taxes of most wage earners are figured by their employers. Also, you can deduct half of your SE tax in figuring your adjusted gross income. Wage earners cannot deduct social security and Medicare taxes.

SE tax rate. The self-employment tax rate is 15.3%. The rate consists of two parts: 12.4% for social security (old-age, survivors, and disability insurance) and 2.9% for Medicare (hospital insurance).

Maximum earnings subject to SE tax. Only the first \$87,900 of your combined wages, tips, and net earnings in 2004 is subject to any combination of the 12.4% social security part of SE tax, social security tax, or railroad retirement (tier 1) tax.

All your combined wages, tips, and net earnings in 2004 are subject to the 2.9% Medicare part of SE tax.

Fiscal year filer. If you use a tax year other than the calendar year, you must use the tax rate and maximum earnings limit in effect at the beginning of your tax year. Even if the tax rate or maximum earnings limit changes during your tax year, continue to use the same rate and limit throughout your tax year.

Self-employment tax deduction. You can deduct half of your SE tax in figuring your adjusted gross income. This deduction only affects your income tax. It does not affect either your net earnings from self-employment or your SE tax.

To deduct the tax, enter on Form 1040, line 30, the amount shown on the Deduction for one-half of self-employment tax line of the Schedule SE.

Why Pay Self-Employment Tax?

Social security benefits are available to self-employed persons just as they are to wage earners. Your payments of SE tax contribute to your coverage under the social security system. Social security coverage provides you with retirement benefits, disability benefits, survivor benefits, and hospital insurance (Medicare) benefits.



By not reporting all your self-employment income, you could cause your social security benefits to be lower when you retire.

How to become insured under social security. You must be insured under the social security system before you begin receiving social security benefits. You are insured if you have the required number of credits (also called quarters of coverage). It does not matter whether the income is earned in one quarter or is spread over two or more quarters.

Earning credits in 2004 and 2005. You can earn a maximum of four credits per year. For 2004, you earn one credit for each \$900 (\$920 for 2005) of income subject to social security taxes. You need \$3,600 ($\900×4) of self-employment income and wages to earn four credits in 2004. For 2005, you will need \$3,680 ($\920×4) of self-employment income and wages to earn four credits.

For an explanation of the number of credits you must have to be insured and the benefits available to you and your family under the social security program, consult your nearest Social Security Administration (SSA) office.



Making false statements to get or to increase social security benefits may subject you to penalties.

The Social Security Administration (SSA) time limit for posting self-employment income. Generally, the SSA will give you credit only for self-employment income reported on a tax return filed within 3 years, 3 months, and 15 days after the tax year you earned the income. If you file your tax return or report a change in your self-employment income after this time limit, the SSA may change its records, but only to remove or reduce the amount. The SSA will not change its records to increase your self-employment income.

How To Pay Self-Employment Tax

To pay SE tax, you must have a social security number (SSN) or an individual taxpayer identification number (ITIN). This section explains how to:

- Obtain an SSN or ITIN, and
- Pay your SE tax using estimated tax.



An ITIN does not entitle you to social security benefits.

Obtaining a Social Security Number

If you never had an SSN, apply for one using Form SS-5, Application for a Social Security Card. The application is also available in Spanish. You can get this form at any Social Security office or by calling 1-800-772-1213.



You can also download Form SS-5 from the Social Security Administration website at www.socialsecurity.gov.

If you already have a social security number, you must use that number. Do not apply for a new one.

Replacing a lost social security card. If you have a number but lost your card, file Form SS-5. You will get a new card showing your original number, not a new number.

Name change. If your name has changed since you received your social security card, complete Form SS-5 to report the name change.

Obtaining an Individual Taxpayer Identification Number

The IRS will issue you an ITIN if you are a nonresident or resident alien and you do not have and are not eligible to get an SSN. To apply for an ITIN, file Form W-7, Application for IRS Individual Taxpayer Identification Number. The application is also available in Spanish. You can get this form by calling 1-800-829-3676.



You can also download Form W-7 from the IRS website at www.irs.gov.

Paying Estimated Tax

Estimated tax is the method used to pay tax (including SE tax) on income not subject to withholding. You generally have to make estimated tax payments if you expect to owe tax, including SE tax, of \$1,000 or more when you file your return. Use Form 1040-ES, Estimated Tax for Individuals, to figure and pay the tax.

How to avoid paying estimated tax. If you are self-employed and you are also an employee, you may be able to avoid paying estimated tax by having your employer increase the income tax taken out of your pay. Use Form W-4, Employee's Withholding Allowance Certificate, to increase your withholding.

Penalty for underpayment of estimated tax. You may have to pay a penalty if you do not pay enough estimated tax by its due date.

More information. For more information on estimated tax, including information on how to pay electronically, see Publication 505.

Who Must Pay Self-Employment Tax?

Generally, you must pay SE tax and file Schedule SE (Form 1040) if your net earnings from self-employment tax were \$400 or more. Use Schedule SE to figure net earnings from self-employment.



The SE tax rules apply no matter how old you are and even if you are already receiving social security and Medicare benefits.

Special Rules and Exceptions

Aliens. Resident aliens are generally subject to the same rules that apply to U.S. citizens. Nonresident aliens are not subject to SE tax. Residents of the Virgin Islands, Puerto Rico, Guam, the Commonwealth of the Northern Mariana Islands, or American Samoa, however, are subject to the tax. For SE tax purposes, they are not nonresident aliens. For more information on aliens, see Publication 519, U.S. Tax Guide for Aliens.

Church employee. If you work for a church or a qualified church-controlled organization (other than as a minister or member of a religious order) that elected an exemption from social security and Medicare taxes, you are subject to SE tax if you receive \$108.28 or more in wages from the church or organization.

However, you may qualify for an exemption from the SE tax if you are a member of a recognized religious group. See *Member of Recognized Religious Group*, later.

State or local government employee. You are subject to SE tax if you are an employee of a state or local government, are paid solely on a fee basis, and your services are not covered under a federal-state social security agreement.

Foreign government or international organization employee. You are subject to SE tax if both the following conditions are true.

1. You are a U.S. citizen employed in the United States, Puerto Rico, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, or the Virgin Islands by:
 - a. A foreign government,
 - b. A wholly-owned instrumentality of a foreign government, or
 - c. An international organization.
2. Your employer is not required to withhold social security and Medicare taxes from your wages.

U.S. citizen or resident alien residing abroad. 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. Do

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 double taxation under two social security systems. (See *Table 1*.) Under these agreements, you generally must only pay social security and Medicare taxes to the country you live in. The country to which you must pay the tax will issue a certificate which serves as proof of exemption from social security tax in the other country.

Table 1. Countries With Social Security Agreements

The following countries have social security agreements with the United States.

- | | |
|-------------|----------------------|
| • Australia | • Italy |
| • Austria | • Luxembourg |
| • Belgium | • The Netherlands |
| • Canada | • Norway |
| • Chile | • Portugal |
| • Finland | • South Korea |
| • France | • Spain |
| • Germany | • Sweden |
| • Greece | • Switzerland |
| • Ireland | • The United Kingdom |

More information. For more information, contact the social security agency of the country in which you are living, visit the United States Social Security Administration (SSA) website at www.socialsecurity.gov/international, call the SSA Office of International Programs at (410) 965-4538 or (410) 965-0377, or write to:

Social Security Administration
Office of International Programs
P.O. Box 17741
Baltimore, MD 21235-7741

Are You Self-Employed?

You are self-employed if any of the following apply to you.

- You carry on a trade or business as a sole proprietor or an independent contractor.
- You are a member of a partnership that carries on a trade or business.
- You are otherwise in business for yourself.

Trade or business. A trade or business is generally an activity carried on for a livelihood or in good faith to make a profit. The facts and circumstances of each case determine whether or not an activity is a trade or business. The regularity of activities and transactions and the production of income are important elements. You do not need to actually make a profit to be in a trade or business as long as you have a profit motive. You do need, however, to

make ongoing efforts to further the interests of your business.

Part-time business. You do not have to carry on regular full-time business activities to be self-employed. Having a part-time business in addition to your regular job or business also may be self-employment.

Example. You are employed full time as an engineer at the local plant. You fix televisions and radios during the weekends. You have your own shop, equipment, and tools. You get your customers from advertising and word-of-mouth. You are self-employed as the owner of a part-time repair shop.

Sole proprietor. You are a sole proprietor if you own an unincorporated business by yourself, in most cases. If you are the sole member of a domestic limited liability company (LLC), you are a sole proprietor unless you elect to treat the LLC as a corporation. For more information on this election, see Form 8832, Entity Classification Election.

Independent contractor. People such as doctors, dentists, veterinarians, lawyers, accountants, contractors, subcontractors, public stenographers, or auctioneers who are in an independent trade, business, or profession in which they offer their services to the general public are generally independent contractors. However, whether these people are independent contractors or employees depends on the facts in each case. The general rule is that an individual is an independent contractor if the payer has the right to control or direct only the result of the work and not how it will be done. The earnings of a person who is working as an independent contractor are subject to SE tax.

You are not an independent contractor if you perform services that can be controlled by an employer (what will be done and how it will be done). This applies even if you are given freedom of action. What matters is that the employer has the legal right to control the details of how the services are performed.

For more information on determining whether you are an independent contractor or an employee, see Publication 15-A.

Guidelines for Selected Occupations

This section provides information to help you determine whether your earnings from one of the following occupations are subject to SE tax.

- Retired or former insurance agent.
- Fishing crew member.
- Newspaper carrier or distributor.
- Newspaper or magazine vendor.
- Notary public.
- Public official.
- Real estate agent or direct seller.
- Dealer in securities.

- Executor or administrator.
- Minister, Christian Science practitioner, or member of religious order.
- Member of recognized religious group.
- Trader in securities.

Retired Insurance Agent

Income paid by an insurance company to a retired self-employed insurance agent based on a percentage of commissions received before retirement is subject to SE tax. Also, renewal commissions and deferred commissions for sales made before retirement are generally subject to SE tax.

However, renewal commissions paid to the survivor of an insurance agent are not subject to SE tax.

Former Insurance Agent

Termination payments you receive as a former self-employed insurance agent from an insurance company because of services you performed for that company are exempt from SE tax if all the following conditions are met.

- You received payments after your agreement to perform services for the company ended.
- You did not perform any services for the company after your service agreement ended and before the end of the year in which you received the payment.
- You entered into a covenant not to compete against the company for at least a 1-year period beginning on the date your service agreement ended.
- The amount of the payments depended primarily on policies sold by you or credited to your account during the last year of your service agreement or the extent to which those policies remain in force for some period after your service agreement ended, or both.
- The amount of the payment did not depend to any extent on length of service or overall earnings from services performed for the company (regardless of whether eligibility for the payments depended on length of service).

Fishing Crew Member

If you are a member of the crew on a boat that catches fish or other water life, your earnings are subject to SE tax if all the following conditions apply.

1. You do not get any pay for the work except your share of the catch or a share of the proceeds from the sale of the catch, unless the pay meets all the following conditions.
 - a. The pay is not more than \$100 per trip.
 - b. The pay is received only if there is a minimum catch.

- c. The pay is solely for additional duties (such as those as mate, engineer, or cook) for which additional cash pay is traditional in the fishing industry.
2. You get a share of the catch or a share of the proceeds from the sale of the catch.
 3. Your share depends on the amount of the catch.
 4. The boat's operating crew normally numbers fewer than 10 individuals. (An operating crew is considered as normally made up of fewer than 10 if the average size of the crew on trips made during the last four calendar quarters is fewer than 10.)

You are not subject to SE tax if you are under age 18 and you are working for your father or mother.

For more information about commercial fishing, see Publication 595.

Newspaper Carrier or Distributor

You are a direct seller and your earnings are subject to SE tax if all the following conditions apply.

- You are in the business of delivering or distributing newspapers or shopping news (including directly related services such as soliciting customers and collecting receipts).
- Substantially all your pay for these services directly relates to your sales or other output rather than to the number of hours you work.
- You perform the services under a written contract that says you will not be treated as an employee for federal tax purposes.

This rule applies whether or not you hire others to help you make deliveries. It also applies whether you buy the papers from the publisher or are paid based on the number of papers you deliver.

For more information about direct sellers, see Publication 911.

Newspaper or Magazine Vendor

If you are 18 or older and you sell newspapers or magazines, your earnings are subject to SE tax if all the following conditions apply.

- You sell newspapers or magazines to ultimate consumers.
- You sell them at a fixed price.
- Your earnings are based on the difference between the sales price and your cost of goods sold.

This rule applies whether or not you are guaranteed a minimum amount of earnings. It also applies whether or not you receive credit for unsold newspapers or magazines you return to your supplier.

Notary Public

Fees you receive for services you perform as a notary public are not subject to SE tax.

Public Official

Public officials generally are not subject to SE tax on what they earn for serving in public office. This rule applies to payments received by an elected tax collector from state funds on the basis of a fixed percentage of the taxes collected. Public office includes any elective or appointive office of the United States or its possessions, the District of Columbia, a state or its political subdivisions, or a wholly owned instrumentality of any of these.

Exception. Public officials of state or local governments are subject to SE tax on their fees if they are paid solely on a fee basis and if their services are eligible for, but not covered by, social security under a federal-state agreement.

Real Estate Agent or Direct Seller

If you are a licensed real estate agent or a direct seller, your earnings may be subject to SE tax if both the following apply.

- Substantially all your pay for services as a real estate agent or direct seller directly relates to your sales or other output rather than to the number of hours you work.
- You perform the services under a written contract that says you will not be treated as an employee for federal tax purposes.

For more information about direct sellers, see Publication 911.

Dealer in Securities

If you are a dealer in options or commodities, your gains and losses from dealing or trading in section 1256 contracts (regulated futures contracts, foreign currency contracts, nonequity options, dealer equity options, and dealer securities futures contracts) or property related to those contracts (such as stock used to hedge options) are subject to SE tax. For more information, see sections 1256 and 1402(i) of the Internal Revenue Code.

Executor or Administrator

If you administer a deceased person's estate, your fees are subject to SE tax if you are one of the following.

1. A professional fiduciary.
2. A nonprofessional fiduciary (personal representative) and both of the following conditions apply.

- a. The estate includes an active trade or business in which you actively participate.
 - b. Your fees are related to the operation of that trade or business.
3. A nonprofessional fiduciary of a single estate that requires extensive managerial activities on your part for a long period of time, provided these activities are enough to be considered a trade or business.

Report fees that are subject to SE tax on Schedule C or C-EZ (Form 1040). If the fees are not subject to SE tax, report them on line 21 of Form 1040.

Minister, Christian Science Practitioner, or Member of Religious Order

You generally are subject to SE tax on earnings for services you perform as a minister, Christian Science practitioner, or member of a religious order who has not taken a vow of poverty. But you can get an exemption from SE tax on certain earnings by filing Form 4361.

For more information, see Publication 517.

Member of religious order who has taken a vow of poverty. If you belong to a religious order and took a vow of poverty, you are not subject to SE tax on your earnings for performing duties required by the order.

Member of Recognized Religious Group

If you belong to a recognized religious group opposed to insurance, you may qualify for an exemption from the SE tax. To qualify, you must be conscientiously opposed to accepting the benefits of any public or private insurance that makes payments because of death, disability, old age, retirement, or medical care, or that provides services for medical care. If you buy a retirement annuity from an insurance company, you will not be eligible for this exemption. Religious opposition based on group teachings is the only legal basis for the exemption. In addition, your religious group (or division) must have existed since December 31, 1950.

To get the exemption, you must file in triplicate Form 4029 and waive all social security benefits.

Trader in Securities

You are a trader in securities if you are engaged in the business of buying and selling securities for your own account. As a trader in securities, your gain or loss from the disposition of securities is not subject to SE tax. However, see *Dealer in Securities*, earlier, for an exception that applies to section 1256 contracts. For more information about traders in securities, see Publication 550, Investment Income and Expenses.

Figuring Earnings Subject to Self-Employment Tax

Sole proprietor or independent contractor. If you are self-employed as a sole proprietor or independent contractor (see *Are You Self-Employed*, earlier), use Schedule C or C-EZ (Form 1040) to figure your earnings subject to SE tax. For information about figuring earnings on Schedule C or C-EZ, see Publication 334. Commercial fishermen should also see Publication 595. Direct sellers should see Publication 911.

Farmer. If you are self-employed as a farmer, use Schedule F (Form 1040) to figure your earnings subject to SE tax. For information about figuring earnings on Schedule F, see Publication 225.

Partner. If you are self-employed as a member of a partnership, use information from your Schedule K-1 (Form 1065) or (Form 1065-B) to figure your earnings subject to SE tax. For more information, see *Partnership Income or Loss*, later.

Church employee. If you are a church employee who must pay SE tax (see *Who Must Pay Self-Employment Tax*, earlier), use information from your Form W-2 to figure your earnings subject to SE tax. For more information, see the Schedule SE instructions.

Minister, Christian Science practitioner, or member of religious order. If you are a minister, Christian Science practitioner, or member of a religious order who must pay SE tax (see *Minister, Christian Science Practitioner, or Member of Religious Order*, earlier), see Publication 517 for information about figuring your earnings subject to SE tax.

More Than One Business

If you have earnings subject to SE tax from more than one trade, business, or profession, you must combine the net profit (or loss) from each to determine your total earnings subject to SE tax. A loss from one business reduces your profit from another business.

Community Income

If any of the income from a trade or business, other than a partnership, is community income under state law, it is included in the earnings subject to SE tax of the spouse carrying on the trade or business.

Gain or Loss

Do not include in earnings subject to SE tax a gain or loss from the disposition of property that is neither stock in trade nor held primarily for sale to customers. It does not matter whether the disposition is a sale, exchange, or an involuntary conversion. For example, gains or losses from the

disposition of the following types of property are not included in earnings subject to SE tax.

- Investment property.
- Depreciable property or other fixed assets used in your trade or business.
- Livestock held for draft, breeding, sport, or dairy purposes, and not held primarily for sale, regardless of how long the livestock were held or whether they were raised or purchased.
- Unharvested standing crops sold with land held more than one year.
- Timber, coal, or iron ore held for more than one year if an economic interest was retained, such as a right to receive coal royalties.

A gain or loss from the cutting of timber is not included in earnings subject to SE tax if the cutting is treated as a sale or exchange. For more information on electing to treat the cutting of timber as a sale or exchange, see *Timber* in chapter 2 of Publication 544, *Sales and Other Dispositions of Assets*.

Lost Income Payments

If you are self-employed and reduce or stop your business activities, any payment you receive from insurance or other sources for the lost business income is included in earnings subject to SE tax. If you are not working when you receive the payment, it still relates to your business and is included in earnings subject to SE tax, even though your business is temporarily inactive.

If there is a connection between any payment you receive and your trade or business, the payment is included in earnings subject to SE tax. A connection exists if it is clear the payment would not have been made but for your conduct of the trade or business.

Partnership Income or Loss

If you are a member of a partnership that carries on a trade or business, the partnership should report your earnings subject to SE tax in box 14, code A, of your Schedule K-1 (Form 1065) or in box 9 of your Schedule K-1 (Form 1065-B).

If you are a general partner, you may need to reduce these reported earnings by amounts you claim as a section 179 deduction, unreimbursed partnership expenses, or depletion on oil and gas properties.

If the amount reported is a loss, include only the deductible amount when you figure your total earnings subject to SE tax.

For more information, see the Partner's Instructions for Schedule K-1. For general information on partnerships, see Publication 541.

Limited partner. If you are a limited partner, your partnership earnings are generally not subject to SE tax. However, guaranteed payments you receive for services you perform for the partnership are subject to SE tax and

should be reported to you in box 14, code A, of your Schedule K-1 (Form 1065) or in box 9 of your Schedule K-1 (Form 1065-B).

Retired partner. If you are a retired partner, retirement income you receive from the partnership under a written plan is not subject to SE tax if all the following apply.

- You receive lifelong periodic payments.
- Your share of the partnership capital was fully paid to you.
- You did not perform any services for the partnership during the year.
- You are owed nothing but the retirement payments by the partnership.

Husband and wife partners. You and your spouse may operate a business as a partnership. If you and your spouse operate a business as partners, report business income and expenses on Form 1065, U.S. Return of Partnership Income, and attach separate Schedules K-1 showing each partner's share of the earnings. Each spouse must report his or her share of partnership earnings on Form 1040 and file a separate Schedule SE (Form 1040) to report SE tax.

However, if your spouse is your employee, not your partner, you must withhold and pay social security and Medicare taxes for him or her. For more information about employment taxes, see Publication 15.

Investment club partner. If you are a member of an investment club partnership, your share of the club's earnings is not included in earnings subject to SE tax if the club limits its activities to the following activities.

- Investing in savings certificates, stock, or securities.
- Collecting interest or dividends for its members' accounts.

Community income from a partnership. If you are a partner and your distributive share of any income or loss from a trade or business carried on by the partnership is community income, treat your share as your earnings subject to SE tax. Do not treat any of your share as earnings of your spouse.

Different tax years. If your tax year is not the same as your partnership's, report your share of partnership income (or loss) on your return for the year that includes the end of the partnership tax year.

Example. You file your return on a calendar year basis, but your partnership uses the fiscal year ending January 31. You must include on your return for calendar year 2004 your partnership earnings subject to SE tax for the fiscal year ending January 31, 2004.

Death of a partner. When a partner dies, his or her partnership earnings subject to SE tax are figured through the end of the month in which the death occurs. This is true even though the decedent's estate or heirs may succeed to

rights in the partnership. The partnership earnings subject to SE tax for the year are treated as though they were earned in equal amounts each month.

Example. ABC Partnership operates a business. Its tax year ends on December 31. A partner dies on August 18. The deceased partner's (and his or her estate's) partnership earnings subject to SE tax for the year of death are \$12,000. That partner's SE income from the partnership is \$8,000 ($\frac{8}{12} \times \$12,000$).

Corporate Director, Employee, or Shareholder

This section provides information to help you determine whether your earnings are subject to SE tax if you are one of the following.

- A corporate director.
- A corporate employee or officer.
- A shareholder or officer of an S corporation.

Corporate director. Fees you receive for performing services as a director of a corporation are subject to SE tax. It does not matter whether the fees are for going to directors' meetings or for serving on committees.

Corporate employee or officer. Even if you own most or all of the stock of a corporation, your income as an employee or officer of the corporation is not subject to SE tax.

S corporation shareholder and officer. If you are a shareholder in an S corporation, your share of the corporation's earnings are not subject to SE tax, even though you include them in your gross income for income tax purposes.

If you are an officer of an S corporation and perform substantial services, you are an employee of the S corporation. Your payment for services is subject to withholding of social security and Medicare taxes and is not subject to SE tax, regardless of what the S corporation calls the payments.

Real Estate Rent

Rental income from real estate and personal property leased with real estate is not included in earnings subject to SE tax unless either of the following applies to you.

- You are a real estate dealer.
- You provide services for your tenants.

Real estate dealer. You are a real estate dealer if you are engaged in the business of selling real estate to customers with the purpose of making a profit from those sales. Rent you receive from real estate held for sale to customers is

subject to SE tax. However, rent you receive from real estate held for speculation or investment is not subject to SE tax.

Trailer park owner. Rental income from a trailer park is subject to SE tax if you are a self-employed trailer park owner who provides trailer lots and facilities and substantial services for the convenience of your tenants.

You generally are considered to provide substantial services for tenants if they are primarily for the tenants' convenience and normally are not provided to maintain the lots in a condition for occupancy. Services are substantial if the compensation for the services makes up a material part of the tenants' rental payments.

Examples of services that are not normally provided for the tenants' convenience include supervising and maintaining a recreational hall provided by the park, distributing a monthly newsletter to tenants, operating a laundry facility, and helping tenants buy or sell their trailers.

Examples of services that are normally provided to maintain the lots in a condition for tenant occupancy include city sewerage, electrical connections, and roadways.

Hotels, boarding houses, and apartments. Rental income you receive for the use or occupancy of hotels, boarding houses, or apartment houses is subject to SE tax if you provide services for the occupants.

Generally, you are considered to provide services for the occupants if the services are primarily for their convenience and are not services normally provided with the rental of rooms for occupancy only. An example of a service that is not normally provided for the convenience of the occupants is maid service. However, providing heat and light, cleaning stairways and lobbies, and collecting trash are services normally provided for the occupants' convenience.

U.S. Possession Self-Employment Income

If you have income from self-employment in a U.S. possession, include it in earnings subject to SE tax even if your U.S. possession income is exempt from U.S. income tax.

Places treated as U.S. possessions. The following places are treated as U.S. possessions.

- American Samoa
- The Commonwealth of the Northern Mariana Islands
- Guam
- Puerto Rico
- The Virgin Islands

Form to file. Use the following table to select the appropriate form to file to report your earnings subject to SE tax.

Table 2. Form To File

IF you ...	THEN you ...
Must file Form 1040	Report all of your earnings subject to SE tax on Schedule SE. This applies even if your possession income is not otherwise reported on Form 1040.
Do not have to file Form 1040	Use Form 1040-SS to report your earnings.
Are a resident of Puerto Rico	Can file Form 1040-PR instead of Form 1040-SS.

More information. For more information on income from U.S. possessions, see Publication 570, Tax Guide for Individuals With Income From U.S. Possessions.

Research Grant

If you receive payments under a research grant and perform services for the grantor as an independent contractor, the payments you receive are subject to SE tax.

For more information about whether you are an independent contractor, see *Independent contractor*, earlier.

Wages, Salaries, and Tips

Wages and salaries received for services performed as an employee and covered by social security or railroad retirement are not included in earnings subject to SE tax. Tips received for similar services as an employee also are not included in earnings subject to SE tax. Tips you receive as a self-employed person from your business for services you perform are subject to SE tax.

Methods for Figuring Net Earnings

There are three ways to figure your net earnings from self-employment.

1. The regular method.
2. The nonfarm optional method.
3. The farm optional method.

You must use the regular method unless you are eligible to use one or both of the optional methods. (See *Figure 1*.)

Why use an optional method? You may want to use the optional methods (discussed later) when you have a loss or a small net profit and any one of the following applies.

- You want to receive credit for social security benefit coverage.
- You incurred child or dependent care expenses for which you could claim a credit. (An optional method

may increase your earned income, which could increase your credit.)

- You are entitled to the earned income credit. (An optional method may increase your earned income, which could increase your credit.)
- You are entitled to the additional child tax credit. (An optional method may increase your earned income, which could increase your credit.)

Effects of using an optional method. Using an optional method could increase your SE tax. Paying more SE tax can result in your getting higher benefits when you retire.

If you use either or both optional methods, you must figure and pay the SE tax due under these methods even if you would have had a smaller tax or no tax using the regular method.

The optional methods may be used only to figure your SE tax. To figure your income tax, include your actual earnings in gross income, regardless of which method you use to determine SE tax.

Regular Method

Multiply your total earnings subject to SE tax by 92.35% (.9235) to get your net earnings under the regular method. See *Short Schedule SE*, line 4, or *Long Schedule SE*, line 4a.

Net earnings figured using the regular method are also called actual net earnings.

Nonfarm Optional Method

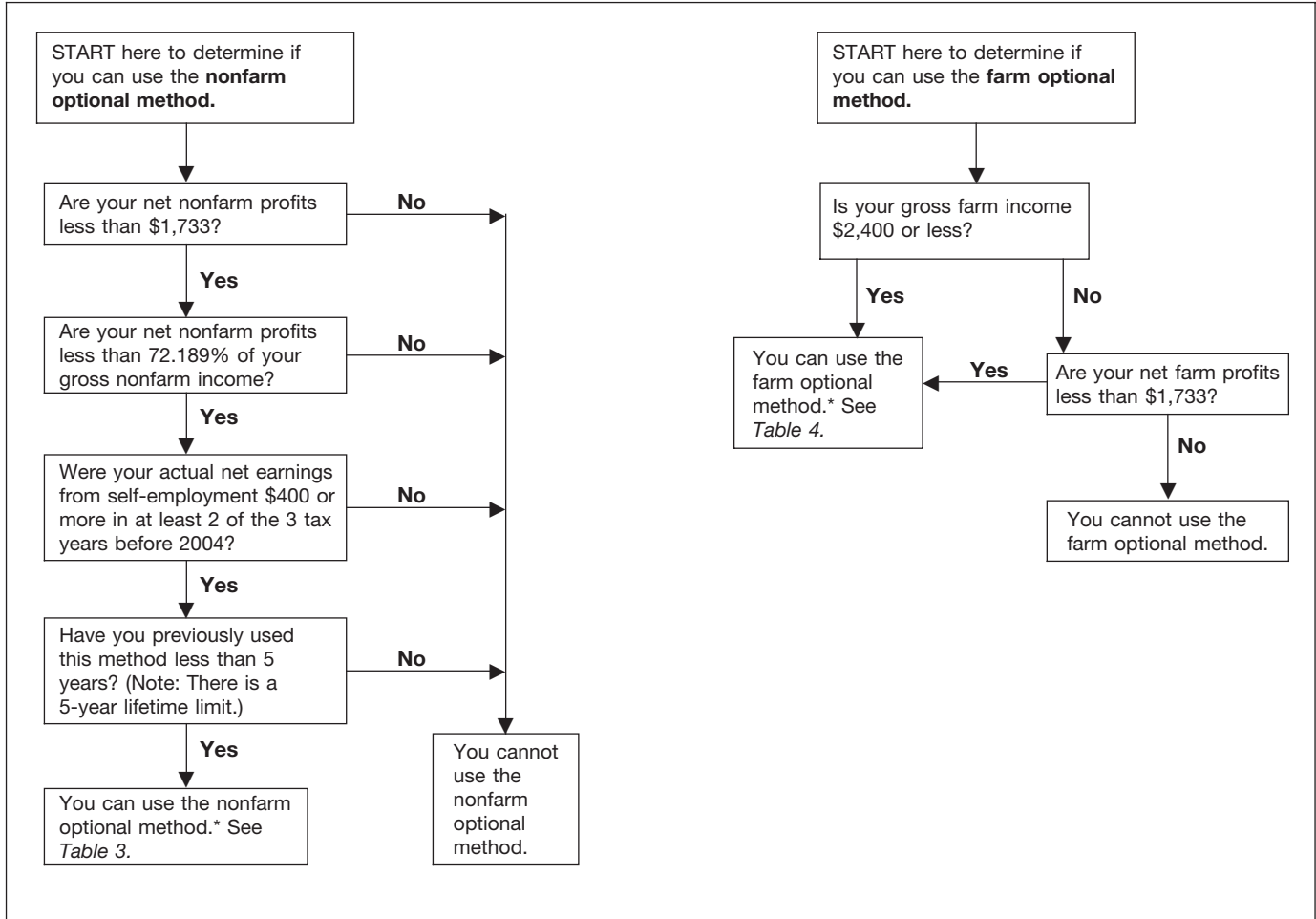
Use the nonfarm optional method only for earnings that do not come from farming. You may use this method if you meet all the following tests.

1. You are self-employed on a regular basis. This means that your actual net earnings from self-employment were \$400 or more in at least 2 of the 3 tax years before the one for which you use this method. The net earnings can be from either farm or nonfarm earnings or both.
2. You have used this method less than 5 years. (There is a 5-year lifetime limit.) The years do not have to be one after another.
3. Your net nonfarm profits were:
 - a. Less than \$1,733, and
 - b. Less than 72.189% of your gross nonfarm income.

Net nonfarm profits. Net nonfarm profits generally is the total of the amounts from:

- Line 31, Schedule C (Form 1040),
- Line 3, Schedule C-EZ (Form 1040),

Figure 1. Can I Use the Optional Methods?



* If you use both optional methods, see *Using Both Optional Methods* for limits on the amount to report.

- Box 14, code A, Schedule K-1 (Form 1065), (from nonfarm partnerships), and
- Box 9, code K1, Schedule K-1 (Form 1065-B).

However, you may need to adjust the amount reported on Schedule K-1 if you are a general partner or if it is a loss. For more information, see *Partnership Income or Loss*, earlier.

Gross nonfarm income. Your gross nonfarm income generally is the total of the amounts from:

- Line 7, Schedule C (Form 1040),
- Line 1, Schedule C-EZ (Form 1040),
- Box 14, code C, Schedule K-1 (Form 1065), (from nonfarm partnerships), and
- Box 9, code K2, Schedule K-1 (Form 1065-B).

Figuring Nonfarm Net Earnings

If you meet the three tests explained earlier, use the following table to figure your net earnings from self-employment under the nonfarm optional method.

Table 3. Figuring Nonfarm Net Earnings

IF your gross nonfarm income is ...	THEN your net earnings are equal to ...
\$2,400 or less	The greater of: <ul style="list-style-type: none"> • Two-thirds of your gross nonfarm income, or • Actual net earnings.*
More than \$2,400	The greater of: <ul style="list-style-type: none"> • \$1,600, or • Actual net earnings.*

* If actual net earnings (defined below) are greater, you cannot use the nonfarm optional method.

Actual net earnings. Your actual net earnings are 92.35% of your total earnings subject to SE tax (that is, multiply total earnings subject to SE tax by 92.35% (.9235) to get actual net earnings). Actual net earnings are equivalent to net earnings figured using the regular method.

Optional net earnings less than actual net earnings. You cannot use this method to report an amount less than your actual net earnings from self-employment.

Gross nonfarm income of \$2,400 or less. The following examples illustrate how to figure net earnings when gross nonfarm income is \$2,400 or less.

Example 1—net nonfarm profit less than \$1,733 and less than 72.189% of gross nonfarm income. Ann Green runs a craft business. Her actual net earnings from self-employment were \$800 in 2002 and \$900 in 2003. She meets the test for being self-employed on a regular basis. She has used the nonfarm optional method less than 5 years. Her gross income and net profit in 2004 are as follows:

Gross nonfarm income	\$2,100
Net nonfarm profit	\$1,200

Ann's actual net earnings for 2004 are \$1,108 ($\$1,200 \times .9235$). Because her net profit is less than \$1,733 and less than 72.189% of her gross income, she can use the nonfarm optional method to figure net earnings of \$1,400 ($\frac{2}{3} \times \$2,100$). Because these net earnings are higher than her actual net earnings, she can report net earnings of \$1,400 for 2004.

Example 2—net nonfarm profit less than \$1,733 but not less than 72.189% of gross nonfarm income. Assume that in Example 1 Ann's gross income is \$1,000 and her net profit is \$800. She must use the regular method to figure her net earnings. She cannot use the nonfarm optional method because her net profit is not less than 72.189% of her gross income.

Example 3—net loss from a nonfarm business. Assume that in Example 1 Ann has a net loss of \$700. She can use the nonfarm optional method and report \$1,400 ($\frac{2}{3} \times \$2,100$) as her net earnings.

Example 4—nonfarm net earnings less than \$400. Assume that in Example 1 Ann has gross income of \$525 and a net profit of \$175. In this situation, she would not pay any SE tax under either the regular method or the nonfarm optional method because her net earnings under both methods are less than \$400.

Gross nonfarm income of more than \$2,400. The following examples illustrate how to figure net earnings when gross nonfarm income is more than \$2,400.

Example 1—net nonfarm profit less than \$1,733 and less than 72.189% of gross nonfarm income. John White runs an appliance repair shop. His actual net earnings from self-employment were \$10,500 in 2002 and

\$9,500 in 2003. He meets the test for being self-employed on a regular basis. He has used the nonfarm optional method less than 5 years. His gross income and net profit in 2004 are as follows:

Gross nonfarm income	\$12,000
Net nonfarm profit	\$1,200

John's actual net earnings for 2004 are \$1,108 ($\$1,200 \times .9235$). Because his net profit is less than \$1,733 and less than 72.189% of his gross income, he can use the nonfarm optional method to figure net earnings of \$1,600. Because these net earnings are higher than his actual net earnings, he can report net earnings of \$1,600 for 2004.

Example 2—net nonfarm profit not less than \$1,733. Assume that in Example 1 John's net profit is \$1,800. He must use the regular method. He cannot use the nonfarm optional method because his net nonfarm profit is not less than \$1,733.

Example 3—net loss from a nonfarm business. Assume that in Example 1 John has a net loss of \$700. He can use the nonfarm optional method and report \$1,600 as his net earnings from self-employment.

Farm Optional Method

Use the farm optional method only for earnings from a farming business. You can use this method if you meet either of the following tests.

- Your gross farm income is \$2,400 or less.
- Your net farm profits are less than \$1,733.

Net farm profits. Net farm profits generally is the total of the amounts from:

- Line 36, Schedule F (Form 1040), and
- Box 14, code A, Schedule K-1 (Form 1065), (from farm partnerships).

However, you may need to adjust the amount reported on Schedule K-1 if you are a general partner or if it is a loss. For more information, see *Partnership Income or Loss*, earlier.

Gross farm income. Your gross farm income is the total of the amounts from:

- Line 11, Schedule F (Form 1040), and
- Box 14, code B, Schedule K-1 (Form 1065), (from farm partnerships).

Figuring Farm Net Earnings

If you meet either of the two tests explained earlier, use the following table to figure your net earnings from self-employment under the farm optional method.

Table 4. Figuring Farm Net Earnings

IF your gross farm income is ...	THEN your net earnings are equal to...
\$2,400 or less	Two-thirds of your gross farm income.
More than \$2,400	The greater of: <ul style="list-style-type: none"> • \$1,600, or • Actual net earnings.*

* If actual net earnings (defined below) are greater, you cannot use the farm optional method.

Actual net earnings. Your actual net earnings are 92.35% of your total earnings subject to SE tax (that is, multiply total earnings subject to SE tax by 92.35% (.9235) to get actual net earnings). Actual net earnings are equivalent to net earnings figured using the regular method.

Optional net earnings less than actual net earnings. If your gross farm income is \$2,400 or less and your farm net earnings are less than your actual net earnings, you can still use the farm optional method.

Example. Your actual net earnings from farm self-employment are \$425 and your net earnings figured under the farm optional method are \$390. You owe no SE tax if you use the optional method because your net earnings under the farm optional method are less than \$400.

Using Both Optional Methods

If you have both farm and nonfarm earnings, you may be able to use both optional methods to determine your net earnings from self-employment.

To figure your net earnings using both optional methods, you must:

- Figure your farm and nonfarm net earnings separately under each method. Do not combine farm earnings with nonfarm earnings to figure your net earnings under either method.
- Add the net earnings figured under each method to arrive at your total net earnings from self-employment.

You can report less than your total actual farm and nonfarm net earnings but not less than actual nonfarm net earnings. If you use both optional methods, you can report no more than \$1,600 as your combined net earnings from self-employment.

Example. You are a self-employed farmer. You also operate a retail grocery store. Your gross income, actual net earnings from self-employment, and optional farm and optional nonfarm net earnings from self-employment are shown in Table 5.

Table 5. Example—Farm and Nonfarm Earnings

Income and Earnings	Farm	Nonfarm
Gross income	\$1,200	\$1,500
Actual net earnings	\$900	\$500
Optional net earnings (2/3 of gross income)	\$800	\$1,000

Table 6 shows four methods or combinations of methods you can use to figure net earnings from self-employment using the farm and nonfarm gross income and actual net earnings shown in Table 5.

- Method 1—Using the regular method for both farm and nonfarm income.
- Method 2—Using the optional method for farm income and the regular method for nonfarm income.
- Method 3—Using the regular method for farm income and the optional method for nonfarm income.
- Method 4—Using the optional method for both farm and nonfarm income.

Note. Actual net earnings is the same as net earnings figured using the regular method.

Table 6. Example—Net Earnings

Net Earnings	1	2	3	4
Actual farm	\$ 900		\$ 900	
Optional farm		\$ 800		\$ 800
Actual nonfarm	\$ 500	\$ 500		
Optional nonfarm			\$1,000	\$1,000
Amount you can report:	\$1,400	\$1,300	\$1,900	\$1,600*

*Limited to \$1,600 because you used both optional methods.

Reporting Self-Employment Tax

Use Schedule SE (Form 1040) to figure and report your SE tax. Then enter the SE tax on line 57 of Form 1040 and attach Schedule SE to Form 1040.

Most taxpayers can use Section A—Short Schedule SE to figure their SE tax. However, certain taxpayers must use Section B—Long Schedule SE. Use the chart on page 1 of Schedule SE (reproduced later) to find out which one to use.



If you have to pay SE tax, you must file Form 1040 (with Schedule SE attached) even if you do not otherwise have to file a federal income tax return. However, see U.S. Possession Self-Employment Income, earlier.

Joint return. If you file a joint return, you cannot file a joint Schedule SE. This is true whether one spouse or both spouses have earnings subject to SE tax. If both of you have earnings subject to SE tax, each of you must complete a separate Schedule SE. However, if one spouse uses the Short Schedule SE and the other spouse has to use the Long Schedule SE, both can use the same form. Attach both schedules to the joint return. If you and your spouse operate a business as a partnership, see *Husband and wife partners*, earlier, under *Partnership Income or Loss*.

More than one business. If you have more than one trade or business, you must combine the net profit (or loss) from each business to figure your SE tax. A loss from one business will reduce your profit from another business. File one Schedule SE showing the earnings from self-employment, but file a separate Schedule C, C-EZ, or F for each business.

Example. You are the sole proprietor of two separate businesses. You operate a restaurant that made a net profit of \$25,000. You also have a cabinetmaking business that had a net loss of \$500. You file Schedule SE showing total earnings subject to SE tax of \$24,500. You must also file a Schedule C for each business—a Schedule C for the restaurant showing your net profit of \$25,000 and another Schedule C for the cabinetmaking business showing your net loss of \$500.

Filled-In Form Examples

The following examples illustrate the use of the short and long forms of Schedule SE (Form 1040).

Short Schedule SE Example

The following example shows how Susan J. Brown fills out Section A—Short Schedule SE.

Background

Susan J. Brown is the sole proprietor of a dress shop, Milady Fashions. She received no wages and she does not own any other business. Her husband has no ownership interest in her business. Her Schedule C (Form 1040) shows a net profit of \$35,100 in 2004.

Completing Schedule SE

Susan's completed Schedule SE with Short Schedule SE filled out is shown later.

The following table describes how Susan completes each line on her schedule.

Table 7. Completing Short Schedule SE

Line	Description
1	Susan has no farm income, so she leaves line 1 blank.
2	Susan enters the net profit from her Schedule C, \$35,100.
3	Susan has no farm income, so she enters the same amount on line 3, \$35,100.
4	Susan multiplies the \$35,100 by 92.35% (.9235) to get her net earnings and enters \$32,415.
5	Susan now figures her SE tax as follows: <ul style="list-style-type: none"> • She multiplies the \$32,415 on line 4 by 15.3% (.153), • She enters the result, \$4,960, on line 5 (this is the SE tax she owes), and • She also enters \$4,960 on line 57 of Form 1040 (not illustrated).
6	Susan multiplies \$4,960 (from line 5) by 50% (.5) and enters the result (\$2,480) on: <ul style="list-style-type: none"> • Line 6 of this schedule, and • Line 30 of Form 1040. This is the SE tax she can deduct.

If Susan Owned More Than One Business

If Susan were the sole proprietor of more than one business, she would have combined the profits and losses from all of them and completed a single Schedule SE.

If Susan Earned Wages

If, in addition to operating her dress shop, she had worked for wages and the total of her wages and her SE income was more than \$87,900, she would have filled out Long Schedule SE.

If Susan's Husband Had Income from Self-Employment

Susan's husband has no interest in her business and does not pay SE tax on this income. If her husband was a partner in the business or had other income subject to SE tax, he would file a separate Schedule SE.

**SCHEDULE SE
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Self-Employment Tax

▶ **Attach to Form 1040.** ▶ **See Instructions for Schedule SE (Form 1040).**

OMB No. 1545-0074

2004

Attachment
Sequence No. **17**

Name of person with **self-employment** income (as shown on Form 1040)
Susan J. Brown

Social security number of person
with **self-employment** income ▶

123 : 00 : 6789

Who Must File Schedule SE

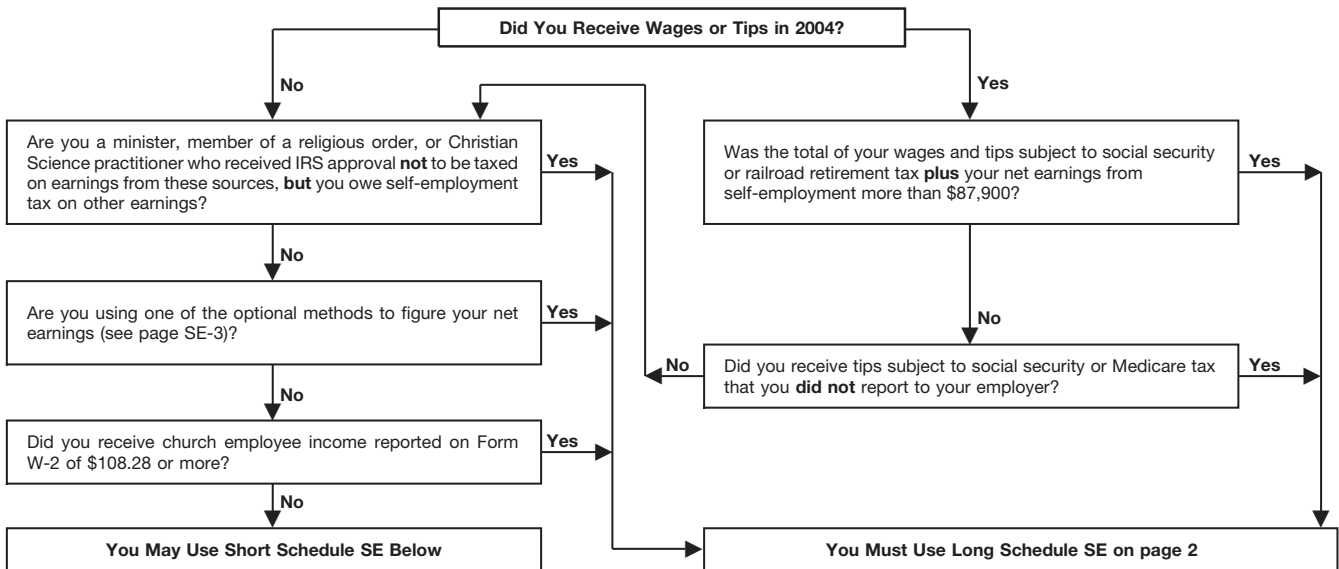
You must file Schedule SE if:

- You had net earnings from self-employment from **other than** church employee income (line 4 of Short Schedule SE or line 4c of Long Schedule SE) of \$400 or more **or**
- You had church employee income of \$108.28 or more. Income from services you performed as a minister or a member of a religious order **is not** church employee income (see page SE-1).

Note. Even if you had a loss or a small amount of income from self-employment, it may be to your benefit to file Schedule SE and use either "optional method" in Part II of Long Schedule SE (see page SE-3).

Exception. If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361 and received IRS approval not to be taxed on those earnings, **do not** file Schedule SE. Instead, write "Exempt-Form 4361" on Form 1040, line 57.

May I Use Short Schedule SE or Must I Use Long Schedule SE?



Section A—Short Schedule SE. Caution. Read above to see if you can use Short Schedule SE.

1	Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A		
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9. Ministers and members of religious orders, see page SE-1 for amounts to report on this line. See page SE-2 for other income to report	35,100	00
3	Combine lines 1 and 2	35,100	00
4	Net earnings from self-employment. Multiply line 3 by 92.35% (.9235). If less than \$400, do not file this schedule; you do not owe self-employment tax ▶	32,415	00
5	Self-employment tax. If the amount on line 4 is: <ul style="list-style-type: none"> • \$87,900 or less, multiply line 4 by 15.3% (.153). Enter the result here and on Form 1040, line 57. • More than \$87,900, multiply line 4 by 2.9% (.029). Then, add \$10,899.60 to the result. Enter the total here and on Form 1040, line 57. 	4,960	00
6	Deduction for one-half of self-employment tax. Multiply line 5 by 50% (.5). Enter the result here and on Form 1040, line 30	2,480	00

Long Schedule SE Example

The following example illustrates how John Clarke fills out Section B—Long Schedule SE.

Background

John Clarke is single. He is employed as a full-time history professor at a local university. His wages from this job were \$81,500. John also gives lectures around the country on a freelance basis. His net profit from these lectures was \$15,000, which he reported on Schedule C-EZ (Form 1040), (not shown).

His net profit from lecturing and his wages total more than \$87,900, so he must fill out Long Schedule SE.

Completing Schedule SE

John only needs to complete Part I of Long Schedule SE because he is not using an optional method.

John's completed Long Schedule SE is shown later. The following table describes how John completes each line.

Table 8. Completing Long Schedule SE

Line	Description
1	John has no farm income, so he leaves line 1 blank.
2	John enters the net profit from his Schedule C-EZ, \$15,000.
3	John has no farm income, so he enters the same amount on line 3, \$15,000.
4a	John multiplies the \$15,000 by 92.35% (.9235) to get his net earnings and enters \$13,853.
4b	John did not elect an optional method, so he leaves this line blank.
4c	Line 4b is blank, so he enters the same amount he entered on line 4a, \$13,853.
5a 5b	John had no church employee income. He leaves these lines blank.
6	Line 5b is blank, so John enters the same amount he entered on line 4c, \$13,853.
8a	John enters his total wages, \$81,500.
8b	This line does not apply to him, so John leaves it blank.
8c	Line 8b is blank, so he enters the same amount he entered on line 8a, \$81,500.
9	He subtracts line 8c (\$81,500) from line 7 and enters the result, \$6,400.
10	John multiplies the smaller of line 6 (\$13,853) or line 9 (\$6,400) by 12.4% (.124) and enters the result, \$794.
11	John multiplies line 6 (\$13,853) by 2.9% (.029) and enters the result, \$402.
12	John adds lines 10 and 11 and enters the total, \$1,196, here and on line 57 of Form 1040 (not illustrated).
13	John multiplies line 12 (his SE tax) by 50% (.5) and enters the result (\$598) on: <ul style="list-style-type: none"> • Line 13 of this schedule, and • Line 30 of Form 1040. This is the SE tax he can deduct.

Name of person with self-employment income (as shown on Form 1040) <p style="text-align: center;">John Clarke</p>	Social security number of person with self-employment income ▶ <p style="text-align: center;">379 00 9900</p>
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Section B—Long Schedule SE

Part I Self-Employment Tax

Note. If your only income subject to self-employment tax is **church employee income**, skip lines 1 through 4b. Enter -0- on line 4c and go to line 5a. Income from services you performed as a minister or a member of a religious order is **not** church employee income. See page SE-1.

A If you are a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361, but you had \$400 or more of **other** net earnings from self-employment, check here and continue with Part I. . . . ▶

1 Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A. Note. Skip this line if you use the farm optional method (see page SE-4)			
2 Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9. Ministers and members of religious orders, see page SE-1 for amounts to report on this line. See page SE-2 for other income to report. Note. Skip this line if you use the nonfarm optional method (see page SE-4)	15,000	00	
3 Combine lines 1 and 2	15,000	00	
4a If line 3 is more than zero, multiply line 3 by 92.35% (.9235). Otherwise, enter amount from line 3	13,853	00	
4b If you elect one or both of the optional methods, enter the total of lines 15 and 17 here . . .			
4c Combine lines 4a and 4b. If less than \$400, stop ; you do not owe self-employment tax. Exception. If less than \$400 and you had church employee income , enter -0- and continue. . . . ▶	13,853	00	
5a Enter your church employee income from Form W-2. See page SE-1 for definition of church employee income	5a		
5b Multiply line 5a by 92.35% (.9235). If less than \$100, enter -0-			
6 Net earnings from self-employment. Add lines 4c and 5b	13,853	00	
7 Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2004	87,900	00	
8a Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation. If \$87,900 or more, skip lines 8b through 10, and go to line 11	8a	81,500	00
8b Unreported tips subject to social security tax (from Form 4137, line 9)	8b		
8c Add lines 8a and 8b	81,500	00	
9 Subtract line 8c from line 7. If zero or less, enter -0- here and on line 10 and go to line 11 . ▶	6,400	00	
10 Multiply the smaller of line 6 or line 9 by 12.4% (.124)	794	00	
11 Multiply line 6 by 2.9% (.029)	402	00	
12 Self-employment tax. Add lines 10 and 11. Enter here and on Form 1040, line 57	1,196	00	
13 Deduction for one-half of self-employment tax. Multiply line 12 by 50% (.5). Enter the result here and on Form 1040, line 30	598	00	

Part II Optional Methods To Figure Net Earnings (see page SE-3)

Farm Optional Method. You may use this method only if (a) your gross farm income ¹ was not more than \$2,400 or (b) your net farm profits ² were less than \$1,733.			
14 Maximum income for optional methods	1,600	00	
15 Enter the smaller of: two-thirds (⅔) of gross farm income ¹ (not less than zero) or \$1,600. Also include this amount on line 4b above			
Nonfarm Optional Method. You may use this method only if (a) your net nonfarm profits ³ were less than \$1,733 and also less than 72.189% of your gross nonfarm income ⁴ and (b) you had net earnings from self-employment of at least \$400 in 2 of the prior 3 years.			
Caution. You may use this method no more than five times.			
16 Subtract line 15 from line 14	16		
17 Enter the smaller of: two-thirds (⅔) of gross nonfarm income ⁴ (not less than zero) or the amount on line 16. Also include this amount on line 4b above	17		

¹From Sch. F, line 11, and Sch. K-1 (Form 1065), box 14, code B.

³From Sch. C, line 31; Sch. C-EZ, line 3; Sch. K-1 (Form 1065), box 14, code A; and Sch. K-1 (Form 1065-B), box 9.

²From Sch. F, line 36, and Sch. K-1 (Form 1065), box 14, code A.

⁴From Sch. C, line 7; Sch. C-EZ, line 1; Sch. K-1 (Form 1065), box 14, code C; and Sch. K-1 (Form 1065-B), box 9.

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate independently represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate toll free at 1-877-777-4778.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call 1-800-829-4059 if you are a TTY/TDD user.
- Visit www.irs.gov/advocate.

For more information, see Publication 1546, The Taxpayer Advocate Service of the IRS—How To Get Help With Unresolved Tax Problems.

Free tax services. To find out what services are available, get Publication 910, IRS Guide to Free Tax Services. It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.



Internet. You can access the IRS website 24 hours a day, 7 days a week, at www.irs.gov:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2004 refund. Click on *Where's My Refund*. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2004 tax return available because you will need to know your filing status and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.

- Figure your withholding allowances using our Form W-4 calculator.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.



Fax. You can get over 100 of the most requested forms and instructions 24 hours a day, 7 days a week, by fax. Just call 703-368-9694 from the telephone connected to your fax machine. When you call, you will hear instructions on how to use the service. The items you request will be faxed to you.

For help with transmission problems, call 703-487-4608.

Long-distance charges may apply.



Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-829-3676 to order current-year forms, instructions, and publications and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call 1-800-829-4477 and press 2 to listen to pre-recorded messages covering various tax topics.
- *Refund information.* If you would like to check the status of your 2004 refund, call 1-800-829-4477 and press 1 for automated refund information or call 1-800-829-1954. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2004 tax return available because you will need to know your filing status and the exact whole dollar amount of your refund.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to sometimes listen in

on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.



Walk-in. Many products and services are available on a walk-in basis.

- **Products.** You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- **Services.** You can walk in to your local Taxpayer Assistance Center every business day to ask tax questions or get help with a tax problem. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. You can set up an appointment by calling your local Center and, at the prompt, leaving a message requesting Everyday Tax Solutions help. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.



Mail. You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 business days after your request is received. Use the address that applies to your part of the country.

- **Western part of U.S.:**
Western Area Distribution Center
Rancho Cordova, CA 95743-0001
- **Central part of U.S.:**
Central Area Distribution Center

P.O. Box 8903
Bloomington, IL 61702-8903

- **Eastern part of U.S. and foreign addresses:**
Eastern Area Distribution Center
P.O. Box 85074
Richmond, VA 23261-5074



CD-ROM for tax products. You can order Publication 1796, IRS Federal Tax Products CD-ROM, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms and instructions.
- Frequently requested tax forms that may be filled in electronically, printed out for submission, or saved for recordkeeping.
- Internal Revenue Bulletins.

Buy the CD-ROM from National Technical Information Service (NTIS) at www.irs.gov/cdorders for \$22 (no handling fee) or call 1-877-233-6767 toll free to buy the CD-ROM for \$22 (plus a \$5 handling fee). The first release is available in early January and the final release is available in late February.



CD-ROM for small businesses. Publication 3207, The Small Business Resource Guide, CD-ROM 2004, is a must for every small business owner or any taxpayer about to start a business. This handy, interactive CD contains all the business tax forms, instructions, and publications needed to successfully manage a business. In addition, the CD provides other helpful information, such as how to prepare a business plan, finding financing for your business, and much more. The design of the CD makes finding information easy and quick and incorporates file formats and browsers that can be run on virtually any desktop or laptop computer.

It is available in early April. You can get a free copy by calling 1-800-829-3676 or by visiting www.irs.gov/smallbiz.



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