

Sample Tax Return for a Beginning Small Farm with a Value-Added Business

*Guido van der Hoeven, Extension Specialist / Senior Lecturer
Department of Agricultural and Resource Economics, North Carolina State University*

2011 Schedule SE (Form 1040), Self-employment Tax

As explained in Part II, Optional Methods to Figure Net Earnings, of Schedule SE (Form 1040), farmers can use an optional method to calculate their self-employment tax for 2011 if their gross farm income was not more than \$6,720 or their net farm profits were less than \$4,851. I.M. elected the optional method because the tax benefits the Hopefulls realized from a \$396 increase in their child and dependent care credit (discussed later), a \$340 increase in the deductible part of self-employment taxes (discussed earlier), and a \$936 increase in their health insurance deduction (discussed earlier), as well as a potential increase in I.M.'s future social security benefits more than offset the \$590 increase in his self-employment tax. I.M. cannot elect the non-farm optional method for his meat business because he did not have at least \$400 of net earnings from self-employment in 2 of the past 3 years.

Part I Self Employment Tax

- Line 2: I.M. entered his \$48 loss from Schedule C (Form 1040) and carried it to lines 3 and 4a.
- Line 4b: I.M. entered his \$4,480 deemed net earnings from self-employment under the farm optional method.
- Line 4c: I.M. combined the negative \$48 on line 4a and the \$4,480 on line 4b and entered the \$4,432 result on line 4c and carried it to line 6.
- Line 7: The \$106,800 pre-entered on line 7 is the 2011 maximum amount of combined wages and self-employment earnings subject to social security tax.
- Line 8: I.M. entered the \$7,000 he received from the trucking company for January and February 2011 on lines 8a and 8d.

- Line 9: I.M. subtracted his \$7,000 of wages from the \$106,800 wage base and entered the \$99,800 difference.
- Line 10: I.M. multiplied the smaller of line 6 (\$4,432) or line 9 (\$99,800) by 10.4% and entered the \$461 result.
- Line 11: I.M. multiplied line 6 (\$4,432) by 2.9% and entered the \$129 result.
- Line 12: I.M. added lines 10 and 11 and entered the \$590 result.
- Line 13: I.M. calculated his \$340 income tax deduction by adding \$275 (59.6% of \$461) and \$65 (50% of \$129). He carried the \$340 to line 27 of Form 1040, discussed earlier.

Part II Optional Methods to Figure Net Earnings

- Line 14: The \$4,480 pre-entered on line 14 is the 2011 maximum net earnings for the farm optional method because I.M.'s net farm profits were less than \$4,851.
- Line 15: I.M. entered the smaller of his \$26,025 gross farm income multiplied by two-thirds ($2/3$), which is \$17,350 and the \$4,480 maximum deemed earned income.