



Qualifying for Social Security as a farmer or rancher



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For many Americans, Social Security makes up a sizable amount of their income in retirement. In 2018, 63 million Americans received approximately one trillion dollars in Social Security benefits, with a majority of those funds going to retired workers.¹ However, due to the way in which many farm operators utilize the tax code to adjust their income, many farmers run the risk of not qualifying for Social Security retirement benefits.

What does it take to be eligible for Social Security retirement benefits?

For any individual to qualify for Social Security retirement benefits, they must have either had a minimum amount of wages or net profit for a given year (or quarter). Individuals earn one credit per quarter in which a minimum required wage or net profit is achieved. For 2019, the minimum earnings per quarter are \$1,360.² Individuals are able to earn four credits per year, making the total minimum earnings equivalent to \$5,440 for 2019. To qualify for future benefits under Social Security, an individual must have earned 40 quarters (or, 10 years) of wages or net profits. If an individual does not have at least the 40 required earned credits, they will not be able to collect Social Security retirement benefits.

Your farm business structure matters

For those individuals that own and operate a farm as either a C-corporation or as an S-Corporation, it is highly likely they will already be paying themselves

wages. Any wages of \$1,360 per quarter (or, \$5,440 per year) will receive their max of four credits for benefit calculations. For those farmers that run their operation through an LLC or are filing their taxes as a sole proprietor under a Schedule F return, credits will be earned on net farm income. Net farm income in excess of \$5,440 per year will result in four credits being earned. However, farmers who utilize tax deductions and expenses that result in an income loss for the tax year (reported on a Schedule F IRS tax form) should be aware that this action will result in zero credits being earned for that tax year.

Who pays the Social Security tax is another key issue. Individuals employed by an employer will have 6.2%³ of their pay withheld for Social Security tax and 1.45%⁴ withheld for Medicare tax, the other half is paid by the employer. For many farmers, these two taxes will both be paid by the individual, generally referred to as self-employment tax, for a total of 15.3%. However, any wages above \$132,900⁵ will not be assessed the 12.4% tax and will only be subject to the additional Medicare taxes.

¹ I.R.C. § 212

² I.R.C. § 67

³ I.R.C. § 55

⁴ Treas. Reg. § 1.404(a)-3(d)

⁵ I.R.C. Sec. 72(e)(2)

Who pays the Social Security tax?

Payment of Social Security and Medicare taxes depends on how you report your taxable income. For farm owners, the net amount is the same, but may be reported differently depending whether they are paid as a combined self-employment tax or if the combined amount is split between the farm and each employee.



6.2% Social Security tax
1.45% Medicare tax



6.2% Social Security tax
1.45% Medicare tax



12.4% Social Security tax
2.9% Medicare tax



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° Based on an individual with full retirement age of 66, comparing early filing at age 62 and receiving reduced benefits of 75% of primary insurance amount versus delayed filing at age 70 and receiving credits to increase benefits by 32% of primary insurance amount.

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