Qualifying for Social Security as a farmer or rancher

By Ryan Patton, MBA
Nationwide Advanced Consulting Group

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. 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. 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% of their pay withheld for Social Security tax and 1.45% 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 $132,900 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

Get the most out of your Social Security benefits. Contact a Nationwide Advantage Direct Advisor today at 855-863-9636 to get started.

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.

This material is not a recommendation to buy, sell, hold or rollover any asset, adopt an investment strategy, retain a specific investment manager or use a particular account type. It does not take into account the specific investment objectives, tax and financial condition, or particular needs of any specific person. Investors should work with their financial professional to discuss their specific situation.

Federal income tax laws are complex and subject to change. The information in this paper is based on current interpretations of the law and is not guaranteed. Neither Nationwide, nor its employees, its agents, brokers or registered representatives gives legal or tax advice. You should consult an attorney or competent tax professional for answers to specific tax questions as they apply to your situation.