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## Farmers' Social Security

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FARMERS' SOCIAL SECURITY  
-Discussion Outline-  
Prepared by R. N. Weigle<sup>1/</sup>  
Department of Agricultural Economics

I. Effective dates of Social Security rules affecting farmers:

- A. January 1, 1955 - Farm operators and other farm workers included.
- B. January 1, 1956 - "Participating" landlords included.
- C. January 1, 1959 - About 7 percent increase in benefit payments and up to \$4800 instead of \$4200 earnings taxed and counted toward Social Security credit.
- D. 1961 Amendments to Social Security Act.

II. Types of benefits.

A. Retirement

- 1. Wage earners or self-employed persons.
- 2. Retired wage earner or self-employed person's dependents including:
  - (a) Wife 62 or older.
  - (b) Wife, regardless of age, caring for a child receiving payments based on worker's Social Security account.
  - (c) Unmarried children under 18 years of age.
  - (d) Unmarried children 18 or over who were severely disabled before reaching age 18 and have remained so since.
  - (e) Dependent husband 62 or over.

B. Disability

- 1. Benefits paid for disability are the same as those under II A above.

C. Death or survivors

- 1. Benefits paid for survivors include those under II A 2 above.
- 2. Dependent parents at age 62.
- 3. Divorced wife if, before worker's death, she is dependent on worker due to a court order or agreement and has in her care his child who is also entitled to payments.

D. Lump sum death payment

III. Amount of work required to qualify for benefits.

- A. Most retirement and survivors' benefits are payable if the wage earner or self-employed person has worked long enough in employment covered by Social Security. This requires not less than 1-1/2 years nor more than 10 years of credit. The exact number between these extremes varies with the wage earner or self-employed person's date of birth or date of death (see Table 1).
- B. For disability benefits, workers must have Social Security credit for at least 5 years of work in a 10-year period ending when they are disabled.

<sup>1/</sup> The assistance of Jack Kimpel and Fred Phillips of the Lafayette District Social Security Administration Office; R. H. Bauman, P. R. Robbins, and C. A. Sargent of the Department of Agricultural Economics; and J. P. Coleman, Area Management Agent is acknowledged.

- C. Survivors' benefits are also payable to widow with child under 18 or to a child under 18, if worker has Social Security credit for at least 1-1/2 years' work within the three years before he dies.

Table 1. Amount of Work Required for Most Retirement and Survivors' Benefits.

Worker who reaches 65 (62 for women) or dies	Will need credit for no more than this much work	Worker who reaches 65 (62 for women) or dies	Will need credit for no more than this much work
1957 or earlier	1-1/2	1967	4
1958	1-3/4	1968	4-1/4
1959	2	1969	4-1/2
1960	2-1/4	1970	4-3/4
1961	2-1/2	1971	5
1962	2-3/4	1975	6
1963	3	1979	7
1964	3-1/4	1983	8
1965	3-1/2	1987	9
1966	3-3/4	1991 or later	10

#### IV. What are the benefit amounts?

- A. Amount of benefit payments depends upon the worker's average earnings under Social Security.  
 B. Retirement payments are reduced if started before age 65.  
 C. See Table 2 for examples of monthly benefits at selected average yearly earning levels.

Table 2. Examples of Monthly Social Security Benefit Payments at Selected Average Yearly Earnings.

Benefits	Average yearly earnings after 1950 1/						
	\$800 or less	\$1800	\$2400	\$3000	\$3600	\$4200	\$4800 <sup>2/</sup>
MONTHLY RETIREMENT AND DISABILITY INSURANCE PAYMENTS							
Retirement at 65 or later or disability	\$40.00	\$73.00	\$84.00	\$95.00	\$105.00	\$116.00	\$127.00
Retirement at 64	37.40	68.20	78.40	88.70	98.00	108.30	118.60
Retirement at 63	34.70	63.30	72.80	82.40	91.00	100.60	110.10
Retirement at 62	32.00	58.40	67.20	76.00	84.00	92.80	101.60
Wife's benefit at 65 or with child in her care	20.00	36.50	42.00	47.50	52.50	58.00	63.50
Wife's benefit at 64	18.40	33.50	38.50	43.60	48.20	53.20	58.30
Wife's benefit at 63	16.70	30.50	35.00	39.60	43.80	48.40	53.00
Wife's benefit at 62	15.00	27.40	31.50	35.70	39.40	43.50	47.70
MONTHLY SURVIVORS' INSURANCE PAYMENTS							
Widow 62 or over	40.00	60.30	69.30	78.40	86.70	95.70	104.80
Widow under 62 and one child	60.00	109.60	126.00	142.60	157.60	174.00	190.60
Widow under 62 and two children	60.00	120.00	161.60	202.40	236.40	254.00	254.00
Widower, parent or one surviving child	40.00	54.80	63.00	71.30	78.80	87.00	95.30
Maximum family payment	60.00	120.00	161.60	202.40	240.00	254.00	254.00
Lump sum death payment	120.00	219.00	252.00	255.00	255.00	255.00	255.00

1/ In figuring average earnings, 5 years of low earnings may be omitted in addition to any period in which earnings record was frozen because of disability. Farmers who were first covered in 1955 may omit only one year of low or zero earnings.

2/ Benefits based on \$4800 average only possible if all earnings used occur after 1958.

## V. Evidence necessary at time of filing application for benefits.

- A. Social Security card.
- B. Copy of Federal Tax Return (closed year) for Social Security to keep.
- C. Copy of Form W-2 withholding statement if worker had earnings as an employee.
- D. Evidence of filing returns, such as cancelled check, money order stub, etc.
- E. Evidence of date of birth.
- F. Other evidence may be necessary if claim is filed for other members of the family.

## VI. How much can a retired worker work and collect benefits? (Retirement Test)

## A. Under age 72

- 1. Eligibility for retirement benefits depends upon the amount of work performed and the amount of dollar earnings. Payments are not reduced if:
  - (a) Yearly earnings are no more than \$1200, or
  - (b) Yearly earnings are over \$1200 in self-employment and no "substantial services" are rendered, or
  - (c) Wages under \$100.01 in any month.
- 2. Payments withheld if:
  - (a) Yearly earnings are over \$1200 in self-employment and "substantial services" are rendered.
  - (b) Wages are \$100.01 or more in any month.
- 3. Earnings do not include income from rents, interest and dividends.

## B. Over age 72

- 1. Benefits payable regardless of earnings.

## VII. What are the costs and how paid?

## A. Self-employed farm operators.

- 1. Earnings taxable at 5.4 percent in 1963 and through 1965 (on first \$4800 earned).
- 2. File on scheduled SE (1040) and pay Social Security tax when filing individual income tax return.

## B. Hired farm workers (including farm-hired girls).

- 1. Earnings taxable at 7-1/4 percent in 1963 and through 1965 (on first \$4800 from each employee). One half (3-5/8 percent) withheld by employer from worker and employer pays one half (3-5/8 percent).
- 2. Employer obligation in reporting.
  - (a) If at end of any month before December, employer and employee taxes total more than \$100, employer sends report on Form 450 and remittance to a Federal Reserve Bank or authorized commercial bank on or before the 15th of the following month. "Federal Depository Receipt" for each deposit is sent to employer.
  - (b) All employers file returns in January on Form 943 and remit tax. Depository receipts are sent in as evidence of previous tax payments.

## VIII. Tests for determining coverage of hired farm workers.

## A. Worker covered and employer subject to tax if:

- 1. Worker received \$150 or more cash wages in year from one employer, or
- 2. Worker is employed on 20 or more days during year for cash wages by one employer where wages are paid on a time-rate basis (certain rate per hour, day, week, or month).

## IX. How to determine earnings for self-employment (Social Security) credit and tax.

- A. Self-employed farmers may elect each year to report earnings by either the standard or optional method (see Table 3 below).

Table 3. Standard and Optional Methods of Reporting Self-Employment Earnings.

(Cash or Accrual Basis)		Amount of Earnings Taxable	
Gross Income	Net Income	Standard Method	Optional Method
\$600-\$1800	Under \$400	None	2/3 of gross
\$600-\$1800	\$400 or more	Net income	2/3 of gross
Over \$1800	Under \$400	None	\$1200
Over \$1800	\$400-\$1199	Net income	\$1200
Over \$1800	\$1200-\$4800	Net income	-----

- B. Income and deductions not included in determining net earnings (self-employed).

1. Rental income from farm where landlord does not "participate materially" in the management decisions or physical work of farm production.
2. Gain or loss from sale or trade of livestock held for draft, breeding or dairy purposes, regardless of how long held or whether raised or purchased.
3. Gain or loss from sale or trade of depreciable property, such as machinery, trucks, etc., used in a trade or business regardless of period held.
4. Gain or loss from sale of standing crops sold with land which was held more than six months.
5. Gain or loss from the cutting of timber with respect to which you have elected to treat the cutting as a sale or exchange. Gain or loss from the sale of timber or coal held more than six months where an economic interest has been retained (example, a right to receive coal royalties).
6. Gain or loss on sale, trade, involuntary conversion (including casualty losses) or other disposition of property which is neither stock in trade nor held primarily for sale to customers.
7. Capital gains or losses, such as gain or loss on sale of investment property or your residence.
8. Wages received as an employee (any off-farm work as an employee).
9. Dividends on shares of stock.
10. Interest (unless received in connection with the conduct of trade or business, such as interest on accounts receivable).
11. Any other income, gains, losses or expenses not resulting from the conduct of a trade or business.
12. Net operating loss deduction.
13. Non-business deductions on the standard deduction.
14. Deductions for personal exemptions for yourself, your wife, or dependents.

## X. How a landlord may qualify as a self-employed farmer (since January 1, 1956).

- A. Take over farm operation himself.

1. May be whole farm, part of farm, or a single farming enterprise.
2. Assumes all risks in production and costs.

- B. Operate farm with hired help or by custom operator or contractor.

1. May be whole farm, part of farm, or single farming enterprise.
2. Assumes all risks in production and costs.

- C. Materially participating in actual production or management of production of farm commodities under the following conditions:

1. Have an arrangement for participation.
2. Actually participate by meeting one of the following tests:



- (a) Test No. 1 - Does any three of the following things:
  - (1) Advance pay or stand good at least one half of direct costs of production.
  - (2) Furnish at least one half of the tools, equipment and live-stock used in production.
  - (3) Advise and consult with tenant periodically.
  - (4) Inspect the production activities periodically.
- (b) Test No. 2 - Regularly and frequently makes or takes an important part in making management decisions substantially contributing to or affecting the success of the enterprise.
- (c) Test No. 3 - Works 100 hours or more spread over a period of five weeks or more in activities connected with production.
- (d) Test No. 4 - Does things which, considered in their total effect, show that landlord is significantly involved in production of farm commodities. Such situations to be submitted to Social Security Office for advice.

D. Employs an agent who meets test for material participation.

XI. If landlord or his employed agent does not meet any of the above four tests, the income from his rented farm qualifies as "rental income" rather than "self-employment" income.

XII. How Conservation Reserve income and Feed Grain Program payments affect Social Security.

A. Before retirement

- 1. Operator or participating landlord - Conservation Reserve or Feed Grain Program payments are included in self-employment earnings and count toward Social Security credit.
- 2. Non-participating landlord.
  - (a) If part of farm put in Conservation Reserve - Conservation Reserve payments not counted as self-employment earnings, not subject to Social Security tax and not counted toward Social Security credit.
  - (b) If all of farm put in Conservation Reserve - Conservation Reserve payments are included in self-employment earnings, are subject to Social Security tax and count toward Social Security credit.
  - (c) Feed Grain payments not counted as self-employment earnings, not subject to Social Security tax and not counted toward Social Security credit.

B. After retirement

- 1. Under 72 years old.
  - (a) If completely retired (render no services) - Conservation Reserve and Feed Grain Program payments are counted as self-employment earnings and are subject to Social Security tax. Although they are counted in \$1200 maximum earnings, they do not affect Social Security benefit payments because no services have been rendered.
  - (b) If not completely retired (render substantial services) - Conservation Reserve and Feed Grain Program payments are treated as self-employment earnings, subject to Social Security tax and are included in \$1200 maximum earnings test. May affect Social Security benefit payments if substantial services are rendered.

2. 72 or older - Conservation Reserve and Feed Grain Program payments are treated as self-employment earnings (except for non-participating landlord having only part of his farm in Conservation Reserve) is subject to Social Security tax but will not affect Social Security benefit payments.

XIII. Within family employment.

- A. Work of parent for son or daughter (excluding household work) is covered by Social Security and wages are subject to employer-employee tax.
- B. Work of son or daughter for parent is taxable for Social Security purposes only if son or daughter is 21 or over.
- C. If man employs wife or a woman employs her husband, the pay is not covered by Social Security.

XIV. Social Security publications of interest to farmers available at local Social Security Offices include, among others:

- A. Your Social Security, OASI-35, May 1963.
- B. Social Security Benefits, OASI-855, August 1961.
- C. Social Security and Farm Families, OASI-25d, August 1961.
- D. Farm Rental Income, OASI-33d, January 1961.