**8536. Who must pay the self-employment tax?**

An individual who has annual net earnings from self-employment of $400 or more is subject to self-employment tax.[[1]](#endnote-1) Generally, the income of sole proprietors, single member LLCs treated as a disregarded entity and general partners are considered to be self-employmed. Self-employment tax is reported on Schedule SE attached to Form 1040. However, a self-employed taxpayer is entitled to an above-the-line deduction equal to one-half of the self-employment tax paid.[[2]](#endnote-2)

In essence, self-employment tax is the combination of Social Security tax and Medicare tax. The Social Security tax is 12.4% and the Medicare tax is 2.9%.[[3]](#endnote-3) For 2014, the cap on Social Security taxes on up to $117,000 of self-employment income. If the taxpayer has wages and self-employment income, the amount of self-employment income subject to the Social Security tax part is the difference between the cap amount and the amount of the taxpayer’s wages.

*Example*. In 2014, Asher has wages of $90,000. In addition, Asher has self-employment income of $30,000. Since the Social Security wage base is $117,000, only $27,000 of Asher’s $30,000 of self-employment ($117,000 minus $90,000).

On the other hand, with regard to Medicare tax, there is no cap on self-employment income. Also, for self-employment over certain threshold amounts, there is an Additional Medicare Surtax of 0.9% added to the 2.9% Medicare rate, or a total of 3.8%. The threshold amounts are self-employment income in excess of $250,000 for joint filers, $125,000 for married filing separately and $200,000 for all other filing status.[[4]](#endnote-4)

1. IRC Sec. 6017 [↑](#endnote-ref-1)
2. IRC Sec. 164(f). [↑](#endnote-ref-2)
3. IRC Sec. 1401. [↑](#endnote-ref-3)
4. IRC Sec. 1401(b)(2). [↑](#endnote-ref-4)