

§ 1.1402(a)-14

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in a taxable year ending before 1955 from any agricultural trade or business (see paragraph (a) of this section), and all deductions attributable to such income, are excluded in computing net earnings from self-employment.

(c) *Farm operator's income for taxable years ending after 1954.* Income derived in a taxable year ending after 1954 from an agricultural trade or business (see paragraph (a) of this section) is includible in computing net earnings from self-employment. Income derived from an agricultural trade or business includes income derived by an individual under an agreement entered into by such individual with another person pursuant to which such individual undertakes to produce agricultural or horticultural commodities (including livestock, bees, poultry, and fur-bearing animals and wildlife) on land owned or leased by such other person and pursuant to which the agricultural or horticultural commodities produced by such individual, or the proceeds therefrom, are to be divided between such individual and such other person, and the amount of such individual's share depends on the amount of the agricultural or horticultural commodities produced. However, except as provided in paragraph (d) of this section, relating to arrangements involving material participation, the income derived under such an agreement by the owner or lessee of the land is not includible in computing net earnings from self-employment. See § 1.1402(a)-4. For options relating to the computation of net earnings from self-employment, see §§ 1.1402(a)-14 and 1.1402(a)-15.

(d) *Includible farm rental income for taxable years ending after 1955.* For taxable years ending after 1955, income derived from an agricultural trade or business (see paragraph (a) of this section) includes also income derived by the owner or tenant of land under an arrangement between such owner or tenant and another person, if such arrangement provides that such other person shall produce agricultural or horticultural commodities (including livestock, bees, poultry, and fur-bearing animals and wildlife) on such land, and that there shall be material participation by the owner or tenant in the production or the management of

the production of such agricultural or horticultural commodities, and if there is material participation by the owner or tenant with respect to any such agricultural or horticultural commodity. See paragraph (b) of § 1.1402(a)-4. For options relating to the computation of net earnings from self-employment, see §§ 1.1402(a)-14 and 1.1402(a)-15.

(e) *Income from service performed after 1956 as a crew leader.* Income derived by a crew leader (see section 3121(o) and the regulations thereunder in Part 31 of this chapter (Employment Tax Regulations)) from service performed after 1956 in furnishing individuals to perform agricultural labor for another person and from service performed after 1956 in agricultural labor as a member of the crew is considered to be income derived from a trade or business for purposes of § 1.1402(c)-1. Whether such trade or business is an agricultural trade or business shall be determined by applying the rules set forth in this section.

§ 1.1402(a)-14 Options available to farmers in computing net earnings from self-employment for taxable years ending after 1954 and before December 31, 1956.

(a) *Computation of net earnings.* In the case of any trade or business which is carried on by an individual who reports his income on the cash receipts and disbursements method, and in which, if it were carried on exclusively by employees, the major portion of the services would constitute agricultural labor as defined in section 3121(g) (see paragraph (a) of § 1.1402(a)-13), net earnings from self-employment may, for a taxable year ending after 1954, at the option of the taxpayer, be computed as follows:

(1) *Gross income \$1,800 or less.* If the gross income, computed as provided in paragraph (b) of this section, from such trade or business is \$1,800 or less, the taxpayer may, at his option, treat as net earnings from self-employment from such trade or business an amount equal to 50 percent of such gross income. If the taxpayer so elects, the amount equal to 50 percent of such gross income shall be used in computing his self-employment income in lieu of his actual net earnings from such trade or business, if any.

(2) *Gross income in excess of \$1,800.* If the gross income, computed as provided in paragraph (b) of this section, from such trade or business is more than \$1,800, and the actual net earnings from self-employment from such trade or business are less than \$900, the taxpayer may, at his option, treat \$900 as net earnings from self-employment. If the taxpayer so elects, \$900 shall be used in computing his self-employment income in lieu of his actual net earnings from such trade or business, if any. However, if the taxpayer's actual net earnings from such trade or business, as computed in accordance with §§ 1.1402(a)-1 through 1.1402(a)-3 are \$900 or more, such actual net earnings shall be used in computing his self-employment income.

(b) *Computation of gross income.* For purposes of paragraph (a) of this section, gross income shall consist of the gross receipts from such trade or business reduced by the cost or other basis of property which was purchased and sold in carrying on such trade or business, adjusted (after such reduction) in accordance with the provisions of § 1.1402(a)-3, relating to income and deductions not included in computing net earnings from self-employment.

(c) *Two or more agricultural activities.* If an individual is engaged in more than one agricultural trade or business within the meaning of paragraph (a) of § 1.1402(a)-13 (for example, the business of ordinary farming and the business of cotton ginning), the gross income derived from each agricultural trade or business shall be aggregated for purposes of the optional method provided in paragraph (a) of this section for computing net earnings from self-employment.

(d) *Examples.* Application of the regulations prescribed in paragraphs (a) and (b) of this section may be illustrated by the following examples:

Example (1). F, a farmer, uses the cash receipts and disbursements method of accounting in making his income tax returns. F's books and records show that during the calendar year 1955 he received \$1,200 from the sale of produce raised on the farm, \$200 from the sale of livestock raised on the farm and not held for breeding or dairy purposes, and \$600 from the sale of a tractor. The income from the sale of the tractor is of a type which is excluded from net earnings from

self-employment by section 1402(a). F's actual net earnings from self-employment, computed in accordance with the provisions of §§ 1.1402(a)-1 through 1.1402(a)-3, are \$450. F may report \$450 as his net earnings from self-employment or he may elect to report \$700 (one-half of \$1,400).

Example (2). C, a cattleman, uses the cash receipts and disbursements method of accounting in making his income tax returns. C had actual net earnings from self-employment, computed in accordance with the provisions of §§ 1.1402(a)-1 through 1.1402(a)-3, of \$725. His gross receipts were \$1,000 from the sale of produce raised on the farm and \$1,200 from the sale of feeder cattle, which C bought for \$500. The income from the sale of the feeder cattle is of a type which is included in computing net earnings from self-employment. Therefore, C may report \$725 as his net earnings from self-employment or he may elect to report \$850, one-half of \$1,700 (\$2,200 minus \$500).

Example (3). R, a rancher, has gross income of \$3,000 from the operation of his ranch, computed as provided in paragraph (b) of this section. His actual net earnings from self-employment from farming activities are less than \$900. R, nevertheless, may elect to report \$900 as net earnings from self-employment from such trade or business. If R had actual net earnings from self-employment from his farming activities in the amount of \$900 or more, he would be required to report such amount in computing his self-employment income.

(e) *Members of farm partnerships.* The optional method provided by paragraph (a) of this section for computing net earnings from self-employment is not available to a member of a partnership with respect to his distributive share of the income or loss from any trade or business carried on by any partnership of which he is a member.

§ 1.1402(a)-15 Options available to farmers in computing net earnings from self-employment for taxable years ending on or after December 31, 1956.

(a) *Computation of net earnings.* In the case of any trade or business which is carried on by an individual or by a partnership and in which, if such trade or business were carried on exclusively by employees, the major portion of the services would constitute agricultural labor as defined in section 3121(g) (see paragraph (a) of § 1.1402(a)-13), net earnings from self-employment may, for a