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EC54-800 What Social Security Means to Farm Families

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WHAT

Social Security MEANS TO

Farm Families

MAY 27 1971

The Social Security Program

Who Are Covered

Survivors Insurance

Retirement Payments

Account Number Cards

Cost To Farmers And Farm Workers

How To Report Earnings

Claiming Benefits

Other Income

EXTENSION SERVICE
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WHAT SOCIAL SECURITY MEANS TO FARM FAMILIES

by Everett K. Peterson

Extension Economist

What is Federal Old-age and Survivors Insurance?

Basically it is a family group insurance plan operated by the Federal government. The purpose is to compensate, in figuring these average earnings, you can leave out one more calendar year of your lowest earnings. After the drop-out, the average monthly earnings will be figured by dividing the total earnings in the remaining period by the months in that period. However, if the remaining months are less than 18, you must divide by 18.

Earnings up to $3,600 a year can be counted toward social security from January 1, 1951, through 1954 except for farmers and others not covered, until January 1, 1955. For 1955 and years thereafter earnings up to $4,200 in a year will be credited to your social security account. Benefits based on average monthly earnings of $350 will first be payable in July 1956, provided the worker has enough earnings at an annual rate of at least $4,200 in 1955 and 1956.

Who are "Covered"?

All farm operators -- persons farming for themselves, either as owner-operators or tenants -- with a net farm profit of $400 or more in a year must pay social security taxes (insurance premiums) and will be entitled to the protection of the Federal old-age and survivors insurance program. This coverage takes effect January 1, 1955, for farmers operating, beginning at the beginning of any fiscal year ending after December 31, 1954, for farmers reporting their Federal income tax on a fiscal year basis.

The new law brings old-age and survivors insurance protection to all farm workers who earn as much as $100 cash pay in a year from any one farmer-employer. The provisions of the law are effective for the first Federal income tax report for a fiscal year ending after January 1, 1955. The social security tax would be on the earnings for the entire fiscal year.

What Amount of Earnings Should be Reported?

In general the amount you report is your net farm profit. You must remember to pay the social security tax after you subtract your farm expenses from your gross income. However, you have a choice of accounting periods depending upon your gross and net income situation, as summarized in Table 2.

In deciding which of the methods to use when you have a choice available, you should keep in mind that the higher the earnings credited to your social security account, the greater the benefits you can receive, up to the maximum.

How is "net farm profit" computed?

The net farm profit for the social security taxes is computed in the same manner and it is the same gross income that is derived from the Federal income tax Form 1040-F, "Schedule of Farm Income and Expenses." It is the figure obtained on the top of Page 3 of Form 1040-F if you can use the "cash basis" in computing net farm profits or on the bottom line of page 3 of Form 1040-F if the "accrual basis" is used.

What records should be kept by farmers?

Keep accurate and complete records. This is another very good reason for keeping farm accounts.

Social Security For Hired Farm Workers

Some "regular" farm workers have been covered since Jan. 1, 1951. The 1954 legislation extended coverage to all farm workers who earn $100 or more in a year, including one farm-employer, beginning Jan. 1, 1955.

Table 1. - Examples of Monthly Benefits payable to Qualified Persons After August 1954

<table>
<thead>
<tr>
<th>Average</th>
<th>Average</th>
<th>For</th>
<th>To</th>
<th>How Much Social Security Tax Will Farmers Pay For This Insurance?</th>
</tr>
</thead>
<tbody>
<tr>
<td>annual</td>
<td>monthly</td>
<td>Retired</td>
<td>Survivors</td>
<td></td>
</tr>
<tr>
<td>net income</td>
<td>earnings</td>
<td>widow,</td>
<td>widow</td>
<td>How and Where do Farmers Start Reporting and Paying the Social Security Tax?</td>
</tr>
</tbody>
</table>
| $540 | $45 | $90.00 | $30.00 | Farmers keeping their farm account records and reporting their Federal income taxes on a calendar year basis are required to report their Federal Old-age and Survivors Insurance program. Their coverage takes effect January 1, 1955, and make their first payments of social security taxes for 1955 along with their first Federal income tax report early in 1956. You do not report or pay a social security tax on your 1954 net farm income.
| 1200 | 100 | 110.50 | 45.00 | 50.20 |
| 1800 | 150 | 168.50 | 51.40 | 102.80 |
| 2400 | 200 | 187.80 | 51.70 | 135.00 |
| 3000 | 250 | 214.30 | 66.40 | 180.80 |
| 3600 | 300 | 241.70 | 81.40 | 226.80 |
| 4200 & over | 350 | 269.00 | 81.40 | 250.00 |

* After drop-out of up to 5 years of lowest (or no) earnings.
What should a farm worker do?

If you do farm work for others and earn at least $100 cash wages from any one employer in a year you must have a social security card.

Always show this card to your employer so he can copy the name and number from it for his records. This is necessary for you to be sure of getting the proper credit toward future benefits.

What is the amount of the tax and how is it paid?

Until 1960 the social security tax on wages of farm workers is 2 percent from the worker and 2 percent from the employer on cash earnings up to $4,200 per year. Your employer will hold back 2 percent of your wages and then match this amount as his share of the tax. He will send the total to the Internal Revenue Service with his social security report.

What happens if you work for more than one employer?

Each employer from whom you earn as much as $100 cash pay in a year will keep back 2 percent of your pay, match it, and send it in to the Internal Revenue Service.

Employers of seasonal or part-time workers should keep a record of all wages paid and taxes deducted along with the names and account numbers of all workers hired. If the worker does not earn $100, the amount of the tax withheld should be returned to him.

What benefits will farm workers and their families receive?

Farm workers under the social security system will be entitled to benefits on the same basis as self-employed farmers. See Table 1.

Information applying to both groups - Farmers and Farm Workers

Over how long a period do farmers and farm workers pay social security taxes?

Farmers and farm workers continue to report earnings and pay social security taxes, whether past age 65 or not, so long as their earnings and wages are above the minimum requirements. However, a child under 21 working for his parents, a parent working for his son or daughter, or a husband or wife working for his or her spouse is not covered by social security even though he or she receives cash wages. If a husband and wife both work in covered occupations, each will build up credit toward old-age and survivors' benefits.

When does a farmer or farm worker become eligible for social security benefits?

To become eligible for old-age insurance payments, or for your family to become entitled to payments in case of your death, you must have worked in an occupation covered by social security for a certain period of time, depending upon the date you become 65 or die. No one can qualify without at least six quarters (1 1/2 years) of coverage. When you have 40 quarters (10 years) of coverage you are fully insured for life.

Must a claim be filed to obtain social security payments?

No social security payments can be made until a claim has been filed. Whenever a farmer or a farm worker reaches age 65 he should call at the nearest social security office and ask for information about his situation even though he has not retired. When an insured farmer or farm worker dies, his family should notify the social security office immediately and ask about any benefits which they may be entitled to receive.

Will income from other sources mean loss or reduction of social security benefits?

A farmer or farm worker between the ages of 65 and 72 can have earnings of up to $1,200 a year from cash wages or net profit from farming and still draw all of his retirement payments. Income from other sources, such as cash rent, interest, dividends, or insurance policies is not regarded as "earnings" for social security purposes but the $1,200 limit does not apply to such income. A retired person can earn $1,200 over and above any income from such sources.

If you earn more than $1,200 a year after you become entitled to old-age payments, the number of monthly payments you receive will depend upon the amount of your earnings and the number of months you work.

After you are 72 years of age, all your monthly payments will be made to you regardless of the amount of your earnings.

How does the cost of this plan compare with other insurance plans?

Information contained in U.S. D. A., Misc. Pub. No. 821, "Life Insurance for Farm Families," shows that $23,291 of insurance would be needed to provide a monthly income of $160 per month for 15 years. The premium on this much insurance taken out at age 35 would be about $650 per year.

The social security insurance program is not designed to build up estates, as do other types of insurance. In order to start receiving benefit payments (other than the lump-sum payment at death) either the insured person or spouse must live to past age 65 or have surviving children under 18 years of age.

For additional information and service

Your local social security office is responsible for issuing account-number cards, for handling claims for benefits, and for giving you information about old-age and survivors insurance. If you have any questions on your rights and responsibilities under the social security system, visitor write your nearest social security office. The list below gives the locations of the offices in Nebraska: