§ 404.1093 Possession of the United States.

In using the exclusions from gross income provided under section 931 of the Code (relating to income from sources within possessions of the United States) and section 932 of the Code (relating to citizens of possessions of the United States) for purposes of figuring your net earnings from self-employment, the term possession of the United States shall be deemed not to include the Virgin Islands, Guam, the Commonwealth of the Northern Mariana Islands, or American Samoa.


§ 404.1094 Options available for figuring net earnings from self-employment.

(a) General. If you have income from a trade or business in certain situations, you have options for figuring your net earnings from self-employment. The options available to you depend on whether you have income from an agricultural trade or business or a non-agricultural trade or business. For a definition of agricultural trade or business see § 404.1095.

(b) Agricultural trade or business. The net earnings from self-employment you derive from an agricultural trade or business may, at your option, be figured as follows:

(1) Gross income of $2,400 or less. If your gross income is $2,400 or less you may, at your option, report $1,600 as net earnings from self-employment instead of your actual net earnings from your business.

(2) Gross income of more than $2,400. If your gross income is more than $2,400 you may, at your option, report 66 2/3 percent of your gross income as net earnings from self-employment instead of your actual net earnings from your business.

(c) Non-agricultural trade or business. The net earnings from self-employment you derive from a non-agricultural trade or business may be reported under an optional method if you are self-employed on a regular basis (as defined in paragraph (c)(4) of this section). You cannot use the optional method of reporting for more than 5 taxable years, and you cannot report less than your actual net earnings from self-employment.

(2) Computation. If your actual net earnings from self-employment are less than $1,600 and less than 66 2/3 percent of your gross income, you may, at your option, report 66 2/3 percent of your gross income (but not more than $1,600) as your net earnings from self-employment.

Example: A operates a grocery store and files income tax returns on a calendar year basis. A meets the self-employed on a regular basis requirement because actual net earnings from self-employment were $400 or more in 1976 and in 1977. Gross income and net profit from operating the grocery store in 1978 through 1980 are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Income</th>
<th>Net Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>$2,800</td>
<td>$300</td>
</tr>
<tr>
<td>1979</td>
<td>$1,200</td>
<td>$400</td>
</tr>
<tr>
<td>1980</td>
<td>$1,000</td>
<td>$800</td>
</tr>
</tbody>
</table>

For the year 1978, A may report as annual net earnings from self-employment either—

(i) None. (Actual net earnings from self-employment are less than $400); or
(ii) $1,600. (Non-agricultural option, 66 2/3 percent of $2,800, but not to exceed the $1,600 maximum.)

For the year 1979, A may report as annual net earnings from self-employment either—

(i) $400. (Actual net earnings from self-employment); or
(ii) $800. (Non-agricultural option, 66 2/3 percent of $1,200.)

For the year 1980, A must report $800, the actual net earnings from self-employment. The non-agricultural option is not available because A’s actual net earnings are less than 66% percent of the gross income.

(3) Figuring net earnings from both non-agricultural and agricultural self-employment. If you are self-employed on a regular basis, you may use the non-agricultural optional method of reporting when you have both non-agricultural and agricultural trades or businesses. However, in order to use this method,