

# SSDI & Self-Employment

## Fact Sheet 2021

### What does Social Security consider?

Social Security must determine whether a beneficiary is engaging in self-employment. Social Security's general policy when determining the existence of a trade or business is to consider the following:

- Is there a good-faith intention of making a profit or producing income?
- Is there continuity of operations, repetition of transactions, or regularity of activities?
- Are the functions being performed a regular occupation or profession?
- Does the individual portray themselves as being engaged in the selling of goods or services?

### What should you consider?

**Business feasibility:** How do you know that your business idea will work? Have you done any test marketing or have you talked to knowledgeable people about whether or not your business idea has a reasonable chance for success?

**Financial start-up:** Do you know how much it will cost to start your business? Do you have any ideas about how to get the money you think you will need or do you know where you can get assistance with start-up funds? This can be arranged through Vocational Rehabilitation, Workforce Investment Act agencies, or Social Security (such as with a Plan to Achieve Self-Support, or PASS).

**Business plan development:** If you plan to apply for a loan, submit a PASS, or to ask the State Vocational Rehabilitation Agency for funds, you will probably need a formal, written business plan. Can you write this document yourself, or will you need help?

**Legal business structure:** Will your business be a corporation, partnership, Limited Liability Company (LLC), or sole proprietorship? Business structure decisions are important because it affects how Social Security looks at any income your business generates, as well as how taxes are assessed. Each local Social Security office has a Work Incentive Liaison who can help you understand your business.

**Accounting & bookkeeping:** Being self-employed requires that you keep track of business income and expenses. Do you plan to do your own bookkeeping and accounting, or will you use the services of a professional? Have you looked into the cost of accounting software or the services of a bookkeeper/accountant? Will you need training to perform your own accounting? Will you use a cost or an accrual accounting method to track revenues and expenses? These two methods make a difference in determining your Net Earnings from Self Employment (NESE) for Social Security purposes.

**Self-employment tax implications:** When you are self-employed you need to ensure you are filing the appropriate forms with the Internal Revenue Service. This may be completing quarterly returns, and completing a Schedule C or Schedule C-SE for the business each year. Also, you are still responsible for making contributions to the Federal Insurance Contribution Act (FICA) and all self-employment tax payments, so completing the appropriate forms is essential.

**Licenses, permits or other legal requirements:** Will your business require any licenses or permits for you to operate legally? Do you know what paperwork needs to be filed to meet federal, state and local tax requirements?

**Accommodations you might need to operate your business successfully:** Have you thought about what services and supports you might need to accommodate your disability as you manage your business? If you need services or supports because of your disability, do you know where to get help arranging and paying for these services or supports?

**Other Considerations:** If you receive other state or federal assistance, you will need to understand the impact of self-employment on these benefits and entitlements as well. The Small Business Administration can offer valuable advice regarding your business venture, finance and accounting procedures, and other important issues that will help you in making your self-employment venture successful.

For more information about **Work Without Limits Benefits Counseling** contact

**1-877-YES-WORK (1-877-937-9675)** or visit <http://www.workwithoutlimits.org/benefits-counseling/>

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### How are monthly earnings calculated?

When your business venture begins, you must notify your local Social Security office. Unlike regular employment, they will count Net Earnings from Self Employment (NESE) and not gross earnings. NESE is calculated by deducting business expenses from gross revenues, and then multiplying the difference by 0.9235. Social Security divides countable annual earnings equally by:

SSI: 12 months of the year

SSDI: months worked in the business

Since NESE usually is not calculated until you have filed your taxes, it is very important you track work hours, revenues, and expenses. After your first year in business, NESE projections for the next year are usually based on previous year's actual figures.

### How can SSDI work incentives help?

When an SSDI beneficiary is employed or self-employed for the first time after being entitled to SSDI, they have the following set of work incentives available to them that prolong the continuation of their SSDI cash benefit while they earn income:

**Trial Work Period (TWP):** This incentive allows self-employed SSDI beneficiaries to earn unlimited income for 9 months, while still getting their SSDI payment for those months. A TWP month is used if the beneficiary has worked 80 hours or more for their business, or if their monthly NESE has exceeded the TWP monthly threshold, \$910 in 2020. TWP is considered complete if determined you have used 9 TWP months within a 5-year window. The duration of a TWP varies from person to person - some never start, some never finish, others finish after 9 months, and others take a few years.

**Extended Period of Eligibility (EPE):** This is a 36-month period immediately following the TWP, in which Social Security will determine if your earnings are over Substantial Gainful Activity (SGA), which is \$1,310 in 2021, \$2,190 if you are blind. Generally, when your monthly NESE has been determined to have exceeded SGA, you will not be entitled to your SSDI payment for that month, and vice versa. When determining if you

have made SGA, Social Security will consider the value of your business activities, as well as market conditions, investments, services of others who help you, and your profit distribution. Here are some other work incentives that could potentially help lower your NESE below SGA:

- **Unincurred Business Expenses:** If there is business support given to you at no cost (e.g., Vocational Rehabilitation pays for services or equipment you need in self-employment), the cost of this support is deducted from your net earnings in determining when you have reached SGA.
- **Unpaid Help:** If you receive help from friends, relatives, professionals, or others in performing business-related tasks, and they are not paid for this assistance, the fair labor cost of this assistance is deducted from your net earnings in determining whether you have reached SGA.
- **Impairment-Related Work Expenses (IRWEs):** If you have out of pocket expenses for items and services that are related to your disability and are necessary for you to work, and that are not reimbursed by another source, you can use these expenses as an IRWE. IRWEs can help you to keep your NESE below the SGA level. This work incentive may apply to you in some limited circumstances, if you are unable to claim these items as a business expense.

**Plan for Achieving Self Support (PASS):** Is an incentive that allows you to set aside income and/or resources to achieve a work goal, including self-employment. A PASS Plan with a self-employment work goal must also include a business plan. It is recommended you consider developing a PASS prior to starting your business.

*For SSDI beneficiaries who engage in self-employment, Social Security offers some work incentives that can be useful in starting and maintaining a business. These work incentives were also designed to help individuals reach self-sufficiency. For more information, contact a Community Work Incentives Coordinator or your local Social Security Office.*

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