SSDI & Self-Employment

Fact Sheet 2022

What does Social Security consider to be self-employment?

Social Security must determine whether a Social Security Disability Insurance (SSDI) 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 to consider when starting a business?

Business feasibility: How do you know that your business idea will work? Have you done test marketing, or have you talked to knowledgeable people about whether your business idea has a reasonable chance for success?

Financial start-up: Do you know the cost to start your business? Do you have 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 with a Plan to Achieve Self-Support (PASS).

Business plan development: If you plan to apply for a loan, submit a PASS, or ask the State Vocational Rehabilitation Agency for funds, you will likely 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 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 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. You are 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, as well as other important issues that will help you in making your self-employment venture successful.

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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 important to track work hours, revenues and expenses. After your first year in business, NESE projections for the next year are usually based on the 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 help prolong 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 ($970 in 2022). TWP is considered complete when 9 TWP months are used 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 (3 year) period immediately following TWP, where Social Security determines if your earnings have reached the Substantial Gainful Activity (SGA) threshold ($1,350 in 2022 and $2,260 if you are statutorily blind). Generally, when your monthly NESE has been determined to have reached SGA, you will not be entitled to your SSDI cash benefits for that month.

When determining if you have performed SGA, Social Security will consider the value of your business activities, as well as market conditions, investments, profit distribution, and services of others who help you. Work incentives that could potentially help lower your NESE below SGA include:

Unincurred Business Expenses: If there is business support given to you at no cost, (i.e., an agency pays for services or equipment you need in self-employment), the cost of this support is deducted from gross earnings to determine if you reached SGA.

Unpaid Help: If you receive help from friends, relatives, or others in performing business-related tasks, and they are not paid by you, the fair labor cost of this assistance is deducted from gross earnings to determine if you reached SGA.

Impairment-Related Work Expenses (IRWE): If you have out-of-pocket expenses for items and services that are related to your disability, that are necessary for you to work, and are not reimbursed by another source, then you can use these expenses as an IRWE. IRWEs can help keep your NESE below SGA. This work incentive may apply to you in some limited cases, such as if you are unable to claim these items as a business expense.

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

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