

# Self-Employment and SSDI Benefits

When you are self-employed and also receiving Social Security Disability Insurance (SSDI) benefits, Social Security counts your net business profits instead of your gross earnings. Your net profits are calculated by taking your gross earnings minus any allowable business expenses and the employer portion of the FICA taxes you pay. We strongly recommend working with a tax professional, so you can claim all of the business deductions to which you are entitled. It is important for you to keep track of the hours you work in the month, as well as your monthly income and expenses, so Social Security can accurately determine your earnings.

## During the Trial Work Period:

The Social Security Administration allows you a 9-month Trial Work Period to test your ability to return to work. The 9 months do not need to be consecutive. A trial work month is used any time you earn over \$720 per month (in 2010). If you are an employee, Social Security will look at your gross income. When self-employed, you use trial work months for any month in which your net business profits are above \$720, or if you work more than 80 hours. It is possible to have \$0 earnings and still use trial work months by working more than 80 hours per month. SSDI will look at your tax return to determine if your average self-employment earnings are above \$720 per month.

During the Trial Work Period, Social Security calculates your earnings by averaging your net business profits over the number of months that you worked throughout the year. For example, if you started your business in September and worked through December, you would calculate your net earnings and then divide this amount by 4 months to determine your monthly earnings. If this amount is over \$720 per month (in 2010), then you would have used trial work months in each of the 4 months you worked.

If you are self-employed and have a second job as an employee of someone else, you must combine your gross earnings as an employee with your net profits from self-employment to see if you are earning over the \$720 Trial Work Period amount. During the Trial Work Period, you will continue to receive your SSDI payments with no upper limit on your earnings.

## During the Extended Period of Eligibility:

The Extended Period of Eligibility begins immediately following the end of the Trial Work Period. It lasts for 36 consecutive months whether you work or not. During the Extended Period of Eligibility, if you are self-employed and your monthly net profits are above the Substantial Gainful Activity level (in 2010, \$1,000; \$1,640, if blind), you will not be eligible for an SSDI cash payment for that month. However, if your earnings decrease below this level anytime during the Extended Period of Eligibility, your SSDI checks can be restarted without reapplying for benefits.

Social Security calculates your earnings by averaging your net business profits over the number of months that you worked throughout the year. For example, if your net business profits for the year are \$11,280 and you work all 12 months in the year, your monthly income for the SSDI program is  $(\$11,280 / 12 \text{ months} = \$940)$ . This amount is below the Substantial Gainful Activity level (in 2010, \$1,000; \$1,640, if blind) and you would be eligible for an SSDI check in each month of the year.

Remember, if you are self-employed and have a second job as an employee of someone else, you must add your gross wages as an employee to your net self-employment profits to see if you exceed the \$1,000 Substantial Gainful Activity limit. Once you enter the Extended Period of Eligibility, SSDI is not concerned with how many hours you work each month, only the amount of income you earn. (continued...)

## Work Incentives Available in the Extended Period of Eligibility:

### **Unincurred Business Expenses**

During the Extended Period of Eligibility you may be able to use Unincurred Business Expenses. Unincurred Business Expenses are items that would qualify as business expenses to reduce your gross income, but that are paid for by someone else. For instance, if the Department of Rehabilitation Services (RS) pays for tools and computer equipment, the value of these items can be used to further reduce your countable income when determining if your average income is greater than the Substantial Gainful Activity level. The value of the Unincurred Business Expenses cannot be listed as business deductions when preparing your taxes, because you did not pay for them. However, Social Security allows you to claim those expenses when they are determining the actual value of your business income.

### **Other Work Incentives**

Depending upon your circumstances you may be able to use other SSDI work incentives including: Impairment Related Work Expenses and Plan for Achieving Self-Support (PASS). For more information about these work incentives see the MN Work Incentives Connection's Factsheet #1 or talk to one of the staff at the Connection.

## Overpayments and Self-Employment in the Extended Period of Eligibility:

When your earnings are from self employment, Social Security will average your net profit over the months that you worked. This means that if you show an annual net profit of \$12,000, Social Security will determine that you had earnings of \$1,000 per month (\$12,000 divided by 12 months). If you started your business in mid-year, Social Security will divide the countable income by the number of months worked during the year.

If you think your average net earnings will be greater than the Substantial Gainful Activity level, you can ask Social Security to stop your checks to avoid overpayments. If your average earnings are greater than the Substantial Gainful Activity limit and you continue to receive SSDI payments, you will be overpaid. **Keep a calendar of all of your business activity and an accurate monthly financial record**, so you will have all of the information Social Security needs to make a fair and accurate decision.

## Medical Assistance for Employed People with Disabilities (MA-EPD):

Self-employment earnings can be used to qualify for Medical Assistance for Employed Persons with Disabilities. To qualify, you must have a profit of more than \$65 per month. You must keep detailed business records to show income and business expenses. You must report your earnings to the IRS and pay estimated taxes. At the end of the year, you must give a copy of your income tax return to the county for verification of your self-employment earnings.



Answers, Choices, Possibilities

For more information about how self-employment affects Social Security benefits, contact MN Work Incentives Connection at:

651-632-5113 or 1-800-976-6728

(TTY: 651-632-5110 or Minnesota Relay – 711)