

SSDI and Self-Employment 2016

Net Earnings from Self-Employment (NESE)

The Social Security Administration (SSA) uses NESE to help determine countable earnings for individuals receiving Social Security Disability Insurance (SSDI). NESE is the Net Profit from a business less half of the Medicare and Social Security taxes paid (7.65%) by the beneficiary. A factor of .9235 is used to reduce Net Profit by half of those taxes: **NESE = Net Profit X .9235**

Good Accounting Practices are Critical

As a general rule it is typically recommended for business operators to seek the expertise of an accountant. Because NESE is based on the Net Profit of a business, it is important that all allowable business expenses are considered in order to determine the actual Net Profit. A qualified accountant will know when and how to utilize business deductions provided for by law.

SSDI Self Employment Considerations

☆ For the Trial Work Period (TWP), SSA not only considers the monetary TWP guideline for the year, but work over 80 hours per month can also indicate that a TWP month has been used.

☆ An *Unincurred Business Expense* is a special work incentive that is any expense that was incurred or paid by another person or entity that would have been an expense of the business. For example, a friend may not charge rent for business space used by the beneficiary and thus the value of the free rent can be deducted from NESE.

☆ *Unpaid Help* is when a beneficiary who operates a business receives free help/labor while operating the business. The value of the free help labor can be deducted from NESE.

☆ A beneficiary must give an estimated profit projection for the first year of the business. SSA will then use tax returns of previous years to make an earnings estimate for the current year.

☆ Good accounting and record keeping is essential when operating a business.

SSDI Reporting Tips*

Tip #1: It is imperative that business financials are kept on a calendar month basis during the TWP. Monthly Profit & Loss statements (P&L) will help determine if TWP months were used.

Tip #2: Remember that a TWP month can be used even if the business loses money if more than 80 hours are used while running or working in the business during a calendar month.

Tip #3: Monthly financial statements are the preferred way for beneficiaries to track their profits and losses for the purposes of SGA determinations. If countable NESE for the month appears to be over SGA then P&L statements should be sent to SSA, along with a request that a work CDR be conducted.

Tip #4: Never report gross sales or gross receipts to SSA! Reporting should include monthly P&L statements and annual tax returns should be reported to SSA as soon as they are prepared.

Tip #5: Prepare tax returns as soon as possible and submit to SSA.

*WIPA Work Incentive Training Manual 2015-Virginia Commonwealth University

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Trial Work Period

TWP

“The make all you can phase”

1. I can make all the money I am able and still keep my full cash check
2. For 2016, monthly NESE above \$810 and or business related work over 80 hours will be counted as a TWP month
3. Keeping monthly P&L financial statements and records is critical
4. Once I collect 9 TWP months in a rolling 60 month period, I will move on to the next phase of benefits (EPE)
5. SGA is NOT a factor during TWP

Extended Period of Eligibility

EPE Re-Entitlement

“The all or nothing phase”

1. Lasts for exactly 36 months after the TWP ends
2. If monthly countable NESE income is higher than SGA, then my check will be “paused” for that month
3. If monthly countable NESE is lower than SGA, then my full cash check continues
4. Earnings from work will not terminate my benefits
5. Medicare continues for at least 7 years and 9 months after TWP if SSDI check stops due to work
6. Some “deductions” may be available to help reduce my countable NESE

\$ NESE
-\$ Unincurred Business Expenses
-\$ Unpaid Help
-\$ IRWE (if not used for taxes)
= Countable Earnings

EPE After 36 Months

EPE After 36 Months

“After 36 months Phase”

1. My benefits will continue indefinitely if my countable NESE is below SGA
2. If my countable NESE is above SGA my benefits will terminate
3. If my NESE drops back below SGA within 60 months of termination, I can request Expedited Reinstatement (ExR)
4. While waiting for an ExR decision, I will be given provisional benefits for up to 6 months
5. If approved for ExR, I get a new TWP/ EPE/ExR and continuation of Medicare
6. Monthly P&L Statements are important to report and prove my NESE to SSA

2016 SGA
\$1,130 for Non-Blind
\$1,820 for Blind

What is Substantial Gainful Activity (SGA)?

SGA is fairly complex, but a key measurement is the countable income from employment a beneficiary EARNs in a calendar month. For 2016, a person is considered to be working over SGA when COUNTABLE income is over \$1,130 per month. Use of work incentives can help reduce countable income.