

Self-Employment and Social Security Disability Insurance (SSDI)

Quick Look: Social Security views and defines income generated from self-employment differently from earned income from wage employment. It is important to track your monthly profits and expenses to report your countable income accurately to avoid experiencing an overpayment or underpayment with your cash benefits.

Determining Self-Employment

Social Security uses three types of tests to determine if work should be considered self-employment. These tests use Substantial Gainful Activity (SGA) as the income guideline.

- **Significant Services and Substantial Income** occurs when services significant to the business are

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rendered or when a substantial income is received.

- Example: When, after all work incentives are deducted, your countable income is higher than SGA.
- **Comparability of Work Activity** occurs when the hours, skills, efficiency, duties, or responsibilities are comparable to that of an unimpaired individual in the same community engaged in a similar business, even when SGA is not being met.
 - Example: You own a construction company and charge \$500 for the same service another construction company in town charges \$5,000. Both companies complete the job at the same skill level. Social Security would consider that you are working at SGA.
- **Worth of Work Activity** occurs when the work activity is worth more than the SGA guideline or when compared to the salary an owner would pay to

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an employee for the same duties, even when SGA is not being met.

- Example: You own a flower shop and charge \$50 per custom arrangement. Due to your disability, you only accept a small number of orders per month. However, the time, effort, and number of jobs completed should be worth \$500 per order. Social Security would consider that you are working at SGA.

Determining Countable Income:

Social Security uses the terms 'gross' and 'net' to describe income from self-employment. **Gross income is the total amount of money a business makes from sales. Net income is the profit margin from those sales, which are the gross sales minus the business's expenses.** Social Security requires you to submit an estimation of your net profits each year to determine countable income. This estimate should be as close to

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the actual net profit as possible to avoid an under or overpayment. This may be difficult to estimate for your first year since your business is just starting. The estimated net profit will then be divided by the months the business plans to be in operation that year. After your first year, the months counted would be all twelve unless your business closes. If you own a seasonal business, the months counted would only be the months your business typically operates.

Social Security uses the Net Earnings from Self-Employment (NESE) calculation to determine countable income from a self-employed beneficiary. The equation takes the estimated monthly net profits and subtracts half of the self-employment tax rate. This tax rate is 15.3% for 2026, half of which is 7.65%. Remember, when you are self-employed, you must pay taxes on your wages. Among other things, these taxes go to pay your Social Security and Medicare (FICA) taxes.

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Self-Employment Calculation Example:

Estimated Yearly Gross Profit – Estimated Yearly Expenses = Estimated Yearly Net Profits

$$\$25,000 - \$15,000 = \$10,000$$

Estimated Yearly Net Profit / Months in Business in a Single Year = Estimated Monthly Net Profit

$$\$10,000 / 10 = \$1,000$$

Estimated Net Profit Per Month – Half of Self Employment Tax Rate = NESE

$$\$1,000 \times (100\% - 7.65\%) = \$932$$

Tracking your business profits and expenses through a Profit/Loss Statement is essential. Social Security will require this document to justify your NESE amount and to confirm that any cash withdrawn from the business was done correctly.

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Work Incentives

When you are self-employed and receiving SSDI, you are entitled to the same Impairment Related Work Expenses (IRWE) as an employed wage earner. However, there are differences in how some of these can be applied. There are also two additional work incentives offered to self-employed beneficiaries.

Trial Work Period

Trial Work Period (TWP) is a time frame of nine months in a rolling 60-month period in which Social Security allows you to test out working. A TWP month is used if you earn over the monthly threshold for the Trial Work Period. In 2026, this threshold is \$1,190.

It is important for a self-employed beneficiary to remember that even if you are not earning over the TWP threshold, a TWP month could be used if you work more than 80 hours a month. Hours that can be counted are defined as hours you spend on ongoing business duties

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for pay or profit. The time you spend planning the business is not included in this equation.

Once you have used all nine Trial Work months, the Extended Period of Eligibility (EPE) begins and continues for 36 months. Remember, during EPE, your cash benefits pause in the months you make over Substantial Gainful Activity (SGA) and resume in the months you make under SGA. After 36 months, Social Security determines if you will continue to be entitled to benefits based on your SGA history.

Impairment Related Work Expense (IRWE)

When you have an expense related to your disability that is needed to do your job, this may qualify as an IRWE. However, when you are self-employed, this item may also count as a deduction from your business expenses when doing your taxes. Social Security will not accept an item as an IRWE if it is also submitted as a business expense to the IRS. As such, you will need to decide

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which is a bigger impact on your business income and cash benefits when choosing to which agency to submit.

Unincurred Business Expenses

When determining countable income, Social Security deducts any incurred business expenses that were paid for by another person or agency even though there was no expense to your business. The item or service must meet the IRS definition of a business expense, and a value must be assigned to the product or service. You must submit either the receipts or proof of agreement to Social Security to receive this deduction in NESE.

- Example: Your friend owns an office building. He allows you to use an office space for free for three months to operate your business. Because this is at a cost to your friend, as a customer would have typically paid for the rent, the market cost of the rented space in these three months could be deducted from your NESE.

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- Example: Vocational Rehabilitation has purchased a computer and printer for your business. The cost of these items could be deducted from your NESE.

Unpaid Help

If you receive help with your business at no cost to you, Social Security will deduct the Fair Market Value (FMV) of this unpaid help from your NESE. This help can come in the form of personal assistance or commercial assistance.

Personal assistance is a small service that can help with the daily operation of the business. Social Security looks at the current wages for similar positions and deducts the value from your NESE.

- Service Example: Your spouse does the bookkeeping for your business at no charge. SSA determines that this service is worth \$250. The \$250 is deducted from your monthly NESE for the month in which the work was completed.

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- Hourly Example: Your son stocks shelves three hours a day, four days a week at no charge. SSA determines that this work is worth \$10 per hour or \$480 per month. The \$480 is deducted from your monthly NESE for the month(s) in which the work was completed.

If you receive assistance on a larger scale that is typically done by a specialized business, this may count as commercial unpaid help. These activities are not a daily part of the business operation but help the business to continue progressing. Social Security determines the Fair Market Value (FMV) of this service and deducts it from your monthly NESE.

- Example: Your business requires a trench to be dug. Your friend owns a construction business and offers to dig this trench for you at no cost. The FMV of this service is \$600. The \$600 is deducted you're your

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monthly NESE for the month in which the work was completed.

If the same person offering personal unpaid help also offers commercial unpaid help, a statement of purpose and impact on those non-commercial duties must be submitted to Social Security along with the value and explanation of the commercial unpaid help.

It is important to track unpaid help as often as it occurs and turn in your count to Social Security monthly. Remember to keep a copy of this help for your records.

Plan to Achieve Self-Support (PASS)

A PASS is a work incentive that allows beneficiaries to set aside money and items to pay for items or services needed to achieve a specific work goal, such as starting a business. ****A PASS is only for Social Security beneficiaries who receive Supplemental Security Insurance (SSI).***

However, an SSDI only recipient can also benefit from this work incentive if their plan for self-support includes

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setting aside enough of their SSDI benefits to reduce their yearly earned and unearned wages to become eligible for SSI. There are also asset limitations as SSI is a need-based program. Becoming eligible for SSI may allow you to utilize SSI-specific work incentives as well, such as a Property Essential to Self-Support plan. However, the change may also impact how your SSDI work incentives benefit your business. A PASS plan is created with a PASS Cadre and must be approved before implementation. It is important to speak with your WIPA or Social Security about your options and how pursuing this change may impact you and your business.

Reporting to Social Security:

It is important to report all earnings to Social Security to accurately calculate your monthly benefits and avoid an over or underpayment. With this document, you will also receive a fact sheet explaining specific details on reporting to Social Security. However, being self-

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employed requires you to also report items specific to your business, including:

- An estimate of annual net profits;
- A monthly profit/loss statement;
- Any cash taken from profits not reported in profit/loss statement;
- Monthly reports of unpaid help, including the person's name, hours worked, and work completed;
- Monthly reports of incurred business expenses provided at no cost to you, their value, and the provider.

Ensure that you submit all documentation that may impact your business within these categories as well as other work incentives, such as Impairment Related Work Expenses, to give an accurate picture on how your business operates.

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Source: www.ssa.gov. Reviewed by the Center on Community Living and Careers.

**For more information, contact the
Indiana Benefits Information Network
812-855-6508 | www.iidc.indiana.edu/cclc**

**Indiana's Work Incentive Planning and
Assistance Program
North/Central: 855-641-8382 | Southern:
502-548-4492**