

Center on Self-Employment

National Center on Self-Employment, Business Ownership and Telecommuting

Self-Employment and Benefits from Social Security

Training for Rehabilitation Counselors

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What Is Self-Employment?

- Different from wage employment
- Doesn't involve long-term employer-employee relationship
- No employer withholding taxes from workers' pay or providing employee benefits
- May include business ownership, independent contracting or gig work



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Self-Employed Workers Must Pay Their Own Taxes

- Self-employed workers pay federal and state income taxes, Social Security and Medicare taxes.
- Employer doesn't withhold taxes, so worker needs to pay all taxes
- If net self-employment earnings over \$400/year, need to file with IRS and pay taxes

* NOTE: Most content in this presentation relates to sole proprietors, independent contractors and gig workers. Rules may be different for S Corporations and C Corporations.

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Self-Employed Workers Must Pay Their Own Taxes

- Workers supposed to pay estimated taxes 4 times a year (April, June, September and January), BUT
 - IRS will not penalize them if they pay at least 90% of taxes they owe for the year by the January estimated tax deadline
- Estimated tax form and instructions - <https://www.irs.gov/pub/irs-pdf/f1040es.pdf>



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Self-Employed Workers Must Pay Their Own Taxes

- Free tax preparation through Volunteer Income Tax Assistance (VITA) program if household income less than \$57,000/year
- Some VITA sites may help with estimated taxes.
- To find a nearby VITA site, call 800-906-9887 or use the online VITA site locator at <https://irs.treasury.gov/freetaxprep/>.



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Self-Employed Workers Pay More Social Security and Medicare Tax

- They pay 15.3% for these taxes.
- Wage employees pay half that amount – 7.65% - and the employer pays the other 7.65%.

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Self-Employed Workers Can Get Help to Manage SSDI or SSI Benefits When They Work

- Call the Ticket to Work Help Line – 866-968-7842
- Ask to be connected with Work Incentives Planning and Assistance (WIPA) project to get free benefits planning
- **BENEFITS PLANNING IS ESSENTIAL FOR SELF-EMPLOYED PEOPLE WHO GET BENEFITS FROM SOCIAL SECURITY.**



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Self-Employed Workers Who Get SSDI or SSI Should Report to Social Security When They Start Work

- Report by phone (local SSA office or 800-772-1213), mail (to local SSA office) or in person (after SSA offices reopen)
- Provide an estimate of how much person expects to earn for the calendar year
- Social Security uses this estimate to determine the impact of earnings on SSDI or SSI.

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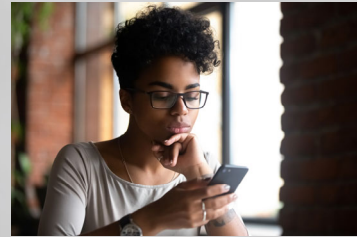
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Self-Employed Workers Who Get SSDI or SSI Should Report to Social Security When They Start Work

- If earnings during the year differ much from initial estimate, contact Social Security to revise estimate
- Helps avoid overpayment or underpayments
- Workers should provide estimate of self-employment earnings for the year to Social Security at the start of each calendar year



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Impact of Self-Employment Earnings on SSDI and SSI

- Social Security starts with “net earnings from self-employment (NESE)”
- $NESE = (\text{Gross revenue minus business expenses the worker pays for}) \times 0.9235$
- **MYTH:** Social Security only counts money the worker takes out of the business (owner’s draw)

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Workers Need to Track Business Expenses They Pay For

- Business expenses subtracted from self-employment income, so less earnings count for SSDI and SSI
- Can track expenses on paper, with a spreadsheet, or with an app.



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Workers Need to Track Business Expenses They Pay For

- Examples: Vehicle mileage for work (other than commute to/from workplace), supplies, cost of goods sold, equipment, telecommunications, accounting fees
- Mileage tracking apps at <https://www.hyrecar.com/blog/best-apps-to-track-uber-and-lyft-mileage/> - 57.5 cents/mile in 2020; 56 cents/mile in 2021



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Impact of Self-Employment Earnings on SSDI

Social Security deducts three other items from income (in addition to business expenses):

1. Impairment Related Work Expenses (IRWE) – items the worker pays for needed for work due to disability or another condition being treated by a health care provider
2. Unincurred Business Expenses – business expenses someone else pays for (VR, other agencies, family, etc.)
3. Value of Unpaid Help – market value of help that others provide to operate business

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Impact of Self-Employment Earnings on SSDI

- If earnings after all allowable deductions below “substantial gainful activity (SGA)”, worker can usually keep SSDI
- SGA = \$1,310/month in 2021 (\$2,190/month for blind workers)

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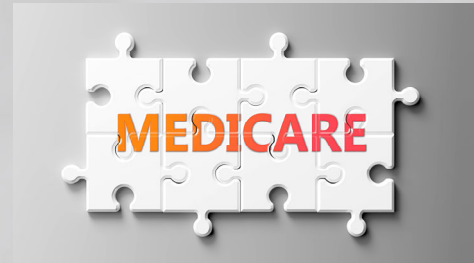
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Impact of Self-Employment Earnings on SSDI

- If worker earns enough to stop SSDI, there are work incentives (safety nets) that:
 1. Protect Medicare, and
 2. Enable the worker to get SSDI back, without reapplying, if earnings later drop or stop



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Impact of Self-Employment Earnings on SSI

- For SSI, workers can deduct only IRWE from NESE, NOT Unincurred Business Expenses or Unpaid Help.
- Blind workers can deduct Blind Work Expenses (BWE) – most work-related expenses, even if not needed due to blindness
- SSI is reduced by a little less than half of NESE (reduction is lower if person uses IRWE or BWE)

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Impact of Self-Employment Earnings on SSI

- If worker earns enough to stop SSI, there are work incentives that:
 1. Protect Medicaid
 2. Enable the worker to get SSI back, without reapplying, if earnings later drop or stop



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Impact of Self-Employment Earnings on SSI

- If business is a sole proprietorship or simple partnership, business property and business bank accounts don't count against \$2,000 resource (asset) limit for SSI (Property Essential to Self-Support (PESS))
- PESS does NOT apply to LLCs, S Corporations or C Corporations

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Plan to Achieve Self Support (PASS)

- Great work incentive that helps fund business start-up costs
- May be used by workers who receive:
 - SSDI (in many cases) or
 - SSI (if they have other income, such as self-employment earnings)

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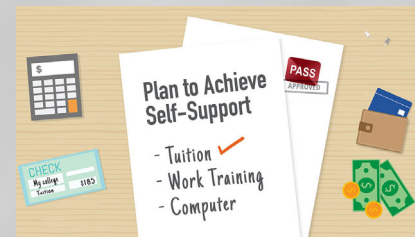
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Plan to Achieve Self Support (PASS)

- PASS provides:
 - SSI eligibility for workers who get SSDI (they can get both SSDI and SSI with PASS)
 - Higher SSI payments for workers who get SSI (they can keep up to maximum SSI payments if other income would ordinarily reduce SSI)
- Extra SSI income helps offset business startup costs



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Plan to Achieve Self Support (PASS)

- PASS for self-employment can last up to 18 months, or longer if needed
- Must be approved by Social Security “PASS Cadre”
- Benefits Planners can help write PASSes and negotiate for approval
- PASS can supplement other funding for business start-up
- May also be used for employment, including telework

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Questions?



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