

***Independent Contractor or  
Self-Employed: Reporting  
Earned Income to Social Security***

This information packet is for people who receive earned income as an independent contractor or as a self-employed person and receive disability benefits from Social Security. Independent contractors are considered to be self-employed. Checks for services to self-employed persons do not have any deductions. However, you are allowed to make certain deductions to determine your Net Earnings from Self-Employment (NESE). This publication will guide you on what deductions are available and how your NESE may affect your SSI or SSDI monthly benefits.

If you have questions about your disability benefits and earned income, call Disability Rights California at its toll-free number 1-800-776-5746 and ask to speak with our Social Security and Work Advocate. You can also visit the Social Security website covering disability benefits and work at [www.ssa.gov/work](http://www.ssa.gov/work) or the government benefits page on our website at [www.disabilityrightscalifornia.org](http://www.disabilityrightscalifornia.org). Social Security's "Red Book on Employment Support" is available on the Social Security website at <http://www.ssa.gov/redbook>. Copies are available from your local Social Security office. Ask for The Red Book. There are Social Security regulations cited below. You can see those regulations at [www.ssa.gov/regulations/index.htm#top](http://www.ssa.gov/regulations/index.htm#top). Click on "Code of Federal Regulations." Or go to your local library and ask for help from the Reference Librarian.

You must **keep your own records** because you cannot count on Social Security's filing or record keeping system. If you receive Supplemental Security Income (SSI) or Social Security Disability Income (SSDI) benefits, you must:

- Keep a copy of everything Social Security sends you. Save the envelopes!
- Keep a copy of everything you send Social Security.
- Take notes whenever you talk to someone at Social Security or whenever you meet with someone at Social Security. Write down the person's name, what you talked about and the date you talked or met.

We recommend that you three-hole punch your papers and put them in a notebook. We also recommend that you three-hole punch a manila envelope and put the envelope in your notebook so that you have a secure place to keep your check stubs and receipts.

## ***Gross Income versus Net Earnings from Self-Employment (NESE):***

When determining countable income, Social Security looks at your gross income before any deductions. However, if you are an independent contractor or self-employed, your income may not be the amount of any check you receive but a lower amount. This is because you may have business expenses or other deductions that reduce your income. The income left after reducing your business expenses or other deductions is referred to by SSA as your Net Earnings from Self-Employment.

### **Deductions available to determine your NESE:**

NESE is the amount of your independent contractor/self-employed checks minus any business expenses that are allowed by the Internal Revenue Service (IRS). SSA also allows you to deduct from your earnings 50% of the Social Security tax you paid.<sup>1</sup> (IRS sometimes calls the amount after deducting allowable business expenses and half your Social Security taxes as your “adjusted gross income.” This is the amount you would pay income tax on if your earnings were high enough.) See 20 C.F.R. § 404.1080, 404.1081, 416.1110(b).

### **Determining Countable Income-SSI Program (Title XVI)**

***If you receive SSI - how Social Security counts self-employment income:*** If you are self-employed, Social Security counts your NESE. The yearly NESE is divided equally among the months in the taxable year to get the NESE for each month. Any verified net losses from self-employment are divided over the taxable year in the same way as net earnings. 20 C.F.R. § 416.1111(b). The NESE is then used to determine your SSI monthly benefit amount.

***Example:*** You receive SSI only and have no other earned or unearned income. You have a contract with an agency to do consultant work. The contract runs from July 1, 2010, to June 30, 2011. The contract says that when you do consultant work, you will be paid \$120 a day. You work three days in the six months between

---

<sup>1</sup> If your total income from self-employment in a year is \$400.00 or more, you have to pay Social Security self-employment taxes in an amount equal to 15.3% of your total net income from self-employment. See Social Security’s publication about self-employment: <http://www.ssa.gov/pubs/10022.html> (January 2010).

January 1, 2011 and June 30, 2011. Assume you had no business expenses and that you did not pay any Social Security self-employment tax.<sup>2</sup> This is how you would determine your NESE:

Your earnings of \$360 for calendar year 2011 would be divided by 12. This equals to \$30 earned income for each month.

This is how you determine your monthly SSI benefit amount:

Gross earned income .....	\$ 30.00
Less \$20 any-income deduction* .....	(20.00)
Less \$65 earned income deduction .....	(65.00)
Less Impairment Related Work Expenses (IRWEs) ...	- 0 -
Subtotal .....	\$ - 0 -
Less 50% of the subtotal .....	- 0 -
Less Blind Work Expenses .....	- 0 -
Countable SSI Income .....	\$ - 0 -

\*If you have no unearned income, you can deduct the \$20 any-income deduction from earned income.

Based on this calculation, your SSI benefit amount would not change.

### ***How Social Security counts self-employment income-SSDI (Title II):***

#### **Trial Work Period**

If in any month you have NESE that averages more than \$720 in 2011 or you work more than 80 hours, regardless of the amount of earnings, that month would count as a trial work period (TWP) month. You only get nine TWPs within a rolling 60 month period. The nine TWPs do not have to be consecutive. 20 C.F.R. § 404.1592.

#### **36 month Reentitlement Period (Extended Period of Eligibility)**

Immediately following your ninth TWP you enter the reentitlement period. This is a thirty sixth month *consecutive* period. SSA can cease benefits if a person's NESE is at the Substantial Gainful Activity (SGA) threshold (\$1,000.00 for 2011) during the reentitlement period. To determine whether work is SGA, SSA must apply all relevant work incentives, such as Impairment Related Work Expenses (see below).

---

<sup>2</sup> You do not have to report or pay Social Security self-employment tax if your income is less than \$400.00.

Benefits can be reinstated during the reentitlement period if work is below the SGA threshold. However, benefits can terminate permanently if work is at SGA after the thirty sixth month of the reentitlement period. 20 C.F.R. 404.15929(a)

### **Note About Annual Increases in SGA and TWP Thresholds**

Each year Social Security usually will increase (a) the amount you can earn before the earnings mean the month is counted as a trial work period month and (b) the amount you can earn before the earnings may count as “substantial gainful activity” or SGA for both the disability and blind Title II Social Security programs. 20 C.F.R. §§404.1574(b)(2)(ii), 404.1592(b)(2)(ii). However, when there is no cost of living increase, there will not be an increase in the trial work period or the SGA.<sup>3</sup>

### **Special Deductions for Certain Work Expenses**

***Impairment Related Work Expenses (IRWEs)*** are out-of-pocket expenses related to your disability if necessary to help you work or to continue to be able to work even if you would have those same expenses if you were not working. 20 C.F.R. §§ 404.1576, 416.976. The IRWE will be applied if you work and receive a disability benefit (see below). Examples of IRWEs include attendant care assistance while at work to get you ready for work, to help you return to work, transportation costs if you are unable to use or rely on public transportation because of your disability. See The Red Book for more examples.

***IRWEs for people who receive SSI:*** IRWEs that you pay for yourself can be deducted from your earned income. Your countable income – the amount by which your SSI grant would be reduced – is determined after deducting IRWEs along with other earned income deductions. This deduction is available to persons who receive SSI on the basis of disability, other than for blindness (see below for persons who are blind). It is also available to persons who receive SSI on the basis

---

<sup>3</sup> The Social Security Act provides for an automatic increase in Social Security and SSI benefits if there is an increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from the third quarter of the last year a cost-of-living adjustment (COLA) was determined to the third quarter of the current year. As determined by the Bureau of Labor Statistics, there is no increase in the CPI-W from the third quarter of 2008, the last year a COLA was determined, to the third quarter of 2010, therefore, under existing law, there can be no COLA in 2011. Social Security Administration “SOCIAL SECURITY News Release Under the Law No Social Security COLA for 2011.” SSA Press Office, October 15, 2010.

of age (65 or older) but who have a disability and received SSI on the basis of disability in the month before their 65th birthday. 20 C.F.R. 416.1112(c)(6).

**SSI Blind Work Expenses:** Persons who receive SSI on the basis of blindness are not eligible to deduct Impairment Related Work Expenses. They are, however, able to deduct blind work expenses which is any expense reasonably related to working. That would include most IRWEs plus other expenses related to working which are not impairment related (mandatory deductions for taxes or pension contributions, bus fare, uniforms, equipment, meals when at work, etc.). For more information, see the Red Book. This deduction is available to SSI recipients under age 65 and to persons 65 and older if they received SSI in the month before their 65th birthday. 20 C.F.R. 416.1112(c)(8).<sup>4</sup>

**IRWEs for people who receive Social Security (Title II) benefits based on disability or blindness including Social Security Disability Income (SSDI), Disabled Adult Child or Child Disability Benefits (DAC or CDB) or Disabled Widow Benefits:** IRWEs you pay for yourself are deducted from your earned income before looking to see if your income is high enough to indicate that your work may constitute SGA.

Your IRWEs are deducted from your net earnings from self-employment to determine if your earned income after IRWEs is more than \$1,000 (for 2011) (if you receive benefits on the basis of a disability) or more than \$1640 for 2011 (if you receive benefits on the basis of blindness). 20 C.F.R. §§ 404.1574(b) (1), 404.1576. IRWEs are not deducted from earnings to see if a month counts as a trial work period month.<sup>5</sup>

---

<sup>4</sup> Persons who qualify for SSI on the basis of blindness are better off deducting an expense as a blind work expense rather than as a business expense. This is because a blind work expense is deducted *after* the 50% work incentive deduction. IRWEs are deducted before the 50% work incentive deduction.

<sup>5</sup> Some expenses may satisfy the rules for a business expense deduction when determining net earnings from self-employment (NESE) and as an Impairment Related Work Expense (IRWE) or a Blind Work Expense (BWE) deduction. You can deduct an expense just once. There would be no bottom line difference between deducting an expense as a reasonable business expense or as an IRWE, except as explained in footnote 3. However, while Social Security will not recognize IRWEs paid for in a month in which you did not receive earned income, there is no such limitation with respect to IRS allowable business expenses.

## Reporting your income to Social Security

### Reporting Net Earnings from Self-Employment to Social Security & How to Use the Attached Forms

***If you receive SSI:*** There are many changes you are required to report to Social Security. 20 C.F.R. § 416.708. Among the changes you are required to report is any increase or decrease in income. 20 C.F.R. § 416.708(c). You are required to report any change including an increase or decrease in income by no later than the 10th day of the month following the month in which the change occurred. 20 C.F.R. § 416.714(a). We recommend that you report the change sooner than the 10th day if you can. If you do not report by the 10<sup>th</sup>, Social Security has the authority to penalize you by reducing or suspending your SSI. 20 C.F.R. §§ 416.722 through 416.730.

***If you receive Title II Social Security benefits on the basis of disability:*** Social Security regulations say that you must promptly tell Social Security if you start to work (including work as an independent contractor or self-employed person). Thereafter you are required to report any increase in the amount of your work (i.e., increase in the number of hours worked) or in the amount of your earnings. 20 C.F.R. § 404.1588. You also should report any decrease in the number of hours worked or the amount of your earnings. If your self-employment stops, report that also.

***Do not delay reporting earned self-employment income because you have not determined your business or other deductions:*** Just hand write on the form letter you send to Social Security something like “deductions not yet determined.”

### If You Receive Both SSI and Title II Benefits

You need to report to both the SSI (Title XVI) and SSDI (Title II) units. They do not talk to each other. Send a copy of anything you send to the Title XVI unit in a separate envelope to the same address, but write on the copy "Attention Title II

---

One reason for calling a expenditure an IRWE rather than a business expense is if you need additional quarters of work to qualify for Social Security benefits. In the year 2011, you must earn \$1,120 in covered earnings to get one Social Security or Medicare work credit and \$4,480 to get the maximum four credits for the year.

Unit." Make certain that your records show that you sent a report to both the Title II SSDI Unit and to the Title XVI SSI Unit.

***Advantages of reporting to Social Security:*** People report that when they take charge of reporting to Social Security, they feel more confident, less fearful in their dealing with Social Security. They report that Social Security is more respectful of them. People report that when they are the ones to file reports rather than wait for Social Security to ask them for information, they feel more in control.

### **Forms to be used by SSI Recipients:**

#### ***Two-Page Form entitled "SSI Recipient – Report of Self Employment"***

**Letter Form:** Fill in the address of your Social Security office and information about you after the "re." After #(1) fill in the month and year of the first month this current year that you were self-employed. That would be January if you were self-employed last year and continued to be self-employed this year, or if you started in January. After the #(2) enter the first month this year that you received self-employment income. That may be the same month as you entered after the first bullet or a later month. After #(3), enter "unknown" if you do not know how long the self-employment will last. At this point make many copies of the form. We recommend you three-hole punch the copies and place them in a binder.

Each month fill in the date you are signing and mailing in the form. The entries for #(1), (2) and (3) already should be filled in. After #(4), fill in the month you are reporting to Social Security about and the gross income (before any business deduction) received in the month you are reporting about. If this is the first month of the year you are making a report, the month entered in #(2) and #(4) will be the same. Photocopy the checks or check stubs paying you for your work. Attach the photocopies to the papers you are mailing in to Social Security. If you paid Social Security self-employment taxes, attach something that shows the amount you paid.

**Itemization Form:** Fill in information about your gross receipts (i.e., the checks you get for independent contractor or consultant work). Write in the date you received a payment, who you got the payment from, and the amount. In the block below, fill in information about any business expense deductions (i.e., cost of phone calls, travel, supplies). In the bottom block, fill in information about IRWEs or Blind Work Expenses. Keep this page in your notebook and update it as you have income or expenses. Send in a photocopy of this sheet, together with page one, each time you report. Staple copies of income checks and expense receipts to the original of this form - or put them in a manila envelope you keep in your notebook.

**Be sure to keep a copy of what you mail or give to Social Security.** That includes a copy of the form letter and a copy of the itemization form. Although you are keeping the original of the itemization form in your notebook and adding to it as you receive income or have business expenses, you need a copy of exactly what you sent to Social Security. Write down on your copy the date it was mailed – i.e., “put in the mailbox December 1, 2011.” Bring your notebook with you whenever you visit the Social Security office.

***Form entitled “SSI Recipient – Final Report re Self-Employment”***

This is the form you use when you finish a period of self-employment – for instance, if you have been working as an independent contractor or consultant under a contract that has expired or run out of time. You send this completed form in together with a copy of the itemization you used for earlier reports.

***Form to be used by Social Security Disability recipients (SSDI, DAC, disabled widows):***

Fill in the address of your Social Security office and information about you after the "re." Fill in the first month in a calendar year that you were self-employed. Make many copies of the form. We recommend you three-hole punch the copies and keep them in your notebook.

You must report the first month you have any earnings from self employment. Thereafter, you report if you have any increase in the amount of your earnings from self-employment. You also report any month in which your work activity took more than 80 hours. We also recommend that you report your earnings from self employment for months in which your income goes down. If you have not had nine months that count as trial work period months, it is important that you report any month following a trial work period month where your income drops to \$720 a month in 2011 or less or your hours of work activity drop to 80 hours a month or less.

For each month that you report about, mail in the filled in and signed letter form together with a copy of the itemization form. Enter the date you are signing and mailing the form on the top of the letter form. In the second paragraph of the letter, enter the month you are reporting to Social Security about. Check whether your work takes 80 hours or less or more than 80 hours a month. Photocopy the checks or check stubs paying you for your work and send in the photocopies with your letter.

On the itemization form, enter any self-employment payments as you receive them.



In the first block, enter the date received, who paid you, and the amount. Make a copy of the check or check stub to send with your papers to Social Security. Keep the original in an envelope in your notebook. In the second block, fill in information about any business expense. In the third block, fill in information about any IRWEs. Keep any expense receipts or cancelled checks in an envelope in your notebook. Keep your original in your notebook.

Be sure to keep a copy of what you mail or give to Social Security. That includes a copy of the form letter and a copy of the itemization form. Although you are keeping the original of the itemization form in your notebook and adding to it as you receive income or have business expenses, you need a copy of exactly what you sent to Social Security. Write down on your copy the date it was mailed – i.e., “put in the mailbox December 1, 2011.” Bring your notebook with you whenever you visit the Social Security office.

**Never, never mail your original check stubs or receipts or cancelled checks unless you send them return receipt requested! Our experience is that many things sent to the Social Security office almost never make it into your file.**

**See Attached Forms**

SSI Recipient – Report  
of Self-Employment

Date: \_\_\_\_\_

Social Security District Office

\_\_\_\_\_  
\_\_\_\_\_  
Attn: Title XVI/SSI Unit

Re: Name \_\_\_\_\_

SSN \_\_\_\_\_

Address \_\_\_\_\_  
\_\_\_\_\_

Day phone \_\_\_\_\_ Eve/message phone \_\_\_\_\_

I am reporting that I receive self-employment income.

(1) I started my self employment in the month of \_\_\_\_\_, 200\_\_.

(2) I received my first self-employment gross receipts in the month of \_\_\_\_\_,  
200\_\_.

(3) I expect my self-employment will continue through the month of \_\_\_\_\_,  
200\_\_.

(4) I received \$ \_\_\_\_\_ in gross receipts from self-employment in the month of  
\_\_\_\_\_, 200\_\_. I am attaching a photocopy of the check or checkstub.

Attached is a breakdown of gross receipts, business expense deductions if any to date, IRWEs or blind work expense deductions if any, and Social Security self-employed tax payments, if any. Please let me know if there is additional information you would like and/or if you determine the net earnings from self-employment so far would change the amount of my SSI check. I will bring in my records at the time of my annual review. I am not mailing in my original papers because I cannot risk them being lost.

I swear under penalty of perjury that the foregoing statements are true and correct and that the attached itemization of self-employment income and expenses is also true and correct. I swear under penalty of perjury that the attached photocopies are true copies of the originals. Executed (signed) the date listed at the top of this letter in the city listed in my address above.

□ \_\_\_\_\_

**Itemization**

Name \_\_\_\_\_ SSN \_\_\_\_\_

**Gross Receipts from Self-Employment**

Date Received	Source	Amount

**Business Deductions**

Date Paid	Describe Expense & Who Paid	Amount

**Impairment Related Work Expenses or Blind Work Expenses**

Date Paid	Describe Expense & Who Paid	Amount

### Social Security Self-Employment Taxes

Date Paid	Amount Paid	Date Paid	Amount Paid

Continue on next page if necessary.

Itemization p.2

Name \_\_\_\_\_ SSN \_\_\_\_\_

**Gross Receipts from Self-Employment**

Date Received	Source	Amount

**Business Deductions**

Date Paid	Describe Expense & Who Paid	Amount

**Impairment Related Work Expenses or Blind Work Expenses**

Date Paid	Describe Expense & Who Paid	Amount

## Social Security Self-Employment Taxes

Date Paid	Amount Paid	Date Paid	Amount Paid

SSI Recipient  
Completion of Self-Employment

Date: \_\_\_\_\_

Social Security District Office

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Attn: Title XVI/SSI Unit

Re: Name \_\_\_\_\_

SSN \_\_\_\_\_

Address \_\_\_\_\_

Day phone \_\_\_\_\_ Eve/message phone \_\_\_\_\_

I have completed my period of self-employment beginning the month of \_\_\_\_\_, 200\_\_ through the month of \_\_\_\_\_, 200\_\_. My net earnings from self-employment (NESE) totaled \$\_\_\_\_\_. (Gross receipts *minus* business expenses *minus* Social Security self-employment taxes paid.) My IRWEs or Blind Work expenses totaled \$\_\_\_\_\_. See the attached itemization. I will bring in my records at the time of my annual review. I am not sending in my original papers because I cannot risk them being lost.

Please let me know if my net earnings from self-employment will affect my SSI checks.

I swear under penalty of perjury that the foregoing statements are true and correct and that the attached itemization of self-employment income and expenses is also true and correct. Executed (signed) the date listed at the top of this letter in the city listed in my address above.

\_\_\_\_\_

—



SSDI, DAC Widower Beneficiaries  
Self-Employment Report Form

Date: \_\_\_\_\_

Social Security District Office

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Attn: Title II Unit

Re: Name \_\_\_\_\_

Your own SSN \_\_\_\_\_

If your benefits are under a different number (such as benefits against the earnings record of a parent as Child Disability Benefits), that SSN \_\_\_\_\_

Address \_\_\_\_\_

Day phone \_\_\_\_\_ Eve/message phone \_\_\_\_\_

Month reporting about: \_\_\_\_\_, 200\_\_.

I am reporting work as a self-employed person beginning this calendar year in the month of \_\_\_\_\_, 200\_\_.

Attached is an itemization of my gross earnings, business expenses, any Impairment Related Work Expenses and Social Security self-employment taxes paid so far this year including for the month reporting about. I am enclosing a copy of the check or check stub of gross earnings from the report month. In that month I spent \_\_\_\_\_ 80 hours or less in self-employment work activities, *or*

\_\_\_\_\_ more than 80 hours in self-employment work activities. I understand that by checking I worked more than 80 hours, the month will count as a trial work period month regardless of my earnings.

I swear under penalty of perjury that the foregoing statements are true and correct, that the enclosed photocopy is a true copy of the original, and that the enclosed itemization of self-employment income and expenses is also true and correct. Executed the place and date indicated above.

\_\_\_\_\_

**Itemization**

Name \_\_\_\_\_ SSN \_\_\_\_\_

**Gross Receipts from Self-Employment**

Date Received	Source	Amount

**Business Deductions**

Date Paid	Describe Expense & Who Paid	Amount

**Impairment Related Work Expenses or Blind Work Expenses**

Date Paid	Describe Expense & Who Paid	Amount

### Social Security Self-Employment Taxes

Date Paid	Amount Paid	Date Paid	Amount Paid

Continue on next page if necessary.

Itemization p.2

Name \_\_\_\_\_ SSN \_\_\_\_\_

**Gross Receipts from Self-Employment**

Date Received	Source	Amount

**Business Deductions**

Date Paid	Describe Expense & Who Paid	Amount

**Impairment Related Work Expenses or Blind Work Expenses**

Date Paid	Describe Expense & Who Paid	Amount

## Social Security Self-Employment Taxes

Date Paid	Amount Paid	Date Paid	Amount Paid