



RURALFACTS

Property Essential for Self-Support (PESS): A Self-Employment Resource that SSI Doesn't Count

If you receive SSI and you are self-employed or have your own small business, you need to know about PESS. You also need to know about PESS if you have a countable resource that provides income for you.

When you apply for or receive SSI, the Social Security Administration takes into account any income you receive, and any resources you have. In order to remain financially eligible for SSI, your *countable* income must be less than \$1433/month (in 2009), and your *countable* resources must be below \$2000 (\$3000 for a couple).

First, let's review what income and/or resources do and don't count for SSI purposes. Then we will look specifically at PESS, and how it can help you to have more than \$2000 (\$3000/couple) in resources and still maintain your eligibility for SSI and Medicaid.

RESOURCES

SSI allows you to have up to \$2000 (\$3000/couple) in countable resources. Countable resources include things like cash on hand, bank accounts, stocks and bonds, cash-surrender value of life insurance policies, property in addition to the home or land where you live, and valuables like coin or stamp collections.

When reviewing your resources, SSI will NOT count things like the home where you live and any adjacent property, your personal possessions, a vehicle, the value of a term life insurance policy, money set aside in a Plan for Achieving Self-Support (PASS plan), and the value of any Property Essential for Self-Support (details to follow).

INCOME

SSI doesn't count the first \$20 of any unearned income you receive (like SSDI, VA or Railroad

Retirement benefits, Unemployment or Workers' Comp benefits), but will count every dollar after that. If you don't have any unearned income, SSI will exclude the \$20 from any other income, like earnings, that you may have. SSI also doesn't count the first \$65/month of your earned income, but will count half of everything over and above the first \$65 per month.

PESS, OR PROPERTY ESSENTIAL FOR SELF-SUPPORT

There are 3 categories of PESS that SSI either doesn't count, or will only partially count.

Category 1: "Property Excluded Regardless of Value or Rate of Return" This is the category that assures that SSI will not count any property used in your trade or business. The property that SSI doesn't count can be things like tools, equipment, or permits, and/or it can also be the liquid resources (cash) in your business account. *Your business account can accumulate money well over the \$2000 you are allowed as your personal resources with no adverse effect on your financial eligibility for SSI.*

Note: When children with disabilities are under 18, their financial eligibility for SSI is based on their parents' income and resources, in addition to any income (like child support) and resources (like a trust fund) that the child may have.



Example: Amanda is 13 years old and has cerebral palsy. She lives with her parents and three brothers and has no income and resources of her own. Her parents are self-employed and have their own excavating business, Dig-It! Most of the Dig-It! business occurs in the warmer months, so during the

summer Amanda's parents have a higher income and in the cold winter months there is often no income from the business. SSI counts self-employment income as the average net income per month, so the high summer income from Dig-It! is balanced out by the absence of earnings in the cold winter months. As a result, the average net income Amanda's parents receive from Dig-It! is low enough that Amanda is eligible to receive SSI and Medicaid.

In order to do the excavating that customers need, Dig-It! has a backhoe, a front loader, a bulldozer, a tractor, a dump truck, a great deal of smaller equipment, and a storage facility. The machines and equipment are worth over \$100,000. Amanda's parents also have a business checking account in addition to their personal checking and savings accounts. Their personal accounts have a total of about \$2500. The business account currently has a balance of \$30,000. Even though Amanda's parents have resources worth over \$130,000, SSI doesn't count the resources used in someone's business; therefore the business equipment, the storage space, and the business bank account are not taken into consideration when SSI is deciding if Amanda is financially eligible for SSI payments. And, since their personal resources add up to less than \$3000, Amanda's parents' resources are under the SSI resource limit of \$3000 for a couple, and Amanda is eligible for SSI.

How much SSI Amanda receives will depend on her parents' average net income/month from their business.



Category 2: "Property Excluded up to \$6,000 Equity, Regardless of Rate of Return" One example of this kind of PESS is land that is not used in your business and is not attached to your home, but is where you have a garden to raise fruits and vegetables that feed your family.



Example 1: In this example suppose you own a fishing boat which you use to fish to feed your family. If you have less than \$6000 of equity in this non-business property, then it will all be excluded. If you have more than \$6000 of equity in the property, then everything over \$6000 will be counted by SSI. For instance, if you own a personal fishing boat that

is completely paid off and is worth \$7000, SSI will not count the first \$6000 of the boat's value, but the remaining \$1000 of value will be counted. If you have no other countable resources, or if your countable resources are not over \$1000, then the countable \$1000 of equity in the boat will not put you over the \$2000 personal resource limit, and you will remain financially eligible for SSI.

Example 2: Jordan is 18 years old and has a cognitive disability. He lives with his parents on the family ranch where his mom and dad have been helping him start his own business raising horses. In addition to his horses and equipment, which SSI does not count, Jordan also owns several acres of land that were left to him by his grandfather when his grandfather died. The land from Jordan's grandfather is about a half mile down the road and is not connected to the family ranch. Jordan uses this land to graze a couple of cows that will end up being butchered and eaten by his family. In addition to his horses and the land from his grandfather, Jordan has about \$500 in the bank in his personal savings account.

As we saw in Example #1 in this category, everything related to Jordan's horse business will not be counted when SSI looks at Jordan's resources to see if he is financially eligible for SSI. And since Jordan's personal savings account contains only \$500, he is well under the \$2000 SSI resource limit. That leaves only the land that his grandfather left him.

According to the local assessor, the land from Jordan's grandfather is worth about \$6,700.

Because the land is not part of Jordan's business it can't be excluded under the PESS Category #1 on page 1. However under PESS Category #2, because it helps Jordan to feed his family, up to \$6000 of the value of the land will not be counted.

Value of Jordan's land	\$ 6,700
Amount not counted by SSI	<u>\$ 6,000</u>
Amount counted by SSI	\$ 700
SSI resource limit	\$ 2,000
Jordan's bank account	-\$ 500
Countable value of land	<u>-\$ 700</u>
Amount of resource limit unused	\$ 800

As you can see from the calculation above, when the value of Jordan’s personal bank account is added to the \$700 countable value of the land his grandfather left him, the total is \$1200, which is still well under SSI’s resource limit of \$2000. Jordan could accumulate up to another \$800 in resources with no effect on his SSI eligibility.



As you can see from the examples, this resource must be providing for your essential needs, like food or shelter, in order for SSI to exclude it.

Category 3: “Property Excluded up to \$6,000 Equity if It Produces a 6% Rate of Return” This category might include something like a tractor you don’t use in your own business, but that you rent out to others. The rental income you get from the tractor must be at least 6% of the amount of equity you have in the tractor. If the tractor cost \$8000 new, and you only have \$3000 equity in it because you are still making payments on it, you must *net* at least \$180 from renting it out over the course of a year for it to be excluded by SSI as a resource. In most cases, if your income from renting out the tractor is not at least \$180 (6% of the amount of the \$3000 equity), SSI will count the entire amount of your equity (\$3000) as a resource.

If you rent out land or a vehicle or real property that is not a business, then PESS Category #3 would apply, and the property must net you at least 6% of the equity value in order for that equity value to be excluded (not counted) by SSI. However, if renting out the land or equipment or real property IS your business, then PESS Category #1 would apply, and the value of the property would be excluded regardless of the amount.



Example: Jillian is 19 years old and has quadriplegia. She also is self-employed as an artist who paints with a mouth stick. Jillian has a brand new lift-equipped van for her personal transportation that was donated to her by a local service club. She also has another lift-equipped van that she no longer needs since she got the new one.

The new van is not counted by SSI, because SSI excludes one vehicle regardless of value. The old van is worth about \$2500, and under normal circumstances SSI would count it as a resource. Since its value is above the \$2000 SSI resource

limit, if SSI were to count it, it would make Jillian ineligible for SSI. However, until she can find a buyer for it, Jillian has been occasionally renting the van to people without accessible transportation who need rides to the airport, or to go to special events out of town, or for whatever other purpose people require. She charges people \$50/day and they have to pay for all their gas and return the van with the tank full. Jillian has someone wanting to rent her old van about once a month.

Under PESS Category #3, SSI won’t count the value of the second van if it brings in at least 6% of its value in a year. Since the van is worth \$2500, that means that Jillian needs to get a return of at least \$150 during the course of a year. By renting out the van an average of once a month, Jillian will meet this requirement in 3 months, well under the year time frame. SSI won’t count the first \$20/month of each rental fee, but will reduce her SSI dollar for dollar after that.

Monthly income from renting out the van	\$ 50
SSI general income exclusion	- \$ 20
Countable unearned income	\$ 30
SSI Federal Benefit Rate in 2009	\$674
Countable unearned income	- \$ 30
SSI due two months later	\$644



For the SSA Overview of PESS go to the Website: <https://s044a90.ssa.gov/apps10/poms.nsf/lx/0501130500!opendocument>

HOW SSI COUNTS INCOME FROM SELF-EMPLOYMENT

When your earned income comes from your self-employment or your small business, SSI counts it differently than wages. With wages, SSI excludes the first \$65 you gross each month and if you have no unearned income, SSI will exclude an additional \$20. Then if you have any Impairment-Related Work Expenses (IRWEs), those are excluded by SSI. Once these exclusions have been made, SSI only counts half of what is left. If you happen to have a PASS plan, the last thing SSI will do is subtract the amount you are setting aside each month in your PASS plan, or any Blind Work Expenses you may have. The amount that is left is

called your “countable earned income” and that figure is subtracted from the SSI Federal Benefit Rate for the year (\$674/month in 2009) or the amount of SSI you could be receiving when you take into consideration your living situation and any state supplement your state provides.

HOW EARNINGS FROM WAGE EMPLOYMENT COUNT FOR SSI

Gross earnings/month	_____
Subtract earned-income exclusion	<u>-\$65.00</u>
Subtract general exclusion	<u>-\$20.00</u>
Subtract any IRWEs	_____
Divide remainder by 2 (_____/2) =	_____
Subtract funds set aside in a PASS or any Blind Work Expenses	_____
Remainder is Countable Earnings	_____
SSI Federal Benefit Rate (\$674/mo. in 2009)	<u>\$674.00</u>
Subtract any unearned income	_____
Subtract countable earnings	_____
Remainder is SSI due two months later	_____

If you are self-employed, or you have a small business, SSI counts your earnings quite differently. One reason for this is that self-employment/small business earnings are often extremely variable from month to month. So, first SSI will start with your gross earnings for the entire year (or your projected gross earnings for the year). Next, SSI will subtract your year’s worth of business expenses from your gross earnings. What is left is your net earnings for the entire year. SSI then divides your yearly net earnings by 12 to get an average amount per month. From this point on, SSI treats this average monthly net amount like it treats wages, subtracting the \$65 earned income exclusion, the \$20 general income exclusion, and any IRWEs, and then dividing by two. If there is a PASS plan in effect, SSI then subtracts any money being set aside in a PASS, or any Blind Work Expenses you may have. What is left is your countable monthly net income from self-employment. SSI subtracts the countable net from

the SSI monthly Federal Benefit Rate (FBR) for the next year, and then sends you the resulting amount for each month during the upcoming year. By doing this, Social Security assures you have a stable, predictable amount of SSI each month for the next year. At the end of the next year, SSI goes through the whole process again, and reconciles any differences from the previous year’s calculations.

HOW EARNINGS FROM SELF-EMPLOYMENT COUNT FOR SSI

Gross earnings/year	_____
Subtract yearly business expenses	_____
Result is NET income for year	_____
Divide by 12	_____
Subtract \$65	_____
Subtract \$20	_____
Subtract any IRWEs	_____
Divide remainder by 2 (_____/2) =	_____
Subtract any funds set aside in PASS or any Blind Work Expenses	_____
Remainder is countable net income	_____
SSI Federal Benefit Rate (\$674/mo. in 2009)	<u>\$674.00</u>
Subtract any unearned income	_____
Subtract countable net income	_____
Remainder is monthly SSI amount due for each month next year	_____

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