Removal of Self-employment Income and the Impact on Social Security Benefits
A-03-16-50102

February 2018 **Office of Audit Report Summary**

Objective

To determine whether disclaimed or deleted self-employment income (SEI) allowed individuals to become eligible for Social Security benefits or increased benefit payments.

Background

The Social Security Administration (SSA) provides benefits under Titles II and XVI of the *Social Security Act*. Under Title II, individuals (or qualifying survivors) may become entitled under the Old-Age, Survivors and Disability Insurance programs based on the individual's taxable earnings during his/her lifetime. Under Title XVI, eligibility is based on income and resources. Income is counted each month and, generally, the more income a recipient has, the lower his/her payment will be.

In administering these programs, SSA is responsible for maintaining accurate individual earnings records, including wages and SEI. Self-employed individuals report SEI to the Internal Revenue Service (IRS) on a *Profit or Loss from Business* (Schedule C) or *Self Employment Tax* (Schedule SE) if net earnings are $400 or more. The IRS sends SEI information to SSA, where the Agency records it on the Master Earnings File, which is used to determine a person's eligibility for benefits as well as calculate the benefit amounts.

Findings

Of the 150 beneficiaries in our sample, 38 may have been paid about $314,000 in improper benefit payments because of SEI that was disclaimed or removed from their earnings records. This included about $22,000 in improper payments for five beneficiaries. In addition, we identified 21 beneficiaries who had about $433,000 in questionable SEI that remained posted to their earnings records because SSA did not remove SEI from earnings records unless individuals disclaimed the income.

Of the 150 sample cases, SSA removed the SEI from the earnings records for 139 for scrambled SEI, Social Security number misuse, reporting errors, and fraudulent Earned Income Tax Credits. For the remaining 11 cases, the beneficiaries disclaimed the SEI for questionable reasons.

Additionally, SSA did not update its Numident to reflect the citizenship status of 50 beneficiaries who were lawfully present in the United States. Although the beneficiaries provided SSA evidence of their citizenship and lawful presence when they filed a claim for benefits, staff did not update SSA's Numident. This caused inconsistencies in SSA records for these beneficiaries.

Recommendations

We recommended that SSA:

- Review and take appropriate actions for five beneficiaries who had improper payments that we identified during our review.
- Attempt to contact the 50 beneficiaries and obtain current documentation required to update the citizenship and lawful presence on the Numident.
- Remind staff to update the Numident when individuals provide evidence of citizenship and lawful presence as part of their benefit claims.

SSA agreed with our recommendations.