

Social Security

Social Security Handbook

1812. What types of income do NOT count under the earnings test?

The following types of earnings income (or losses) do not count as earnings from employment or self-employment under the earnings test:

- A. Any income from employment or self-employment earned in or after the month the individual turns FRA;
- B. Any income from self-employment received in a taxable year after the year the individual becomes entitled to benefits. Such income must not be attributable to services performed after the first month of entitlement to benefits;

Note: This income is excluded from gross income only for purposes of the earnings test.

- C. Damages, attorneys' fees, interest, or penalties paid under court judgment or by compromise settlement with the employer based on a wage claim;

Note: Any back pay recovered in a wage claim does count for the earnings test.

- D. Payments to secure release of an unexpired contract of employment;
- E. Certain payments made under a plan or system established for making payments because of the employee's sickness or accident disability, medical or hospitalization expenses, or death (see [1311](#));
- F. Payments from certain trust funds that are exempt from income tax (see [1314](#));
- G. Payments from certain annuity plans that are exempt from income tax (see [1316](#));
- H. Pensions and retirement pay;
- I. Sick pay if paid more than six months after the month the employee last worked;
- J. Payments-in-kind for domestic service in the employer's private home for:
 - 1. Agricultural labor;
 - 2. Work not in the course of the employer's trade or business; or
 - 3. The value of meals and lodging furnished under certain conditions;
- K. Rentals from real estate that cannot be counted in earnings from self-employment. For instance, the beneficiary did not materially participate in production work on the farm, the beneficiary was not a real estate dealer, etc.;
- L. Interest and dividends from stocks and bonds (unless they are received by a dealer in securities in the course of business);
- M. Gain or loss from the sale of capital assets, or sale, exchange, or conversion of other property that is not stock in trade nor considered inventory;
- N. Net operating loss carry-over resulting from self-employment activities;

- O. Loans received by employees unless the employees repay the loans by their work;
- P. Workers' compensation and unemployment compensation benefits and strike benefits;
- Q. Veterans' training pay or allowance;
- R. Pay for jury duty;
- S. Payments for achievement awards, length of service awards, hobbies or prize winnings from contests, unless the person enters contests as a trade or business;
- T. Tips paid to an employee that are less than \$20 a month or are not paid in cash (see [♦1329](#));
- U. Payments by an employer that are reimbursement specifically for travel expenses of the employee and are so identified by the employer at the time of payment;
- V. Payments to an employee as reimbursement or allowance for moving expenses, if they are not counted as wages for Social Security purposes (see [♦1333](#));
- W. Royalties received in or after the year a person turns FRA. The royalties must flow from property created by the person's own personal efforts that he or she copyrighted or patented before the taxable year in which he or she turned FRA;

Note: These royalties are excluded from gross income from self-employment only for purposes of the earnings test.

- X. Retirement payments received by a retired partner from a partnership provided certain conditions are met (see [♦1203](#));
- Y. Certain payments or series of payments paid by an employer to an employee or an employee's dependents on or after the employment relationship has ended due to:
 - 1. Death;
 - 2. Retirement for disability; or
 - 3. Retirement for age.

The payments are made under a plan established by the employer (see [♦1319](#)); and

- Z. Payments from Individual Retirement Accounts (IRA's) and Keogh Plans (see [♦1338](#)).

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