Department of Public Health and Human Services SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP)	Section: INCOME Subject: Self-Employment Income

Supersedes: FS 503-1 (04/01/08)

References: 7 CFR 273.10 and 7 CFR 273.11; ARM 2.4.113

GENERAL RULE -- Net earnings from self-employment must be counted when determining eligibility for the Supplemental Nutrition Assistance Program (SNAP).

DEFINITION OF SELF-EMPLOYMENT

Self-employment is the act of engaging in a trade or business. A trade or business is generally an activity carried on for a livelihood or in good faith to make a profit. An individual does not have to make a profit to be in a trade or business as long as a profit motive exists. The individual may be a contractor, franchise holder, owner/operator, partner, etc. The individual must meet the following criteria to be considered self-employed:

1. They earn their income directly from their business or trade not from wages or salary from an employer;

2. They are responsible for the payment of their entire Social Security and Federal withholding taxes;

3. They do not have an employee/employer relationship with another individual, and the services performed cannot be controlled by an employer such as setting the job schedule, etc.; and,

4. They *should* file self-employment tax forms (Schedule F, C, C-EZ, SE, Form 1065, etc.). However, not all individuals file tax forms and some may file incorrectly.

SELF-EMPLOYMENT STRUCTURES

There are many types of self-employment structures. Some of the more common structures are:

1. Sole Proprietorship: A self-employment business that is not incorporated and has one owner. The business income and liabilities are the responsibility of a single owner.

2. Partnership: A self-employment business set up with two or more partners. In addition to personal income tax forms, partnerships are also required to file 1065 and K-1 forms. The business income and liabilities are the responsibility of all the partners with the partnership defining shares of ownership and responsibility.

Partnership income is determined in the same way as other self-employment.

3. Independent Contractor: An individual who pays their own employment taxes and does not have an employee/employer relationship is considered self-employed.

4. Sharecropper: If the sharecropper pays the costs of doing business and receives a portion of the net income in exchange for labor, the sharecropper is considered self-employed. The sharecropper is not considered self-employed if the sharecropper is not responsible for paying the costs of doing business.

CORPORATIONS

Corporations can be considered self-employment enterprises; however, the income individuals receive is not considered self-employment income. Any wages received by an individual from the corporation are countable earned income when received; code 'WA' on EAIN.

EXCEPTION: Although wages paid to corporate officers are considered wages, fees paid to corporate directors are considered self-employment earnings.

Any corporate income reported on Schedule E, Line 31 as income received from a corporation must be annualized and used as countable unearned income even if the household did not receive the money.

Any loss reported on Schedule E, Line 32, as loss received from a corporation is not used in any budget calculation.

► Limited liability companies (LLCs) and limited partnerships are treated like corporations for eligibility purposes, regardless of what tax documents may be filed with the IRS. Income other than ‘guaranteed salaries’ received from a limited liability company or partnership is unearned income.

EARNED VS. UNEARNED

Self-employment income is generally considered earned income.

The income is considered unearned income and coded on UNIN if any of the following occur:

1. Rental self-employment income and rental partnership income, and the individual is not actively participating in the business at least 20 hours per week (SNAP 501-1);

2. Contract for deed income (SNAP 501-1); or,

3. In some instances boarder income (SNAP 201-4).

RESOURCES

Property essential to self-employment is excluded as a resource. **Possible** exclusion of some resources are:

1. Property Essential for Self-employment (SNAP 402-1);
2. Income Producing Property (SNAP 402-1); and,
3. Business Checking Accounts (SNAP 402-1).

NOTE: Money in a business checking account is a countable resource, but the self-employment funds prorated as income are excluded as a resource. The self-employment funds prorated as income retain their exclusion for the time they are prorated as <u>income</u> even if the funds are commingled. The portion of the funds prorated as self-employment income is coded 'BC' on FIAC.

INCOME EXCLUSIONS

The following are income exclusions:

1. Federal gasoline tax credit;

2. State gas tax;

3. Disaster payments (SNAP 501-1);

4. Crop insurance payments; and,

   NOTE: If a Federal Insurance Corporation Payment or a private insurance payment is paid in a lump sum, it is excluded as income and counted as a resource.

   If the payment is from a private insurance company and pays the household in installments, it is countable unearned income.

5. Patronage dividends paid to a self-employment enterprise. Patronage dividends, paid by cooperatives in cash, are countable unearned self-employment income (SNAP 501-1).

   If the patronage dividends are paid in stock, they are counted as a resource (SNAP 402-1).

AGRICULTURAL STABILIZATION & CONSERVATION

Cash payments are counted as earned self-employment income. These include but are not limited to: Commodity Credit Corporation, acreage reduction and conservation payments, and other one-time or installment

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payments made to farmers for crop or other losses unrelated to a presidentially declared disaster.

If the payment is due to a presidentially declared disaster, it is excluded as both income and a resource due to the Disaster Relief Act.

CANCELED DEBT

If canceled debt appears on any of the tax forms, **it should not be counted.** Before disregarding canceled debt claimed by a household, the household is required to provide a statement from the lending institution verifying the canceled debt.

CAPITAL GAINS CAPITAL LOSSES

Capital gains are increases in the value of property between the time purchased and the time sold. Capital losses are decreases in the value of property between the time purchased and the time sold. Depreciation is considered when determining whether capital gains/losses occur for self-employment businesses. Capital gains/losses are usually determined at the time property is sold.

Capital gains from the sale of self-employment property must be annualized as part of the net earnings from self-employment whether paid in a lump sum or in installments. Capital gains are included in prospectively budgeting self-employment income if capital gains are received or are expecting to be received prospectively for next year.

Capital losses are not used in any self-employment income determination. They are not considered business expenses or deductions.

BARTERING

Bartering is considered in-kind services exchanged between two self-employed businesses such as an exchange of storage space for furnace repair.

ALLOWABLE EXPENSES OF PRODUCING SELF-EMPLOYMENT INCOME

Allowable expenses of producing self-employment income are excluded from the gross self-employment income. Most costs of doing business are allowable expenses and may be accepted as listed on the income tax forms with few exceptions. Self-employment income for SNAP purposes is not computed the same as it is for Internal Revenue Service (IRS) purposes. The IRS forms may only be used for verification purposes. Expenses must be current, not due from a previous fiscal period, and are allowed when they are billed or otherwise become due.

NOTE: Some self-employed individuals do not claim all expenses on their Schedule C in order to qualify for Earned Income Tax Credit. The allowable expenses not shown on the Schedule C can be verified by the household and used in determining accurate self-employment earnings.

Allowable costs of producing self-employment income include, but are not limited to:

1. Payments on the principal of the purchase price of income producing real estate and capital assets, equipment, machinery, and other durable goods even if the capital asset or durable good is not set up on a depreciation schedule. Capital assets and durable goods are objects used in business expected to last a long time such as farm machinery, equipment, swing sets, buildings, computers, cribs, VCRs, DVDs, furniture, high chairs, tricycles, vehicles, hair dryers, etc.

2. Interest paid to purchase income producing property, insurance premiums, and taxes paid on income producing property.

3. Labor paid to non-household members (individuals not included in the filing unit), materials, seeds, supplies, plants and fertilizer, interest payments on business loans and operating loans, business portion of home property or expense, repairs, etc.

   NOTE: Supplies include small tools, paper, pencils, scissors, oil, gas, envelopes, shampoo, hairbrushes, crayons/color books, etc. Supplies are generally described as objects usually used up or consumed in service.

   NOTE: Transportation costs for doing business may be allowed; however, the cost of commuting to the business from home is not allowed. Mileage expense is allowed at the Federal business expense rate. The current rate can be found by searching for the current year standard mileage rate at www.irs.gov.

DEPENDENT CARE BUSINESS EXPENSES (Cost of meals)

Household's income from dependent care, such as a providing day care for children, elderly, or disabled individuals may elect one of the following methods to determine the cost of meals provided to the individuals:

1. Actual documented meals;

2. A standard per day amount based on estimated meal costs; or,

3. Current reimbursement amounts in the Child and Adult Care Food Program.

EXPENSES NOT ALLOWED FOR PRODUCING SELF-EMPLOYMENT INCOME

Non-allowable expenses must be added back into the self-employment income if income tax forms are used or not allowed as a deduction in the monthly calculation of self-employment income.

Expenses not allowable include:

1. Net losses from previous periods;

2. Personal federal, state, and local income taxes; money set aside for retirement purposes; and other work related expenses such as transportation to and from work;

3. Depreciation is added back into income when it is used as a deduction from self-employment income. Self-employment forms must be reviewed to ensure all depreciation expenses are considered (e.g., Schedule C, line 13; Schedule C-EZ, line 2; Schedule E, line 20; Schedule F, line 16; Form 8829, line 28; Form 1065-16a; or any income forms attached to the 1065 like Schedule F);

4. Any amount that exceeds the payment a household receives from a border for lodging and meals;

5. Social Security taxes;

6. Meal and entertainment costs;

7. Charitable contributions;

8. Clothing not specific to any one job; and,

9. Penalties and fines.

SELF-EMPLOYMENT CONNECTED TO HOME (E.G., FARM EXPENSES)

When a household's home is on property connected to the property used for farming or another self-employment business enterprise, the OPA Case Manager must determine if the shelter costs (e.g., rent or mortgage) and the self-employment costs can be separately identified.

If necessary, the OPA Case Manager is required to determine a breakdown of farm (business) expenses from personal home shelter expenses by using:

1. Household's calculation of breakdown;

   NOTE: The 'Farm Self-Employment Questionnaire' (DPHHS-HCS-516) can be used as a tool to determine if the household included any personal shelter expenses with their farm deductions.

2. Income tax form breakdown; OR,

NOTE: If the household presents self-employment tax records (Schedule F), do not question the shelter deductions (utilities, insurance, interest, etc.) included on those documents.

3. Verifications submitted by the household such as: tax verifications (Ag/Nag); loan papers indicating costs of farm land, buildings, equipment, etc. versus costs for house/garage/personal equipment; insurance policy breakdowns of cost of premiums for farm and personal home costs.

If utilities are measured and billed separately, the household is entitled to the appropriate mandatory utility allowance for its residence, and to the separately billed utility costs as a self-employment cost of doing business.

If utility costs cannot be separately identified, the household is entitled to the appropriate mandatory utility allowance for its residence and does not receive a self-employment expense.

NOTE: In most instances a separate amount of utilities should be identifiable. A means of identifying costs separately is to subtract the appropriate mandatory utility allowance for the residence from the total utility costs. The remainder is allowed as a cost of doing business.

If the household uses part of the house such as a separate room or a separate apartment solely for the self-employment business and there is a central meter, the household is entitled to the appropriate mandatory utility allowance for its residence and no exclusion of utilities for the cost of doing business.

Example 1: Farmer Ed does not provide proof of his separate business and personal shelter expenses. Ed is not allowed any shelter expenses.

Example 2: Farmer Ed later provides the breakdown of his business and personal shelter expenses. He chose not to use the business portion of his shelter expenses as a business deduction. His allowable shelter expenses are the portions of his shelter expenses for personal use and appropriate mandatory utility allowance for his residence. Even though he did not use the business portion of his shelter expenses as a business expense, that portion cannot be used as a personal shelter expense.

The business (farm) share of expenses is only allowed as a deduction from self-employment income and cannot be allowed as a shelter deduction. The household is not required to deduct the business (farm) share even if it can be separated from other expenses.

IN-HOME BUSINESS EXPENSE

When the self-employment business is conducted in the household's home, and the household wants to claim a portion of its shelter expenses as a business deduction, the OPA Case Manager must separate business expenses from personal shelter expenses. The portion of the home used on an exclusive basis for a business is allowed as a business expense. However, the household is not required to use the business portion as a business deduction. The household is entitled to the mandatory utility allowance for its residence and no exclusion of utilities for the cost of doing business.

NOTE: If the expense is not used as a self-employment expense, it **can** be used as a shelter expense.

A substantial amount of time must be spent doing business in the home (not occasionally) to use home shelter costs as a business expense.

If the in-home business **is NOT** related to dependent care, the business must also meet one of the following two conditions.

1. An allowance for space regularly used for inventory storage may be allowed if the space is identifiable and only used for self-employment; ***or***,

2. The portion of the home must be used on an exclusive basis. The space allocated to the business must be used only for the business.

The OPA Case Manager determines the usage of home with the agreement of the household for business purposes by:

1. The household's calculation of use;

   NOTE: The 'Self-Employment Questionnaire' (DPHHS-HCS-518) may be used as a tool for businesses other than farming or dependent care. The 'Self-Employment Questionnaire for Dependent Care Providers'

(DPHHS-HCS-517) may be used as a tool for dependent care providers.

2. Form 8829 percentage (only if the business and personal home costs are separated on this form);

3. The ratio of business square footage to square footage of the entire home; or,

4. The 'Dependent Care Usage Chart' (for dependent care businesses only) at the end of this section.

The business share of home expenses is allowed as a deduction from the self-employment income as long as it is not also used as a shelter deduction. The household is not required to deduct the business share even if it can be separated from other expenses.

BUDGETING

Most self-employment budgets are annualized (SNAP 601-1). Self-employment income intended to support the household on an annual basis is annualized. Temporary or seasonal self-employment income or when a business is not in operation for an entire year is income not representing annual support and is averaged over the period it is intended to cover.

The following self-employment incomes are always annualized regardless of whether or not the income is intended to support the household on an annual basis:

1. Farm income; and,

2. Self-employment income received less often than monthly (e.g., income received quarterly, bi-monthly, annually, etc.).

Example 1: Joe is a self-employed logger. He does not work during the spring due to 'spring break-up' (cannot log due to mud). His yearly income is annualized even though he only works nine months per year because his self-employment represents his annual intended support to the household. Self-employment counts as earned income even in the months Joe is not working.

Example 2: A vendor works only in the summer and supplements his income from other sources during the rest of the year. His self-employment income is averaged over the summer months.

When self-employment income is annualized, the expenses must also be annualized. Expenses are counted when paid not when billed.

If the self-employment income is annualized, income tax forms (when available) should be used to determine income. The most current tax forms are used unless there is a substantial change in business or income. Income must be annualized whether or not tax forms reflect current income and whether or not they are available. Other documentation must be used to determine annualized income. 'Substantial increase or decrease in business' may include:

1. Termination or starting a new self-employment enterprise such as, changing from a grain and cattle operation to a cattle operation;

2. Significant increase or reduction of operation such as, adding or reducing a quarter of crop land or significantly increasing or decreasing a dairy or beef operation; and,

3. Natural disasters like hail or drought. Normal year-to-year fluctuating market prices are not considered to be substantial increases or decreases. Abnormal changes are considered such as, if the price of wheat is usually $2 to $4 per bushel, a reasonably anticipated change to $6 or $1 is considered a substantial change once the crop is sold. The new income information is then used.

Example: A day care provider submitted her last year's taxes reflecting $12,000 self-employment income earned from providing care for five children. In the next year she expects to provide care for only three children. Her anticipated day care income is annualized. She expects to earn a net income of $9,000 in the next year. Her projected monthly countable self-employment income is $750 ($9,000 ÷ 12). This projected income is used even though she might expect her actual monthly income to vary over the next year (e.g., some months her actual income is $900 and some months income is $600).

NEW BUSINESS

If a new business the income is averaged using the income and expenses from the months the business has been in operation if the household anticipates the same for the next prospectively budgeted period. When the business has reached 12 months either at the six month report period or recertification, the income must be annualized if the household anticipates the same for the next prospectively budgeted period. If there is no reliable history of income or expenses to average, the OPA Case Manager must negotiate a projection of the anticipated monthly income and expenses with the household.

RENTAL INCOME

Depending on how active an individual is in managing rental property, the income is considered earned self-employment or unearned income. The cost of doing business is deducted from the gross income to determine net countable income for benefit calculation regardless of whether it is earned self-employment or unearned income.

A property owner/landlord is allowed the full amount of shelter costs (such as mortgage, taxes, insurance) that the household is required to pay to live there. The gross income minus the cost of doing business received from rental property if a household member is not involved in management of the property 20 hours/week or more is countable unearned income to the owner/landlord's household. The OPA Case Manager must calculate the amount of countable income manually (off of TEAMS), using gross income minus the allowable expenses; code 'RE' on UNIN.

NOTE: No portion of expenses can be used as both a shelter cost and a self-employment cost.

Example 1: Household A owns the home and rents a room to Household B. Both households are receiving SNAP benefits as separate households. Household A has mortgage payment of $400 (includes taxes and insurance). Household B is responsible for $100 rent and half of the heating/cooling expense.

Household A is entitled to $400 for the mortgage expense and the full SUA. The $100 from Household B is unearned income to Household A. Household A may claim self-employment allowable costs for providing the room such as paint, new carpet for the room.

Household B is entitled to $100 rent expense and the full SUA.

Example 2: A SNAP household owns a house separate from its residence and rents out the house. The house is rented for $600 a month and the renter is responsible to pay all utilities. The only allowable cost of doing business the household reports and verifies is $325 mortgage including property taxes and insurance. The OPA Case Manager must document in case notes the gross rental income along with the allowable costs of doing business. The OPA Case Manager must manually deduct the cost of doing business from the gross rental income ($600-$325=$275) and code the net countable income ($275) 'RE' on UNIN.

Separate households residing in the same residence are allowed the actual amount of rent they are billed as a shelter deduction. When households reside together and **neither household owns the residence**, a rent payment made from one household to another is exempt as pass-through shelter payment up to the full amount of rent billed. If the payment is more than the full rent charged for the residence, the excess payment is unearned income to the household receiving the payment.

ROOMERS

A roomer is an individual living with a household and paying for lodging but not meals. Refer to 'Earned vs. Unearned' in this section of the manual to determine whether the contribution is considered earned or unearned income.

Payments received from roomers are usually considered unearned contributions to the household.

Do not allow expenses against the contributions unless the roomer situation meets the definition of earned income, and the case is treated as self-employment.

BOARDERS

Treat commercial boarding houses (businesses established as commercial enterprises offering meals and lodging for compensation with the intent to make a profit) according to the general provisions of regular self-employment rather than using the information provided below.

Boarders are individuals that a household furnishes lodging <u>and</u> meals (SNAP 201- 4). Foster children are not boarders.
When a boarding situation is not related to a commercial boarding house, the income from boarders includes all direct payments to the household including contributions for meals and shelter. In determining the amount of countable income received from the boarder, exclude the household's costs of providing room and meals to the boarder (allowable expenses).

Households may choose one of the following methods to determine the cost of doing business (expenses):

1. The cost of the SNAP's thrifty food plan for the number of boarders in the household;

2. If the actual costs exceed the appropriate thrifty food plan, the actual documented allowable expenses of providing room and meals. If actual costs are used, only separate and identifiable costs of providing room and meals to the boarders are excluded; or,

3. A flat amount of $100 per boarder.

Expenses may not exceed the payment received by the household from the boarder. Boarder income is always earned self-employment income. Boarders may not claim separate household status to receive SNAP benefits on their own case.

INCOME/LOSSES

Losses from corporations are not used to offset any other income.

Farm losses are allowed only if the farm grossed or anticipated grossing at least $1,000 during the year. Farm losses may offset any other household income in the following order:

1. Other self-employment gains; and,

   NOTE: Farm losses are not deducted correctly in TEAMS. The 20% earned income deduction on other self-employment gains is only allowed after the farm loss is deducted. The OPA Case Manager is strongly encouraged to use a DPHHS-HCS-520 'Self-Employment Income Worksheet' with its associated budget sheet in order to determine what the correct benefit issuance is, and enter 80% of the gross earned income on the EAIN screen.

2. Any remainder from any other household income.

   If there are other wages, the 20% deduction is calculated on the gross wage prior to the farm loss being deducted.

   Form DPHHS-HCS-520 'Food Stamp Self-Employment Income Worksheet' may be used as a tool in determining eligibility and benefits.

BANKRUPTCY

If bankruptcy is filed, the projected monthly self-employment income continues to be used unless the household states the business will have substantial change in income and expenses. The bankruptcy trustee regarding the debt reorganization plan concerning the anticipated gross income and expenses would verify this statement.

If the household reports the self-employment enterprise has ended, the monthly self-employment income is no longer prospectively budgeted.

The self-employment income continues to count even if diverted to a bank or other source. If the self-employment income goes to a trustee and the household receives a living allowance, the entire self-employment income continues to be budgeted and no deduction is allowed for the trustee or conservator's fees.

NOTE: The living allowance is not counted as income because the self-employment income is already being counted.

If the equipment/land is repossessed or the title is given to the lender, the property is the legal property of the lender and sale of the property is not considered income. However, if the title remains in the household's name and the lender arranges the sale, the property belongs to the household and the amount is counted as income if received as periodic payments or as a resource if received in a lump sum.

If the lender forgives or writes off a loan, the amount forgiven or written off is not considered income.

Example: Paul, a farmer, has been employed in this line of work for 15 years. The farm income is the household's only source of income. The household does not claim any personal household expenses (such as house utilities) as business expenses. His 2005 income tax return is used to project income for 2006 because Paul does not anticipate any substantial changes in income for the next year. Schedule F from his income tax return is provided. After excluding the gas tax credit and crop insurance payments (not paid in cash), gross self-employment income is $25,000. Allowable expenses are insurance, fuel, livestock feed, supplies, professional fees, and labor costs, totaling $10,000 in deductible expenses. Depreciation and meal costs are not allowable, and are not entered on SEEW.

TEAMS Processing: The income and hours are coded 'FA' on SEEI. Press Enter to display the SEEW work screen. Enter the gross amount of income using 'I' code and the expenses using 'E' code on SEEW. The SHARE is 100% because Paul is not a partner, and the FS PRD (Food Stamp Period) is 012 - twelve months (annualized income). The MA PRD, QM PRD, SL PRD and CC PRD are all set to '000'. When 'Enter' is pressed, the SEEW screen calculates the 'ADJUSTED GROSS' of $15,000, and FS PRORATED income of $1,250 per month. Print SEEW screen for the case file because TEAMS does not save this screen, and a second 'Enter' returns to SEEI where the $1,250.00 appears in the FS row in the 'MNTH ADJ GRS' column. The income on this screen is allowed the 20% earned income deduction net income budget calculation.

COMBINED CASE PROCESSING

Cases including a combination of programs and do not use the same policies for determining the net self-employment income are worked as if they were separate sources of income on the SEEI screen. The income is coded for each program on SEEW as follows:

If the income is being determined for SNAP, the FS PRD is set at '012' (or other period of intended use as appropriate for the situation), and AF PRD, MA PRD, QM PRD, SL PRD and CC PRD are set at '000'. When TEAMS returns to SEEI with an income showing in the PGM row for SNAP, the 'MORE INCOME' indicator at the bottom of SEEI is set to 'Y', and a new SEEI screen is completed to access a new SEEW screen. The MA PRD is set at '012' (the QM PRD and/or SL PRD are also set to '012'), and the FS PRD and AF PRD are set to '000'.

DEPENDENT CARE HOME USAGE CHARTS

The following charts can be used as guidance in determining percentage of shelter expenses allowable as business expenses and personal shelter expenses. It is important to remember even if the individual chooses not to use any part of the housing expenses as business expenses; the expenses must still be separated for shelter expense purposes.

Hours/Month of Child Care in the Home	**Percentage of Business Usage for Shelter**
1 – 100	10%
101 – 150	17%
151 – 215	25%
216 – 301	35%
302 – 387	48%
388 – 495	60%
496 – 581	75%

Conversion of Weekly Hours to Monthly Hours					
10 hours/week	=	43 hours/month	75 hours/week	=	323 hours/month
15 hours/week	=	65 hours/month	80 hours/week	=	344 hours/month
20 hours/week	=	86 hours/month	85 hours/week	=	366 hours/month
25 hours/week	=	108 hours/month	90 hours/week	=	387 hours/month
30 hours/week	=	129 hours/month	95 hours/week	=	409 hours/month

Hours/Month of Child Care in the Home			Percentage of Business Usage for Shelter		
35 hours/week	=	151 hours/month	100 hours/week	=	433 hours/month
40 hours/week	=	172 hours/month	105 hours/week	=	452 hours/month
45 hours/week	=	194 hours/month	110 hours/week	=	473 hours/month
50 hours/week	=	215 hours/month	115 hours/week	=	495 hours/month
55 hours/week	=	237 hours/month	120 hours/week	=	516 hours/month
60 hours/week	=	258 hours/month	125 hours/week	=	538 hours/month
65 hours/week	=	280 hours/month	130 hours/week	=	559 hours/month
70 hours/week	=	301 hours/month	135 hours/week	=	581 hours/month

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