The purpose of this handout is to give further guidance in implementing the new simplified self-employment policy effective 2/1/15.

The new simplified self-employment policy means:
- Self-Employment expenses will no longer be used to calculate self-employment income
- Clients may choose between two methods based on either 50% current gross self-employment income or their annual self-employment taxable income filed with the IRS within the last twelve months
- This policy change applies to MFIP/DWP, GA, MSA (Non-SSI), GRH (Non-SSI), and SNAP with some exceptions

Guidelines:
Self-Employment Definition: What is considered Self-Employed or Self-Employment has not changed. Continue to refer to: CM 2.61 Glossary “Self-Employed” and “Self-Employment.”

Effective 2/1/15 Implementation:
For applications with self-employment income received on or after 2/1/15, use the new self-employment policy.

For participants with self-employment income, use the new self-employment policy at recertification starting 2/1/15 or recertifications after 2/1/15. However, continue to use the self-employment policy prior to 2/1/2015 until recertification, even if a change is reported prior to recertification.

Effective 2/1/15 New Self-Employment Budgeting:
Applicants and participants at recertification must choose one of the methods described below for determining self-employment income, unless there are other program provisions (see SNAP).

Effective 2/1/15 New Self-Employment Income Calculation:
An agency must determine self-employment income based on client choice, which is either:
(1) 50% of gross earnings from self-employment
- As determined by business records or self-employment form
- Gross earnings are defined as earned income before taxes and deductions
- This method is based on using current income to calculate self-employment income
or
(2) Taxable Income
- As determined from an Internal Revenue Service (IRS) tax forms that has been filed with the IRS within the last year
- Taxable Income means “Net profit” from the applicable annual tax forms
- Divide the “Net profit” by the twelve to find the monthly average income for the year
- This method is based on using an annual average to calculate self-employment income
Note: Offline Calculation must be completed:
When applying the 50% or Taxable Income method, the initial self-employment income calculation is still completed offline before entering the self-employment income in MAXIS.

Example 1 using the 50% method:
Client reports self-employment income.
Worker informs client of their options for self-employment budgeting.
Client has chosen the 50% method.
Worker must verify the self-employment gross income, not expenses.
Client provides documentation to verify self-employment gross income of $2000.00.
Offline: multiply $2000.00 by .50 = $1000.00
MAXIS: use $1000.00 as the self-employment gross income for one month.
An additional Earned Income disregard must be applied based on program policy.

Example 2 using the Taxable Income method:
Client reports self-employment income.
Worker informs client of their options for self-employment budgeting.
Client has chosen the taxable income method.
The self-employment business has been in operation for the last five years.
Client provides tax forms, showing their business’s taxable income (net profit) is $12,000.
Offline: divide $12,000 by 12 months = $1000.00
MAXIS: use $1000.00 as the self-employment gross income for one month.
An additional Earned Income disregard must be applied based on program policy.

Clients may choose either method, unless there are other programs provisions (see FAQ) (see SNAP).
Document in case notes which method the applicant or participant has chosen.

Also see Self-Employment SIR Announcement (MAXIS) posted on 12/30/14 and 2/11/15
TE02.10.49- Room and Board (RBIC); TE02.13.13- Rental Income (BUSI)

Self-Employment Hours
MFIP: Only the hours the participant earns the federal minimum wage count toward the participation requirements. The number of self-employment hours is determined by dividing the net self-employment income by the federal minimum wage.

Changing Method at Recertification:
Participants must be given the option to change their method of self-employment income calculation at recertification
Changing Method between Recertification:

50% to Taxable Income: Participants, who use the 50% of current self-employment income method, may choose the Taxable Income method at the next benefit month, unless there are other program provisions (see SNAP).

Taxable Income to 50%: Participants, who use the Taxable Income method, must continue to use this method until recertification, unless there is an unforeseen significant change. An unforeseen significant change means a decrease in income, where their income decrease was equal to or greater than the earned income disregard from the income used to determine the benefit for the current month, and this decrease was unpredictable.

For example, if a participant's current eligibility was based on income of $1000.00, and their earned income disregard for that program is 50% (e.g. MFIP), and the client verifies their income has been reduced to $500.00, and it was due to an unforeseen/unpredictable change, they would be eligible to change their method from using Taxable Income to the 50% method (50% of current gross income). Note: The earned income disregard is program specific.

Requests to change options must be in writing by the client.

SNAP:

For SNAP, Self-Employment situations that have a farm loss offset will not be able to use the new Self-Employment choice of the 50% of gross earnings or the tax method to calculate Self-Employment income. Continue to follow the provisions in the Combined Manual CM section 0017.15.33.18 – Self-Employment Loss offset for SNAP cases which operate more than 1 self-employment business may use the loss from 1 business to offset self-employment income from another business. And for SNAP units which expect to receive $1,000 or more annual gross income from farming they may use a farm loss to offset other earned or unearned income.

In addition for SNAP, the Rental Income will still be calculated using this information in CM section 0017.15.33.30 Self-Employment Income From Rental Property regarding earned versus unearned income. Count income from rental property as earned income when the unit spends an average of 20 hours or more per week maintaining or managing the property. Otherwise count it is unearned income.

Child Care Assistance Program:

The new self-employment policy does not apply to income calculations for the Child Care Assistance Program. Child care workers will continue to use the guidance in the Child Care Assistance Program Policy Manual section 6.15.6 to calculate income from self-employment. Because MFIP and the Child Care Assistance Program use different methods to calculate self-employment income, it is possible that some clients may be eligible for one program but not the other.
New Self-Employment Policy FAQs:

2 Different Options: Will all clients have the option to use either method?

Yes. Under the 2/1/15 Self-Employment policy, whether you are a self-employed taxi driver, In-Home Day care provider, have rental or room & board income, when using the new self-employment policy, clients have the option to use one of the methods (50% or Taxes) to determine self-employment income, unless there is a SNAP provision or a specific policy provision.

50% and HRFs: If my client is a monthly reporter and uses the new self-employment method “50%,” do they have to turn in self-employment income each month with their HRF?

Yes. The 50% method means self-employment income is based on current income.

50% Method: If the client is using the 50% method, do they have to turn in 1 month of income or 12 months of income?

50% Method is based on current income, not an average or rolling average, so only 1 month of income is used each benefit month, unless there is a SNAP provision.

Diversionary Work Program: Does the new Self-Employment policy apply to DWP, as well as MFIP?

Yes.

Implementation as a Participant: Do all participants with self-employment income for 02/15 start using the new self-employment policy?

No, only if they have a recertification in 02/15.

In-Home Day Care: Will the 60% expense deduction still apply?

No. The 60% expense deduction no longer applies when using the new self-employment policy.

Loss Offset: Does Loss Offset still apply?

No. Loss Offset no longer applies when using the new self-employment policy, unless there are other program provisions (See SNAP).
**New Self-Employment Income Reported:** If a participant who is not self-employed, and later reports a new job with self-employment income, should they follow the self-employment policy prior to 2/1/2015 or use the new self-employment policy?

Use the new self-employment policy. However, only the 50% method may be used to determine self-employment income, since this is new self-employment income, therefore previous taxes (annual) do not represent the new self-employment income as an average.

**Rental Income:** Will hours still determine if the income is earned or unearned?

No. All self-employment rental income is treated as earned income; unless there are other program provisions (see SNAP).

**Rolling Average:** Does the “Rolling Average” still apply?

No. There is no longer a “Rolling Average,” unless there is a SNAP provision.

**Room and Board Income:** Are there still Room and Board deductions?

No. Room and Board deductions no longer apply when using the new self-employment policy, unless there are other program provisions (See SNAP).

**Self-Employment Expenses:** Must clients verify their self-employment expenses?

No. Under the new self-employment policy, expenses or deductions are not used to determine self-employment income, unless there is a SNAP provision.

**Taxes and HRFs:** If my client is a monthly reporter and uses the new self-employment method “Taxes,” do they have to turn in their taxes each month with their HRF?

No. Once they verify their taxes they do not need to keep turning them in each month. However, they are still required to turn in a HRF and any other required verification.

**Taxable Income Method and a Shortened Average:** What if participant just started the self-employment business and only worked November and December of 2014, are they still eligible to use the “Taxable Income” method in 2015?

Yes. Divide the taxable income by two, instead of twelve.
**Taxes within last year:** If an applicant or participant has not filed their recent taxes, can they use the taxes from the previous year?

Yes, as long as the taxes were filed within the last 12 months.

For example, a client who is being recertified for 02/2015 which has not filed their 2014 taxes, but filed their 2013 taxes within the last 12 months is acceptable.

For Cash Programs, once the client files their 2014 taxes, they have 10 days to report the change, so a redetermination using the “Taxable Income” method for Self-Employment income can be completed due to a change in income, per CM 7.15 Unscheduled Reporting of Changes – Cash.

For SNAP, once the client files their 2014 taxes, they must follow SNAP policy regarding Unscheduled Reporting of Changes. The Six-month reporters who are self-employed need to report when their total income exceeds 130% of FPG for their household size or if there is an ABAWD in the SNAP unit they must report a change in work or job activities which cause his/her hours to fall below 20 hours per week averaged monthly. For SNAP, the change reporters who are self-employed need to report a change of more than $100 in earned income by the 10th of the month following the month of the change. This information about Unscheduled Reporting of Changes is found in the CM section 0007.15.03.

**Taxable Income Method and a Shortened Average:** What if participant just started the self-employment business and only worked November and December of 2014, are they still eligible to use the “Taxable Income” method in 2015?

Yes. Divide the taxable income by two, instead of twelve.

**Examples:**

1. Applicant with self-employment income applies on 2/1/15. The worker explains the new self-employment policy and determines which method the client would like their self-employment income calculated, either the 50% method or the Taxable Income method. They choose 50% method; therefore the worker takes their current gross self-employment income of $2000.00 divides by 50% and only counts $1000.00.
2. Participant with self-employment income has a 02/15 recertification, and the worker explains the new self-employment policy and determines which method the client would like to use. They choose the Taxable Income method; therefore the worker uses their 2014 taxes (Net Profit from Schedule C), and divides their “Net Profit” of $12,000 by 12. So their gross self-employment income counted is $1000.00 each month.

3. A participant with a 05/15 recertification reports a change in their self-employment income on 3/5/15. They must use the self-employment policy in place prior to 02/1/2015. However, at their next recertification on 05/15, the worker must use the new self-employment policy.

4. A participant with a 08/15 recertification has a December HRF for Feb 2015. The worker still uses the self-employment policy in place prior to 02/1/2015, until their recertification in 08/2015 to process the December HRF for Feb 2015.

5. A participant has a 04/14 recertification. They turn verification of their current self-employment income of $2000.00 and $700.00 expenses. The worker explains the new self-employment policy. The client chooses the 50% method. The worker will use $1000.00 for their self-employment income. The client did not need to turn in any self-employment expense verification and the worker no longer needs to calculate what self-employment expenses are allowable. The worker only needs to verify the self-employment income received and only use 50% of the gross self-employment income. If they are a monthly reporter, next month they are required to turn in their March HRF for 05/15 with verification of their March self-employment income, under the 50% method.

For Policy questions, please submit a question to PolicyQuest. For systems questions, please contact the TSS Help Desk.

1Updated on 3/31/15