

## Self-employment income

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Self-employed people are those who are responsible for their own work schedule and do not have coverage under an employer's liability insurance or workers' compensation.

Self-employed people generally work for themselves rather than an employer. However, people employed in some types of services may be self-employed even if they have an employer or work out of another's business location (for example: real estate sales people, people who work for commission sales, manufacturer's representatives, independent contractors). Self-employed people may or may not have FICA deducted from the check an employer or another party issues to them.

People who provide gig work, including those using digital platforms such as an app or website, are considered self-employed independent contractors unless an employer verifies W-2 employee status.

Examples of gig work include, but are not limited to:

- Driving a car for booked rides or deliveries
- Running errands or completing tasks
- Selling goods online
- Renting equipment
- Providing creative or professional services.

Refer to the following chapters for information about:

- Annualizing self-employment income. See Chapter 6.15.6 ([Annualizing Self-Employment Income](#)).
- Documentation requirements for self-employment income. See Chapter 7.9 ([Income verification](#)).
- Determining if self-employment meets minimum activity requirements and authorizing care for self-employment. See Chapter 9.1.1.1 ([Authorizing Care – Self-employment](#)).

## Rental property income

Rental property income is earned or unearned self-employment income, depending on the amount of time the owner spends maintaining or managing the rental property. See Chapter 6.15.9 ([Annualizing Rental Property Income](#)).

## Farm income

Farmers are considered self-employed. They may be working full-time, part-time or as hobby farmers.

Common types of farming include:

- Proceeds from sale of crops, livestock or products
- Production from livestock
- Income from home-produced food
- Soil conservation payments and other subsidies
- Proceeds from machine rental, including wages to the farmer/operator.

See Chapter 6.15.12 ([Annualizing Farm Income](#)).

## Roomer/boarder income

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When the family owns a home and is renting all or a portion of the home to someone else, this is considered rental income. The family may or may not also be residing in the same home. See Chapter 6.15.9 ([Annualizing Rental Property Income](#)).

When the family rents a home from someone else, lives at the same home, and also rents rooms or a portion of the home out to someone else, this is considered self-employment from a roomer or a boarder and is counted as earned income. A roomer lives with the family and pays for lodging only. A boarder eats with the family and pays for meals only. A roomer and boarder lives and eats with the family and pays for lodging and meals.

See Chapter 6.15.6 ([Annualizing self-employment income](#)) for information about annualizing roomer/boarder income.

**Self-employment ownership types**

Self-employed people may own a business solely or in partnership.

**Sole proprietorship**

A sole proprietorship is an unincorporated business with only one owner who pays personal income tax on profits earned. A sole proprietorship may also be referred to as a sole trader or proprietorship.

In a sole proprietorship, the owner is:

- Inseparable from the business
- The recipient of all profits
- Financially and legally responsible for all debts and legal actions regarding the business
- Responsible for tax liabilities which are determined at the personal income tax rate.

A sole proprietorship when both spouses in a marriage carry on the trade or business is known as a qualified joint venture. Generally a qualified joint venture whose only members are a married couple filing a joint return is permitted to not be treated as a partnership for Federal tax purposes. All items of income, gain, loss, deduction and credit are divided between the spouses in accordance with their respective interests in the venture. Each spouse takes into account their respective share of these items as a sole proprietor.

A sole proprietorship must report their business income as part of their 1040 using schedule C, E or F.

**Partnerships**

A partnership is the relationship existing between two or more persons who join to carry on a trade or business. Each partner contributes money, property, labor or skill, and expects to share in the profits and losses of the business. A partnership contract spells out the manner in which profits are to be distributed.

A partnership can be one of these three types: general, limited and limited liability.

***General Partnership***

A general partnership has the following major features:

- It is formed by two or more general partners
- The partners are all liable for any legal actions and debts
- It is created by agreement.

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General partners have:

- Management control
- Share the right to use partnership property
- Share the profits of the business, usually in predefined proportions, and
- Have joint liability for the debts of the partnership.

### *Limited Partnership*

A limited partnership is a form of partnership that has one or more general partners and one or more limited partners.

Limited partners are partners that may invest in, but are not directly involved in, the management of the partnership. They also have limited liability to the extent of their investments.

The general partner pays the limited partners the equivalent of a dividend on their investment, the nature and extent of which is usually defined in the partnership agreement.

Limited partnerships are different from limited liability partnerships in which all partners have limited liability.

### *Limited Liability Partnership*

A limited liability partnership (LLP) has elements of partnerships and corporations. In a limited liability partnership, all partners have a form of limited liability similar to that of the shareholders of a corporation. However, the partners have the right to manage the business directly, and (in many areas) a different level of tax liability than in a corporation.

A limited liability partnership is for businesses where all investors wish to take an active role in management.

A partnership must file an annual information return (IRS Form 1065 and 1065 Schedule K-1) to report the income, deductions, gains, losses, etc. from its operations. A partnership does not pay income taxes. The profits or losses are “passed through” to its partners. Each partner includes their share of the partnership's income or loss on his or her tax return (IRS Form 1040). Partners are not employees and should not be issued a Form W-2. The partnership must furnish copies of Schedule K-1 (Form 1065) to the partners.

## **S-Corporations**

When the business is a partnership or S-Corporation, all wages, draws, guaranteed payments, or compensation of officers paid to the business owner or a household member is considered earned income. Any other income from a partnership or S-Corporation is self-employment income.

S-Corporations are considered self-employment businesses. Income received by the shareholders is countable income regardless of whether the individual decides to reinvest their income back into the corporation.

An S-Corporation must file an annual information return (IRS Form 1120-S and related schedules) to report the income, deductions, gains, losses, etc. from its operations, but it does not pay income tax. Profits or losses are “passed through” to its shareholders.

Each shareholder includes their share of the partnership's income or loss on his or her tax return (IRS Form 1040).

