

Annualizing self-employment income

6.15.6

For information about what to consider self-employment income and different self-employment ownership types, see Chapter 6.6.5 ([Self-employment income](#)).

Annualize self-employment income before determining if the self-employment meets the minimum work requirement and authorizing care for self-employment. See Chapter 4.6.6.6 ([Employment outside of an Employment Plan](#)) and Chapter 9.1.1.1 ([Authorizing care – Self-employment](#)).

There is an additional policy that applies to rental property income. See Chapter 6.15.9 ([Annualizing rental property income](#)).

Method of calculation

There are two methods of calculating self-employment income: the taxable income method and the 50% of gross income method. Typically, families choose the method of calculation used to determine their self-employment income.

Exceptions:

- Families only have a choice of the taxable income method if they have filed taxes with the Internal Revenue Service (IRS) for the most recent year and provide the tax return and related schedules as verification. See Chapter 7.9 ([Income verification](#)).
- If the income and expenses on the tax forms from the most recent year are not the most accurate assessment of annual ongoing income available to the family from the self-employment business, the family must choose the 50% of gross income method.

Families choose a method for each self-employment business. For families also receiving MFIP, DWP or SNAP, different methods may be chosen for different programs. Because different methods and verification may be used for different programs, there may be differences in the amount of self-employment income calculated for each program. If there are concerns about inconsistent information, the agency may request the family provide additional verification to explain discrepancies. See Chapters 7.3 ([Verification – Initial application](#)), 7.4.3 ([Inconsistent information](#)), 7.6 ([Verification – Eligibility redetermination](#)) and 13.3 ([Fraud Referrals](#)).

Verification requirements are dependent on the method chosen. See Chapter 7.9 ([Income verification](#)).

Once self-employment income has been calculated, the amount counted continues at the same level until redetermination or until the family reports that the income does not provide the most accurate assessment of annual ongoing income available to the family and provides verification to update the calculation. This may include updating the calculation using the same method or changing income calculation methods (see “Changing self-employment income calculation methods” below).

Taxable income method

To calculate self-employment income using the taxable income method, use information from the Internal Revenue Service (IRS) tax return, including schedules, that has been filed with the IRS for the most recent year.

1. Determine gross income from the appropriate tax forms.
2. Determine the allowable expenses. Review the list below for expenses that are not allowed.
3. Subtract the allowable expenses from the gross income. The result is the counted self-employment income.

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Allow expenses that are also allowed by Internal Revenue Code except for the following:

- Net losses carried over into additional tax years. Only allow net losses in the original year in which it occurred.
- Depreciation.
- Federal, state and local income taxes.
- Money set aside for the self-employed person's own retirement.
- Any amount that exceeds the payment a household receives from a boarder for meals. See Chapter 6.6.5 ([Self-employment income](#)) for information about boarders.

Follow guidance in the [CCAP Self-employment Guide](#) (SIR login required) when entering self-employment income calculated using the taxable income method in MEC².

Note: for a new business in operation for less than 12 months, convert the calculated self-employment income to an annual amount.

Self-employment businesses that calculate to a loss

When the taxable income method is chosen, the self-employment income may calculate to a loss. If a self-employment business calculates to a loss after the calculation is completed and the family has more than one self-employment business, the negative income from one self-employment business may offset the self-employment income from another business(es).

Follow guidance in the [CCAP Self-employment Guide](#) (SIR login required) when entering income for self-employment businesses that calculate to a loss in MEC².

50% of gross income method

To calculate self-employment income using the 50% of gross income method, use 50% of the current gross income as the counted self-employment income amount. Gross income is earned income before taxes and deductions. Expenses are not used in this calculation method. If the income provided is not already for a full year, convert the calculated self-employment income to an annual amount.

Follow guidance in the [CCAP Self-employment Guide](#) (SIR login required) when entering self-employment income calculated using the 50% of gross income method in MEC².

Agency responsibility and calculation methods

Agencies are encouraged to provide the family information about both calculation methods, including the impact on the family's income eligibility, copayment, ability to meet minimum work requirements and maximum number of hours of care that can be authorized. You may use [The Child Care Assistance Program and self-employment: Questions and answers for families \(DHS-8274A\) \(PDF\)](#) and the [Minnesota Child Care Assistance Program - Calculation of self-employment income \(DHS-8242\) \(PDF\)](#) form to help determine this information.

In order to provide the most accurate information about each method, you may request families submit additional verification of self-employment income. A special letter verification request may be used with the following sample language:

There are two options used to calculate self-employment income:

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- *Taxable self-employment income as determined from a federal tax return that has been filed with the IRS for the most recent year, with certain expenses not allowed to reduce income. To use this method, you must have filed a tax return for the most recent tax year and must submit it, including schedules.*
- *50% of current gross self-employment income. To use this method, you must provide documentation of current gross self-employment income that is reflective of expected future income, such as business ledgers-.*

Contact the CCAP agency for more information and to discuss your options.

To determine the self-employment income method:

- Typically, families choose the method of calculation.
- The 50% of gross income method must be used if taxes have not been filed for the most recent year (see Chapter 7.9 ([Income verification](#))) or if tax forms from the most recent year are not the most accurate assessment of annual ongoing income available to the family.
- If the family provides the verification to calculate self-employment income using only one method, calculate income using the method the verification provided supports.
- If a family provides verification for and meets income and authorized activity eligibility requirements under both methods but does not respond to an agency's attempts to have the family choose a method, the agency must choose the method that results in the lowest copay.

To improve case management:

- DHS recommends workers explain the self-employment income determination method used and why it was used to the family.
- DHS recommends to case noting the method used and calculation for each self-employment business.

Changing self-employment income calculation methods

Once self-employment income has been calculated, the amount counted continues at the same level until redetermination. Families may change the method of self-employment income calculation at redetermination and at any time within the 12 month eligibility period when the current income calculation does not provide the most accurate assessment of annual ongoing income available to the family. See Chapter 8.1.12 ([Changes in Income or Expenses](#)). They must meet verification requirements of the chosen method when changing methods. See Chapter 7.9 ([Income verification](#)).

Changing self-employment income calculation methods may impact the amount of care that can be authorized. See Chapter 9.1.1.1 ([Authorizing Care – Self-employment](#)) for information about calculating the amount of care that can be authorized for self-employment and Chapter 9.12 ([Authorization Changes During the 12-Month Eligibility Period](#)) for information about impacts during the 12-month eligibility period based on the family's reporter type.

Legal authority

Minnesota Statutes 119B.09, subd. 4

Minnesota Statutes 119B.011, subd. 15

Minnesota Statutes 256P.05

