Department of Human Resources
311 West Saratoga Street
Baltimore MD 21201

FIA ACTION TRANSMITTAL

Control Number: FIA/OPRS#99-22 Revised	**Effective Date:** Immediately
	Issuance Date: January 25, 1999

TO: DIRECTORS, LOCAL DEPARTMENTS OF SOCIAL SERVICES
DEPUTY/ASSISTANT DIRECTORS FOR FAMILY INVESTMENT
FAMILY INVESTMENT SUPERVISORS AND ELIGIBILITY STAFF

Charles E Henry for

FROM: ROBERT J. EVERHARD, EXECUTIVE DIRECTOR

RE: DEDUCTION FOR SELF-EMPLOYMENT COST-TO-PRODUCE

PROGRAM AFFECTED: FOOD STAMP PROGRAM

ORIGINATING OFFICE: OFFICE OF POLICY, RESEARCH AND SYSTEMS

SUMMARY

In developing the Family Investment Program (FIP) every effort was made to make food stamp policy match through waivers approved by the Food and Nutrition Service (FNS). Local departments were notified of the termination of many of these waivers in Action Transmittals 99-04 and 99-11. Although we submitted a request to continue our waiver for using a 50 percent deduction for self-employment income in lieu of the cost-to-produce and 20 percent earned income deduction, our request was denied. We worked with FNS to come up with a policy that would maintain program simplicity and match, as much as possible, treatment of Temporary Cash Assistance self-employment income.

In addition to the new policy, this Action Transmittal also includes guidance for calculating self-employment income.

NEW POLICY

Under the new waiver for treatment of self-employment income:

- Households receive a deduction of 30 percent of any **gross** self-employment income as cost of doing business.

- The gross income test is applied after the 30 percent deduction (cost-to-produce is excluded income).

- In addition to the 30 percent deduction, the household will receive the 20 percent earned income deduction.

  Example: Ms. B provides child care in her home. She provided a tax Form 1040 Schedule C – Profit or Loss from Business – that shows annual gross receipts or sales (Part 1 line 1) as $10,000. The allowable deduction for cost-to-produce is $3,000. The countable annual income is $7,000. Ms. B also receives a 20% earned income deduction. When the case manager correctly enters the SE income ($10,000) on the CARES ERN2 screen, the system will calculate the monthly amount and deductions.

- **The 30 percent cost-to-produce deduction does not apply to the self-employment income of farmers, fishermen and watermen who <u>verify</u> a cost-to-produce in excess of the 30 percent deduction.**

  Reminder: If the cost of producing self-employment farm income exceeds the gross farm income, the losses are offset against other countable income. To qualify for this offset, the person must receive or anticipate receiving annual gross proceeds of $1,000 or more from the farming enterprise. (See Action Transmittal 95-49)

CALCULATING SELF-EMPLOYMENT INCOME

- The case manager must determine if an individual is self-employed or is receiving wages. In some instances this distinction is unclear. It may be helpful to consider someone self-employed if the individual is working for himself, with direct control over work or services undertaken and the amount charged for these services. Examples of self-employment include:

  - Child care providers, even when paid by purchase-of-care vouchers. Some child care providers are not self-employed, but are employees. The case manager must make a decision based on individual circumstances. Frequently, self-employed child care providers furnish services in their own home while those who are considered employees provide the service in the child's home.

  - Income from roomers and boarders

  - Hairdressers or barbers who are not considered employees of a hairdressing establishment. Self-employed hairdressers often rent chair space from the shop owner and provide all their own supplies.

  - Lawn service and landscaping companies. However, persons who are employed by these companies are not considered self-employed.

- Farmers. To be considered a self-employed farmer the person must be engaged in the farming activity and must also have direct involvement in the farming activity. For example a farmer who rents his land to another to raise a crop is not a self-employed farmer if he is not directly involved in raising or harvesting a crop. This also applies to watermen and fishermen. **Remember, if verified, farmers, fishermen and watermen can claim cost-to-produce in excess of the 30 percent deduction.**

- Appliance repair services.

- Housekeeping, medical and nursing services. The case manager must also look at these types of employment on a case-by-case basis.

➢ Normally self-employment (SE) income is averaged over a 12-month period, regardless of whether the household receives the income less often than monthly. **It is important to ask for the most recent income tax returns to determine countable self-employment income.**

➢ Annualize SE income when it represents a household's annual income even if the household receives income from other sources.

Example: Mr. A is a self-employed waterman. He is also employed part time when work is slow. At recertification, Mr. A's most recent income tax forms show gross SE income of $20,000. His tax forms also verify that the cost of producing this income was $15,000. Since he is a waterman the case manager allows the actual allowable cost for producing this income. His annual SE income is $5,000. He provides verification that he will earn $20 weekly from his part time job. These amounts are entered on CARES according to the special procedures in the "Action Required" section.

➢ Normally we count self-employment income and expenses from the past year for the current year. However, if the averaged annualized amount does not accurately reflect the household's actual circumstances because of a substantial increase or decrease in business, calculate SE income based on anticipated changes.

➢ If the self-employment operation has been in existence for less than a year but long enough to make a projection of future income, average the income and expenses over the period of time the business has been in operation to determine the monthly amount. Project this amount, plus any anticipated changes, for a 12-month period.

Example: Mr. B has an appliance repair service that he started in June. He has not yet filed income tax returns. He provides his records that show June earnings as

$500, July as $1,000 and in August he earned $1500. He applied for food stamps September 12. The case manager averages these gross receipts over the three-month period the business has been in existence. The monthly average is $1,000.

➢ Exceptions to annualizing income:

- If the SE income is intended to support the household for only a part of the year, average it over the period of time it is intended to cover.

  Example: Ms. C is a self-employed vendor during the summer months and works as a housekeeper for regular wages the rest of the year. In this case, the SE income is averaged over the three summer months because it is intended to meet her needs only part of the year.

- If the SE enterprise has been in existence for such a short period of time that there is not enough information to make a reasonable projection of income and expenses for the next 12 months, assign the household a shorter certification period over which income and expenses can be anticipated.

  Example: Ms. D began providing child care in her home in September. In October she is interviewed for recertification and provides verification of her self-employment. The case manager uses her most recent month of SE income for the food stamp calculation and encourages Ms. D to keep records of her SE earnings so she can provide them at the next recertification. The certification period is set at 4 months.

<u>PAYMENT ACCURACY AND QUALITY CONTROL ERRORS</u>

➢ **Case record narration is <u>very important</u> in preventing errors.**

➢ **When Quality Control reviews reported annualized self-employment income, the reviewer will look at how the case manager handled the income and deductions when the income was last handled. If the income was calculated correctly, there should be no error.**

➢ **It is also important to narrate the case record thoroughly when anything other than an annualized amount is used for self-employment income.**

ACTION DUE

This policy was effective December 31, 1998 for new applications. For ongoing cases the new self-employment income deduction is effective the earlier of September 30, 1999 or the next recertification. Please see the CARES procedures following on page 6.

INQUIRIES

Please direct policy questions to Kay Finegan at (410) 767-7939 and system questions to David Holland at (410) 767-8494.

cc: FIA Management Staff
Constituent Services
DHR System Support Center
RESI
CARES Testing Facility

CARES PROCEDURES

- Effective January 6, 1999, CARES deducts:
  - 30% from self-employment income ("**SE**" in the "**Type**" field on the **ERN1** screen) or,
  - The actual work expense or 30% (whichever is higher) from the self-employed income of farmers, fishermen, and watermen ("**FM**" in the "**Type**" field on the **ERN1** screen),
  - 20% from the net monthly earned income (the amount after the 30 percent deduction or actual work expenses).

- "SE" and "FM" **weekly** income will calculate on a 4-week basis and **biweekly** income will calculate on a 2-week basis. *All other income frequencies will calculate incorrectly.* (For example, CARES converts earned income entered as actual by dividing the amount by 4.3 and multiplying by 4) *Assistance units with current self-employed income entered as anything but "WE" or "BW" must be changed to a biweekly amount at interim change or next recertification – whichever occurs first.*

Since most self-employment income is not received weekly or biweekly, it is necessary to follow the special procedure that follows. Failure to enter the income as described below will cause the self-employment income to be incorrect. To enter self-employed income on CARES:

- On the **ERN1** screen, enter the name of the self-employment business in the **EMPLOYER NAME** field. Complete the address and phone information for the self-employment business.

- In the **TYPE** field, enter "SE" for self-employment income or "FM" for farmers, fishermen or watermen.

- In the **BEGIN DATE** field, enter the date that the customer began his/her self-employment business.

- Press **ENTER** to get to the **ERN2** screen.

- For income received weekly or biweekly, enter the amounts as received.

- For income received other than weekly or biweekly, convert income to a biweekly amount by dividing:

  - Annual income by 24
  - Semi-annual income by 12
  - Quarterly income by 6

- Bimonthly income by 4
- Monthly income by 2

➢ Enter the income in the **Amt 1** field, the number of hours worked in the **HRS** field (enter weekly hours for weekly income and biweekly hours for income received bi-weekly or less frequently than biweekly), the type of verification used in the **V** field, and "**BW**" (or "**WE**" if income is received weekly) in the **FREQ** field.

➢ For a self-employed farmer, fisherman, or waterman who verifies a cost-to-produce:

- On the **ERN2** screen, in the **"Wk Exp Type / Amt / Freq"** field:

  - Enter "**FL**" (farm loss) for the work expense type.

  - Enter the actual cost-to-produce amount if the expense is incurred less often than bi-weekly. Otherwise, convert weekly and bi-weekly cost-to-produce expenses to monthly by multiplying weekly expenses by 4 and bi-weekly expenses by 2.

  - Enter the frequency of the expense as follows:
    - AC – Actual / Monthly
    - BM – Bimonthly (Every 2 Months)
    - QU – Quarterly
    - SA – Semi-Annually
    - AN – Annually
    - **DO NOT USE "WE" or "BW"**, as these frequencies will calculate the expense incorrectly by multiplying by 4.3 or 2.15.

Narration must be clear and concise indicating how the self-employment income was entered on CARES.

NOTE: Unlike food stamp policy which now uses the **actual** amount of monthly earned income, TCA policy continues to divide monthly income by **4.3** and multiply by **4**. Therefore, the above special procedure for food stamp self-employed income will cause TCA self-employed income to be calculated incorrectly. Until CARES is programmed to calculate self-employed income correctly for a TCA/Food Stamp household, the TCA calculation will continue to be incorrect. **It is important, therefore, that you make sure the food stamp self-employed calculation is done correctly.**