

### **.03 Procedure: Budgeting Self-Employment Income**



This section provides information about procedures for budgeting self-employment income.

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#### **Procedures**

The procedures for self-employment income include **all** of the following:

- [Projecting Self-Employment](#)
- [Annualizing Self-Employment](#)
- [Self-Employed for Less Than One Year](#)
- [Anticipating Self-Employment](#)
- [Terminated Self-Employment](#)

Self-employment income is reduced by a standard deduction when there are allowable self-employment expenses. For more information on self-employment expenses, see [self-employment expense deduction](#) and [allowable self-employment expenses](#).

Documentation must support determinations of eligibility and benefit level. Document in enough detail to ensure that any reviewer can assess whether the determination is reasonable and accurate. Include specific information regarding the reason the income is determined to be normal. (See [Budgeting Income Documentation Requirements](#).)

When the participant is present, have them sign the Authority to Release (FAA-1765A) form to contact any companies or businesses involved. The FAA-1765A can be faxed or emailed to the participant's employer when it is not possible to use the Application for Benefits (FAA-0001A) or the HEAplus Authority to Release signed statement.

For the self-employment income of a dependent child, the income may be considered countable or not countable. See [Dependent Child Income](#) for guidelines on determining whether the income of a dependent child counts or does not count.

See [Dependent Child Income](#) and [Hopi Tribal TANF](#) to determine when self-employment income is not countable.

For dependent child self-employment income that is countable for both NA and CA, see [Income Types](#) to determine the correct income code to use on SEEI.

#### **Projecting Self-Employment Income**

Projecting income is predicting future income using the recently received income the participant expects to continue.

When the annualized or averaged self-employment income is not a true reflection of the monthly income reasonably certain to be received during the approval period, project the self-employment income by completing **all** of the following:

- Exclude months with unusual income.

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- Add the gross income received in the remaining months.
- Divide the total by the number of months used. This amount is the monthly projected income.

Discuss with the participant whether the projected amount reflects the monthly income reasonably certain to be received during the approval period. Complete **one** of the following based on the discussion:

- When the projected amount accurately reflects the participant's expected income, budget the projected amount. (See [Example 3](#))
- When the projected amount does not accurately reflect the participant's expected income, see [Anticipating Self-Employment](#).

### Annualizing Self-employment Income

When the self-employment business has existed for 12 or more months, and there are no significant changes, divide the annual income by 12 to calculate a monthly amount.

Self-employment income due to farming has special budgeting procedures. (See [Farming](#) for more information.)

Request, verify, and review the participant's income received during the prior 12 months to determine the reasonably certain income the participant expects to receive during the approval period.

To determine the annual income, complete **one** of the following:

- Use the participant's most recent Internal Revenue Service (IRS) tax return. **All** of the following information is applicable:

The gross income from Schedule C, Part I Income section, line one is the annual gross income:

"Gross receipts or sales:"

Use the amount listed on line one to budget annualized gross income.

Do not use the amount on line seven. Line seven includes deductions already included in the 40% self-employment expense deduction:

"Gross income."

- When a tax return is not available, use the 12 full months of income for **one** of the following circumstances:

For new applications, use the 12 full months before the application month.

Use the 12 full months before the timely renewal interview month for renewal applications.

For reported changes, use the 12 full months before the month a participant reports the change.

NOTE When a reported change is for self-employment income, see [Projecting Self-Employment Income](#) or [Anticipate Self-Employment Income](#).

Discuss with the participant whether the annualized amount reflects the monthly income reasonably certain to be received during the approval period. Complete **one** of the following based on the discussion:

- When the annualized amount accurately reflects the participant's expected income, budget the annualized amount. (See [Example 1](#) for more information about Annualizing Self-Employment)
- When the annualized amount does not accurately reflect the participant's expected income, see [Projecting Self-Employment Income](#).
- When the annualized amount on the most recent Internal Revenue Service (IRS) tax return does not accurately reflect the participant's expected income, see [Anticipating Self-Employment](#).

### **Self-Employed for Less Than One Year**

Apply **all** of the following steps when a self-employment business has been in operation for less than one year:

- Average the total self-employment income received over the months the business has been operating.
- Exclude **any** of the following months of income from the average when the months are partial:

The initial month of self-employment income

The current month (See [Example 2](#) for more information about budgeting self-employment income for less than one year.)

- Discuss with the participant whether the averaged amount reflects the monthly income reasonably certain to be received during the approval period. Complete **one** of the following based on the discussion:

When the averaged amount accurately reflects the participant's expected income, budget the averaged amount.

When the averaged amount does not accurately reflect the participant's expected income, see [Projecting Self-Employment Income](#).

### **Anticipating Self-Employment**

To anticipate the amount of self-employment income to budget, document a discussion with the participant about the amount expected to be received monthly and why the participant expects a change. Use a participant's statement when necessary. See [Example 3](#) and [Example 4](#) for more information about anticipating self-employment income.

Anticipate Self-employment income when a participant has not received a full month's income, or the past months do not accurately reflect the current circumstances due to **any** of the following:

- The self-employment income is unpredictable and received less often than monthly. This income may not represent the participant's annual income.

- The participant expects an increase in self-employment income to be received from a new business source.
- Predictable self-employment income that usually fluctuates seasonally or monthly. This income represents the participant's annual income.
- The participant expects to receive income from a terminated self-employment business. (See [Terminated Self-Employment](#) for more information)

NOTE When an unusual change in circumstances causes the self-employment to temporarily stop and it is not known when it is expected resume, do not budget the self-employment income. (See [Example 5](#))

- When self-employment exists for less than a month, and the receipt of income begins in a budget month, complete **all** of the following:

For the budget month, budget the actual amount of income received.

For ongoing months, based on the conversation with the participant, convert the weekly income amount to a monthly amount for the approval period.

### Terminated Self-Employment

Budget the income and expenses the participant received in the last month they performed self-employment when the self-employment terminates in a [budget month\(g\)](#).

Remove self-employment income from SEEI when a business closes, and the participant receives the last income from the business source. See [Example 5](#) for more information about terminated self-employment.

The participant may expect to receive income from the business after it has closed. When the amount is more or less than previously prorated, anticipate the income and expenses. Continue to count the income as self-employment.

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### AZTECS Keying Procedures

Depending on the program and who the self-employment income belongs to, self-employment income may or may not be countable income, use **one** of the following Income Type Codes on SEEI in the INC Type fields:

- OX for income that is not countable for NA and CA
- OF for income that is countable for NA only

NOTE Self-employment may count for NA and may not count for CA, enter the income twice on SEEI and SEEW using the appropriate Income Type Codes for each program on SEEI.

To key self-employment, **all** of the following apply:

- Use SEEI to add, change or remove self-employment income. Use SEEW to calculate the adjusted gross countable self-employment income.
- To access SEEW to calculate the adjusted gross, key **all** of the following on SEEI next to the self-employed participant:

The income type in the INC TYP field

**One** of the following in the 40% EXP field:

- Y when at least one allowable self-employment expense is verified.
- N when no allowable self-employment expenses are verified.

NOTE For more information on self-employment expenses, see [self-employment expense deduction](#) and [allowable self-employment expenses](#).

Leave the ADJ GROSS field blank

Press enter, and SEEW displays

SEEW displays **all** of the following information:

- The case name.
- The case number.
- The name of the self-employed participant.
- Six across and eight lines down to key self-employment income amounts.

On SEEW, key **all** of the following information:

- In the AMOUNT field, all gross self-employment income, including capital gains.
- In the TYP field, I for income.
- In the SHARE% field, the portion of the business owned by the participant (i.e., 100, 75, 50, etc.)
- In the MONTHS field, the number of months used to determine the self-employment income.

NOTE AZTECS automatically divides the self-employment income by the number of months keyed.

- In the SEND (Y/N) field, key Y to send a screen print to OnBase.

NOTE AZTECS does not save SEEW. A screen print must be placed in the [case file\(g\)](#).

- Press Enter twice to return to SEEI.

When all information has been keyed on SEEW, the calculated monthly self-employment income amount displays in the ADJ GROSS field on SEEI.

After keying SEEW, key **all** of the following on SEEI:

- In the HRS field, the converted monthly hours the participant works.
- The verification code in the VR fields describes how the information was verified.

NOTE There are two VR fields on SEEI, which must be completed with the appropriate verification code.

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## Examples

- 1) Eva applies and is interviewed on April 30, 2019. Eva makes and sells gift baskets and meets the self-employment definition. Eva does not have a current IRS tax return. She provides the 12 full months of income before the month of application as follows:

<u>Month/Year</u>	<u>Income</u>
04/2018	\$400
05/2018	\$800
06/2018	\$650
07/2018	\$375
08/2018	\$500
09/2018	\$325
10/2018	\$400
11/2018	\$700
12/2018	\$1000
01/2019	\$350
02/2019	\$1200
03/2019	\$500
Total:	\$7200
Divide by:	12
Average:	\$600

Eva's average monthly income is \$600. Eva explained that due to holidays her income fluctuates. She expects the monthly income of \$600 to continue. Budget the annualized amount as the monthly income.

- 2) Dan applies and is interviewed on February 7. Dan began selling blood plasma on November 20 and meets the self-employment definition. Dan reports and verifies he received the following income:

<u>Month</u>	<u>Income</u>
November	\$90
December	\$145

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January	\$175
February	\$70
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Total:	\$320
Divided by:	÷ 2
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Average:	\$160

November is the initial month of income and is a partial month. November's income is excluded from the average. February is the current month and is a partial month. February's income is excluded from the average. Dan's average monthly income is \$160. Dan expects the average monthly income of \$160 to continue. Budget the average amount as the monthly income.

- 3) Cathi applies and is interviewed on November 29, 2019. Cathi has a house cleaning business and meets the self-employment definition. Cathi provides the 12 full months of income before the month of application as follows:

<u>Month</u>	<u>Income</u>	
11/2018	\$600	Unusually High
12/2018	\$600	Unusually High
01/2019	\$600	Unusually High
02/2019	\$600	Unusually High
03/2019	\$600	Unusually High
04/2019	\$600	Unusually High
05/2019	\$600	Unusually High
06/2019	\$450	Expected to Continue (Normal)
07/2019	\$450	Expected to Continue
08/2019	\$450	Expected to Continue
09/2019	\$450	Expected to Continue
10/2019	\$450	Expected to Continue
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	\$6450	12-month total

÷ 12	Divided by 12
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\$537.50	Annualized amount
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Cathi's annualized monthly income is \$537.50. Cathi states the annualized amount does not reflect the monthly income she expects to receive since she has two less clients now than she had during the past year.

\$2250	Total for the five normal months
÷ 5	Divided by five
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\$450	Projected amount
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After excluding the unusual months, Cathi's projected monthly income is \$450. She expects to continue receiving \$450 monthly. Budget the projected amount of \$450 as the monthly income.

- 4) Ethan applies and is interviewed on August 16. Ethan began working as an Uber driver on June 7 and meets the self-employment definition. Ethan reports and verifies he received the following income:

<u>Month</u>	<u>Income</u>
June	\$600
July	\$100
August	\$400

June is the initial month of income and is a partial month. June's income is excluded from the average. August is the current month and is a partial month. August's income is excluded from the average. Ethan's average monthly income is \$100.

Ethan states his car broke down in July and July's income is not expected to continue. Ethan estimates that his monthly income will be \$800. The income verification and discussion with the participant supports the anticipated monthly amount. Budget the anticipated amount of \$800 as the monthly income.

- 5) Bob is self-employed and reports that his average income amount does not accurately reflect his current monthly circumstances.

Bob reports that his self-employment income has stopped because he was in a car accident where he was injured and has not been able to work. Bob reports that there is no income expected to be received from his self-employment until he



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is healed and can work. Bob does plan to go back to work but does not know when.

The self-employment income should not be budgeted.

[Prior Policy](#)

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