

## INCOME EARNED

### SELF-EMPLOYMENT OR SMALL BUSINESS INCOME

Following are some of the items of business expenditures, which are **not** deductible from gross business income:

- Payments on the principal for real property used wholly or partially in the business;
- Any expenses which are not directly related to the operation of the business, (for example, personal expenses such as lunch or transportation for work).

Income and expenses are generally considered on an annual basis. The difference between income and expenses is then divided by 12 to establish the A/R's monthly earned income. The primary source for verifying the A/R's income and expenses is his/her income tax records.

#### How to Estimate Net Earnings from Self-Employment:

If the A/R has been conducting the same trade or business/farm for several years; has had net earnings which have been fairly constant from year to year; and anticipates no change or gives no satisfactory explanation why net earnings would be substantially lower than in the past, take the net profit from the past year as an estimate for the current year. Divide yearly net profit by 12 to determine monthly income.

If an A/R is engaged in a new trade or business/farm, give the A/R the Financial Status (Farm or Business) Form (DOH-4469) to complete. Divide net profit by 3 to project monthly income for the next year.

**NOTE:** When using the three-month business record, a loss in one month may be used to offset a profit in another month. If an A/R owns more than one business, and tax returns are not available, a DOH-4469 must be completed for each business. A loss in one business does not offset a gain in another.

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Procedure to Determine Net Profit

**Income Tax Return**

<b><u>Business Organization</u></b>	<b><u>Documentation</u></b>
Single Owner Business/Farm	tax return including Schedule C or C-EZ or Schedule F (farm) <b>or</b> Financial Status Form (farm or business) DOH- 4469
Partnership	tax return including Schedule E or F (farm) or Form 1065 and Schedule K-1 and W-2 if applicable <b>or</b> partnership agreement <b>or</b> Form 1065, Partnership Return <b>or</b> Schedule K-1 (1065) <b>or</b> Financial Status Form (farm or business) DOH- 4469
S-corporation	Tax return (Form 1120S) <b>and</b> Schedule K-1 <b>and</b> W-2 if applicable, or Financial Status Form (farm or business) DOH- 4469

Take net profit from appropriate lines of schedules, and:

For LIF, Medically Needy (ADC-Related) and S/CC A/Rs, add back any depreciation, depletion, amortization or 179 expenses, deducted;  
**or**

For SSI-related A/Rs, because depreciation, depletion, amortization, 179 expenses are allowed, use net profit as gross income.

**NOTE:** One-half of self-employment tax as listed under Adjustments to Income on Form 1040, is an allowable deduction for all categories.

**INCOME  
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Do not allow personal expenses and entertainment, personal transportation, purchase of capital equipment to expand a business\*, or payment on the principal of loans or mortgages. Depreciation, depletion, amortization and 179 expenses may be allowed for SSI-related A/Rs.

**\*NOTE:** The repair or replacement of existing capital equipment is allowed.

Assume that all deductions taken on tax returns or business records are allowed by the IRS, unless there is conclusive evidence to the contrary.

If the **annualized** self-employment income indicates a loss (negative dollar amount), use zero income.

**EXCEPTION:** Within a single type of business, use zero income only when the tax return or business record indicates a cumulative loss, for example: an A/R has three rental properties; two show a net profit and one shows a net loss; use the loss to off-set the profits, and do not reduce the loss to zero unless the cumulative bottom line for the three properties is a negative dollar amount.

**If tax returns are not available because the A/R indicates:**

- that the business is new, and no federal tax return has yet been filed; or,
- that last year's tax return is not representative of the current year's earnings; or,
- that s/he does not file a tax return for the business,

then the Financial Status Form (DOH-4469) can be used to document the self-employment income.

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Inasmuch as, the DOH-4469 reflects a three-month financial snapshot of a business, it is appropriate to allow a loss in one month to offset a profit in another month. When using an annualized business record such as a tax return a business loss is brought to zero, and cannot be used to reduce income from another source.

A/Rs are not required to supply actual bills and receipts to substantiate the income and expenses recorded on the Financial Status form (DOH-4469). The applicant's certification on the bottom of the form, that the information is true and correct, is sufficient.

**Documentation:** Sufficient to establish an audit trail.

**Disposition:** When the gross business income is determined and the business expenses are determined and deducted, the resulting amount is earned income.

**NOTE:** The A/R's income is evaluated against the maintenance picture of the A/R. (See **OTHER ELIGIBILITY REQUIREMENTS FINANCIAL MAINTENANCE**)