

INCOME

SELF-EMPLOYMENT OR SMALL BUSINESS INCOME

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

If tax returns or **annualized** business records indicate a loss (negative dollar amount), use zero income.

If tax returns, accountant's statement, or business records are not available:

obtain written statement from the A/R;

ask for any documentation verifying income/expenses;

have A/R keep business records for future determination of net profit.

How to Verify Status: In verifying income from self-employment or small business/farm it is essential to determine what kind of operating costs are necessary and how the income is obtained. Such factors as accounts payable and receivable, inventory levels and investments which are expected to yield long term dividends, need to be evaluated.

It is necessary to seek documents to prove the statements of the A/R. Such items as bills, receipts, ledgers, payroll records, sales tax records, records of suppliers and records of customers might be necessary in appropriate cases. **In all cases, the most recent available information is used.**

Documentation: Sufficient to establish an audit trail.

Since business records are often quite complex, the preferable method of documentation is by photocopy. If this is impossible, all documents used in arriving at the determination are listed as in the following example which pertains to a service station operator:

Receipted bill from Excelsior Oil Co. dated 8/15/83 seen. Paid \$500 for 500 gallons of gasoline at \$1.00 per gallon.

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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 page 386).