IPOLICY

All Programs

This item identifies all the following:

- Guidelines for determining if an individual's income is considered to be from employment or self-employment.
- Allowable expenses of producing self-employment income.
- Self-employment income types.

SELF-EMPLOYMENT

All Programs

Individuals who run their own businesses are self-employed. This includes but is not limited to selling goods, farming, providing direct services, and operating a facility that provides services such as adult foster care home or room and board.

Note: S-Corporations and Limited Liability Companies (LLCs) are not self-employment.

Rental income is sometimes counted as unearned income and sometimes as self-employment. Enter all types of rental income in the rental/room and board logical unit of work (LUW). Bridges will determine income type and countable portion based on program policy rules; see BEM 504, Income From Rental/Room And Board.

Child Care Provider Income

A person who provides child care in their own home is considered to be self-employed. If the care is provided in the child's home, the provider is considered to be an employee of the parent and income considered employment; see Bridges Eligibility Manual (BEM) 501, Income From Employment.

EMPLOYMENT OR SELF-EMPLOYMENT INCOME?

It is sometimes difficult to determine if an individual's income should be entered in the earned income or self-employment LUW. Make a determination based on available information and document your rationale. Use the following guidelines to help make that determination; consider the following to be indicators of self-employment:

- The individual sets their own work hours.
- The individual provides their own tools used on the job.
- The individual is responsible for the service being provided and for the methods used to provide the service.
- The individual collects payment for the services provided from the individual paying for them.

A client need not meet all the above to be considered self-employed.

Do **not** consider the following in making the determination of whether a client's income is considered self-employment or employment:

- Withholding of income tax from payment made to individual.
- Whether or not the individual files income tax.
- Whether or not an individual receives a federal Form 1099.

Example 1: Joe has a contract with the local hospital to provide snow removal services. Joe drives their own snow removal vehicle and pays for their own gas. The hospital pays Joe directly based on when the services are used. Joe is self-employed.

Example 2: Jane is a hairdresser at a salon. The salon supplies all the products used on the job. Jane's clients pay the salon for the service(s) Jane provides. Jane receives a paycheck from the salon each week for 50 percent of the income from clients. For income budgeting purposes, Jane is an employee of the salon and the income is entered as earned income.

Example 3: Rich provides home help care an elderly neighbor; Sam. Sam receives assistance through MDHHS' Independent Living Services (Adult Home Help) program to pay for Rich's services. Rich is an employee of Sam and the income is earned income.

Example 4: Mary Jo is a massage therapist at a local chiropractor's office and uses a room and table in the office. Mary Jo provides the oils and linens used for the massages and sets the hours. Payments are collected directly from the clients and the chiropractor's office is paid $10 for each message provided. Mary Jo is self-employed.

COUNTABLE SELF-EMPLOYMENT INCOME

FIP, RCA, SDA, CDC, FAP

The amount of self-employment income before any deduction is called total proceeds. Countable income from self-employment equals the total proceeds **minus** allowable expenses of producing the income. If allowable expenses exceed the total proceeds, the amount of the loss cannot offset any other income **except** for farm loss amounts; see *Farming Expenses* in this item.

Example: An individual operates a retail store. Total proceeds for the month are $3,200. Allowable expenses total $3,800. The $600 deficit **cannot** be used to offset any other income.

Allowable expenses are the higher of 50 percent of the total proceeds, or actual expenses if the client chooses to claim and verify the expenses.

Note:

SELF-EMPLOYMENT INCOME EXPENSES

FIP, RCA, SDA, CDC, FAP

Allowable expenses include all the following:

- Identifiable expenses of labor, stock, raw material, seed, fertilizer, etc.
- Interest and principal on loans for equipment, real estate or income-producing property.
- Insurance premiums on loans for equipment, real estate and other income-producing property.
- Taxes paid on income-producing property.
- Transportation costs while on the job (example: fuel).

- Purchase of capital equipment.
- A child care provider's cost of meals for children. Do **not** allow costs for the provider's own children.
- Any other identifiable expense of producing self-employment income except those listed below.

Note: Allowable expenses for rental/room and board are different than those listed above; see BEM 504. Policy in BEM 504 does not pertain to MAGI Medicaid determinations.

Not Allowed

Do **not** enter any of the following as self-employment expenses in Bridges:

- A net loss from a previous period.
- Federal, state and local income taxes.
- Personal entertainment or other individual business expenses.
- Money set aside for retirement.
- Depreciation on equipment, real estate or other capital investments.

FARMING EXPENSES

Family Independence Program (FIP), Refugee Cash Assistance (RCA), SDA, Child Development and Care (CDC), Food Assistance Program (FAP)

Allowable expenses of farming can exceed the proceeds if the actual or anticipated proceeds are $1,000 or more for the year. This farm loss can then be deducted from other budgetable income of the group to determine the benefit amount, as follows:

- Bridges will deduct the net farm loss from any other budgetable earned income of the group.
- If a net farming loss remains, Bridges deducts it from any budgetable unearned income of the group.

The previous year's tax return is typically used to calculate farming income. The loss is prorated over the year to determine a monthly amount to deduct from the group's other income sources.

CHILD CARE NUTRITION PAYMENTS

All Programs

When a child care provider receives payments under the Child Nutrition Act of 1965 or National School Lunch Act, enter this income in the self-employment LUW.

FIP, RCA, SDA, CDC, Medicaid -

Bridges excludes payments received under the Child Nutrition Act of 1965 and the National School Lunch Act.

FAP Only

Bridges counts the following result as self-employment income of the child care provider:

Payment received under the Child Nutrition Act of 1965 (Child and Adult Food Care Program) or National School Lunch Act, **minus** the allowable cost of meals for the provider's own children during child care hours. Bridges will use the higher of actual costs (if reported and verified), or 50 percent of the total proceeds for allowable costs; see *Self-employment Expenses* in this item.

USDA PAYMENT-IN-KIND (PIK) PROGRAM

FIP, RCA, SDA, CDC and FAP

United States Department of Agriculture payment-in-kind (PIK) program pays farmers to divert land or reduce crop acreage. The Commodity Credit Corporation (CCC) issues PIK commodities (surplus agricultural products) and commodity certificates.

Count a commodity or a commodity certificate as self-employment income if either of the following:

- Cash is actually received for it.
- It is reasonably anticipated that it will be sold or returned to the CCC during the year for which the income is being calculated.

Exceptions:

- A commodity or commodity certificate is an asset if the intention is to hold it for over 12 months.
- Exclude a commodity intended for use as feed or seed as income and as an asset.

Enter PIK income in the self-employment LUW as **other self-employment**.

VERIFICATION REQUIREMENTS

All Programs

Verify countable income at **all** of the following:

- Application, including a program add, prior to authorizing benefits.

  Note: See Bridges Administrative Manual (BAM) 117, FAP Expedited Service, for expedited income verification rules.

- At member add, only the income of the member being added.

  Note: See BAM 220, Case Actions, for CDC member add requirements.

- Redetermination/Renewal.
- When program policy requires a change be budgeted.

  Exception: For FIP, RCA, SDA, and FAP, verify income that decreases or stops. Do not verify starting or increasing income unless income change information is unclear, inconsistent or questionable. Select **starting or increasing income** as the verification source. Selecting **client statement** as the verification source results in Bridges incorrectly pending eligibility and generating a verification checklist.

The individual has primary responsibility for obtaining verification. Do not deny assistance because an individual is unable to verify income. Assist the individual in obtaining verification when requested; see BAM 130, Verification And Collateral Contacts, and BEM 702, CDC Verifications.

MAGI-related Medicaid Only

The income earned by children under the age of 19 does not need to be verified. Client statement is acceptable. Anyone in the Medicaid group 19 and over must have their income verified.

VERIFICATION SOURCES

Self-Employment Income

FIP, RCA, SDA, CDC, and FAP

- Primary source - Income tax return provided:
  - The client hasn't started or ended self-employment, or received an increase/decrease in income, etc.
  - The tax return is still representative of future income.
  - The client filed a tax return.
- Secondary source - DHS-431, Self-Employment Statement, with all income receipts to support claimed income.
- Third source - DHS-431, Self-Employment Statement, without receipts.

Self-Employment Expenses

FIP, RCA, SDA, CDC, and FAP

DHS-431, Self-Employment Statement, with receipts.

USDA Payment-In-Kind (PIK)

All Programs

- PIK commodity/certificate income.
- Business receipts.
- Accounting or other business records.

- Written statement from the Commodity Credit Corporation (CCC) or purchaser.

USDA Payment-In-Kind (PIK) Commodities/ Certificates Asset

- PIK certificate.
- Statement from Commodity Credit Corporation.
- Statement from local livestock or implement dealers.
- Statement of county agricultural agent.

MAGI MEDICAID SELF-EMPLOYMENT

MAGI Medicaid uses IRS income rules to determine the amount of self-employment income an individual has. Self-employment income is a best estimate based on the income attested to and verified by business records and tax returns.

An individual with a new business who has not yet filed taxes, or a business whose income has changed from the previous year's tax filing may submit business records and receipts from the last 30 days to verify their self-employment income.

Verification of Income

Self-employment income can be verified in two ways. They include:

Adjusted gross income (AGI) from an individual's Form 1040 or Form 1040NR.

Business records kept by the individual.

NOTE: The DHS-431, Self-Employment Statement, is NOT acceptable verification for Medicaid purposes

When verifying self-employment income for multiple individuals, on a single case use tax forms or business records to verify the total amount of self-employment. The applicant can specify which portion of the total income is earned by each individual.

Example: Gerald and Thomas are married and filing jointly. They each run a separate business. Their joint tax return verifies a combined income of $50,000. Gerald or Thomas can tell the department which part of the $50,000 is earned by each of them.

Verification of Expenses

Allowable expenses are the same as those that are allowed by the IRS. An individual with a new business who has not yet filed taxes, or a business whose income has changed from the previous year's tax filing may submit business records and receipts from the last 30 days to verify their self-employment income.

Expenses can be verified in several ways. They include:

Adjusted gross income (AGI) from an individual's Form 1040 or Form 1040NR,

Schedule C, Profit or Loss From Business, including all attachments. This form is used in conjunction with IRS form 1040.

Schedule F, Farm Rental Income and Expenses may be used in conjunction with Form 1040.

Business records kept by the individual.

NON-MAGI MEDICAID SELF-EMPLOYMENT

Non-MAGI Medicaid uses all self-employment income an applicant has to determine eligibility.

Verification of Income:

Self-employment income can be verified in several ways. These ways include:

Adjusted gross income (AGI) from an individual's Form 1040 or Form 1040NR.

Business records kept by the individual.

Verification of Expenses

Non-MAGI Medicaid self-employment deductions are limited to the higher of 25 percent of the total proceeds, or actual expenses if the client chooses to claim and verify the expenses.

Expenses for Non-MAGI Medicaid self-employment can be verified in several ways. They include:

Adjusted gross income (AGI) from an individual's Form 1040 or Form 1040NR,

Schedule C, Profit or Loss From Business, including all attachments. This form is used in conjunction with IRS form 1040.

Schedule F, Farm Rental Income and Expenses may be used in conjunction with Form 1040.

Business records kept by the individual.

LEGAL BASE

FIP

MCL 400.1 et. seq.

SDA

Annual Appropriations Act
Mich Admin Code, R 400.3151- 400.3180

CDC

The Child Care and Development Block Grant (CCDBG) Act (42 USC § 9858 et. seq.), as amended by the CCDBG Act of 2014 (Pub. L. 113-186).
45 CFR Parts 98 and 99.
Social Security Act, as amended 2016.

MA

Social Security Act Sections 1902(a)(10), 1931
42 CFR 435, Subparts H and I
MCL 400.106

The Affordable Care Act (Pub. L. 111-148) and the Health Care and Education Reconciliation Act (Pub. L. 111-152).

FAP

7 CFR 273.9.1, 273.2(f)(2)(i), 273.11

Child Care and Development Block Grant of 1990, P. L. 101-508, Section 5105(a)(3)
P. L. 108-447