

DEPARTMENT OF HUMAN RESOURCES FAMILY INVESTMENT ADMINISTRATION	FOOD SUPPLEMENT PROGRAM MANUAL	
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104.1 Purpose

This section describes the special policies that apply to households that have self-employment income.

104.2 General Information

- I. FSP applicants and recipients may have income from self employment. Self-employed people can include: child or adult care providers; taxicab/Uber/Lyft drivers; hairdressers, barbers or beauticians; handymen, odd jobs, landscapers or lawn care providers; newspaper delivery people; small business owners; farmers; fishermen or watermen; and, craft, art, or jewelry sales people. In general, people who have earnings from working for themselves are considered self employed. They may work under a contract for another person or business or they may own their own business.

Here are some ways to identify self-employment:

- A. If an employer reports a person's wages on an IRS form 1099-MISC rather than a W-2 form, the person is almost always self employed. See Section 104.91.
 - If the person is employed by a company or organization as a contractor, they should have an IRS form 1099-MISC provided by the employer showing their "nonemployee compensation."
 - The self-employed person should also file a Schedule C with their 1040, showing their gross income from self employment in Part 1, Line 1 (or Part II, Line 1 on the Schedule C-EZ). Schedule C is the first place you should look for self employment income. See Section 104.92.
- B. The IRS form 1099-MISC can also be used to report royalties (in box 2), which are considered unearned income for FSP purposes.
 - Musicians or writers may have royalties from album or book sales.
- C. If an employer does not withhold taxes and social security (FICA), the person is considered self employed.
 - Some people, such as day care providers or handymen, work directly for people who do not provide an IRS form 1099-MISC at the end of the tax year.
 - Often people in these jobs are paid in cash.
- D. A self-employed person may file Schedule E to report income from rental real estate, partnerships, S corporations, and also unearned income from estates, trusts and royalties.
 - In a partnership, each partner must file Schedule K-1 (form 1065) to report their income from the partnership.

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- An S corporation must also file a Schedule K-1 (form 1120S) to report on each shareholder's share of income. The shareholders use the information on the K-1 to report on their individual return Schedule E.
 - Trusts and estates use Schedule K-1 (form 1041) to report income to their beneficiaries which is considered unearned income for FSP purposes.
- E. The Code of Federal Regulations requires that earned income includes all wages and salaries of an employee and the gross income from a self employment enterprise.
- Ownership of a rental property is considered self employment unless the owner spends an average of 20 or more hours a week managing the property, then it is considered earned income.
 - Payments from a roomer or boarder are also considered income from self employment.
- F. Self employed individuals may incorporate their businesses in several different ways, among them are:
- Limited Liability Company (LLC) – the least complex business structure that protects personal assets and passes through taxes on profit (or loss) to the owners, who report it on their individual income tax returns.
 - S Corporation – also protects personal assets and passes through taxes to the owners who report their share of profit (or loss) on their individual income tax returns.
 - Partnership – incorporated partnerships also protect personal assets and pass through taxes to the partners who report their share of profit (or loss) on their individual income tax returns.
- II. To calculate self-employment income, allow a deduction of 50% from the gross income as the cost for producing the income before applying the 20% earned income deduction. Self-employed farmers may deduct actual losses from their gross income rather than the 50% if the cost to produce exceeds the income from the farm. To be considered a self-employed farmer, the farmer must have gross income of \$1,000 or more from the farm.
- III. All the policies and procedures described in the general sections of this manual apply to households with self-employed members. However, the following four specific areas require special consideration:
- A. Work Registration
 - B. Resources
 - C. Income
 - D. Certification Periods

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104.3 Work Registration

Receiving income from self-employment does not automatically exempt a household member from the work registration requirement. All the statutory exemptions listed in FSP Manual Section 130.5 Work Requirements apply to self employed individuals. In order to be exempt due to employment, a self-employed member must be:

- A. Working a minimum of 30 hours weekly, or
- B. Receiving earnings which, on a weekly basis, are equal to the federal minimum wage multiplied by 30 hours (see Section 130)
- C. Self employed at least **20** hours per week, averaged monthly, to meet the **ABAWD** requirement.

EXAMPLE 1: A cash crop farmer who performs actual farming activity 8 months out of the year is exempt from work registration during the other 4 months if his annual income from farming equals the federal minimum wage multiplied by 30 hours when considered on a weekly basis. In other words, annual income divided by 52 must be at least equal to 30 times the minimum hourly wage.

EXAMPLE 2: A franchise operator hires other people to perform the actual day-to-day operation of the business. He does not actually work at least 30 hours weekly on the business. He does not earn enough annually to equal weekly earnings of 30 times the minimum wage. This FSP participant must register for work unless he is otherwise exempt.

EXAMPLE 3: A tourist shop owner operates the business at least 30 hours per week during the tourist season. The shop is closed during the off season and the owner does not work at the business during that time. The owner is exempt from work registration during the tourist season. However, she must be registered for work during the off season unless:

- The income earned during the tourist season is intended to provide annual support and it equals an annual weekly amount of 30 times the federal minimum wage; or
- She qualifies for some other work registration exemption.

104.4 Resources

Exempt as a resource any monies that have been prorated as income. For example, a cash crop farmer receives his income when he sells his crop. This income is prorated over the year and therefore cannot be counted as a resource. **Remember, resources are not counted for categorically eligible households.**

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104.5 Special Income Considerations

Capital Gains

Count the full amount of proceeds from the sale of capital goods or equipment as self-employment income, even if only 50% of the proceeds from the sale is taxed for federal income tax purposes. Add the proceeds from the sale of capital goods or equipment to any other self-employment income and compute the total self-employment income as described in Section 104.6.

104.6 Income Computation

Consider the following special factors when determining the gross monthly income for self-employed households:

A. Annualizing

1. Prorate over a 12-month period self-employment income that represents a household's annual support, even if the income is received in only a short period of time. For example, the self-employment income of a crop farmer must be prorated over a 12-month period, if the income is intended to support the farmer on an annual basis.
2. Annualize self-employment income even if the household receives income from other sources in addition to the self-employment.

B. Averaging

1. Average over a 12-month period self-employment income received on a regular basis (weekly, monthly, etc) that does not fluctuate greatly in amount but which represents a household's annual support. For example, a dairy farmer whose annual income is derived from his business receives income from the sale of milk on a regular basis. Convert this income to a yearly amount and average over a 12-month period. See Section 104.891 for types of verification.
2. Average self-employment income that is intended to meet the household's needs for only part of the year, over the period of time the income is intended to cover. For example, self-employed vendors who work at this business only in the summer and supplement their income from other sources during the balance of the year must have their self-employment income averaged over the summer months rather than a 12-month period.

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104.6 Income Computation (continued)

3. Average self-employment income over the period of time a business has operated, if it has been in business for less than a year. Project this monthly amount for the coming year.
4. Verify the income used for averaging using the types of verifications in section 104.891 of this manual.

C. Anticipating

Anticipate rather than average self-employment income under the following circumstances:

1. The average amount does not accurately reflect the household's actual monthly circumstances because there has been a substantial increase or decrease in business; or
2. The nature of the business is such that the receipt and amount of income varies greatly; or
3. A business has been in operation such a short time that there is not enough information to average earnings and project them over a yearly period.

104.7 Self Employment Earned Income Deduction

The self-employment earned income deduction is 50% of the gross receipts. Take gross receipts from IRS form 1040 Schedule C line 1. This 50% allowance is considered the cost to produce. The gross income test is applied after the 50% deduction. The 20% earned income deduction is then applied to the remainder.

Example: Ms. B provides child care in her home. She provided a tax Form 1040 Schedule C (Part 1 line 1 shows annual income of \$10,000). The allowable deduction for cost-to-produce is \$5,000. The countable annual income is \$5,000. Ms. B also receives a 20% earned income deduction of \$1,000 for net annual income from self-employment of \$4,000.

CARES applies the 50% cost to produce and the 20% earned income deduction. If the customer does not provide IRS 1040 Schedule C or K or IRS Form 1099 to show business earnings, the customer must provide receipts, business ledger or statement showing actual earnings.

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104.8 Self-Employed Business People

104.81 Definition of a Self-Employed Farmer

NOTE: The 50% cost-to-produce deduction does not apply to the self-employment income of farmers, fishermen and watermen who verify a cost-to-produce in excess of the 50% deduction. See section 104.7.

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.

A. The case manager must first determine if the person is a self-employed farmer.

B. To be considered a self-employed farmer, the person must:

1. Earn at least \$1,000 a year from the farm,
2. Be engaged in farming activity for the purpose of producing income, and
3. Have direct involvement in farming activity.

For example, a person who rents his land to another individual to raise a crop is not a self-employed farmer if he is not directly involved in the growing or harvesting of the crop.

C. The case manager must use his or her best judgment on a case-by-case basis to determine if a person is a self-employed farmer or a farm employee.

D. COMAR 07.03.17.39C allows self-employed farmers to offset farm losses against gross earnings and does not restrict them to the 50% cost to produce deduction.

104.82 Definition of a Self-Employed Business Person

A. Sole Proprietorship.

1. Self-employment income generally consists of earnings derived by an individual as the sole proprietor of her business.
2. A sole proprietorship is an unincorporated business that has no existence apart from the owner.
3. The business liabilities are the personal liabilities of the single owner.

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B. Partnership.

1. There may also be some self-employment income situations that involve a partnership.
2. There should be an oral or written agreement. Generally, a partner's share of income, gain, loss, deductions or credits is determined by the partnership agreement. In any matter not addressed by a written agreement, the provisions of local law are considered to be part of the agreement.

C. Independent Contractors.

1. Other self-employment situations for FSP purposes include independent contractors who pay expenses and persons who do not have a direct employer/employee relationship.
2. In determining if the person is an independent contractor, the case manager should determine if a household operates a separate (perhaps more specialized) business than the proprietor of the main business.
3. In determining if there is an employer and employee relationship, the case manager may consider such things as whether the person has an established work schedule and specified wages, whether the employer withholds social security and income taxes from earnings.

A sharecropper who pays the costs of doing business and receives a portion of the net farm income in exchange for her labor is a self-employed farmer. A sharecropper who does not pay the costs of doing business is not a self-employed farmer.

D. Corporations.

1. If the household has shares in an **S Corporation**, the S Corporation income reported on the household's Form 1040 must be counted as self-employment income and annualized over a 12-month period.
2. An owner or employee of **another corporation** is not a self-employed person. If the person receives a salary from the corporation, she is considered an employee of the corporation. Shareholders who only receive dividends are entitled to neither the costs of producing self-employment income nor the earned income deduction. The dividends are counted as unearned income. Corporations are separate legal entities, and the corporation is responsible for its debts and obligations.

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104.83 BASIC STANDARDS

104.831 Basic Standards for Farmers

- A. Self-employed farm households are subject to the same basic processing, eligibility and allotment standards as other households. However, self-employed farmers' monthly net income is computed differently, changes in their farm income are treated differently, and there is a special resource provision.
- B. Non self-employed farmers are treated the same as other households that do not have farm income, e.g., wages of a farm laborer are counted as earned income, income from renting a farm is treated like other rental income.
- C. Some farm workers are given crops at harvest time in addition to salary. If the farm worker plans to sell the crop during the certification period in which it is received, the money received from the sale is counted as self-employment income. If the farm worker does not plan to sell the crop during the certification period in which it is received, the value of the crop is counted as a resource beginning the month in which it is received. If the household later sells a crop that was counted as a resource, the payments received are not counted as income. Resources are counted only for non-categorically eligible households.
- D. There is a special expedited service provision for migrants and seasonal farm worker households. (See Section 122)
- E. Gross self-employment income used in the income calculation is excluded from resources during the period of time that the income is counted.

Example: A household earned \$10,000 gross self-employment income last year and expects to earn the same amount this year. Six thousand dollars of expenses were excluded from income to cover the costs of doing business. Four thousand dollars were annualized and prorated as income for calendar year 2001. The household has \$11,000 in a bank account. Only \$1,000 is counted as a resource during 2001 for a non-categorically eligible household unless there are other changes. Resources are **not** counted for categorically eligible households.

<u>Prorated Income Not a Resource</u>	
Gross Farm Income in 2000	\$10,000
Allowable costs	<u>-6,000</u>
Prorated for 2001	\$4,000 (no changes were anticipated)
Bank Account	\$11,000
Gross Farm Income	<u>- 10,000</u>
Count as a Resource	\$1,000

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104.832 Basic Standards for Businesses

A. The treatment of **resources of a corporation** varies based on the type of corporation.

1. Profits of an **S Corporation** are not considered a resource essential to the employment of a household member even if they are used to purchase more stock in the corporation.
2. Resources of **other corporations** are not counted as the resources of an individual's household. Bank accounts that a corporation owns must be in the corporation's name.
3. Ownership of **Stock in a Corporation**.
 - (a) If a person owns stock in a corporation, the stock is considered a resource for a non-categorically eligible household unless it is essential to his or her employment.
 - (b) If a person is employed by and owns stock in a corporation, the case manager must determine if the stock is essential to the non-categorically eligible person's employment.
 - (c) To the extent that an employee of a corporation must hold stock in the corporation as a condition of employment, the stock is essential to the employment of that person and not considered a resource.
 - (d) If ownership of the stock is not essential, the stock is considered a resource for non-categorical households.

Example: if a farmer has incorporated his farm, he is the sole worker and all of the corporation's assets are related to the farming operation, the farmer's stock in the corporation is essential to his employment and excluded from being considered a resource.

- (e) Sometimes the value of shares in a corporation with only one shareholder or just a few shareholders is not readily available. In such instances, the case manager may subtract corporate liabilities from assets and prorate the difference among the various shareholders based on the percentage of shares held.

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(f) 104.832 Basic Standards for Businesses (continued)

B. Loans.

1. All loans, except deferred educational loans, are excluded as income.
2. Loans, other than deferred repayment educational loans, are considered a resource for non-categorical households in the month received even if the household anticipates spending some or all of it in the same month.
3. For an ongoing (certified) household, excess resources any time during the month makes a non-categorically eligible household ineligible. Any amount remaining after the month of receipt continues to be counted as a resource until the money is spent. This includes business loans as well as personal loans. NOTE: Almost all FSP household are categorically eligible under expanded categorical eligibility rules.
4. Sometimes a farmer may obtain a loan, but funds can only be released by signature of both the lender and the farmer. In such cases where the farmer has a "line-of-credit," only the portion that is actually borrowed and held in an account is considered a resource.

C. Payment-In-Kind (PIK) payments.

Some farm households receive Payment-In-Kind (PIK) payments. Normally these are annualized as income. However, if the farmer indicates that he intends to retain PIK payments for longer than a year, the payments should not be annualized as income but considered a resource for a non-categorical household to the extent that they will be kept longer than a year.

D. Bankruptcy.

Some farmers or businesses declare bankruptcy. If so, the case manager must determine what resources are accessible to the non-categorically eligible household and, if they are accessible, whether the resources can be excluded under another provision such as being essential to self-employment if the person is still self-employed.

- E. Non-liquid assets against which a lien has been placed as a result of taking out a business loan are excluded if the household is prohibited by the security or lien agreement from selling the asset. Verify using loan agreement.

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104.84 Computing Income and Farm Expenses

A. Annualized With Certain Exceptions:

1. Normally self-employment income and expenses are averaged over a 12-month period. Regardless of whether the household receives the income monthly or less often than monthly, annualizing is done when the self-employment represents a household's annual income. Self-employment is annualized even if the household receives income from other sources. For example, a man is a self-employed grain farmer. His wife is a part-time nurse in a doctor's office. In this case the self-employment income would be annualized and the wife's nursing income would be considered earned income.
2. Normally self-employment income and expenses from the past year are counted for the current year. However, anticipated changes, such as a change in the type of farm operation or the amount of land farmed, crop failure, a substantial change in market prices, etc. which would affect the net income must be taken into account. In anticipating income, it may be helpful to review a cash flow plan prepared by a lender such as the Farmer's Home Administration (FmHA), a bank, or a Federal loan bank. These plans anticipate income and expenses. The income and expenses must be prorated evenly over a 12-month period to determine eligibility.

For example, last year a farmer earned \$10,000 and had \$5,000 in expenses. This year he inherited additional land and he expects to gross \$22,000 and have \$11,000 in allowable FSP expenses. The case manager must annualize the anticipated income of \$22,000 and the anticipated expenses of \$11,000.

B. Capital Gains.

1. For FSP purposes, proceeds from the sale of capital goods or equipment are calculated in the same manner as a capital gain for Federal income tax purposes.
2. For Federal income tax purposes, capital gains are generally computed by comparing the sales price to the "cost or other basis." If the sales price is greater, there is a gain. If the costs are greater, there is a loss. The "cost or other basis" in general is the cost of the property, purchase commissions, improvements and sales expenses such as broker's fees and commissions minus depreciation, amortization and depletion.

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3. The full amount of the capital gain, if any, is counted as income for FSP purposes.

4. 104.84 Computing Income and Farm Expenses (continued)

5. If the self-employment was anticipated rather than averaged, any capital gains that the household anticipates in the 12-month period starting with the date of application must be divided by 12 and the average monthly amount added to the anticipated monthly self-employment income. The average monthly capital gain amount must be counted in each of the 12 months even if more than one certification period is involved. However, a new average must be calculated and used if the anticipated amount of capital gains changes.

C. Allowable Expenses.

1. When a farmer verifies expenses in excess of the 50 percent deduction you may exclude allowable costs of doing business from self-employment income such as those listed in 3 below.
2. Self-employment income for FSP purposes is not computed the same way as it is for Internal Revenue Service (IRS) purposes. The IRS forms may only be used for verification purposes.
3. **Allowable farming costs** for FSP purposes include costs such as identifiable costs of:
 - (a) Labor such as wages and salaries paid to employees. However, an exclusion cannot be allowed for wages paid to the farmer himself or other household members;
 - (b) Stock;
 - (c) Raw material and supplies;
 - (d) Seed and plants;
 - (e) Fertilizer and lime;
 - (f) The **interest** portion of (i) payments on business or operating loans and (ii) payments on income-producing real estate and capital assets such as equipment, machinery and other durable goods;
 - (g) Insurance premiums;
 - (h) Taxes paid on income-producing property;
 - (i) Privilege taxes such as licensing fees and gross receipts and general excise taxes that must be paid in order to earn self-employment income;
 - (j) Business transportation costs such as costs of carrying grain to an elevator, trips to obtain needed supplies, etc.;
 - (k) Rental payments on income-producing equipment. If a farmer is renting equipment with an option to buy, the rent payments are allowed until the purchase is made;

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- (l) Costs of repairs and maintenance of equipment; and
- (m) Storage and warehousing charges.

104.84 Computing Income and Farm Expenses (continued)

4. Costs are allowed when they are billed or otherwise become due. When the income is annualized, only expenses billed or otherwise due in the current 12-month period are allowed. Costs that were billed or otherwise became due in a prior year which are not expected to recur in the current year may not be brought forward to the current year regardless of when they are paid.

D. There are some costs that specifically are **NOT ALLOWABLE**. They are:

1. Payments on the principal of the purchase price of income-producing real estate and capital assets such as equipment, machinery and other durable goods;
2. Expenses and net losses from previous periods;
3. Federal, State and local income taxes, money set aside for retirement and other work-related personal expenses such as transportation to and from work. These expenses are allowed for by the 20 percent earned income deduction;
4. Depreciation. To allow such costs would result in an exclusion for amounts which are not actual costs to the household and would, in effect, constitute an exclusion for the costs of income-producing property and assets which otherwise are not allowed;
5. Repayment of the principal of a bank loan. The loan was never counted as income, and the repayments as such are not excluded as an expense. However, the household is given an exclusion for allowable expenses (see 104.83C) when purchases are made even if they are paid for with a business, operating or personal loan;
6. Penalties and fines. For example, an IRS penalty imposed on a farmer for failure to pay an employee's social security taxes is not an allowable cost of doing business. Likewise, penalties imposed by the U. S. Department of Agriculture for failure to comply with planting and marketing programs are not allowable costs;
7. Blue jeans and work boots are not specific to any one job, and their costs are not allowable exclusions. However, if a self-employed fisherman needs hip boots or a bee keeper needs protective head gear, the costs would be allowable exclusions; and

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8. Charitable contributions.

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104.85 Shelter Portion of a Farm

A. Shelter Costs Other Than Utilities

1. If a household's home is on property connected to property used for farming, the case manager must determine if the shelter costs (e.g. rent or mortgage) and the self-employment costs can be separately identified.
2. Proration may be used to separately identify costs based on information from a mortgage lender, real estate tax records, Farmers Home Administration documents, insurance premiums, etc., and the home ratio may be applied to taxes and insurance costs if better information is not readily available.
3. If the costs of rent or mortgage, insurance, taxes, and interest cannot be separated, no self-employment exclusion for insurance, taxes or interest on the mortgage payment may be allowed, and no portion of the mortgage payment, taxes or interest may be allowed as shelter costs.
4. If the farmer uses a room or a separate apartment in his or her house or residence solely for the farm operation, the case manager may on a case-by-case basis:
 - (a) Include all costs (such as rent, mortgage, taxes, and insurance) that the household is required to pay to live there as household shelter costs; or
 - (b) Exclude part of the costs as self-employment costs and part as shelter costs, provided that no costs are allowed as both self-employment costs and shelter costs. The self-employment costs may be separately identified based on the number of rooms, square feet, etc. If separately identified, only the portion attributed to the household's living space can be included in shelter costs. No portion of the principal attributed to the self-employment enterprise under this option is allowed.

B. Utilities:

1. If a farmer's home is on property connected to property used for farming, the case manager must determine if the shelter costs and self-employment costs can be separately identified. Utility costs for a barn are often metered separately from the home, and the cost of a telephone is the same as for other households.
2. If utilities are measured and billed separately, the household is entitled to the Standard Utility Allowance (SUA) or actual utility costs for its residence and to the separately billed self-employment costs as a cost of doing business.

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104.85 Shelter Portion of Farm (continued)

3. If the utility costs cannot be separately identified, the household may not claim actual utility costs. As part of its shelter costs, the household is entitled to SUA if it incurs out-of-pocket heating and cooling costs for the home separately from the rent or mortgage or it receives a Low Income Home Energy Assistance Act (MEAP) payment.
4. If the farmer uses part of his house, such as a separate room or a separate apartment solely for the farm enterprise and there is a central meter, the case manager on a case-by-case basis must:
 - (a) Allow the household either the SUA or the total actual utility costs for the house as shelter costs, but no self-employment exclusion; or
 - (b) Allow the household to claim actual utility costs prorated between shelter costs and self-employment costs. The SUA cannot be used under this option.

104.86 Garnishments and Bankruptcy for Farmers

- A. Garnishments have no effect on the treatment of self-employment income, i.e. the total gross amount is counted in the income computation. The amount garnished is not an income exclusion.
- B. The self-employment income of farmers who have declared bankruptcy is computed the same as the self-employment income of other farmers. There are different types of bankruptcies.
 - Some allow people to continue to do the same kind of business and others do not. If the person continues to earn self-employment income, the gross amount minus allowable expenses is counted.
 - Sometimes the total amount of income goes to a trustee, and from this amount he pays the bills and gives the farmer a living allowance. This living allowance is not counted as income because it would result in double counting. No exclusion is allowed for the fees of a trustee or conservator for his services.
 - In other situations all of the money goes to the farmer, but he must pay a set amount to a court appointed person for back debts. This amount is not allowed as exclusion. An exclusion is allowed only for certain costs in the year in which they are billed or otherwise become due. The household is not entitled to a double exclusion.

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C. Paying off a loan

- If a farmer sells equipment and uses the proceeds to pay off a loan, the money is income to the farmer.
- If he or she sells equipment and the proceeds are diverted to a bank to repay a loan, the money is counted as income to the farmer.
- If he or she voluntarily turns over collateral to a bank, and the bank sells the collateral to pay off a loan, the proceeds of the sale are not counted as income to the farmer. Once the collateral is turned over to the bank, it becomes the legal property of the bank.
- If a farmer holds the title to property and sells the property, any proceeds from the sale are counted as income to him/her.
- If the farmer gives the title to the bank or if the property is repossessed prior to sale and the bank sells the property, the proceeds are not counted as income to the household.
- If a lender is unable to collect on a farm loan, the lender may write all or part of it off or "forgive" the outstanding balance. The forgiven portion is not counted as income to the household.

104.87 Farm Losses Offset Against Other Income

- A. If the costs of producing self-employment farm income exceed the gross farm income, such losses are offset against other countable income.
- B. To qualify for this offset, the person must receive or anticipate receiving annual gross proceeds of \$1,000 or more from the farming enterprise.
- C. Monthly net farm self-employment income is computed in the normal manner by taking gross income, subtracting allowable exclusions and prorating the result over the period the income is intended to cover (usually 12 months). If there is a monthly net farm loss, the offset is made in two phases.

Phase I. The monthly farm loss is offset against the total amount of other net self-employment income computed for that month.

Phase II. If other net self-employment income is not enough to cover the farm loss, the remainder of the farm loss is offset against the total other earned and unearned income for that month. If there is still a net loss, the household is certified based on zero net income. The monthly excess loss is not carried forward to subsequent months.

- D. A fisherman is equivalent to a self-employed farmer for purposes of the offset provision if the fisherman is self-employed, rather than an employee, and the fisherman receives or anticipates receiving annual gross proceeds of \$1,000 or more from fishing. This applies even if the fisherman is only involved in catching or harvesting the fish. This applies to watermen as well as to other fishermen.

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104.88 Specific Types of Payments

Following is guidance for the treatment of specific types of payments:

- A. A Federal gasoline tax credit is excluded from income. (It is a credit against tax liability.)
- B. A State gasoline tax refund is excluded from income on the basis that it is a nonrecurring lump-sum payment. The Federal gasoline tax credit and the State gasoline tax refund may be combined on the same line of the tax form.
- C. Patronage dividends are reported on tax forms. They are paid by cooperatives in cash or shares of stock. These dividends are similar to rebates paid based on the amount of goods bought or services used for the self-employment enterprise. Cash dividends are counted as self-employment income. Dividends in the form of stock are considered a resource for non-categorically eligible households.
- D. Payments received as royalties are counted as unearned income.
- E. Income from rental property is self-employment income.
- F. Disaster assistance payments made as the result of a Presidentially declared major disaster or Presidentially declared emergency are excluded from income and resources. This applies to Federal assistance provided to persons directly affected and to comparable disaster assistance provided by States, local governments, and disaster assistance organizations.

104.89 Earned Income Deduction

- A. If a household has a monthly net self-employment income gain after the 50% cost-to-produce deduction or a farm loss offset, if, the household is entitled to a 20% earned income deduction from the net self-employment amount. If there is a net self-employment income loss, the household is not entitled to an earned income deduction from self-employment income.
- B. If a household has earned income that is not from self-employment, the earned income deduction from **that income** is computed based on the amount before the 50% cost to produce deduction or farm loss offset, is made.

104.891 Verification

The farmer's or business owner's most recent income tax forms and schedules are normally good sources of verification for self-employment income and expenses. However, other sources may be used. If the tax form is questionable or not

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104.891 Verification (continued)

available, the case manager must ask to see other documents that support the income and expenses that the household has reported.

Other sources of verification may include, but are not limited to, ledgers, charge account statements, sales slips, canceled checks, invoices, purchase orders and cash receipts. In documenting this verification, the case manager should record the date, identify the other party or company, describe the expense or income, and record the amount, taxes and discounts, if any.

In some instances, such as anticipated changes or a new business, it may be necessary to obtain information from collateral contacts.

If a bankruptcy action has been initiated, the case manager may get a statement from the bankruptcy trustee regarding the debt reorganization plan concerning the accessibility of assets and the anticipated gross income and expenses.

104.892 Making Changes

When income has been annualized and changes are reported during the 12-month period, the State agency must make adjustments. The following are some examples.

- A. This household filed its income tax return in February and applied for FSP benefits in February. It is subject to simplified reporting. The household did not choose to have the income prorated in uneven amounts.

Original Certification:

\$16,000 crop income
 - 8,000 50% self-employment deduction (actual farm expenses were \$4000)
 \$ 8,000 divided by 12 months = \$667 net per month for February through January of the following year.

Due to a drought, the household reported on July 20 that it expected to only get \$10,000 from the sale of crops for the year. The case manager must re-annualize the income over the same 12-month period that was used at the time of certification or recertification using the new income amount.

1st Change:

\$10,000 crop income
 - 5,000 farm expenses (50% self-employment deduction)
 \$ 5,000 divided by 12 months = \$417 net per month for August through January of the following year.

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104.892 Making Changes (continued)

The household came in on August 1 and reported a second change. It reported that it expected to receive an additional \$2,400 payment in September from the sale of crops on land that it recently purchased. The case manager must re-annualize again over the same 12-month period that was used at the time of certification or recertification based on the most recent information available.

2nd Change:

\$10,000	crop income
+ 2,400	additional crop income
12,400	total gross income
- 6,200	expenses
\$ 6,200	divided by 12 months = <u>\$517</u> net per month for September through January in lieu of all previously computed amounts. A Notice of Adverse Action must be sent in August.

The **end result** is that this household will be certified with net monthly farm income of \$667 for February - July, \$417 for August, and \$517 for September - January.

- B. If her income and expenses were annualized and a person leaves the hairdressing salon where she rents a chair during the 12-month period, the case manager should stop counting the self-employment income when the last income is received from that source. For example, the hair dresser reported the first of September that she planned to leave the salon in October and take a job the first of November as an employee in another salon. Her hairdressing self-employment income had already been included in the averaged amount. The averaged amount of income would continue to be counted for October. No self-employment income would be counted for November, but her earned income from the new salon would be counted.
- C. If a household is expected to receive residual income after the person stops being actively engaged in a business enterprise and the amount of income is expected to be substantially more or less than that previously averaged, the case manager must calculate the residual income based on the anticipated monthly amounts. For example, the annualized self-employment income resulted in an average monthly amount of \$400. On June 5, the person reported that he would not be actively engaged in farming after June and would not receive any additional income from that source except that a person who bought some hay owes him \$100 in July and \$200 in August. The person does not anticipate any future expenses. In this case, the case manager would stop counting the \$400 monthly amount after June's issuance and calculate future self-employment income based on the amount anticipated to be received each month. The case manager could count \$100 as self-employment income for July and \$200 self-employment income for August, or the anticipated fluctuating income could be averaged over the remainder of the certification period.

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104.9 IRS Forms

104.91 1099 MISC

<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-0115		Miscellaneous Income Copy B For Recipient
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents \$	2017 Form 1099-MISC	
		2 Royalties \$		
PAYER'S federal identification number		3 Other income \$		4 Federal income tax withheld \$
		5 Fishing boat proceeds \$		6 Medical and health care payments \$
RECIPIENT'S identification number		7 Nonemployee compensation \$		This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>		
RECIPIENT'S name		8 Substitute payments in lieu of dividends or interest \$		
Street address (including apt. no.)		10 Crop insurance proceeds \$		
City or town, state or province, country, and ZIP or foreign postal code		11		12
Account number (see instructions)		FATCA filing requirement <input type="checkbox"/>	13 Excess golden parachute payments \$	14 Gross proceeds paid to an attorney \$
15a Section 409A deferrals \$	15b Section 409A income \$	16 State tax withheld \$		17 State/Payer's state no. \$
Form 1099-MISC (keep for your records)		www.irs.gov/form1099misc		18 State income \$

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104.92 Schedule C

**SCHEDULE C
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Business
(Sole Proprietorship)

► Go to www.irs.gov/ScheduleC for instructions and the latest information.
► Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

2017
Attachment
Sequence No. 09

Name of proprietor

Social security number (SSN)

A Principal business or profession, including product or service (see instructions)

B Enter code from instructions

C Business name. If no separate business name, leave blank.

D Employer ID number (EIN) (see instr.)

E Business address (including suite or room no.) ►

City, town or post office, state, and ZIP code

F Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ►

G Did you "materially participate" in the operation of this business during 2017? If "No," see instructions for limit on losses . . . ☐ Yes ☐ No

H If you started or acquired this business during 2017, check here . . . ☐ Yes ☐ No

I Did you make any payments in 2017 that would require you to file Form(s) 1099? (see instructions) . . . ☐ Yes ☐ No

J If "Yes," did you or will you file required Forms 1099? . . . ☐ Yes ☐ No

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . <input type="checkbox"/>	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	Gross profit. Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	Gross income. Add lines 5 and 6	7	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions)	9		19	Pension and profit-sharing plans	19	
10	Commissions and fees	10		20	Rent or lease (see instructions):	20a	
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a	
12	Depletion	12		b	Other business property	20b	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		21	Repairs and maintenance	21	
14	Employee benefit programs (other than on line 19)	14		22	Supplies (not included in Part III)	22	
15	Insurance (other than health)	15		23	Taxes and licenses	23	
16	Interest:			24	Travel, meals, and entertainment:		
a	Mortgage (paid to banks, etc.)	16a		a	Travel	24a	
b	Other	16b		b	Deductible meals and entertainment (see instructions)	24b	
17	Legal and professional services	17		25	Utilities	25	
				26	Wages (less employment credits)	26	
				27a	Other expenses (from line 48)	27a	
				b	Reserved for future use	27b	

28 Total expenses before expenses for business use of home. Add lines 8 through 27a

29 Tentative profit or (loss). Subtract line 28 from line 7

30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions).

Simplified method filers only: enter the total square footage of: (a) your home: _____
and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30

31 Net profit or (loss). Subtract line 30 from line 29.

• If a profit, enter on both **Form 1040, line 12** (or **Form 1040NR, line 13**) and on **Schedule SE, line 2**. (If you checked the box on line 1, see instructions). Estates and trusts, enter on **Form 1041, line 3**.
• If a loss, you **must** go to line 32.

32 If you have a loss, check the box that describes your investment in this activity (see instructions).
• If you checked 32a, enter the loss on both **Form 1040, line 12**, (or **Form 1040NR, line 13**) and on **Schedule SE, line 2**. (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on **Form 1041, line 3**.
• If you checked 32b, you **must** attach **Form 6198**. Your loss may be limited.

32a ☐ All investment is at risk.
32b ☐ Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11334P

Schedule C (Form 1040) 2017

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Part III Cost of Goods Sold (see instructions)

33	Method(s) used to value closing inventory: a <input type="checkbox"/> Cost b <input type="checkbox"/> Lower of cost or market c <input type="checkbox"/> Other (attach explanation)		
34	Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation	<input type="checkbox"/> Yes	<input type="checkbox"/> No
35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35	
36	Purchases less cost of items withdrawn for personal use	36	
37	Cost of labor. Do not include any amounts paid to yourself	37	
38	Materials and supplies	38	
39	Other costs	39	
40	Add lines 35 through 39	40	
41	Inventory at end of year	41	
42	Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4	42	

Part IV Information on Your Vehicle. Complete this part **only** if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

43	When did you place your vehicle in service for business purposes? (month, day, year) ▶ _____ / _____ / _____
44	Of the total number of miles you drove your vehicle during 2017, enter the number of miles you used your vehicle for:
	a Business _____ b Commuting (see instructions) _____ c Other _____
45	Was your vehicle available for personal use during off-duty hours? <input type="checkbox"/> Yes <input type="checkbox"/> No
46	Do you (or your spouse) have another vehicle available for personal use? <input type="checkbox"/> Yes <input type="checkbox"/> No
47a	Do you have evidence to support your deduction? <input type="checkbox"/> Yes <input type="checkbox"/> No
	b If "Yes," is the evidence written? <input type="checkbox"/> Yes <input type="checkbox"/> No

Part V Other Expenses. List below business expenses not included on lines 8–26 or line 30.

48	Total other expenses. Enter here and on line 27a	48

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