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TRANSMITTAL: 95 INF-33

TO: Commissioners of
 Social Services

DIVISION: Economic
 Security

DATE: September 29, 1995

SUBJECT: PA Budgeting: Self-employment Income

SUGGESTED

DISTRIBUTION: Directors of Public Assistance
 Directors of Food Stamps
 Directors of Medical Assistance
 Staff Development Coordinators
 CAP Coordinators

CONTACT PERSON: For Public Assistance questions, contact Greg Nolan
 at 1-800-343-8859, extension 4-9313,
 For Food Stamp questions contact your county
 representative at extension 4-9225,
 For Medical Assistance questions, contact Shari
 Niedbalec at extension 3-5503.

ATTACHMENTS: None

FILING REFERENCES

Previous ADMs/INFs	Releases Cancelled	Dept. Regs.	Soc. Serv. Law & Other Legal Ref.	Manual Ref.	Misc. Ref.
93 ADM-9		351.20		<u>PASB</u>	
94 INF-40		351.21		V-E-all	
		351.22		XVI-C-3.1	
		351.24		XVI-F-1	
		352.17		<u>FSSB</u>	
		352.31		XII-H	
		358-3.3		<u>MARG</u>	
		387-17(d)		pp. 71, 122, 181 and 153	

I. PURPOSE

This is to clarify to social services districts (SSD's) how self-employed clients are to be budgeted for public assistance.

II. SELF-EMPLOYMENT AND THE QUARTERLY REPORTING SYSTEM (QRS)

A client is self-employed if he/she is earning income directly from his/her own business or profession, rather than as a salary or wage from an employer.

Self-employed clients are not exempt from QRS. Like all earned income cases, they must be assigned six month authorization periods after the initial certification and will be automatically sent quarterly reports by WMS in the second month of each authorization period.

SSD's may choose to contact self-employed QRS clients outside of the QRS process. For example, the client may have just started his or her own business and the SSD may have limited information available for its prospective budgeting projection.

III. PROSPECTIVE BUDGETING

Prospective budgeting procedures also apply to self-employed clients. SSD's must make a "best estimate of income" by averaging the last four weeks' pay or using the best current pay information available, whichever is appropriate. This is not difficult for self-employed clients who are paid on a regular basis. For example, many child care providers are self-employed, yet receive regular weekly pay for their services.

A. Using the Best Current Information

Budgeting self-employed clients who do not receive regular pay can be more difficult. In these instances, the SSD must rely on the best current income information, rather than on an average of the last four weeks' wages.

The best current income information would include consideration of the following factors:

- last year's income tax returns,
- recent income for the current year,
- discussion with the client as to current expectations for this year,
- if possible, income of others similarly employed.

Based on consideration of these factors, the SSD must make a projection as to the expected monthly income.

B. Self-employment Exclusions

SSD's must exclude from a client's total income any expenses (including inventory) without which the goods and services cannot be produced. These must be deducted before a gross income amount is entered on ABEL. These expenses would include, but not be limited to, the following:

- rental expense (including heat, electric, etc.);
- telephone for business;
- labor expenses;
- purchase of stock, raw material, etc.;
- tools essential to the business;
- transportation costs when required because of the nature of the business or necessary to obtain stock, raw material, etc., up to the IRS exemption per mile;
- reasonable advertising cost;
- business taxes;
- insurance;
- interest on loans; and
- bank charges.

Not allowed as self-employment expenses are the following:

- depreciation;
- purchase of capital equipment;
- personal transportation, personal entertainment or personal business expenses;
- payment of principal on loans for capital assets or durable goods;
- personal income tax;
- net losses from prior periods; or
- garnishments.

SSD's must be aware that the deductions excluded from total income by the IRS are not necessarily the same allowed clients under PA rules.

A self-employment worksheet was included as an attachment to 94 INF-40 to assist SSD's in determining countable income.

C. Determining the Time Period Covered by Self-employment

The period of time covered by self-employed income can vary depending upon the client's particular circumstances. Generally, self-employed clients that do not receive a regular pay will fall under one of the following categories:

- Contractual Income,
- Annual Income, or
- Non-annual Income.

How each of these categories is budgeted is outlined below.

1. Contractual Income

When self-employment income is determined by a contract that covers a specific period of time, the contractual income is prorated over the period of time covered. This income is budgeted, after any appropriate expenses are deducted and earned income disregards allowed, against the client's PA need for the period covered by the contract.

An example will illustrate how this works:

Fred Gwynn is a self-employed painter. In June of 1995, Fred notifies his worker that he has a job in Rochester painting a chapel. The contract calls for Fred to start the job in July and finish in September. For his work, Fred will receive \$3,400 before expenses. Fred submits the following list of expenses to his worker.

- Paint - \$400 (receipt attached)
- Rollers and brushes - \$87 (receipt attached)
- Lunch costs - \$520 (13 weeks x 5 days x \$8)
- Miscellaneous costs - \$200 (non-receipted)
- Labor (Fred's brother-in-law, Mel) - \$600 - only needed to set-up and take-down scaffold.

The worker examines the expenses Fred submits. The expense cost for lunch cannot be allowed, since it is a personal expense, miscellaneous costs are also not allowed since Fred cannot establish that these costs are necessary to complete the job. The costs for paint, rollers and brushes and labor are allowed. These are deducted from the total income as follows:

\$3,400	gross income
\$ 400	paint costs
\$ 87	rollers & brushes costs
<u>-\$ 600</u>	<u>labor expense</u>
\$2,313	Countable Gross Income

The \$2,313 must then be prorated over the three month period covered by the contract. This is done in the following manner:

$$\$2,313 \div 3 \text{ months} = \$771 \text{ per month}$$

\$771 per month is counted as gross PA income (before earned income disregards) in Fred's ABEL budget to determine his family's eligibility and grant amount from July to September 1995.

2. Annualized Income

Self-employment income, which is received on a monthly or an intermittent basis, that represents a household's annual income must be averaged over a 12 month period. This includes, but is not limited, to the following groups:

- farmers,
- clients who own their own business,
- independent contractors paid on a commission basis, (Amway, Avon, Mary Kaye, real estate agents, etc.), and
- fishermen.

Annual income is averaged and applied on a monthly basis after allowable expenses are deducted. The SSD must rely on the following to project the average monthly income:

- last year's income tax returns,
- recent income in the current year,
- discussion with client as to current expectations for this year, and
- if possible, income of others similarly employed.

An example will illustrate how this works:

Pat Butram is a real estate agent. He is applying for assistance for himself, his wife, Marla, and their two children.

At his eligibility interview in June, Pat submits his tax returns for last year. The returns show that Pat earned \$10,200 in commission from the sale of property. He also claimed expenses of:

- \$ 600 - transportation to show property (\$50 x 12 months log of trips presented),
- \$1,200 - advertising (receipted), and
- \$ 600 - depreciation on a personal computer (p.c.)

Pat also indicates that his business has slowed this year by about 10%. Through the end of May, Pat has only earned about \$4,100 and had the following expenses:

- \$ 200 - transportation to show property (log of trips presented)
- \$ 500 - advertising (receipted), and
- \$ 250 - depreciation on p.c.

No other information is available.

From last year's tax returns, the worker estimates that Pat has \$700 monthly income. This calculation is done in the following fashion:

\$10,200 total income
\$ 600 transportation expense
-\$ 1,200 advertising expense
\$ 8,400 ÷ 12 months = \$700

Note that the depreciation expenses on Pat's p.c. is not allowed, since depreciation is not an allowable PA deduction.

The worker also establishes from this year's information that there has been a reduction in Pat's income to about \$680 monthly. This calculation is done in the following fashion:

\$4,100 total income
\$ 200 transportation expense
-\$ 500 advertising expense
\$3,400 ÷ 5 months = \$680

The SSD budgets \$680 gross income, since the more current information would be more accurate.

3. Non-annualized Income

Self-employed income on a short-term or seasonal basis is not prorated over the calendar year. This income is budgeted over the period in which it is earned. In determining the amount to be applied, the agency must rely on the following:

- Pay records of last year's earnings over the same period,
- Recent income information if available,
- Discussion with the client as to expectations, and
- If possible, income of others similarly employed.

Example of self-employed clients that would not have their income annualized include:

- Migrant farm workers,
- Seasonal vendors, and
- Businesses in operation less than a year.

An example will illustrate how this process will work:

Larry Storch works as a fast food vendor on Chautauqua Lake from Memorial Day to Labor Day.

Larry applies for assistance in January of 1996 and receives a full grant of assistance. In March when Larry recertifies for May 1st, Larry lets his worker know that he will be returning to his vendor job on Chautauqua Lake as of Memorial Day. From Larry's tax records, the worker establishes that Larry had the following income and expenses in 1995:

\$27,082 income,
\$ 9,031 cost of goods sold (hot dogs, hamburgers, ice cream, etc verified by inventory receipts),
\$ 3,400 labor inventory receipts attached (pages from ledger verify),
\$ 1,500 depreciation on vendor stand,
\$ 6,000 rental of land (bill for rent attached), and
\$ 3,400 expenditure for new stove.

The only expenses not allowed by the worker is the depreciation and the expenditure for the new stove. The expenditures for the new stove is purchase of capital equipment and therefore is not allowed.

The worker then estimates Larry's monthly income to be \$2,883. This calculation is done in the following fashion:

\$27,082 income
-\$ 9,031 cost of good sold
-\$ 3,400 labor
-\$ 6,000 rental of land
\$ 8,651 ÷ 3 months = \$2,883 per month

This amount is budgeted against Larry's needs making him ineligible for assistance.

IV. FOOD STAMP IMPLICATIONS

Food stamps budgeting procedures for self-employment are specified under FSSB Section XII-H. Food stamp households whose self-employment income must be annualized, under FSSB XII-H-1.3, are exempt from quarterly reporting requirements.

V. MEDICAL ASSISTANCE IMPLICATIONS

Section III, "Prospective Budgeting", of this INF also applies to self-employed Medical Assistance (MA) applicants/recipients. The instructions provided in Section II do not apply to MA-only applicant/recipients.

Patricia A. Stevens
Deputy Commissioner
Division of Economic Security