Minnesota Department of Human Services

Supplemental Nutrition Assistance Program- SNAP

Farm Loss Offset Policy Guide

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FL 01.0 Introduction

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This guide provides the policy to determine eligibility for the Supplemental Nutrition Assistance Program (SNAP) for self-employed households with farming income resulting in a loss. The farm loss may be used to offset other income. If the farm loss can be used to offset other income, the farming income and all other self-employment income sources will be calculated using this policy guide.

SNAP assistance units with farming income which resulted in a loss are the only self-employment cases using this policy guide.

If the SNAP unit has a farm profit then the unit can select from one of the self-employment methods outlined in CM 17.15.33.03 Self-Employment, Convert Inc. to Monthly Amt .

Policy questions should be submitted to PolicyQuest.

FL 02.0 Farming

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Farmers are self-employed. They may work full-time, part-time or as hobby farmers.

Common types of farming include:

- Proceeds from sale of crops, livestock or products
- Production from livestock
- Income from home-produced food
- Soil conservation payments and other subsidies
- Proceeds from machine rental, including wages to the farmer/operator
- Capital gains. See CM 17.15.54 (Capital Gains as Income)

FL 02.1 Farm Loss

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Units which expect to receive $1,000 <u>or more</u> annual gross income from farming may use a farm loss to offset other earned or unearned income.

Units which expect to receive $1,000 <u>or less</u> in annual gross income from farming may not use the farm loss to offset other income, and the policy for those cases can be found in the CM 17.15.33 Self-Employment Income.

FL 03.0 Verifications

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To verify self-employment income and expenses use the clients filed tax return unless they are questionable or there has been a significant change. A significant change must be inconsistent with the regular fluctuations of business.

Although a tax return may be a basis to determine self-employment income, the Internal Revenue Service (IRS) and the SNAP program do not use the information in the same way.

The IRS requires self-employed people to file a tax return when their earnings are $400 or more per year. However, if the client has not filed a tax return, you cannot require the client to file.

If the client has not filed a tax return for the most recent tax year, the tax return does not give adequate information, or it is a new self-employment venture, use business records such as:

- Copies of daily, weekly or monthly ledgers
- Invoices
- Itemized receipts
- Purchase orders
- Copies of customer receipts
- Transportation logs
- Cancelled checks
- Copy of business checking account statement
- County agency forms
- Records from the Small Business Administration (SBA)
- Records from the Farmers Home Administration (FHA)
- Records from the Production Credit Association (PCA)
- Statements from the clients customers

FL 04.0 Expenses

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Self-employed SNAP units with Farm loss offset may deduct expenses directly related to the cost of doing business. Check each expense to see if it is appropriate and necessary to the business. If the expense is reasonable and not prohibited as listed in FL 04.3 Expenses not allowed, subtract the expense from the gross receipts.

Some common expenses are:

- Interest on mortgages and loans
- Employee wages, other than for a person who is part of the unit or who must contribute income to the client. See CM 16 Income from people not in the unit
- FICA paid on an employee’s wages
- Payment on employees workers compensation and unemployment insurance
- Livestock and veterinary or breeding fees
- Raw material

- Seed and fertilizer
- Maintenance and repairs which are not capital expenditures
- Tax return preparation fees
- License fees, franchise fees, professional fees and professional dues
- Tools and supplies that are not capital expenditures
- Fuel and transportation expenses other than fuel costs covered by the transportation deduction see FL 4.1 Expenses for Transportation
- Advertising
- Meals away from local work site (for example: truckers, salespeople)
- Property expenses (for example: rent, insurances, taxes and utilities) For provisions regarding in home businesses, see FL 4.2 In home business expenses
- Postage
- Attorney fees allowed by the IRS
- Tuition as allowed by IRS publication 508. The IRS allows tuition costs for some classes required to maintain or improve skills in the clients profession or required by law or regulation to keep pay, status or job
- Payments on the purchase price of income producing real estate and capital assets, equipment, machinery and other durable goods.

FL 04.1 Expenses for transportation

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The flat rate deduction for transportation is 54 cents per mile based on the current federal rate. Use the flat rate or itemize transportation expenses.

If a unit chooses to itemize, allow only verified transportation expenses such as listed below. A tax form is acceptable verification. Advise the unit to keep receipts for expenses uncured.

If the flat rate deduction is used, advise the unit to track the following for each trip:

- Miles by recording odometer readings or other reasonable method
- Dates
- Travel Destination
- Purpose

Note: Encourage taxi drivers to itemize actual transportation expenses because itemization allows lease payments to be included. Lease payments can NOT be allowed if the flat rate deduction is chosen. If Itemized transportation expenses are used, the participant will not need to keep a separate set of records to file federal taxes. The Internal Revenue Service (IRS) requires itemization of transportation expenses.

Transportation expenses include:

- Gas and oil costs
- Parking fees

- Car insurance
- Car repairs
- Interest payments on car loans

Self-employment transportation expenses are allowable between the person's principle place of business and other self-employment locations. If there is no principle place of business, allow expenses for self-employment travel beyond a distance of 35 miles, one way, from the person's home.

Transportation expenses are NOT allowed between the self-employed person's home and principle place of business.

FL 04.2 In home business expenses

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Determine if the self-employment business operates from the client's home. Allow as a deduction the costs for the portion of the home used exclusively for the business.

Use self-employment business and housing costs provided by the client. If these are not available, use the client's tax records or determine a reasonable ratio to allow as a business expense. Compare the number of rooms used for business to the total number of rooms in the house, or compare the total square footage of the house to the square footage used for business. Prorate the expense accordingly.

Deductions Include:

- Rent
- Real estate taxes and insurance
- Interest on Mortgage
- Utilities
- Repairs made to specific areas of the home used exclusively for business

Consider areas used for inventory storage or in home child care as exclusive business use even though the client does not use them exclusively for business if:

- For inventory storage, the client's home is the only work station. Base the business ratio on square footage of inventory storage to the square footage of the home.
- For in home child care, the client's home is licensed for child care of is exempt from licensing. Base the business ratio on square footage. In addition to applying the business/home ratio, determine the proportion of time the unit uses the area for child care. Prorate the expense accordingly.

If a unit's self-employment utilities are not metered separately, the unit may claim the standard utility allowance but cannot claim the expense from self-employment income.

If there are separate meters, the unit may claim the standard utility allowance as a utility expense and claim the business utility expense from self-employment income.

FL 04.3 Expenses not allowed

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Do not allow the following expenses for any self-employment income in a SNAP unit that meets the criteria to apply a Farm Loss Offset:

- Federal, state and local income taxes
- The employer's own share of FICA. This does not include the share the employer pays for an employee.
- Money set aside for the self-employed person's own retirement
- Work related personal expenses
- Net loss from another period
- Charitable contributions
- Depreciation
- Wages or other benefits a sole proprietorship pays to a unit member as a business expense
- Entertainment expenses
- Cost of meals
- Credit card payments, including interest charges
- Personal transportation expenses

FL 05.0 Provisions for specific types of self-employment income

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Some Self-Employment income sources have additional policy provisions for that income source. In addition to the general provisions listed, follow the provisions specific to the self-employment income source.

FL 05.1 In-home daycare

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People who provide daycare in their own homes are self-employed. In home day care providers can deduct day care expenses from their daycare income.

People who provide daycare in someone else's home are not eligible for these deductions because they are not self-employed.

In home day care providers must itemize expenses.

Commonly allowable expenses include:

- Food
- Toys and books
- Supplies
- Transportation, see FL 04.1 Expenses for transportation

- License fees and professional dues
- Advertising costs
- Equipment rental and lease expenses
- Equipment which is not a capital expenditure

In addition, deduct expenses for the area of the home used for day care. See FL 04.2 In home business expenses

Exclude the portion of Minnesota Child Care Food Program funds paid for meals served to the provider's own children. Count all other Minnesota Child Care Food Program fund payments in calculating gross receipts.

For meals provided, providers may choose either actual costs or the reimbursement amounts currently allowed by the Child and Adult Care Food Program

The 2015/2016 Food Program reimbursement rates are:

Breakfast	$1.32
Lunch or supper	$2.48
Snack	$0.74

FL 05.2 Roomer/Boarder

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If a client receives payment for lodging, meals or related services from people living in the client's home, the income is roomer/boarder income. Units with roomer/boarder income are self-employed. Count the income as earned income.

A roomer lives with the unit and pays for lodging only.

A boarder lives with the unit and pays for meals only.

A roomer and boarder lives with the unit and pays for lodging and meals.

Roomer/Boarder income is different from rental property. For information on rental property income see CM 17.15.33.30 Self-Employment income from Rental Property.

Allow the following expenses for a roomer/boarder:

- Roomer: The verified expense of providing the room.
- Boarder: The verified expense of providing the food or the Thrifty Food Plan amount. For the Thrifty Food Plan amount see CM 22.12.01 How to calculate benefit level- SNAP/MSA/GRH.
- Roomer and Boarder: The verified expense of providing the room and the Thrifty Food Plan amount or the verified expense of providing the food, whichever is greater. For the Thrifty Food Plan amount see CM 22.12.01 How to calculate benefit level- SNAP/MSA/GRH.

If there is more than one boarder, use the total number of boarders as the unit size in determining the Thrifty Food Plan amount.

Deduct the allowable expenses, up to the amount of the income to get gross self-employment income. For treatment of boarders who pay less than the Thrifty Food Plan amount for food, see [CM 14.03.06 Determining the SNAP Unit] and [CM 22.12.01 How to calculate benefit level- SNAP/MSA/GRH].

FL 05.3 Rental Property

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For Policy on how to evaluate self-employment income from Rental Property see [CM 17.15.33.30 Self-Employment income from Rental Property].

FL 05.4 Special Payment types

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The following types of payments are counted as self-employment income:

- Patronage Dividends paid as cash dividends
- Farm Service Agency (FSA) cash payments (except for disaster payments) are counted as earned self-employment income.
- Private Crop Insurance payments if the insurance company pays the household in installments.

FL 06.0 Calculation

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Calculating the self-employment income and expenses will depend on how long the self-employment business has been in existence.

Businesses in existence for one year or more

If a business has been in existence for one year or more, average the self-employment income and expenses from the past year. Use the computed average figure taking into account any anticipated changes which would affect the current net income.

Businesses in existence for one year or less

If the self-employment operation has been in existence for less than a year, average the business income and expenses over the period of time the business has been in operation. Use the computed average figure taking into account any anticipated changes which would affect the current net income.

Once the income and expenses have been calculated, follow the steps below to determine how the loss can be applied

1. Average the farm loss to determine a monthly amount.
2. Subtract the farm loss from any other self-employment of the unit.
3. If the farm loss is less than the other self-employment income, add the remaining self-employment income to any other earned and unearned income. Apply the Gross Income Test (GIT) to this result.
   If the farm loss is greater than the other self-employment income, add the unit's other gross earned and unearned income together and subtract the remaining loss. Apply the Gross Income Test (GIT) to this result. See TE02.05.62 for MAXIS guidance.

If after applying the farm loss offset, the unit passes the GIT and income remains, allow a 20% deduction of the gross earned income from that amount prior to applying other deductions.

FL 07.0 Resources

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See [www.irs.gov] for current copies of tax forms and instructions