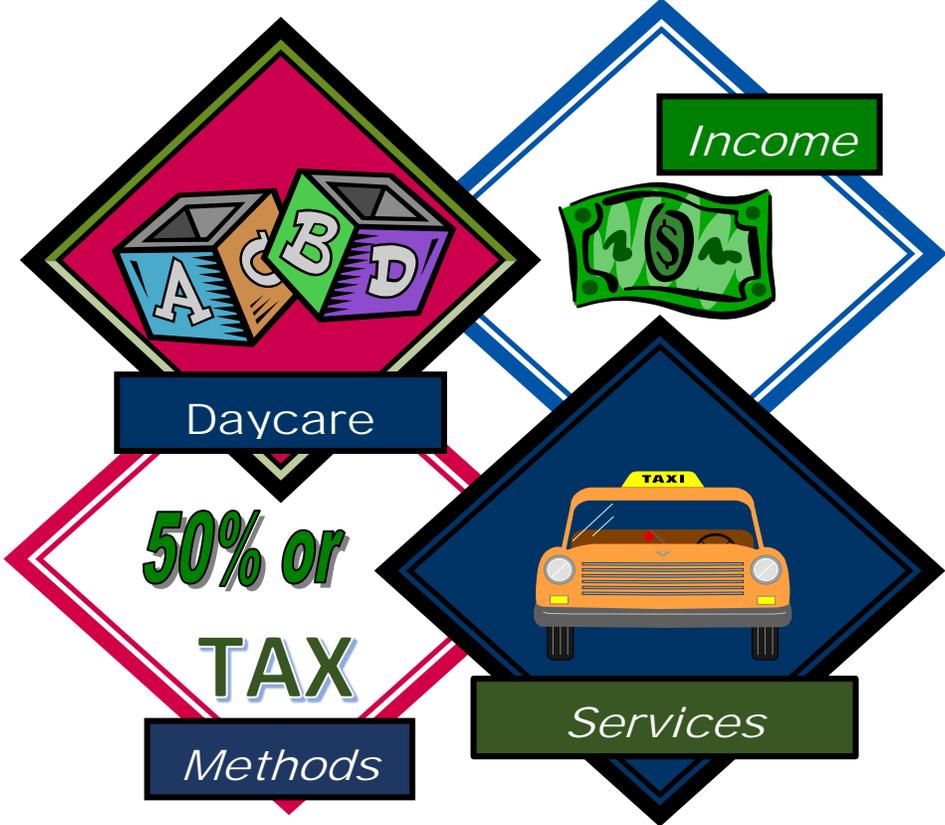


# Self-Employment Handbook



A resource for Cash & SNAP

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## SE 01.0 Introduction

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This handbook is designed as a resource to help correctly evaluate self-employment income situations. It is intended to compliment the Combined Manual in assisting workers to determine eligibility. This handbook is not a policy guide.

## SE 02.0 Definition of a self-employed person

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Use your best judgment on a case-by-case basis to determine if a person is self-employed or an employee.

An individual is self-employed if they operate a business or profession as a sole proprietor, partner in a partnership or S Corporation, independent contractor or consultant and draw income from the trade or business. The person must demonstrate that he or she is in business for the purpose of making a profit.

Self-employed persons:

- Incur costs in producing income.
- Control their work by working either independently of an employer, freelance or by running the business.
- Assume all the risks and responsibilities of a business enterprise and are subject to self-employment tax in addition to income tax on net income from self-employment activities. The self-employment tax is paid in lieu of the Social Security payments.

Self-Employed or Employee Determination:

|                              | Self-employed   | Employee  |
|------------------------------|---|---|
| Work Rules                   | Set by self-employed individual                       | Set by employer   |
| Work Hours                   | Set by self-employed individual                       | Set by employer   |
| Payment                      | By the job  | By the hour or time worked, even if job is not completed. |
| Federal/State Taxes, FICA    | Not withheld from pay – self-employed individual pays | Employer withholds from pay                               |
| Number of clients /employers | Multiple  | One Employer  |
| Location                     | Multiple or owned by self-employed individual         | Set by employer   |
| Risk                         | Assumed by self-employed individual                   | Assumed by employer                                       |

An individual's self-employed status is reinforced by:

- Obtaining an employer identification number from the IRS.
- Working under a business name
- Printing invoices, business cards, and stationery

## SE 03.0 Self-employment ownership types

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Understanding what type of self-employment business someone has will help you in determining how the income will be evaluated.

### SE 03.1 Sole Proprietorship

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In a sole proprietorship, the owner is:

- Inseparable from the business
- In complete control over the business
- Financially and legally responsible for all debts and legal actions regarding the business
- Responsible for taxes which are determined at the personal income tax rate.

### SE 03.2 Partnership

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A partnership is the relationship existing between two or more persons who join to carry on a trade or business. Each partner contributes money, property, labor or skill, and expects to share in the profits and losses of the business. A partnership contract spells out the manner in which profits are to be distributed.

A partnership can be one of these three types:

General Partnership: A general partnership has the following major features:

- It is formed by two or more general partners
- The partners are all liable for any legal actions and debts
- It is created by agreement

General partners have:

- Management control
- Share the right to use partnership property
- Share the profits of the firm in predefined proportions, and
- Have liability for the debts of the partnership

Limited Partnership: A limited partnership is a form of partnership that has one or more general partners, and one or more limited partners.

Limited partners are partners that may invest in, but are not directly involved in, the management of the partnership. They also have limited liability to the extent of their investments.

The general partner pays the limited partners the equivalent of a dividend on their investment, the nature and extent of which is usually defined in the partnership agreement.

Limited partnerships are different from limited liability partnerships in which all partners have limited liability. (See below.)

Limited Liability Partnership: A limited liability partnership (LLP) has elements of partnerships and corporations. In a limited liability partnership, all partners have a form of limited liability similar to that of the shareholders of a corporation. However, the partners have the right to manage the business directly, and (in many areas) a different level of tax liability than in a corporation.

A limited liability partnership is for businesses where all investors wish to take an active role in management.

A partnership must file an annual information return (IRS Form 1065 and 1065 K-1) to report the income, deductions, gains, losses, etc., from its operations. A partnership does not pay income taxes. The profits or losses are “passed through” to its partners. Each partner includes his or her share of the partnership's income or loss on his or her tax return (IRS 1040). Partners are not employees and should not be issued a Form W-2. The partnership must furnish copies of Schedule K-1 (Form 1065) to the partners.

### SE 03.3 S Corporations

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Also called Subchapter S Corporation.

Corporations are legal entities, and are responsible for their own debts and obligations.

An individual involved in an S corporation is considered self-employed. Individuals in all other corporation types are considered employees. If the person receives a salary from the corporation, he is considered an employee of the corporation.

An S corporation is a corporation with 100 shareholders or less that has the benefit of incorporation while being taxed as a partnership. This means that any profits earned by the corporation are not taxed at the corporate level, but rather at the level of the shareholders.

An S Corporation must file an annual information return (IRS Form 1120 and 1120 K-1) to report the income, deductions, gains, losses, etc., from its operations, but it does not pay income tax. Profits or losses are “passed through” to its shareholders.

Each shareholder includes his or her share of the partnership's income or loss on his or her tax return (IRS 1040).

### SE 03.4 Limited Liability Company (LLC)

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A Limited Liability Company (LLC) is a relatively new business structure allowed by state statute.

Often incorrectly called a “limited liability corporation” instead of a “limited liability company”, it is a hybrid business entity having certain characteristics of both a corporation and a partnership. The primary characteristics an LLC shares with a corporation is limited liability, and the primary characteristic it shares with a partnership is the availability of pass-through income taxation.

Owners of an LLC are called members. Members may include individuals, corporations, other LLCs and foreign entities. There is no maximum number of members and “single member” LLCs (those having only one owner) are allowed. A few types of businesses generally cannot be LLCs, such as banks and insurance companies.

Business owners form a Limited Liability Company (LLC) to reduce their personal liability. If you operate as a sole proprietor or partnership, you are personally responsible for any business debts or lawsuits against your business. Nearly everything you own can be at risk.

When you set up an LLC, you separate your business and personal identities. This helps protect your personal savings, your house, your car, etc. LLCs can also provide business owners with other benefits like tax savings.

If an LLC has only one owner, treat the LLC as a sole proprietor. Similarly, an LLC with multiple owners will be treated as a partnership.

An LLC does need an operating agreement that will specify how and by whom the company will be managed, each owner's name, the amount of ownership interest held by each owner, etc. Similar to a corporation, normal business expenses such as an owner's salary may be deducted from the profits of an LLC before the LLC's income is allocated to its owners for tax purposes.

Unlike a corporation, an LLC is not required to allocate profits and losses in proportion to ownership interest ("member interest"). This means that the owners of an LLC can agree to allocate the company's profits and losses among themselves however they see fit and not necessarily based on the percentage of the company each owner controls.

## SE 04.0 Verifications

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The verifications used will be dependent on the calculation method the client chose for each income source. [CM 17.15.33.03 Self-employment, convert inc. to monthly amt.](#)  
Always document the type of verification used.

Verification documentation should include the following:

- The name and type of business
- The date
- The type and amount of income
- Any other pertinent information

When using the **50% of gross income method**, the income verification must show current self-employment income. You can use business records or the Self-Employment report form DHS-3336 to verify income with this method.

When using the **taxable income method**, verification would be tax forms filed with the IRS within the last 12 months along with appropriate schedules and statements. You would then use the net profit from the applicable tax forms. This net profit amount will be used to annualize the income. The income may need to be adjusted as the taxes may not be reflective of a full year of income.

Common IRS forms used to determine counted self-employment income:

Form 1040, U. S. Individual Income Tax Return

Schedule C, Non-farm

Schedule D, Capital Gains and Losses and Reconciliation of Forms 1099-B

Schedule E, Supplemental Income Schedule

Schedule F, Farm Income and Expenses

Form 4797, Gains and Losses from Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions

Form 4835, Farm Rental Income and Expenses

Form 1065, U. S. Partnership Return of Income

Schedule K-1, Partners' Shares of Income, Credits, Deductions, etc.

Form 1120, U. S. Corporation Income Tax Return

Form 1120S, U. S. Income Tax Return for an S Corporation (Small Business)

Schedule K, Shareholders' Share of Income, Credits, Deductions, etc. (Summarizes the corporation's income deductions, credits, etc., reportable by the shareholders.)

Schedule K-1, Shareholder's Share of Income, Credits, Deductions, etc. (Shows each shareholder's separate share.)

Form 4506, Request for Copy of Tax Form

**Tax forms by ownership type:**

|                        |   |  |   |  |
|------------------------|---|--|---|--|
| <b>Sole Proprietor</b> | ⇒ | Form 1040<br><b>Schedule C, E or F</b>   | ⇒ | Use info on <b>Schedule C, E or F</b> to determine self-employment income.                                   |
| <b>Partnership</b>     | ⇒ | - Form 1040<br>- Form 1065: Tax Return For Entire Partnership<br>- <b>Schedule K-1 (Form 1065)</b> . Each partner's share of income & expenses is "passed through" to each partner.<br>- Each partner uses his/her Schedule K-1 to complete the 1040.                        | ⇒ | Use figures on <b>Schedule K-1</b> and appropriate 1040 <b>Schedule</b> to determine self-employment income  |
| <b>S Corporation</b>   | ⇒ | - Form 1040<br>- <b>Form 1120 S</b> Tax Return For Entire S Corporation<br>- <b>Schedule K-1 (Form 1120S)</b> . Each shareholder's share of income & expenses is "passed through" to each shareholder.<br>- Each shareholder uses his/her Schedule K-1 to complete the 1040. | ⇒ | Use figures on <b>Schedule K-1</b> and appropriate <b>1040 Schedule</b> to determine self-employment income. |
| <b>C Corporation</b>   | ⇒ | <b>Form 1120</b> Corporate Tax Return  | ⇒ | Client is not self-employed, use wages to determine income.  |

## SE 05.0 Self-employment certification steps

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1. Determine the income type of self-employment using one of the nine categories from MAXIS. [SE 07.0 MAXIS Self-employment income types](#)
2. Determine the client's level of ownership in the business, sole proprietorship, partnership, or corporation. [SE 03.0 Self-employment ownership types](#)
3. Gather the appropriate business verification, records and/or tax forms.
4. Review the business records or tax forms to determine if they are reflective of the current situation.
5. Determine what time period the business verification covers.
6. Calculate countable net income (document your work)
7. Enter calculated amounts on the appropriate MAXIS STAT panels.

## SE 06.0 Special Self-employment income situations

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#### **Capital Gains**

Capital gains are the proceeds from the sale of capital goods or equipment. A gain or loss is computed by comparing the sale price to the "cost or other basis." If the sale 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.

When calculating income that includes capital gains refer to [CM 17.15.54 Capital gains as income](#).

Computation of a gain or loss:

- Federal income tax form 1040 Schedule D – Capital Gains and losses  
"Sales Price" minus "Cost or other basis" = gain or loss.
- Federal income tax form 4797 Sales of Business property  
"Gross sales price" minus the "Cost or other basis, plus improvements and expense of sale" = gain or loss.

## Bankruptcy

The self-employment income of persons who have declared bankruptcy is computed the same as the self-employment income of any other person.

## SE 06.1 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. These payments include, but are not limited to, Commodity Credit Corporation acreage reduction and conservation payments.
- Private Crop Insurance Payments if the insurance company pays the household in installments.

The following types of payments **ARE NOT** counted as self-employment income.

- Federal gasoline tax credit
- State gasoline tax refund
- Patronage dividends paid in the form of stock
- Federal crop insurance corporation
- Private crop insurance payment if paid as a nonrecurring lump-sum payment
- Disaster assistance payments

## SE 07.0 MAXIS Self-employment definitions

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MAXIS divides self-employment income into nine types, identifying each type by a 01-09 code. This section defines each of these types and provides information regarding the certification process.

### The nine MAXIS self-employment types are:

|    |             |  |
|----|-------------|--|
| 01 | Farming     | The activity of growing/raising farm items for the purpose of producing income. The self-employed individual must have direct involvement in the farming activity.<br>Common farming types: Beef Cattle, Dairy, Fruit, Grain, Hobby, Organic, Sod, Tree, Vegetable |
| 02 | Real Estate | The activities of buying, selling and/or management or development of real property.<br>This can include Real Estate Agent, Broker or Manager  |

|    |                    |   |
|----|--------------------|---|
| 03 | Home Product Sales | Also called Direct Sales Industry. The activity of selling merchandise on-line, door-to-door, parties, from trucks/ wagons or from temporary locations.<br>Some examples include: Pampered Chef, Thirty-one, Avon, Tastefully Simple and Partylite.   |
| 04 | Other Sales        | The activity of selling products or goods other than real estate and items defined as home product sales items.<br>Some common sales types: Logging, restaurant, retail store, sales person   |
| 05 | Personal Services  | Also called service industry. The activities that provide services rather than goods to the customer. The service may offer an improved standard of living or convenience, professional or technical expertise, or other essential services.<br>Examples of service types: Carpenter, Dog groomer, therapist, Acupuncture, Hair care, housekeeping, Plumber, Lawn care, tax accountant, taxi driver |
| 06 | Paper Route        | Also called Newspaper delivery. The activity of delivering newspapers to people's homes.  |
| 07 | In-home daycare    | The activity of providing daycare for other people's children in the individual's own home.   |
| 08 | Rental             | The activity of leasing or renting personal or real property to another person for payment.<br>Examples of rental income: Farmland, House, Apartment, business space, equipment   |
| 09 | Other              | Any activity that does not fall into one of the other eight codes.  |

## SE 08.0 Additional Resources

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Submit policy questions to PolicyQuest

See [SNAP Farm Loss Offset Policy Guide](#) for Policy questions relating to SNAP cases with a farm loss offset.

[DHS-3336-ENG Self-Employment Report Form](#)

[CM 17.15.33 Self-employment income](#)