

# 63-241 Households with Self-Employment Income

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## Table of Contents

	Section
Self-Employment Determination	241.1
Determination of Net Self-Employment Income	241.2
Allowable Costs of Producing Self-Employment Income	241.3
Averaging Self-Employment Income	241.4
Self-Employment Income Received Less Often Than Monthly	241.5
Business in Existence for Less Than a Year	241.6
Actual Self-Employment Income Reported on the SAR 7	241.7
Capital Gains	241.8
Migrant Farmworkers and Fishermen with Self-Employment Income	241.9
Household Receiving Child and Adult Care Food Program (CACFP) Reimbursements	241.10
Closely Held Corporations	241.11

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### 63-241.1 Self-Employment Determination

**A.** Self-employment is determined on a case-by-case basis as clarified by Food and Nutrition Services (FNS) Policy Interpretation 188.

In most situations if a household files his or her income tax as “self-employed” they are considered self-employed for CalFresh. Criteria such as tax returns, employer reports to the Internal Revenue Service (IRS), Social Security tax withholding, etc., are used to determine self-employment.

#### EXAMPLE

An applicant claiming to be a self-employed newspaper carrier providing a 1099 or Schedule C and filing taxes as self-employed will be considered self-employed for CalFresh purposes.

**B.** Generally, a person is self-employed if any of the following apply:

1. Carries on a trade or business as a sole proprietor or as an independent contractor.
2. Regularly offers his/her services, or merchandise to anyone for sale.
3. Commonly provides his/her own supplies, materials, or merchandise.

4. Is responsible for expenses normally paid by an employer.
5. Is a member of a partnership that carries on a trade or business.

Use all the information available and explore the situation thoroughly to determine if the person is considered self-employed.

### **C, EMPLOYEE-EMPLOYER RELATIONSHIP**

Any application of self-employment income rules should take into consideration whether an employer-employee relationship exists. If an employer-employee relationship exists (regardless of what the relationship is called), the client is not self-employed.

For example, a babysitter providing child care in her own home is considered self-employed when she incurs costs for providing the service (meals, books, toys, etc.) and/or files taxes as a self-employed individual. In contrast, a babysitter who works at the child parent's home, does not have any expenses, and all the supplies (food, toys, books, diapers, etc.) are provided by the parent of the child, the babysitter is not considered self-employed. In this case, the parents of the child have final say in what supplies are used and where and when he/she will babysit. Since the parents have control of the "employment" situation, an employee-employer relationship exists.

Use the following criteria to determine if an employee-employer relationship exists:

1. Does the employer have any control over what the worker does and how they perform the job?
  - a. When and where the work will be done;
  - b. What tools or equipment will be used to perform the work; furnishes tools and materials;
  - c. In what order or sequence the work will be performed;
  - d. What work will be performed and who will perform it;
  - e. Can the employer fire the worker;
  - f. Can the worker hire workers to assist with the work, or must the worker perform the job personally;
2. Does the employer withhold income taxes and pay Medicare, Social Security and unemployment taxes?
3. The following aspects of the job arrangement may show self-employment status; the worker:
  - a. Makes a profit or suffers a loss;
  - b. Is hired to complete a certain job and may be liable for

- damages if he/she quits before the job is completed;
- c. Works for a number of people or firms at the same time;
- d. Advertises to the general public that they are available to perform services; or
- e. Pays for expenses and provides the equipment and work place.

63-241.2  
Determination of  
Net Self-  
Employment  
Income

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### **A. SELF-EMPLOYMENT INCOME**

Self-employment is considered earned income. To determine the total self-employment income to be budgeted for CalFresh:

1. Add all gross self-employment income and capital gains (63-241.8),
2. Subtract the cost of producing self-employment income (63-241.3), and
3. Divide the remaining amount by the number of months over which the income will be averaged.

This amount is the monthly net self-employment income. The monthly net self-employment income must be added to any other earned income received by the household to determine the total gross monthly earned income.

### **B. COST OF PRODUCING SELF-EMPLOYMENT INCOME**

The cost of producing self-employment income is either the actual allowable business expenses or 40 percent (standard deduction) of the total gross self-employment income. This standard deduction is intended to cover the costs of producing self-employment income.

The household will choose the self-employment deduction method that is more advantageous and can change it every six months or at recertification, whichever occurs first.

### **C. SELF-EMPLOYMENT ACTUAL EXPENSES**

The household must verify self-employment expenses when choosing an actual business expenses deduction.

If part of the expense is for personal use, the household must identify the percentage used for the business. Allow only the portion used for the business as a deduction.

### **C. THE 40 PERCENT STANDARD DEDUCTION**

Deduct 40 percent from the gross self-employment income received to determine net self-employment income.

1. The household only has to verify self-employment expenses when selecting actual business expenses (63-241.3). Verification is not required to allow the 40 percent deduction.
2. If the household states they want to use actual expenses but does not provide verification, allow the 40 percent standard if you have verification of the income.

63-241.3  
Allowable Costs  
of Producing  
Self-Employment  
Income

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**A. The following are allowable business expenses:**

1. Tools and equipment;
2. Work-related clothing;
3. Business-related vehicle expenses and transportation costs incurred while on the job, including cost of maintaining the vehicle, mileage, tokens or tolls, gasoline, insurance, but not transportation expenses incurred going to and from work;
4. Payments on the principal and interest of the purchase price of income-producing real estate and capital assets, equipment, machinery and other durable goods;
5. Advertising expenses;
6. Postage;
7. Cost of maintaining a job site, including a room in one's home;
8. Telephone expenses;
9. Electricity for the job site;
10. Bookkeeping and payroll expenses;
11. Employees;
12. Employee taxes;
13. Insurance premiums on equipment and real estate used in producing income;
14. Taxes on income-producing property, business profits taxes, and other mandatory business-related taxes (but not federal, state, or local income taxes); and any other identifiable cost unique to a particular self-employment business.

**B. The following business expenses are not allowable for CalFresh:**

1. Depreciation;
2. Net losses from previous periods;
3. Money set aside for retirement purposes;
4. Personal business and entertainment expenses;
5. Personal transportation;
6. Purchase price of capital assets (such as real estate,

machinery, and equipment);

7. Personal (not business-related) taxes, such as income taxes;

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63-241.4  
Averaging Self-  
Employment  
Income

Average self-employment income over the period the income is intended to cover. The best way to anticipate annual self-employment income is to use the household's most recent federal income tax return. If a tax return is not available, the household should provide records with an accurate summary of their income and expenses. Use the verified information to average the household's income and/or expenses over the certification period.

If the averaged amount does not accurately reflect the household's actual circumstances because the household has experienced a substantial increase or decrease in business, calculate the self-employment income **on the basis of anticipated, not prior, earnings.**

If the household has experienced a significant increase or decrease in business income, which was previously averaged for the current certification period, the household must provide verification of the increase or decrease.

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63-241.5  
Self-Employment  
Income Received  
Less Often Than  
Monthly

Semi-Annual Reporting and Change Reporting households who by contract or self-employment earn their annual self-employment income in a period of time shorter than one year, will have that income averaged over the certification period. The annualized monthly income figure is used as the monthly income in the CalFresh budget (63-282.12).

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63-241.6  
Business in  
Existence for  
Less Than a Year

If a household's self-employment enterprise has been in existence for less than a year, average the income over the period of time the business has been in operation. Project the monthly amount for the duration of the certification period.

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63-241.7  
Actual Self-  
Employment  
Income Reported  
on the SAR 7

Semi-Annual Reporting (SAR) households who receive self-employment income on a monthly basis must report the actual amount of such income on the SAR 7 for the Data Month.

For self-employment income that was determined based on a full year's basis (63-241.5), if the household does not report substantial changes in business income on the SAR 7, continue to budget the same amount. The household is not required to provide verification.

If the household reports a substantial change in business income, increase or decrease such as crop failure or bankruptcy, obtain verification and adjust the budget accordingly, when the verification is

received. In this case, the tax return will not provide a good projection of income. In these cases, work with the household to arrive at the best estimate of future income.

Note: The household may change the method to calculate the cost of business expenses.

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63-241.8  
Capital Gains

Calculate the proceeds from the sale of capital goods or equipment in the same manner as a capital gain for federal income tax purposes:

Deduct the purchase price from the sale price and add any amounts depreciated for federal income tax purposes.

For self-employment income that is calculated on an anticipated, rather than averaged basis, count the amount of capital gains the household anticipates receiving during the months the income is being averaged.

If the capital gain amounts are obtained from the federal income tax forms, count the entire proceeds of the sale, even if only 50 percent of the proceeds are taxed for federal income tax purposes. Count the full amount of the capital gain as income for CalFresh purposes.

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63-241.9  
Migrant  
Farmworkers and  
Fishermen with  
Self-Employment  
Income

**A.** Calculate migrant farmworkers and fishermen households' self-employment income on an anticipated basis and add the anticipated monthly amount of capital gains.

Calculate the cost of producing the self-employment by subtracting the anticipated monthly allowable cost of producing the self-employment income or a standard 40 percent deduction from the estimated gross self-employment income.

**B. OFFSETTING A FARM LOSS AGAINST OTHER COUNTABLE INCOME**

This policy applies only to farmers who receive or anticipate receiving annual gross income of at least \$1,000 from the farming enterprise (7 CFR 273.11(a)(2)(ii)):

If the cost of producing the self-employment income from farming exceeds the income derived from self-employment as a farmer, deduct the loss from any other countable income in the household. These losses must be prorated in accordance with 63-241.4-5 and then offset against countable income to the household as follows:

1. Offset farm self-employment losses first against other self-employment income.
2. Offset any remaining farm self-employment losses against the

total amount of earned and unearned income after the earned income deduction has been applied.

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63-241.10  
Household  
Receiving Child  
and Adult Care  
Food Program  
(CACFP)  
Reimbursements

**A.** The Child and Adult Care Food Program (CACFP) is a federal food program that provides healthy meals and snacks to children and adults in day care facilities. The U. S. Department of Agriculture's (USDA) Food and Nutrition Service (FNS) administers CACFP through grants to States. In California, CACFP is administered by the California Department of Education (CDE).

CACFP reimburses sponsoring organizations for eligible meals served by their family home day care providers. Reimbursement is made at two levels: Tier I (a higher rate) or Tier II (a lower rate). Providers whose household participates in CalFresh are categorically eligible for Tier I reimbursement.

**B.** Providers applying for/or receiving CalFresh must report self-employment income received from CACFP.

CACFP regulations require that CDE annually collect a list of providers receiving CACFP Tier I benefits on the basis of their participation in CalFresh, and (within 30 days of receiving the list) provide the list to the California Department of Social Services (CDSS), who sends it to each county's CalFresh coordinator.

Upon receipt of the list, County staff must review the cases identified on the list to ensure the household (providers) are currently reporting, or have reported self-employment income.

If the child/adult care provider is:

1. Currently reporting (or reported) self-employment income, no further action is necessary.
2. Not reporting self-employment income:
  - a) Try to resolve the discrepancy with the household as explained in [63-117.31](#),
  - b) Establish a claim if an overpayment is determined as instructed in Sections [63-451](#) and [63-452](#), and
  - c) If necessary, make a PAFD referral as required in [63-704](#).

Eligibility Operations will provide the CACFP list annually in the month of May to the Family Resource Centers (FRC) with eligible providers receiving CACFP Tier I benefits.

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## **A. DEFINITION**

A closely held corporation is a small privately held company that has a limited number of shareholders. Usually family members or other close associates. The corporation is responsible for its debts and obligations.

The income and resources of a corporation belongs to the corporation. An owner who works and receives a salary from the corporation is not a self-employed individual; he or she is an employee.

## **B. INCOME**

1. Count the salary received by a shareholder of a corporation as earned income.
2. Count stock dividends as unearned income to the person who owns the stock ([63-223.3](#)).

## **C. RESOURCES**

1. Exclude the value of stock in a corporation when the stock is essential to employment ([63-203.7](#)).
2. Count the stock that is not essential to employment as a resource ([63-202.2](#)).