

3410.15.00 ALLOWABLE SELF-EMPLOYMENT COSTS

Examples of allowable costs for producing self-employment income are:

Wages, commissions, and mandated costs relating to the wages for employees of the self-employed.

The cost of shelter in the form of rent, the interest on mortgage or contract payments, taxes, and utilities.

The cost of machinery and equipment in the form of rent or the interest on mortgage or contract payments.

Insurance on the real and/or personal property involved.

The cost of any repairs needed; and

The cost of any travel required. Please, see IHCPPM 2810.30.05 for more information.

For all categories of assistance, except MA R and MA Q, allowable expenses include those allowable under the Internal Revenue Code from gross income⁵ (Refer to 2800 and 3460.05.00).

Net profit is the total income derived from a self-employment enterprise less allowable deduction. **When self-employment (SE) costs exceed income, a net loss occurs.**

If the self-employment costs are greater than the self-employment income, then the following rules apply:

- For MED 1, 2, 4: **Self-employment business losses cannot be used to offset or reduce other, non-self-employment income (i.e. wages). If the costs of producing self-employment income exceed the actual income, the countable SE income is \$0 rather than a negative number.** ~~The countable income from self-employment is \$0. The loss cannot be carried over for the total countable income.~~
- For MED 3: **(MAGI-based Medicaid), self-employment losses can be used to offset other taxable income sources within the same household, reducing total countable income. If the costs of producing self-employment income results in a loss, that negative income is used to reduce other taxable income sources for the household.**⁶ ~~budgeting allows self-employment losses to be carried over in the budgeting calculation for the same types of income when determining total countable income.~~

Since MAGI is based on tax information, business losses:

1. Can only be applied to the income of the business itself if no tax return is furnished.
2. Can only be applied to income present on the same tax return if the tax return is furnished.
 - A job started after that tax return was filed or was for a person not included on the return should not have any loss deducted
3. Can in no case reduce the income to less than \$0.
4. Can be used to offset spouse's wages when individuals file a joint return.⁷

Note: A tax filer can claim a net loss from self-employment to offset other income reported on the IRS form 1040, except for countable Retirement, Survivors, and Disability Insurance (RSDI) benefits, non-taxable interest, and foreign earned income.

If a tax return is furnished to verify household income, the Adjusted Gross Income (AGI) located on Form- 1040 of that return should be used as the member's income. **The Adjusted Gross Income includes all sources of taxable income for the tax household, with allowed deductions already subtracted (including self-employment and all other income shown on separate tax schedules).** AGI should always be used in the calculation of MAGI income when it is available and current.

The Adjusted Gross Income Line found on the Form-1040 is unique to that tax year, therefore it is important that the correct line is used. The AGI line will include in the description: **This is your Adjusted Gross Income.** If the worker is still unsure which line is correct, the IRS website (www.irs.gov) can be used to confirm current and prior tax schedules including the line number which contains AGI information.

If the tax return includes MAGI exceptions for income (child support, veteran's benefits, etc.) or there are other questions, the worker can send the information to the policy answer line (PAL) to verify how to enter the information.

Note: Tax returns outside of 12 months from application or recertification date should not be used as current income. If current tax records are unavailable, current business records (income/expense for the last year) should be requested.

Examples:

- Steve, who is on HIP, is the sole owner of his own business and takes in \$1,500 a month from the business. **His monthly self-employment expenses are \$2000 so he is not making a net profit and is losing \$500 per month. He also earns \$1000 a month from wages from a separate job. The loss is used to offset wages thus the** His total countable income is ~~\$500~~**1,000.**
- **Steve, who is on MA D, is the sole owner of his own business and takes in \$1,500 a month from the business. His monthly self-employment expenses are \$2000 so he is not making a net profit and is losing \$500.00 per month. He also earns \$1000 a month from wages from a separate job. The loss is counted as \$0 thus the total countable income for MED 1 budgeting is \$1000.**
- John, who is on HIP, is the sole owner of his own business and takes in \$500 a month from the business. He is not making a net profit and is losing \$1,000 per month. His total countable income is \$0.
- ~~Mary, who is receiving MA D, is the sole owner of her own business, is married. Her spouse receives \$900 per month for his Social Security Disability. They have 2 children, Courtney age 5, and Ben aged 4. Neither child has income of any kind. Mary's self-employment expenses exceed her self-employment income thus she is does not take in any money from her business, and it is losing \$200 per month. The total countable income for MED 13 budgeting is \$900 for each person because negative income (business loss) cannot be subtracted from spouse's non-taxable income another AG. Whereas Mary receives \$0 income; her spouse receives \$900. The income received for Mary would be \$0 and you cannot subtract the \$200 loss from her spouse's income.~~
- **Mary, who is receiving HIP, is the sole owner of her own business, is married. Her spouse receives \$900 per month for his Social Security Disability and earns \$300 per month from a part-time job. Mary's self-employment expenses exceed her self-employment income thus she is losing \$200 per month. The total countable income for MED 3 budgeting is \$1000 because negative income (business loss) can be subtracted from spouse's taxable income. Mary receives \$0 income; her spouse receives \$1000.**
- ~~Joe, who has a job he works that he earns \$200 and has self-employment income of \$600. Since these two types of income are not the same, we cannot subtract the self-employment loss from the job income. Joe's countable income would be \$200.~~

If it appears the budget is not calculating this correctly, send the case into the Help Desk/PAL for review.

⁶ 42 CFR 435.603(e)

⁷ IRS.GOV (Publication 334)