Self-Employment Guide
A resource for SNAP and Cash Programs
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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 complement 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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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:

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

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

**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**

**Table of Contents**
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**

**Table of Contents**
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, they are 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 Form1120 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 Method of Calculation**

Self-employed unit members get to choose the method of calculation used to determine their self-employment income. There are two methods to choose from if the client has filed taxes within the last 12 months for the current tax year: the taxable income method or the 50% of gross earnings method of calculation. If taxes have not been filed within the last 12 months, the taxable method cannot be used. The participant needs to designate a method of calculation for each individual self-employment business. It is important that each individual self-employment business is entered on a separate BUSI panel in MAXIS.

For all programs, units may change their designation at recertification for either method. For participants choosing the 50% gross income calculation, they may change to the taxable method during their certification period, but cannot switch back. The change is effective in the next budget month.

Participants choosing the taxable method cannot change their designation until their recertification for SNAP. For Cash programs, units choosing the taxable method may switch to the 50% method in the next budget month if they experience a major change. See [CM0002.39 (Glossary: Lump Sum...)](#) for the definition of a major change.

**SE 05.0 Verifications**

The verifications used will be dependent on the calculation method the client chooses for each income source. [CM 0010.18.09 Verifying Self-Employment Income](#). 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 verifying the **taxable income method**, use complete income tax returns and all schedules. The form of business determines which income tax return form must be filed with the IRS. Tax forms must be from the current tax year and filed with the IRS within the last 12 months.

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

- Form 1040, U. S. Individual Income Tax Return
- Schedule C, Profit or Loss from Business (Sole Proprietorship)
- Schedule D, Capital Gains and Losses
- Schedule E, Supplemental Income and Loss
- Schedule F, Profit or Loss from Farming
- Form 4797, Sales of Business Property
- Form 4835, Farm Rental Income and Expenses
- Form 1065, U. S. Return of Partnership Income
- Schedule K-1 (form 1065), Partner’s Shares of Income, Deductions, Credits, etc.
- Form 1120, U. S. Corporation Income Tax Return
- Form 1120S, U. S. Income Tax Return for an S Corporation
- Schedule K, Shareholders' Statement of IC-DISC Distributions (*Summarizes the corporation’s income deductions, credits, etc., reportable by the shareholders.*)
- Schedule K-1 (form 1120-S), 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:

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<tr>
<th>Ownership Type</th>
<th>Form(s) Required</th>
<th>How to Determine Self-Employment Income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sole Proprietor</strong></td>
<td>Form 1040, <strong>Schedule C, E or F</strong></td>
<td>Use info on <strong>Schedule C, E or F</strong> to determine self-employment income.</td>
</tr>
</tbody>
</table>
| **Partnership** | - Form 1040  
- Form 1065: Tax Return For Entire Partnership  
**Schedule K-1 (Form 1065)**. Each partner’s share of income & expenses is “passed through” to each partner.  
- Each partner uses his/her Schedule K-1 to complete the 1040. | Use figures on **Schedule K-1** and appropriate 1040 **Schedule** to determine self-employment income. |
| **S Corporation** | - Form 1040  
- **Form 1120 S** Tax Return For Entire S Corporation  
**Schedule K-1 (Form 1120S)**. Each shareholder’s share of income & expenses is “passed through” to each shareholder.  
- Each shareholder uses his/her Schedule K-1 to complete the 1040. | Use figures on **Schedule K-1** and appropriate **1040 Schedule** to determine self-employment income. |
| **C Corporation** | **Form 1120** Corporate Tax Return | Client is not self-employed, use wages to determine income. |
SE 06.0 Self-employment certification steps

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1. Determine the type of self-employment income using one of the nine categories from MAXIS.  SE 10.0 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 based on the client’s choice of calculation method.

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.

8. CASE/NOTE: Document the specific type of self-employment income, the client’s choice of calculation method for each individual self-employment business and how the income was calculated.
SE 07.0 Self-employment Net Income Calculation – 50% Method

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Cash Provisions
Use current gross earnings in this calculation. Gross earnings are defined as earned income before taxes and deductions. Expenses are not used in this calculation method.

Do an off-line calculation to determine 50% of the gross monthly income. Enter this amount on the BUSI Panel (no expenses should be entered):

![Image of a computer screen showing a gross income calculation form]

- Total Inc
- Cash/GRH: $500.00
- Prosp
- Ver
- Mode: 3
- Enter: PF1, PF2, PF3, PF4, PF5, PF6, PF7, PF8, PF9, PF10, PF11, PF12
**SNAP Provisions**
Use the business income as determined by current business records. Start with income received 30 days prior to the date of application. When income fluctuates to the extent that this income is NOT an accurate indication of anticipated income, use a reasonable period of time and income.

Let MAXIS do the calculation. Enter the gross monthly income on the Food Support Prosp Total Inc line. Then enter 50% of the gross monthly income on the Food Support Prosp Expenses line on the BUSI Panel:

![Image showing MAXIS calculation](image)

For all programs, make sure to document the type of self-employment business, the client’s choice of calculation method for each individual self-employment business, how the income was calculated and verifications received in CASE/NOTEs.
SE 08.0 Self-employment Net Income Calculation – Taxable Method

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Applicants and participants only have a choice of the Taxable Method if they have filed a tax return for the current tax year within the last 12 months. If taxes have not been filed within this time frame, they cannot choose the Taxable Method.

Cash Provisions

Use the income as determined by the IRS tax forms for the current tax year that have been filed within the last 12 months. Use the taxable income, which is the "Net profit" from the applicable business tax forms. Take this annual amount and divide it by the number of months the business was operating during the tax year. This is the monthly income amount. This amount will NOT change on a month-to-month basis even if the unit is a monthly reporter.

Enter the determined monthly income in the total income section of the BUSI panel. Enter income on the prospective and/or retrospective side of the panel as determined by your budgeting method. No expenses are recorded on the panel:

[Image of the BUSI panel showing income and expenses entries]
**SNAP Provisions:**
Use the business income as determined from the IRS tax forms that have been filed within the last 12 months for the current tax year. Review the gross income from the appropriate business tax forms and divide this amount by the number of months the business was operating during the tax year. This is your monthly income. Review the business expenses, see CM 0017.15.33.15 Self-Employment Expenses Not Allowed – SNAP. If any of the expenses that are not allowed are listed on the tax forms, do not allow these expenses in calculating the allowable expenses. Take the allowable expenses from the tax forms and divide this amount by the number of months the business was in operation during the tax year.

Enter the monthly gross income and the monthly allowable expenses calculated off-line under the prospective column on the BUSI panel in MAXIS:

![Maxis Screen](image)

Note: SNAP units choosing the taxable method and operating more than one self-employment business may use the loss from one business to offset self-employment income from another business. This is why it is important to enter a separate BUSI panel for each individual self-employment business.

For all programs, make sure to document the type of self-employment business, the client's choice of calculation method for each individual self-employment business, how the income was calculated and verifications received in CASE/NOTEs.
SE 09.0 Special Self-employment income situations

Farming Income
Farmers are considered self-employed. They may be working full-time, part-time or as hobby farmers. Units with Farming income that result in a profit have the option to designate one of the two methods of calculation for each individual self-employment business. Units with a farm loss are required to use the taxable method of calculation for all self-employment businesses. Refer to the SNAP Farm Loss Policy Guide for guidance.

Capital Gains – Cash
Capital Gains are proceeds from the sale of real property. The gain is the difference between the purchase and sale price of the real property minus any allowable expenses. Capital gains count as unearned income. Clients must report Schedule D capital gains. Use tax forms to verify the capital gain.

Capital Gains and Losses – SNAP
Capital gains and losses result from the sale of business goods or equipment. A gain or loss is the difference between the amount the business paid for an asset and the amount received upon the sale of the asset. If the sale price is greater, there is a gain. If the costs are greater, there is a loss.

Capital Assets are all types of property that are held by a company for investment and useful business purposes. Capital assets are those assets used by the business to make a profit. Most types of business property are considered capital assets.

Capital gains from self-employment businesses count as income. Unless the client is in the business of selling assets, exclude capital gains from the sale of the client's assets, regardless of whether the asset was excluded. If the client is in the business of selling assets, such as a farmer who holds grain until prices change, the capital gain is self-employment and counts as income.

Capital losses are deducted on the tax return as a loss from self-employment businesses which reduces the net profit. Capital losses from one self-employment business can be used to reduce total countable self-employment income from other businesses within the SNAP unit, within the same tax year.

When calculating income that includes capital gains or losses refer to CM 0017.15.54 Capital Gains and Losses as Income.
When computing a gain or loss use:

- 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.

**Roomer/Boarder Income**
Payments received for lodging, meals, or related service from people living in the client’s home is considered roomer/boarder income for the client. This income is considered self-employment and is counted as earned income. A roomer lives with the unit and pays for lodging only. A boarder eats with the unit and pays for meals only. A roomer and boarder lives and eats with the unit and pays for lodging and meals. For program specific information, see [CM 0017.15.33.27](#).

**Rental Property Income**
Rental Property is owned by the client and rented to others. This may include separate living quarters in the same building, such as a duplex. For cash programs this income is counted as earned income. For SNAP, income is counted as earned income if the unit spends an average of 20 hours or more per week maintaining or managing the property, otherwise it is counted as unearned income. See [CM 0017.15.33.30 Self-employment Income from Rental Property](#) for information.

**Bankruptcy**
The self-employment income of persons who have declared bankruptcy is computed the same as the self-employment income of any other person if the business is still in operation. Have a conversation with the individual to determine the stage they are at in the bankruptcy process and ask whether they continue to operate their self-employment business.
SE 09.1 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 10.0 MAXIS Self-employment definitions**

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

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

<table>
<thead>
<tr>
<th>Code</th>
<th>Type</th>
<th>Description</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Farming</td>
<td>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. Common farming types: Beef Cattle, Dairy, Fruit, Grain, Hobby, Organic, Sod, Tree, Vegetable</td>
<td></td>
</tr>
<tr>
<td>02</td>
<td>Real Estate</td>
<td>The activities of buying, selling and/or management or development of real property. This can include Real Estate Agent, Broker or Manager</td>
<td></td>
</tr>
<tr>
<td>03</td>
<td>Home Product Sales</td>
<td>Also called Direct Sales Industry. The activity of selling merchandise on-line, door-to-door, parties, from trucks/wagons or from temporary locations. Some examples include: Pampered Chef, Thirty-one, Avon, Tastefully Simple and Partylite.</td>
<td></td>
</tr>
<tr>
<td>04</td>
<td>Other Sales</td>
<td>The activity of selling products or goods other than real estate and items defined as home product sales items. Some common sales types: Logging, restaurant, retail store, sales person</td>
<td></td>
</tr>
<tr>
<td>05</td>
<td>Personal Services</td>
<td>Also called service industry. 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. Examples of service types: carpenter, dog groomer, therapist, acupuncture, hair care, housekeeping, plumber, lawn care, tax accountant, taxi driver, Uber driver, Lyft driver, etc.</td>
<td></td>
</tr>
<tr>
<td>06</td>
<td>Paper Route</td>
<td>Also called Newspaper Delivery. The activity of delivering newspapers to people’s homes.</td>
<td></td>
</tr>
<tr>
<td>07</td>
<td>In-home daycare</td>
<td>The activity of providing daycare for other people’s children in the individual’s own home.</td>
<td></td>
</tr>
<tr>
<td>08</td>
<td>Rental</td>
<td>The activity of leasing or renting personal or real property to another person for payment. Examples of rental income: Farmland, House, Apartment, business space, equipment</td>
<td></td>
</tr>
<tr>
<td>09</td>
<td>Other</td>
<td>Any activity that does not fall into one of the other eight codes.</td>
<td></td>
</tr>
</tbody>
</table>
SE 011.0 Additional Resources

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Submit policy questions to PolicyQuest

See [SNAP Farm Loss Policy Guide](#) for Policy questions relating to SNAP cases with farming income which resulted in a loss.

[DHS-3336-ENG Self-Employment Report Form](#)
[CM 0017.15.33 Self-employment Income](#)
[CM 00.17.15.33.03 Self-employment, Convert Inc. to Monthly Amt - Cash](#)
[CM 00.17.15.33.05 Self-employment Determine Countable Income – SNAP](#)