

Department of Social and Health Services

Olympia, Washington

EAZ Manual

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Category	Self Employment Income
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Summary

Updating mileage reimbursement.

See below for edited text:

Self Employment Income

Revised January 2, 2018

Purpose:

WAC 388-450-0080 What is self-employment income?

- Clarifying Information

WAC 388-450-0085 Does the department count all of my self-employment income to determine if I am eligible for benefits?

- Clarifying Information and Worker Responsibilities

Resources, Desk Aids and Links

- [Types of Business Structures \(DOR\)](#)
 - [Business and Professional License Search \(DOR\)](#)
 - [Monthly Sales and Expense Worksheet \(DSHS 07-098\)](#)
 - [Starting a Business and Keeping Records \(IRS 583\)](#)
 - [Self Employment Status Decision Tree](#)
 - [Business Structure Chart](#)
 - [Self Employment Budgeting](#)
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Clarifying Information - WAC 388-450-0080

Determining Self Employment (SE) Income

1. Child Care

1. Child care providers that are subject to the licensing requirements under chapter [74.15 RCW](#) are self-employed, even if they don't have a current license. Child day-care center operators and family home day-care providers are self-employed.

EXAMPLE:

Mary watches several neighborhood children in her home after school. She is not licensed, but she receives \$100 a month for each child that comes to her house for a few hours after school each day. Mary is subject to licensing requirements under chapter 74.15 RCW, regardless of whether she has obtained the required license. Mary is self-employed.

2. Child care providers, who don't require a license under state law, are not self-employed.
We consider unlicensed individual providers as employees of the child(ren)'s parents.

EXAMPLE:

Betty is an unlicensed individual provider paid by Ms. Lee to provide care of Ms. Lee's child in the child's home. Betty is Ms. Lee's employee.

EXAMPLE:

Ted provides child care for Ms. Thomas, who is approved for WCCC. Ted receives payments through SSPS, Ms. Thomas pays the remaining co-pay directly. Ted is an employee.

EXAMPLE:

Ron states he is a financial advisor and is paid on commission. To determine if Ron is self-employed, ask if he receives a W-2 (employee) or 1099 (self-employed). You may need to verify the type of tax document he receives or if taxes and FICA are deducted from his checks by contacting his employer.

3. ALTSA

The Aging and Long Term Support Administration (ALTSA) and Developmental Disabilities Administration (DDA) pays individual providers to provide personal care to their clients. Individual providers work for the ALTSA/DDA customer and the state. Their hours and wages are set by the state, although the ALTSA/DDA customer may be required to pay the provider directly for a portion of the cost of care. Individual care providers also get benefits and have representation. WAC [388-71-0505](#) requires individual providers to have an employer-employee relationship with the customer, ALTSA, and DDA. ALTSA and DDA individual providers are employees.

4. Corporations

People who own a corporation are not coded as self-employed. This is true even if the person is the sole investor in the business. Corporations are separate entities from their investors and employees. The person is considered an employee of a corporation, and may also have income from dividends related to any investment in the corporation. Code any income received from the corporation other than wages as unearned income. This includes any payments made by the corporation for personal expenses, for example:

- mortgage payments;
- car insurance; and
- household items.

See [Treatment of Income](#) for information on budgeting income from dividends and regular earnings.

S Corporations are treated the same as corporations. Limited Liability Companies (LLC) are treated the same as corporations if they are set up as corporate structures. Partnerships are not incorporated, and are considered self-employment enterprises. For more information on various business structures, visit the [IRS website](#).

4. Odd Jobs

Getting money for sporadic or periodic work without a business license or established employer to employee relationship, or "odd jobs", is considered self-employment.

Make every attempt to verify odd job income using available means including collateral contacts. Accept the statement of a client with odd job income as verification of income only after all reasonable attempt to verify the income fail. Provide the client with self-

employment verification work sheets, or request that the client find another way of getting acceptable collateral verification of income for their next review.

5. WorkFirst

For more information about how self-employment affects the WorkFirst participation of TANF / SFA clients, see the WorkFirst Handbook, Section 8.2. Self-Employment.

Clarifying Information - WAC 388-450-0085

1. Determine gross self-employment (SE) income

To determine gross self-employment income, add together the total sales for all items the business sold and all income from providing services.

2. Always allow the 50% of the gross SE income as the standard deduction for cost of doing business if the person doesn't have actual verified costs for non roomer / boarder SE income.

This includes when the person

1. Claims no SE expenses;
2. Has SE expenses under 50% of the gross SE income;
or
3. When the SE income is treated as unearned. See **WAC 388-450-0080(7)** for when SE income is treated as unearned income.
4. Individuals claiming to have SE expenses greater than 50% of the gross SE income must provide proof of these expenses.

3. Transportation costs such as gas, oil, replacing worn items, registration and licensing fees, and auto loans:

1. The person may claim the actual transportation costs; or
2. Claim the State standard cost per mile. The Office of Financial Management publishes the standard cost for a privately owned vehicle in section 10.90.20 of the State Administrative and Accounting Manual: <http://www.ofm.wa.gov/policy/10.90a.pdf>
3. The client must provide **detailed mileage records or other documentation** showing beginning and ending mileage and destination of each trip to support the expense.
4. If someone chooses to use their actual expenses instead of the standard 50% deduction, they must list out and provide documentation of the expenses within application or recertification processing timeliness "standards of promptness" before we can use them. If verified expenses are less than the 50% standard deduction, the system will use the standard 50% to calculate benefits.

NOTE:

The mileage rate as of January 1, 2024 is \$0.**.6575** / mile.

5. Business Expenses

Generally, someone may claim any **business** expense that is allowed by the Internal Revenue Service (IRS), with the exception that we don't allow a deduction for depreciation.

[**IRS Topic 509 - Business use of a home**](#) - Explains how to calculate business use of a home and that a qualified day care provider must apply the percentage of hours an area is used for business when calculating the allowable home business expenses.

[**IRS Publication 463 - Travel, Entertainment, Gift, and Car Expenses**](#) - Explains the rules and limits associated with these business deductions. Entertainment expenses are subject to the "directly related" test that specifies the main purpose was to conduct business with an expectation of getting income or other business benefit, and certain other restrictions

Some examples of allowable business expenses are:

- Materials used to produce goods
- Maintenance of business property
- Space rent
- Payroll or wages
- Chemicals, fertilizers, and supplies used to produce goods or services
- Vehicle expenses for business purposes with documentation
- Business loans (interest and principle)
- Business phone
- Banking fees

Some examples of line items we **don't** count as an expense are:

- Health insurance for you and your family
- Personal Utilities (no separate meter from home)
- Personal phone
- Rent or mortgage of your home
- Depreciation
- Vehicle expenses without documentation
- Guaranteed payments

Examples of allowable documentation of expenses are:

- Receipts for expense claimed.
- Itemized bank statements that correspond to expense claimed.
- Itemized bank card statements that correspond to expense claimed.

EXAMPLE

Bob's Paintland holds an annual holiday party for employees. This is not an allowable business expense because its purpose is to celebrate with employees, not increase customer business.

EXAMPLE

Ginny is a real estate agent. She holds open houses every month at the various homes she has listed for sale. She serves food and drinks at the open houses, and even hires musicians on occasion. The expense is allowable because the purpose of the open house is to increase her customer base and sell homes.

Worker Responsibilities - [WAC 388-450-0085](#)

1. Calculating SE income

Calculate countable SE income by taking all income received from sales or services and subtracting 50% of the total as a business expense unless the client presents proof of expenses for the same period of time greater than the 50% standard. ACES will calculate the 50% deduction after the worker enters the full SE total income and then ACES subtracts the appropriate earned income disregard (20% for food or 50% for cash). See ACES Users Manual.

2. Budgeting SE income: When someone earns SE income, average the income over the period the income covers. If they present proof of actual SE expenses above the 50% standard, average their allowable, verified expenses over the same period.

1. If the person earns their annual income as SE income, and they receive this income over a period of less than a year, average the SE income over the year.
2. If a person's income is from SE for only part of the year (they have another source of income for the remainder of the year), average the income over the period of time the income covers.
3. Use income averaging (CA) method to budget SE income for all benefit months including the application month.

NOTE:

Use income averaging (CA) method for SE income for month of application as under [WAC 388-450-0215](#).

EXAMPLE:

Self-employed client applies for Basic Food on April 14. Worker determines income from SE is primary source of household income and calculates average monthly income verified from most current federal tax return which shows gross income from Schedule C for previous year as \$16,500. Worker divides this amount by 12 to get average monthly income of \$1,375. This amount is used to calculate benefits for month of application and ongoing months. The deduction would be either 50% of the average or verified allowable expenses per [WAC 388-450-0085](#). Benefits for application month are prorated to include April 14-30.

3. Change in SE income

If the averaged income doesn't reflect what the person will receive because of a significant increase or decrease in business:

Anticipate the person's SE income for each month; and

1. Average any capital gains they will get over the year.
2. If someone presents proof of their actual expenses greater than the 50% standard, average or anticipate the expenses for the same period of time you use for the income.

4. Calculate each SE business separately: Each SE business is separate.

1. Calculate the net SE income for each SE enterprise separately.
2. Don't use the losses of one business to offset the profit of another business.
3. Don't use the losses of one period to offset the profits of another period.

5. Farming or fishing income for Basic Food

1. Calculate the client's total net farm or fishing SE income.
2. If allowable expenses are more than the SE fishing / farming income, ACES uses this loss to reduce any other sources of SE income.
3. If there are remaining losses from fishing / farming, ACES uses this income to reduce other sources of earned and unearned income to the assistance unit after allowing the earned income deduction under [WAC 388-450-0185](#).

6. Boarder income (room and meals provided)

Count only payments people pay directly to the AU for room and board as income. This does not include foster care payments.

7. Roomer income (home owner or renter who receives income for renting out rooms)

1. A person may choose to use their entire shelter cost toward their food benefit budget shelter deduction or use a portion to calculate prorated share of the rent, **or** mortgage, taxes, and insurance if they don't use the entire shelter cost toward the shelter deduction. Use the 50% standard deduction from roomer income received; or
2. Allow verified costs directly related to the cost of renting rooms, such as laundry expenses or advertising expenses, even if the entire housing cost is used as a shelter deduction.
3. To calculate the shelter expense, see the Shared Living / Roomer section of Clarifying Information under [WAC 388-450-0190](#). Base the proration on the number of total bedrooms in the house.
4. People that share a residence **are not** considered to have roomers if they:
 1. Don't charge their roommates an amount above the total rent as shown on the lease; and
 2. Don't own or are not buying the residence.

NOTE:

People in the same Assistance Unit who share household costs are not roomers. We **do not** count these shared household costs as roomer income.

EXAMPLE:

Louise is renting her two bedroom townhome for \$500 per month. She charges Jolene \$650 to sublet her second floor. Louise tells you her actual expenses are \$250 based on a prorated portion of her rent of \$500 / 2 bedrooms. Louise has \$400 in net self-employment income, but with the automatic 50% deduction, her net self-employment income will be counted as \$325. Her shelter deduction would be the utility allowance she is eligible for under [WAC 388-450-0195](#) and \$250 rent (the portion of her housing costs that wasn't taken as a business expense.)

8. Rental Property:

Rental property that is subject to the criteria in [WAC 388-450-0080](#) (7) is property that someone owns, but is not their residence.

1. We count any managerial duties toward the 20-hour weekly requirement for rental property to be treated as self-employment *earned income* under [WAC 388-450-0080](#). Count time people spend bookkeeping, showing the property to possible tenants, doing yard work, repairs, etc. as time spent managing the property.
2. Budget the gross earned or unearned income from renting the property after subtracting the standard self-employment deduction or the following verified expense payments:

1. Property tax or a prorated share of the tax if their home and the rental property are taxed as a single unit;
2. Maintenance costs for the property;
3. The mortgage or sales contract payment for the rental property or a prorated share if their property and the rental property are in the same loan or contract; and
4. The insurance premium, or a prorated share, if they insure their home and rental property as a unit.

EXAMPLE:

Marsha is renting out a house she doesn't live in for \$1,500 a month. She has mortgage on the house that includes an escrow account for taxes and insurance. Marsha has stopped making the mortgage payments on the rental house. We can no longer allow the mortgage obligation as a rental income business expense because she isn't actually paying the mortgage or taxes. Allow the 50% standard self-employment deduction.

ACES Procedures

1. See [Income Eligibility and Budgeting - Special Income Situations - Cash Gifts](#)
2. See [Interview - EARN screen](#)
3. For Work Study income, see [Income Eligibility and Budgeting - Special Income Situations - Work Study Income](#)