

I. CHAPTER OVERVIEW

Child care services are provided to families who meet the income eligibility criteria based on the [income unit](#). The information in this chapter provides guidelines and examples for determining the income unit and the types of countable and non-countable [income](#).

II. ELIGIBILITY

Individuals who need child care services must qualify on the basis of income eligibility except for certain situations in which the service is available without regard to income.

A. Child care services are available without regard to income for:

1. Children who need child care services to support [child protective services](#).
2. Children who need child care services and meet eligibility criteria for [child welfare services](#).
3. Children receiving foster care services who are in the custody of a county department of social services **and** have been placed either with an adult other than their parents or in a licensed foster home.

B. Child care services shall be provided to all other individuals with regard to income, provided the gross income does not exceed the state's maximum income eligibility limit for the number of persons in that income unit. Refer to [Attachment 1, Maximum Gross Monthly Income Eligibility Limits for Subsidized Child Care Services](#).

III. DEFINING THE INCOME UNIT FOR DETERMINING ELIGIBILITY

When the amount of income available to an individual is a condition of eligibility for subsidized child care services, it is necessary to determine the number of persons in the individual's income unit and the amount of the gross income available to that income unit. Therefore, it is necessary to define the term "income unit" to determine whose income must be included when eligibility is determined. **The term "income unit" shall apply to persons who reside in the same household and who, according to North Carolina law, are responsible for the financial support of the child whose eligibility for child care services is being determined.** Questions and requests for assistance about family definition should be addressed to the area Subsidy Services Consultant.

NOTE: The household unit for families who are receiving benefits from the Food and Nutrition Services (FNS) program may differ from the income unit for child care services. The child care worker should ask the parent questions to clarify any differences.

A. Responsible Adult

The parent or responsible adult is the person or persons with whom the child lives and who has the primary responsibility for the care and well-being of the child. However, a child may live with an adult who is responsible for his/her care but is not financially obligated for the support of the child. For example, a stepparent or grandparent may have custody of a child but not be financially obligated to support or provide child care for the child. Legal custody or court-ordered custody does not act to terminate parental rights and therefore does not divest parents of financial obligation to their child. According to North Carolina General Statute, parents' financial obligations toward their children are divested when an order of adoption or termination of parental rights is entered by the court.

Couples who are not legally married may claim to be common-law marriage partners; however, common-law marriage is not legally recognized in North Carolina. Marriage must be solemnized as required by law in order for individuals to be considered spouses under the definition of family. However, if both parents (biological or adoptive) of a child in need of child care services reside in the same household, both are considered to be members of the income unit and both incomes are counted for the purpose of determining eligibility.

B. Joint Custody

When parents share custody of a child and both parents need child care assistance, each parent applies for the period of time the child resides in his/her home and pays the corresponding parental fee. There are two separate applications and parental fees even if the child is with the same child care provider.

C. Examples of the Income Unit

The following are defined as separate income units for the purpose of determining eligibility and parental fees for child care services:

1. Biological and adoptive parents and their minor children under the age of eighteen. A [stepparent](#) shall be included in the income unit with his/her spouse when the children in need of care include their biological or adoptive child **and** step-siblings.

EXAMPLE 1: Two siblings, one 18-year-old and one 3-year-old, live with their biological parents. The 3-year-old and the parents are considered an income unit of three (3). The 18-year-old is only counted in the income unit if she is still attending high school and is scheduled to graduate before her nineteenth birthday.

EXAMPLE 2: A child is living with her unmarried biological parents. This is an income unit of three (3).

EXAMPLE 3: A child is living with both parents and one parent is in college or serving in the military forces in a different locale. The parent in college or serving in the military is included in the income unit and their income is counted.

EXAMPLE 4: A child is living with her grandparents due to the absence of her parent who is in college or serving in the military forces in a different locale. The grandparents request child care for the child due to the absence of the child's parent and because they also meet the need criteria. The parent in college or serving in the military is included in the income unit. The income unit size is two (2). The parent's income must be counted in determining eligibility and assessing the parental fee.

EXAMPLE 5: A mother and her child are living with her spouse and their child. Child care is needed for *her* child only. The mother and her two (2) biological children are considered an income unit of three (3). The stepfather's income does not count in this example because *their* biological or adoptive child does not need care.

EXAMPLE 6: A mother and her child are living with her spouse and their child. Child care is needed for both children. Since the children in need of care include *their* child **and** the child's half-sibling, this is an income unit of four (4).

EXAMPLE 7: A mother and her child live with her spouse and his two (2) children. In addition, they have two (2) children. Child care services are needed for *their* children only. The biological parents and all their minor children (i.e., all the biological children of each parent) are included in the income unit making this an income unit of seven (7).

2. A minor parent (under the age of 18) and his or her children.

EXAMPLE: A 16-year-old and her child are living with her parents. The 16-year-old and her child are considered an income unit of two (2).

NOTE: If the parents of the 16-year-old apply for child care subsidy for another child of theirs, the 16-year-old is counted in the parents' income unit. The grandchild, however, is not. The parents, the 16-year-old, and their other minor children are included in the parents' income unit.

3. Each adult whether related or unrelated, other than spouses.

NOTE: An individual is considered to be an adult at the age of eighteen.

EXAMPLE: A father and his 3-year-old child live with his adult sister. The father and his child are considered an income unit of two (2).

4. Each child or sibling group living with anyone other than their biological or adoptive parents.

EXAMPLE: A child lives with his grandparents. The child is considered an income unit of one (1) unless the grandparents have adopted him.

IV. ASSESSING MONTHLY INCOME FOR DETERMINING ELIGIBILITY

The computation of gross monthly income is made on the basis of an assessment of the family income that is anticipated during the twelve month period following the date of application. It includes asking questions to ascertain the client's situation, considering all sources of income and determining what income is counted for the eligibility for child care services, verifying all sources of countable income, allowing for child support payments that are paid out, and making accurate calculations.

When the family receives benefits from FNS, the child care worker's first step is to access the income information from the Food Stamp Information System (FSIS). Since the income information shown in FSIS has been verified, it must be used to complete the [Application for Child Care Services \(DCD-0456\)](#). The child care worker cannot require the applicant to provide additional income information. However, if the parent voluntarily provides more current information, the new information must be verified following subsidized child care policy.

Upon signing the Recipient Responsibilities for Subsidized Child Care Services form ([DCD-0106](#)), the client agrees to report any changes that may affect eligibility for services to the child care worker within five (5) work days. Changes that require a reassessment of the family's income include, but are not limited to, new employment, increase or decrease in the number of hours and/or days worked, different rate of pay, loss of employment, receipt of Work First or any other benefits, and changes in child support amounts.

Temporary placement changes with an employment agency are not considered a change that has to be reported unless there is a change in the rate of pay. A change from one employment agency to another, however, is considered new employment and must be reported to the child care worker.

V. SOURCES OF INCOME

Although all sources of income must be considered, not all income is counted in the family's gross monthly income when determining eligibility for child care services.

A. Income that is Counted

The following are sources of income which must be counted when determining eligibility for child care services:

1. Gross earned wages or salary (earnings received for work performed as an employee, including wages, salary, commissions, tips, piece-rate payments, and cash bonuses earned, before any deductions are made for taxes, bonds, pensions, union dues, and holiday bonuses from employers, etc.).
2. Adjusted gross income from taxable self-employment income.
3. Social Security benefits (includes social security pensions, survivors' benefits for both children and adults, and permanent disability insurance payments).
4. Dividends, interest (on savings or bonds), income from estates or trusts, royalties, adjusted gross rental income on houses, stores or other property.
5. Pensions and annuities paid directly by an employer or union or through an insurance company.
6. Workers' compensation.
7. Unemployment insurance benefits (UIB).

8. Alimony (includes court ordered payments as well as voluntary payments and may include regular payment of bills such as rent and utilities).
9. Child support, direct or indirect (includes payments made to the parent or to the court based on terms of an agreement and may include payments such as rent, utilities, insurance, etc.).
10. Pensions paid to veterans or survivors of deceased veterans.
11. On-the-Job Training (OJT) payments.
12. Work Force Investment Act (WIA) payments made to an adult. Previously referred to as the Job Training Partnership Act (JTPA).
13. AmeriCorps stipend (living allowance).
14. Armed Forces pay (only the amount taxable, such as base pay).
15. Work release payments.
16. Cherokee Tribal Per Capita Income paid to adult family members.
17. Recurring cash contributions paid directly to the parent/responsible adult.
18. Work-study payments, if the income is from a program not administered under Title IV of the Higher Education Act or the Bureau of Indian Affairs and is paid directly to the parent/responsible adult.
19. Rental assistance provided by an organization on a regular basis.

B. Income that is Not Counted

The following are sources of income which are not counted when determining eligibility for child care services:

1. Work First Family Assistance (WFFA).
2. Supplemental Security Income (SSI).
3. Lump sum payments (these are usually large payments which are made to cover an extended time period and may include social security benefits, workers' compensation, alimony, veteran's benefits, and HUD).
4. Foster care assistance payments.

5. Adoption Assistance payments.
6. Payments/trust funds under the Indian Claims Commission.
7. Payments from the Alaska Native Claims Settlement Act.
8. Income from sale of personal assets (stocks, bonds, house, car, and insurance).
9. Bank withdrawals.
10. Money borrowed.
11. Tax refunds.
12. Gifts or contributions. (These are non-recurring gifts or contributions, e.g. gifts for birthdays, holidays, occasional monetary contributions, purchase of diapers, clothing, etc.).
13. Other in-kind contributions from non-legally responsible adults. (Non-recurring).
14. Emergency Assistance (EA), Low Income Energy Assistance Program (LIEAP), Crisis Intervention Program (CIP), General Assistance, Progress Energy's Energy Neighbor Fund payments, and other similar energy programs.
15. Section VIII housing subsidy.
16. Capital gains.
17. Value of food stamp benefits allotted under the Food Stamp Act of 1977.
18. Free and reduced lunch program.
19. Any and all food subsidy programs.
20. Relocation/Acquisition Act payments.
21. Earnings of a dependent child under 18 years of age, unless the dependent child is also a minor parent of a child needing child care.
22. Loans, grants (including Pell or Carl Perkins grants), scholarships, and money received through job training programs.
23. Home produce utilized for household consumption.

24. Volunteers in Service to America (VISTA) earnings.
25. Payments received as Earned Income Tax Credits or Dependent Care Credits.
26. All subsidized housing and housing allotments, paid directly to the landlord, including military housing allotments.
27. Money received from an employer as an employee benefit for child care.
28. Work-study payments, if the income is from the College Work-Study Program administered under Title IV of the Higher Education Act or the Bureau of Indian Affairs. (Likewise, if the income from college work-study goes directly to the college, it is not counted as income.)

C. Examples of Income

EXAMPLE 1: A family of four (4) needs child care services. The father is employed full-time earning \$2,179 per month in wages. The mother is enrolled in a degree program at the local community college and is also participating in the College Work-Study Program. She receives \$300 per month in work-study income. In addition, one (1) child receives SSI benefits of \$236 per month. The family is eligible for child care services on the basis of the father's income of \$2,179 per month. The SSI benefits and work-study income are not counted.

EXAMPLE 2: A mother receives SSI of \$410 per month for herself and \$181 per month in Work First Family Assistance benefits for her 2-year-old child. The child has been identified as being "at-risk" and child care services to support the child's developmental needs is recommended. The child is eligible for care since the family's income of SSI and Work First Family Assistance is not counted.

EXAMPLE 3: A single parent is employed full-time and has two (2) children in need of full-time child care services. She earns \$1,083 per month in wages and receives \$350 per month for child support. Her parents also give her a recurring cash contribution of \$100 per month to help pay her household expenses. The total amount of countable income for this family is \$1,533 per month (wages plus child support and the \$100 contribution).

D. Income that is Counted from Cash Bonuses and Lump Sums

Recurring earned cash bonuses and lump sum incomes are countable when determining eligibility for child care services. Some examples of recurring bonuses or lump sum payments include longevity pay, profit sharing, teacher bonuses, etc. In these situations, the child care worker averages the income for the period of time it covers and records the resulting average monthly amount on the [Application for Child Care \(DCD-0456\)](#).

E. Cafeteria and Health Benefit Plan Income

The types of cafeteria or health benefit plans offered by employers will vary. When the income of a parent/responsible adult has both health benefit income and health benefit deductions reflected on the pay stub, the cost of medical, dental and vision insurance premiums are deducted from the countable gross monthly income to determine income eligibility. The child care worker reviews the pay stub or other documentation from the parent/responsible adult or employer which reflects health benefit income in the earnings/gross income and deduction sections. One of the following criteria will determine if the income from the health benefit is countable.

- Income is countable if medical, dental or vision deductions are not reflected on the pay stub or other documentation. In instances where the employer pays a one-time annual benefit to employees who elect to purchase insurance from another source other than the employer, the lump sum is countable and divided over the months covered by the benefits.
- Income is partially countable if the medical, dental or vision deduction amounts are less than the benefit dollars listed in the gross income section. When this occurs the benefit dollars that are not utilized for medical, dental, or vision insurance are countable.
- Income is not countable if the deductions equal or exceed the benefit dollars in the gross income section.

If health care benefits do not meet the criteria, child care staff should contact the Subsidy Services Consultant to determine the deductions and countable income.

NOTE: Refer to [Section VII. Child Support Policy and Clients Who are Self Employed](#) for information regarding other deductions from gross pay.

F. Reimbursement for Expenses

Reimbursements for expenses incurred in connection with employment or education are not countable when determining eligibility for child care services. Employment related expenses that are not countable include but

are not limited to mileage, medical, per diem, phone calls, travel and lodging. Reimbursements for educational expenses such as tuition, fees, books and educational supplies are also not countable. The deductions for expenses from the gross income must be documented in the case record. Refer to the [Application for Child Care Services and Instructions \(DCD-0456\)](#) for more information.

VI. VERIFYING GROSS FAMILY INCOME

When income is a condition of eligibility, the amount of income must be verified.

The family size must be determined for the same period of time over which monthly gross income is calculated. An applicant's statement of family size is acceptable unless there is some reason to suspect that the statement is not correct. Family size can be verified by birth certificates, baptismal certificates, and contacts with schools or other objective sources of verification if necessary.

The source and amount of gross family income is verified and documented in the family's case record by **one** of the following:

- A copy of a source document (pay stub, award letter, pages 1-2 of FSIS, etc.);
- A statement from the employer verifying gross wages or salary paid to an individual;
- A written statement by the child care worker describing either the source document that was reviewed to verify that income or a telephone conversation with the employer that confirmed the required information; or
- Information in an existing agency record.

NOTE: Income that is anticipated by someone who is newly employed is based on an employer's statement (either by telephone, written statement or a wage verification form) that indicates the rate of pay and the number of hours each pay period that the client is scheduled to work. This income is then verified after the client has been paid so that income based on the actual hours the client worked can be calculated and the parental fee adjusted if necessary. Parental fee adjustments are necessary when the family's countable income increases or decreases by \$100 or more. Refer to [Chapter 8: Parental Fees](#) for additional information.

The client is responsible for providing documentation of income; however, if the client is unable to furnish source documents, the local purchasing agency must have the client's written permission authorizing the child care worker to contact the necessary individuals, employers or agencies to verify income. The child care worker documents on the application which verification method was used.

Adequate verification does not require that the child care worker verify every check or payment received by the client during the period being considered; but it does require that the client present sufficient information so that the child care

worker is able to make accurate calculations that reflect the client's current income or to accurately determine an average monthly income in those cases where income fluctuates significantly. It is important for the client to understand that she is certifying the accuracy of the information when she signs the Application for Child Care Services ([DCD-0456](#)).

If the purchasing agency establishes local procedures for verifying a client's employment/income that call for information in addition to that required in this chapter, these procedures must be in writing, approved by the agency director, and posted where clients can read them.

VII. CHILD SUPPORT POLICY

All child support received or disbursed must be considered for initial and new applications and at redetermination. The child care worker determines if the child support payments are included in the family's total countable monthly income. The following situations will help the child care worker to determine income when child support is considered.

A. Child Support Deducted From Income

When a parent whose income is used in determining eligibility for child care services pays [child support](#), that amount is deducted from their countable monthly income. The amount must be verified through online verification, Automated Collections and Tracking System (ACTS), the clerk of court, a pay document/stub that shows wages garnished for child support, or a written, signed statement from the recipient. This policy does not include alimony payments.

B. Child Support Payments Received

When child support payments are received by a parent or responsible adult, the payments are included in the family's total countable monthly income. However, these payments may not be regular nor of identical amounts. The child care worker will use the amounts that the parent actually receives to determine an average amount received over a period of time. When calculating child support, the amount indicated in a court order or written agreement is not considered.

Verification of direct child support for families receiving FNS benefits must be obtained from FSIS. Information and verification of direct child support for families who do not receive FNS benefits can be obtained through online verification, ACTS, the clerk of court, check stubs provided by the client, or a statement signed by the absent parent. When the absent parent's statement cannot be obtained, the child care worker must document the reason in the family's case narrative. The child care worker must verify child support

income received through the client's signed statement or by documenting the client's verbal statement in the case narrative. For an example of a client's statement, refer to Chapter 4, Attachment 3.

The parent is not required to prove that she does not receive child support. However, the child care worker should encourage a parent whose child is not receiving child support to seek the assistance of the local Child Support Enforcement Office in obtaining child support payments from the absent parent. This assistance is not a condition of eligibility for receiving child care services.

In some cases a [major mother](#) receives child support for her child who is a [minor mother](#). The amount of child support that the major mother receives for the minor mother is not counted as income when determining the minor mother's eligibility for child care services.

C. Child Support at New Application

When a parent initially applies or a new application is completed for child care services, only the child support income received 30 days prior to the date of application can be counted. The payments for the 30 day period are added together and the total is included in the family's countable monthly income. If a lump sum payment is received within 30 days prior to the date of application, it is divided by twelve (12) months and the result is counted when determining the amount of income available to the family.

If the parent states that a specific amount of child support is received each month and it cannot be verified, the child care worker will accept the parent's statement and document it in the case record. The amount is then added to the family's total countable income.

D. Child Support at Redetermination

During the annual redetermination period, the child care worker must review all child support payments during the current eligibility period. Child support payments received, including lump sums, are not counted if they extend beyond the beginning of the current eligibility period. Regularly scheduled payments are added together and divided by the number of months reviewed. If the parent received a lump sum payment during the current eligibility period, the lump sum amount is divided by twelve (12). If the parent received a lump sum payment in addition to regularly scheduled payments, the average for the lump sum payments and the average for the regularly scheduled payments are added together and the result is added to the family's countable monthly income.

If the absent parent makes payments only several times a year to meet the annual amount due, a monthly average is counted in the countable

monthly income. All of the child support payments received for the current eligibility period are added together and divided by the number of months reviewed. The result is added to the family's countable monthly income.

NOTE: Follow the process in Section E when a parent indicates at redetermination that child support payments have stopped.

E. Changes in Child Support Payments

Child support payments may increase or decrease during the eligibility period. When a change in the amount of child support income occurs, the child care worker must review payments during the current eligibility period to determine the countable amount.

If a parent reports that child support payments have stopped and have not been received for at least thirty (30) days, the child care worker verifies the parent's statement and documents it in the case narrative. If the parent's statement cannot be verified through an established system used by the agency, the worker must document in the case narrative that the payments have stopped. In both instances, delete the child support income and recalculate the family's total countable monthly income and parent fee. The child care worker must issue a Child Care Action Notice (DCD-0450) to notify the parent and the provider of the change.

The child care worker should follow local procedures for periodic review of cases having child support that have stopped to determine if the payments have resumed. If the payments start again, the child care worker must review the payments for the current eligibility period to determine the countable amount. Refer to Example 4, Sporadic Child Support Payments.

Examples of Child Support Income

EXAMPLE 1, New Application: Carolyn applied for child care assistance for the first time. She is employed and receives child support for her two (2) children. She stated that she receives child support of \$100 per week through a court order for one of her children and the absent parent of her other child gives her \$200 each month. Online verification indicated that during the past 30 days, Carolyn received a total of \$400 for child support. The child care worker gets Carolyn to sign a Verification of Child Support form for the \$200 per month child support payments that cannot be verified. The two amounts are added together ($\$200 + \$400 = \$600$) and added to the family's total monthly income.

EXAMPLE 2, Redetermination: Dorris came in for redetermination for child care services for her three (3) children. She is employed and receives court ordered child support for all of her children. Her child support payment amounts vary. Per online verification, she received a total of \$2,460 for child

support during her current eligibility period. The amount of child support income added to Dorris' total monthly income is \$205.00 (\$2,460/12).

EXAMPLE 3, A New Child Support Order: Kim came in to complete an initial application for child care. She provided her gross wages for employment and reported that she started receiving child support payments three (3) months ago. The court ordered amount of child support per month is \$280.00. She stated that the absent parent paid her back child support during the first month. Per online verification, she received \$160 and a lump sum of \$2,180 the first month. The second month, she received \$214.10 and \$160 and \$250 within the past 30 days. The child support income received during the two (2) previous months cannot be counted. Only the \$250 received within the past 30 days can be counted as child support income and added to the family's total monthly income.

EXAMPLE 4, Sporadic Child Support Payments: Andy came in for redetermination. He has received child support payments sporadically for 15 months as verified in Online Verification. When the absent parent was not working, he did not receive any payments. The child care worker considers the payments received during his current eligibility period. He received seven (7) payments which totaled \$2,650. This amount is divided by 12 ($\$2,650/12=\220.83) to determine the amount to be added to his monthly income.

EXAMPLE 5, Parent No Longer Receiving Child Support: Mary came in for redetermination in October. She stated that she is still employed and received child support regularly until May. She also stated that the reason that she is no longer receiving child support is because the absent parent lost his job and has been unable to pay. The child care worker looks at the past 30 days of child support to verify Mary's statement. She found that Mary had not received any payments. Therefore, child support income will not be included in the family's countable income. Mary must notify her child care worker if the payments resume. The worker will then consider the child support payments during the current eligibility period to determine the amount to add to her monthly income.

VIII. CALCULATING EARNED INCOME

The majority of clients receiving child care services do so to support their employment. The calculation of income earned must be clear and can be explained by one of the following: an explanation in the case narrative; handwritten notes on the application, a calculator tape attached to the application or another document in the file. Any unusual circumstances that the child care worker considers in calculating income must be documented in detail in the case narrative.

The pay document/stub that the employer gives to the employee each pay period is the best tool for calculating gross monthly income; however, this information is not required for clients receiving food and nutrition benefits. In addition to showing the name of the employer, the date of pay and gross income earned, this document/stub can provide other valuable information which helps the child care worker make an accurate calculation. The pay period, overtime hours and accompanying rate of pay, year-to-date figures, any child care benefits provided, and/or any wages garnished for child support can be included on this document.

A. Clients Who Receive Wages

The greater number of employed clients who receive child care services are wage earners, i.e., they are paid at a specified rate of pay for only the hours that they are on the job. Because many things affect the number of hours a person works during a given week or pay period (for example, a mother may lose a day's pay because she was at home with a sick child; or a father has the opportunity to work some overtime hours), the child care worker cannot assume that the client works forty hours every week or eighty hours every two (2) weeks.

One (1) pay document/stub may not give the child care worker the overall picture of the client's earnings. LPA staff are encouraged to request more than one pay stub from parents who do not receive benefits from FNS upon application for services and at redetermination of eligibility. If multiple pay stubs are not available due to the client being newly employed, the LPA should not delay the approval of the application but can request that the client submit additional pay stubs in the following weeks. When multiple pay stubs are provided, the child care worker will add the pay stub amounts together and then divide the total by the number of stubs to determine the average amount earned per pay period.

Weekly income for all families is converted to monthly income by multiplying the weekly amount by 4.3 (the number of weeks in a month). If the client is paid every two (2) weeks, that income is converted to monthly income by multiplying by 2.15 (the number of bi-weekly periods in a month). When income is received twice a month, then the average pay period amount is multiplied by two (2). The monthly income amount is recorded on the application.

B. Clients Who Receive Salaries

When a client is salaried (e.g., an employee of the department of social services or a bank), monthly pay remains the same each month. Employees may be paid once a month or twice a month, but the monthly amount does not change. Consequently, only one (1) (or two (2), if the client is paid twice a month) pay document/stub is required to determine

the gross monthly income unless using the verified income information in FSIS. The total monthly amount is then recorded on the application.

C. Clients Who have Fluctuating Income

Fluctuating income is income that varies significantly, is very irregular, or changes continually because of locale, season of the year, weather, production schedule, etc. In some types of work, income can fluctuate between periods of considerable overtime and/or high productivity and periods of severely reduced work hours and/or low productivity. In these situations, the family income is averaged over a period of time and the resulting average monthly amount is recorded on the application.

The child care worker can use an average income of the three (3) months prior to application, an average of six (6) months prior to application, or an average that includes three (3) months prior to the application and three (3) months of anticipated future income unless using the income information from FSIS. The adjustment for expected changes must be made even if it means adjusting to zero (0) income (e.g., the commercial fisherman who works to repair his boats and nets in the middle of winter when they are not in use and not producing income). Income that fluctuates significantly should be averaged in such a way that child care services will not be interrupted and the family can anticipate and budget for the parental fee that remains unchanged throughout the eligibility period.

This method of calculating income must be used sparingly and carefully and it is recommended that such cases be reviewed on a six (6) month basis.

D. Clients Who are Self-Employed

Self-employment income is the gross income from a continuing trade or business activity minus the allowable operational expenses for that activity. Self-employment income may be received annually or monthly, or it may fluctuate, as in a seasonal self-employment activity. Self-employment income includes, but is not limited to, farm income, rental income, roomer/boarder income, income from a solely operated business, income from a trade such as a carpenter or a cosmetologist, income from a partnership, and income earned by an individual working as a consultant or independent subcontractor.

An individual is self-employed when she is working in her own business, trade or profession rather than working for an employer. To determine if an individual is self-employed, the individual's work situation must be evaluated. **If Social Security and income taxes are being withheld by an employer, the individual is not self-employed.** A self-employed

person generally exercises control over how the business will be conducted, not just the end product. Individuals who are self-employed normally have a tax identification number and/or a business card to verify their self-employment. Also, a self-employed individual usually incurs operational expenses related to conducting her business or work activity.

1. Verifying self-employment income

The business records of the self-employment activity are the primary source of verification of self-employment income.

Acceptable sources of verification include:

- a. Information from FSIS
- b. Business accounting records;
- c. Statements of an outside accountant;
- d. Ledger books or records maintained by the applicant;
- e. Information from the most recent IRS tax forms;
- f. Information from the Verification Form for Self-Employment Income and Expenses. (See [Attachment 2](#) at the end of this chapter for a **sample form**.)

If an applicant has just started a new business, the applicant's statement of income may be accepted as a last alternative **only** if no business or tax records are available. This statement is acceptable for gross income receipts **only** and not net receipts after operating expenses. The applicant's statement cannot be accepted for operational expenses. If the child care worker must accept the applicant's statement of gross income, the reason the applicant has no business records must be documented. In addition, the child care worker must **advise the applicant that at subsequent**

reviews and redeterminations it will be necessary to provide adequate business records to establish income in order to continue to receive services.

2. Computing Operational Expenses

Operational expenses are the cost of carrying on a trade or business. To be deductible, an operational expense must be connected with or pertaining to a trade or business and be both ordinary and necessary. An ordinary expense is one that is common and accepted in the trade or business. A necessary

expense is one that is helpful and appropriate for the trade or business.

A deduction from gross income receipts of a business may be allowed for the ordinary and necessary expenses required for the operation of the business. Some expenses, such as depreciation, are allowed by the IRS but are not allowable deductions for purposes of determining eligibility for subsidized child care. Such expenses do not accurately reflect the actual income available to meet the applicant's or recipient's living expenses.

A standard 20% deduction from gross monthly receipts to allow for expenses associated with employment must be provided for all self-employed parents who do not receive FNS. If the parent requests an expense deduction greater than the standard 20%, the parent must provide documentation and follow subsidy policy for determining operational expenses.

The child care worker must first use the income information listed on page two of the FSIS screen when a parent receives FNS benefits. Actual operational expenses have already been deducted from the amounts listed on this screen for the self-employed parent. The parent has an option of using the actual operational expense deduction or the standard 20% deduction. If the parent chooses the 20% deduction, the parent must provide documentation of total self employment income to the child care worker. The child care worker uses this amount to calculate the gross monthly income by subtracting the standard 20% deduction. When the parent requests an expense deduction greater than 20% and greater than the amount subtracted by FNS, the parent must provide documentation of income and operational expenses.

Operational expenses must be carefully reviewed to determine the actual level of income available to the family. In most cases, this will differ from a determination of allowable deductions and business income for tax purposes. Operational expenses include but are not limited to:

- a. Taxes required to operate the business;
- b. Licenses and permit fees;
- c. Rent payments (not for home-based businesses, except that part allowed as a deduction by the IRS);
- d. Insurance (fire, liability, theft, storm, health insurance for employees);

- e. Labor costs and employee benefits (such as Unemployment Insurance and workmen's compensation costs);
- f. Maintenance and repairs;
- g. Products, materials and supplies;
- h. Transportation costs as allowed by the IRS;
- i. Utilities costs;
- j. Interest on business debts, including mortgages and loans;
- k. Accounting, advertising and legal costs;
- l. Unreimbursed food costs for licensed or unlicensed child care providers;
- m. One-half of the cost of basic local telephone service if the telephone is for both personal and business use. Long distance calls related to business also are allowable expenses; or
- n. Telephone expenses, including local and long distance service, fax and internet, if the telephone line is used exclusively for the business.

Operational costs must be verified to be considered a deduction from self-employment income. **Client statements and IRS tax forms are not acceptable for operational expenses at application, reviews, or at redetermination.** Verification must indicate the date the expense was paid, to whom it was paid and what the expense was for. Do not accept IRS tax forms filed as verification of operational expenses. (See [Family and Children's Medicaid Manual](#), Section 3300, for additional information regarding operational expenses.)

When the applicant or recipient indicates a net loss from the business, the child care worker must discuss how current living expenses are being met to determine what other income is available to the family. Information about applicant's statement is recorded in the case narrative.

EXAMPLE 1, Start-up Business: Mr. Smith has just begun his business as a self-employed copy editor who works out of his home for multiple publishing companies and will be paid per manuscript edited. He is requesting child care for his two (2) children. He brought a business card and tax ID number as proof of his self-employment. Since Mr. Smith just started the business,

he has not been paid yet; but he anticipates being paid \$200 per manuscript and will edit four (4) manuscripts per month, for a total monthly income of \$800. He provided the following dated receipts for his first month’s expenses:

July Expenses Submitted

Online connectivity	\$25.00
Fax machine rental	\$25.00
Business license	\$60.00
Telephone bill	\$80.00
Car repair	\$230.00

Since Mr. Smith uses his telephone for both personal and business reasons, one-half (1/2) of the cost of the basic local service and the cost of the business long distance calls are allowable expenses. The basic local service cost is \$32.30 per month and he had \$23.85 of business long distance calls; therefore, \$40.00 (\$16.15 + \$23.85) is allowed as telephone expense. Business expenses that are paid on an annual basis are divided by twelve to obtain a monthly expense. The fee paid for the business license is \$60.00 annually ($\$60.00 \div 12 = \5.00); therefore, \$5.00 is the allowable expense for July. The child care worker determined that the car repair was not an expense related to the business. Therefore, income is computed as follows:

Estimated monthly income	\$800.00
Online connectivity	\$25.00
Fax machine rental	\$25.00
Business license	\$ 5.00
Telephone bill (\$16.15 + \$23.85)	<u>\$40.00</u>
Total Allowable expenses	- \$95.00
Estimated countable monthly income	\$ 705.00

NOTE: The child care worker provided Mr. Smith with the self-employment form ([Attachment 2](#)) to track actual income and expenses to be provided at periodic reviews. Receipts should be included with the Attachment 2 form under Part II Expenses.

EXAMPLE 2, Continuing Self-Employment: Ms. Jones works at Debbie’s Hair Salon where her customers pay her directly. She is charged booth rental by the owner of the salon. On April 2, she applied for child care for her two children. She brought her appointment book for January, February and March and receipts for expenses. The appointment book includes the amount she charged each customer along with the amount of tips she received.

Ms. Jones provided dated receipts that show the following expenses:

<u>January</u>		<u>February</u>		<u>March</u>	
Booth Rental	100.00	Booth Rental	100.00	Booth Rental	100.00
Salon Supplies	+ 15.00	Salon Supplies	+ 25.00	Salon Supplies	+ 20.00
	\$115.00		\$125.00		\$120.00

Although Ms. Jones reported that she spent \$12.00 for hair combs in January, she did not have a receipt and the \$12.00 cannot be deducted. The countable income is computed as follows:

<u>January</u>		<u>February</u>		<u>March</u>	
Gross Income	650.00	Gross Income	675.00	Gross Income	625.00
Expenses	- 115.00	Expenses	-125.00	Expenses	- 120.00
	\$535.00		\$550.00		\$505.00

The monthly average income is calculated as follows:

January countable income	\$535.00
February countable income	+ \$550.00
March countable income	+ \$505.00
	\$ 1590.00
Number of months	÷ 3
Average countable monthly income	\$530.00