

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