

# SELF-EMPLOYMENT

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## 405.1 GENERAL POLICY & REGULATION

The information in this chapter contains direction and procedure in determining eligibility for the subsidized child care program as it relates to self-employment. A family must meet both financial and non-financial criteria set forth in 55 Pa. Code, [Chapter 3041](#) (relating to subsidized child care eligibility) in order to be eligible for the subsidized child care program.

**As set forth in [§ 3041.3](#) (relating to definitions), self-employment is defined as, “operating one’s own business, trade or profession for profit equal to or greater than the hourly Pennsylvania minimum wage.”**

The United States Internal Revenue Service (IRS) goes on to state:

A parent/caretaker (p/c) is considered self-employed if the p/c:

- Operates a trade or business as a sole proprietor;
- Is a member of a partnership or limited liability company that files a Form 1065, U.S. Return of Partnership, that operates a trade or business; or
- Is otherwise in business for himself.
- Has a part-time business in addition to other employment.

CCIS staff must be able to identify self-employment as well as differentiate between the separate types of self-employment.

***A Federal Income Tax Return must show profit from self-employment that when divided by the Pennsylvania minimum wage is equal to or greater than the required number of work hours.*** Any profit from a p/c’s self-employment is added to the family’s gross income to determine financial eligibility for the subsidized child care program. Each p/c must also meet the work-hour requirement, which means the p/c works at least 20 hours per week, or works a minimum of 10 hours per week and participates in training for a minimum of 10 hours per week, unless the p/c is a teen parent. Need for care is based on the p/c’s work and/or training hours, including travel time.

For self-employed foster parents, the foster parent’s self-employment income is not included in the eligibility determination. However, a self-employed foster parent must still meet the definition of self-employment as set forth in [§ 3041.3](#) (relating to definitions). This means in order to be eligible, a self-employed foster parent must show profit from self-employment that when divided by the minimum wage is equal to or greater than 20 hours.

A self-employed p/c must be able to show three months of income from the self-employment in order to be eligible for subsidized child care. If the p/c has not been self-employed for three months, the p/c is not eligible.

[See Manual Section” 405.12.3.1 – Questions – 405.1 – General Policy & Regulation”](#)

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## 405.2 DEFINITIONS & ACRONYMS

See [Manual Section “101 - Definitions and Acronyms”](#) for a complete, alphabetical listing of definitions and an alphabetical table of acronyms.

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## 405.3 GOALS & OBJECTIVES

See [Manual Section “405.12.1 – Goals”](#) and [Manual Section “405.12.2 - Objectives”](#)

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## 405.4 IDENTIFYING SELF-EMPLOYMENT

Self-employment includes, but is not limited to, operating one’s own business, trade or profession. Some examples of self-employment include: farming, selling eggs and produce, mowing lawns, shoveling snow, selling products door-to-door or otherwise for companies such as Avon or Pampered Chef, performing domestic work, owning and managing rental property, acting as a subcontractor, providing child care services, selling art, and providing services as a repair person.

NOTE: An occasional odd job is not necessarily self-employment. However, any earnings from an occasional odd job should be considered as “Other Income” when determining the family’s eligibility for the Subsidized Child Care program.

To identify self-employment, CCIS staff will determine who is responsible for withholding taxes from the p/c’s earnings based on discussion with the p/c. A p/c is considered self-employed only if the p/c states he is self-employed or that another person is not responsible for and/or not withholding Social Security and income taxes from the p/c’s earnings.

### EXAMPLES:

1. Mary is a housekeeper for the Smith’s. The Smith’s pay Social Security and income taxes for Mary. The Smiths are Mary’s employers. Mary’s income is not from self-employment.
2. John cuts grass for the Anderson’s. John is responsible for making quarterly payments to Social Security and the IRS. John’s income is is from self-employment because the Anderson’s do not pay taxes for John.

### NOTES:

- A Cash Verification form is no longer acceptable income verification for a p/c that is working “under the table,” even if the employer is willing to verify the income. If an employer is not withholding taxes from the p/c’s earnings, the p/c must pay his/her own taxes. The p/c will be considered self-employed and must submit a Federal Income Tax Return or notarized statement, as appropriate, to verify the income.
- The IRS “rules” for determining self-employment income may be different than what is described above. If the CCIS determines that a p/c is self-employed using the criteria in this chapter, but the p/c provides a tax return with the income recorded as “wages”, the CCIS must accept the tax return if it was completed by a tax professional or the p/c can justify that the income is not self-employment according to the IRS. The CCIS must use the “wages” to determine if the income, when divided by the Pennsylvania minimum wage, is equal to or greater than the required number of work hours.

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A p/c may report many types of self-employment to the CCIS. The following identifies and defines the most common types of self-employment, which include Sole Proprietorships, Partnerships, Farmers, S Corporations, and Limited Liability Companies. If the p/c reports other types of self-employment, please refer to the IRS website, [www.irs.gov](http://www.irs.gov). Please contact your Subsidy Coordinator for assistance with forms or supporting documentation the CCIS must evaluate on a case-by-case basis.

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### 405.4.1 Sole Proprietorships

A sole proprietorship is an unincorporated business that is owned by one individual. It is the simplest form of business organization to start and maintain. The business has no existence apart from the owner. The business's liabilities are the owner's personal liabilities. The owner undertakes the risks of the business for all assets owned, whether used in the business or personally owned. The owner includes the income and expenses of the business on the owner's individual tax return.

The sole proprietor must complete a [Schedule C](#) or [Schedule C-EZ](#) (short version) form for the IRS. The total income to be included in the eligibility determination is found on Line 31 on the Schedule C, Line 3 on the Schedule C-EZ, Line 34 on the Schedule F or Line 12 on the [Form 1040](#).

#### **EXAMPLES:**

- 1. Mrs. B owns a business as a sole proprietorship and employs her husband for 60 hours a week. Mr. B Should provide an Employment Verification Form or paystubs to show that he is employed by his wife and receives wages. Because he is an employee, he is subject to income tax, FICA, etc. The CCIS must enter his income on the Employment and Wage screen in PELICAN CCW.**

**Only the name of the person who owns the business can be listed on the Schedule C. If a spouse is NOT part owner of the business, he or she will NOT be listed on the Schedule C or have a separate Schedule C.**

**If one spouse owns a business and the other spouse works for the business but is NOT an owner and does NOT receive wages, the net profit will be considered household income.**

**Each p/c will complete a Self-Employment Schedule of Care form attesting to the hours worked.**

- 2. Mr. Winter owns a restaurant. His wife works at the restaurant 40 hours per week. Mrs. Winter does not own any part of the business and Mr. Winter does not pay her wages. The net profit on the Federal Income Tax Return is considered household income and should be divided equally between Mr. and Mrs. Winter to determine the number of hours of care for which they are eligible.**

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An unincorporated business jointly owned by a married couple is generally classified as a partnership by the IRS; however, for tax years beginning after December 31, 2006, a new tax act provides that a “qualified joint venture,” whose only members are a husband and wife filing a joint return, can elect to be treated as sole proprietors for Federal tax purposes. The spouses must share the businesses’ items of income, gain, loss, deduction, and credit. Under the election, both spouses will receive credit for social security (on which retirements benefits are based) and Medicare coverage purposes.

The IRS defines a qualified joint venture as *a joint venture that conducts a trade or business where (1) the only members are a husband and wife who file a joint return, (2) both spouses materially participate in the trade or business, and (3) both spouses elect not to be treated as a partnership.*

Spouses make the election on a jointly filed Form 1040 by dividing all items of income, gain, loss, deduction, and credit between them in accordance with each spouse’s respective interest in the joint venture. Each spouse will file a separate Schedule C (Form 1040), *Profit or Loss From Business (Sole Proprietorship)*, or [Schedule F](#) (Form 1040), *Profit or Loss From Farming*.

**EXAMPLE: Jason and Kelly jointly own a pizza shop, each owning an equal share. Because they are married and file a joint income tax return, this qualifies as a “joint venture”. Jason and Kelly will file one 1040 for their household, but will each file a Schedule C showing their individual profit from the business.**

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## 405.4.2 Partnerships

A partnership is the relationship existing between two or more persons who join to operate a trade or business. Each person contributes money, property, labor, or skill, and expects to share in the profits and losses of the business. A partnership must file an annual information return to report the income, deductions, gains, losses etc., from its operations, but it does not pay income tax. Instead, a partnership “passes through” any profits or losses to its partners. Each partner includes his or her share of the partnership's income or loss on his or her tax return. A partnership will file a [Form 1065](#) with the IRS, however this form reflects profits and losses to the business only and not each individual partner. Individual income from a partnership is reported on a [Schedule E](#) form. The total income to be included in the eligibility determination is found on Line 41 on the Schedule E or on Line 17 on the 1040.

A business jointly owned by a married couple is generally classified as a partnership by the IRS; however, a new tax act, effective for taxable years beginning after December 31, 2006, provides that a “qualified joint venture,” whose only members are husband and wife filing a joint return, can elect not to be treated as a partnership. Each spouse takes into account his or her respective share of the business as a sole proprietor.

**NOTE:** If a husband and wife elect to categorize their business as a partnership, business income is to be split and entered into PELICAN CCW in accordance with their respective tax documents (Schedule C). The income will not necessarily be split evenly between the husband and wife.

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## EXAMPLES

1. Mr. Lewis owns “Cut U Right”, a landscaping business. His wife, Mrs. Lewis, works as his secretary. She receives paystubs showing her wages and that taxes are being taken out. The profit from the business, shown on the Federal Income Tax Return, would be Mr. Lewis’s self-employment income. Mrs. Lewis’ income is her wages from “Cut U Right”.

NOTE: The wages paid to Mrs. Lewis must be reflected as a business deduction on Mr. Lewis’ Federal Income Tax Return.

- On the 1040 the wages paid to the spouse should be reflected on Line 7.
- On the Schedule C the wages paid to the spouse should be reflected on Line 26.
- The spouse should receive a W-2 indicating the wages paid.

2. Shawn owns 51% of “Sandlot Steel” and his wife Lisa owns 49% of the business. Lisa also is a clerk at Staples working 20 hours/week. Shawn’s income is 51% of the profit from the business and Lisa’s income is 49% of the income from the business and her wages from Staples.

NOTE: Lisa is employed so her profit from the business isn’t used to calculate her hourly requirement. If Lisa physically worked for “Sandlot Steel”, in addition to working at Staples, she could be eligible for additional hours of child care based on her profit from “Sandlot Steel”.

3. Mr. Jefferson is part-owner of “Uptown Cleaning Corporation” and he works as a Manager at one of their stores 22 hours a week and receives pay stubs. His income is a portion of the profit from the Corporation and his wages from managing the store.

NOTE: Mr. Jefferson is employed so his profit from the corporation isn’t used to calculate his hourly requirement.

4. Dave and Andy are partners in a plumbing business, Fast Flow. Fast Flow must file a 1065 to show the profit or loss from the business. Dave and Andy each file a 1040 with a Schedule E, reporting their individual profit from the business. If Andy applies for subsidized child care, the CCIS will require Andy to provide the 1065, in addition to his 1040 and Schedule E.

NOTE: The CCIS should request the 1065 to review the profit or loss from the business; however, only the income reported on the 1040 and Schedule E will be used to determine Andy’s income.

[Manual Section “405.4.1 – Sole Proprietorships”](#)

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## 405.4.3 Farmers

A farmer manages a tract of land on which crops and/or livestock are raised as a means of income. Farmers must complete a Schedule F form for the IRS. The total income to be included in the eligibility determination is found on Line 34 on the Schedule F or Line 18 on the 1040.

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## 405.4.4 S Corporations

An eligible domestic corporation can avoid double taxation (once to the shareholders and again to the corporation) by electing to be treated as an S corporation. Generally, an S corporation is exempt from federal income tax other than tax on certain capital gains and passive income. On their tax returns, the S corporation's shareholders include their share of the corporation's separately stated items of income, deduction, loss, and credit, and their share of non-separately stated income or loss. Similar in nature to the partnership, an S Corporation will file an [1120S form](#) to the IRS, however this form reflects profits and losses to the corporation only and not each individual shareholder. Individual income from an S Corporation is reported on a Schedule E form. The total income to be included in the eligibility determination is found on Line 41 on the Schedule E or on Line 17 on the 1040.

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## 405.4.5 Limited Liability Companies (LLC)

A Limited Liability Company (LLC) is a relatively new business structure. LLCs are popular because, similar to a corporation, owners have limited personal liability for the debts and actions of the LLC. Other features of LLCs are more like a partnership, providing management flexibility and the benefit of pass-through taxation. Depending on the nature of the LLC, individual income from an LLC could be reported to the IRS using a Schedule C, Schedule E, or Schedule F. The total income to be included in the eligibility determination is found on Line 31 on the Schedule C, on Line 41 on the Schedule E, on Line 34 on the Schedule F, or on Lines 12, 17, or 18 on the 1040.

[See Manual Section “405.12.3.2 – Questions – 405.4 – Identifying Self-Employment”](#)

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## 405.5 VERIFICATION OF SELF-EMPLOYMENT INCOME

The CCIS must obtain verification of self-employment income at the time of application and each April, as Federal Income Tax Returns must be filed by April 15. In order to accomplish this, the CCIS should establish an April/October redetermination schedule for all self-employment cases.

If the redetermination is due prior to April, the CCIS should set a tracking date to send a Missing Information Letter on March 1, to request the tax return by April 15. In April when the tax return is received, the case should be put in “Full Redetermination” mode and the self-employment income should be updated using the tax return. The co-payment will increase or decrease when the redetermination is completed.

The redetermination date should be set back to the original date if a parent in the family:

- Is self-employed and receives unearned income
- Is employed and receives earned or unearned income
- Is participating in training to meet the work-hour requirement.

### EXAMPLE:

Sally Sanders applies for child care subsidy on June 5, 2013. On her application, Sally states she is self-employed with a begin date of March 1, 2013. Sally’s self-employment income is not yet reflected on her most recent Federal Income Tax Return. A notarized statement is acceptable verification of the self-employment income. Sally’s first redetermination is due December 5, 2013. Sally is not required to provide a 2013 Federal Income Tax Return to verify the self-employment income as the 2013 tax year is not yet closed. The notarized statement submitted at application is still valid verification of the self-employment income. The CCIS should complete the redetermination and inform Sally that she will need to provide her 2013 Federal Income Tax Return by April 15, 2014. The CCIS should set a tracking date to send a Missing Information Letter to Sally on March 1<sup>st</sup> reminding her to provide her tax return by April 15, 2014. When Sally provides her income tax return, the CCIS should put the case in full redetermination mode and run the redetermination using the income from the tax return. If there is no other income in the household, the CCIS should allow the redetermination date to stay for October. If there is other income in the household, the CCIS should set the redetermination date back to the original date, in this case June. In June the CCIS should get the full redetermination packet and other applicable verification. When redetermination is complete the next redetermination should be set for October.

EXCEPTION: Former TANF applications with self-employment will be processed as normal and the first redetermination date will be set for six months from cash close date. The procedures above should be followed for the next redetermination.

**As set forth in § 3041.65(b)(1)(3) & 3041.67(7), “Acceptable verification of income from self-employment includes one of the following:**

- (1) An annual Federal Income Tax Return is required when the p/c has been self-employed in the same business for more than one year or has been self-employed for at least three months, but less than one year and has filed a Federal Income Tax Return that includes three months of income from the current self-employment. It ***MUST*** have all pages, all schedules and is only valid until the p/c files the next tax return.

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The only allowable income deductions are:

- ✓ Costs of maintaining a business
- ✓ Interest on purchases
- ✓ Employee labor costs
- ✓ Cost of goods sold, supplies and materials
- ✓ Advertising costs
- ✓ Accounting and legal fees
- ✓ Transportation costs

## NOTES:

- If the p/c has been self-employed in the current business for less than one year and has filed a Federal Income Tax Return the p/c ***MUST*** provide a copy of the tax return to the CCIS as verification. However, if the income reported on the Federal Income Tax Return is not accurate because of the newness of the business, the p/c may also submit a notarized statement to verify the self-employment income.
  - Generally, self-employed individuals must file a tax return with the IRS if their net income from self-employment was at least \$400.
- (2) A notarized statement, [Notarized Statement of Self-Employment Income](#), with receipts and ledger verification attached to verify the information, as specified in [§ 3041.65\(b\)\(2\)](#) is acceptable when the following conditions are met:
- It indicates gross earnings minus allowable costs of doing business which shows an hourly profit equal to or greater than the PA minimum wage for the preceding tax quarter or most recent three month period.

**EXAMPLE:** Daniel submits a notarized statement showing a gross profit of \$6,700 for May through August (16 weeks), minus \$2,500 for the cost of doing business (receipts are attached for verification) equaling a net profit of \$4,200.

$\$6,700$  (gross profit) -  $\$2,500$  (cost of doing business) =  $\$4,200$  (net profit)

$\$4,200/16 = \$262.50/\$7.25 = 36$  hours/week

- The p/c has been employed in the same business for less than one year.

## NOTES:

- The p/c may submit another type of notarized statement, such as a handwritten statement, as long as all the pertinent information is included and supporting documentation is attached.
- The p/c ***MUST*** be self-employed in the same business for a minimum of three months.

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A p/c that has been self-employed in the same business for at least one year or self-employed for less than one year, but has filed an income tax return that includes income from the current self-employment must provide one of the following Federal tax forms as verification:

**NOTE:** Go to <http://www.irs.gov/Forms-&-Pubs> to view each tax form in its entirety.

## 1040 Schedule C

- The CCIS will **NOT** include the amount reported on Line 13.
- The CCIS will need further information about the amount reported on Line 23. Taxes are an allowable deduction, but licenses are not an allowable deduction.
- The p/c must verify if the “Other expenses” reported on Line 27a are allowable deductions. A description of these expenses should be listed on Part V of the Schedule C.

**NOTE:** A 1040X is a form used to revise a 1040 that was previously submitted to the IRS. A new 1040 must be submitted along with the 1040X, as well as any other necessary schedules. The 1040X and the revised 1040 should be used to update a p/c’s case, including eligibility, hours of care and co-payment.

Reasons for submitting a 1040X include:

- Receiving an additional W2 after submitting tax return
- Receiving an additional 1099 after submitting tax return
- Change in the number of dependents eligible to be claimed

## 1040 Schedule C-EZ

- If the p/c provided a Schedule C-EZ, the CCIS will require the p/c to provide documentation of all expenses included on line 2.
- If expenses are less than \$5000, the CCIS should not require the p/c to complete the Schedule C. The CCIS should accept the Schedule C-EZ with documentation of expenses.
- Examples of documentation of expenses include canceled checks, cash register tapes, account statements, credit card sales slips, invoices, and petty cash fund records.

## 1040 Schedule E

- The CCIS will need additional information about the amount reported on Line 10. Legal fees are an allowable deduction, but professional fees are not.
- The CCIS will **NOT** include the amount reported on Line 18.
- The p/c must verify that deductions reported as “Other” on Line 19 are allowable.

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## 1040 Schedule F

- The CCIS will NOT include the amount reported on Line 14.
- The p/c must verify if the “Other expenses” reported on Line 32 are allowable deductions.

## Form 1065

- The CCIS will need further information about the amount reported on Line 14. Taxes are an allowable deduction, but licenses are not an allowable deduction.
- The CCIS will NOT include the amount reported on Line 16.
- The p/c must verify if the “Other deductions” reported on Line 20 are allowable deductions.

The tax form submitted to the CCIS for verification must include income from the current self-employment and must be from the previous tax year. An income tax return is only valid until the next tax return is filed.

EXAMPLE: Judy Smith has been self-employed as a hair stylist since 2009, more than one year. She applied for subsidized child care on 10/25/12. At the time of application, she will be required to submit her 2011 tax return as verification of her self-employment, as that is the most recent tax return filed.

NOTE: At redetermination, which will be due on 4/25/13, the p/c will be required to provide a 2012 tax return as verification of self-employment, as the p/c is required to file a 2012 tax return by 4/15/13.

If a p/c submits a Federal Income Tax Return from the prior tax year which lists self-employment income, but indicates the self-employment started part way through the year, the CCIS must determine if the income is continuing and will occur over a 12 month period for the current year. If the self-employment income is NOT seasonal or temporary income, the CCIS must take the income from the tax return and annualize the amount.

EXAMPLE: Mary Miller applies for subsidized child care on May 15, 2013. She provides her 2012 Federal Income Tax Return showing \$5,000 in self-employment income. Mary states that she became self-employed in October of 2012. The 2012 tax return includes **13 weeks** of self-employment income. Mary states that she is currently self-employed in the same business, which is not seasonal. She expects income from the business for all 12 months in 2013. The self-employment income indicated on the 2012 tax return must be annualized.

**\$5,000 / 13 weeks = \$384.62 per week**

**\$384.62 X 52 weeks = \$20,000.24 is the amount that should be entered in the “Annual Earned Income” field on the “Self-Employment” screen.**

If the income is seasonal, temporary or not continuing, then the income is NOT annualized and the actual amount reported on the tax return is entered with a frequency of annual.

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If unreported income is witnessed on a Federal Income Tax Return, the CCIS should have a discussion with the p/c to determine if the income continues or has ended. If the income has ended, it is not to be included in the eligibility determination. If the income is continuing, the CCIS must include the income in the eligibility determination.

**EXAMPLE:** Payments from dividend, stocks, bonds etc. that the p/c receives only once a year, must be included in the eligibility determination.

If a p/c is newly self-employed and the self-employment income is not yet reflected in the most recent Federal Income Tax Return, the CCIS will notify the p/c that he must provide a tax document by April 15.

A p/c must provide verification indicating that he/she is earning an hourly profit equal to or more than the Pennsylvania minimum wage for the preceding Federal tax quarter or the most recent three month period. Therefore, a p/c must be self-employed for **a minimum of three months** before he/she is eligible for subsidized child care.

If a p/c does not provide a copy of the most recent tax return as stated above, the p/c is ineligible for child care.

**NOTE:** Once a self-employed p/c has submitted a Federal Income Tax Return as income verification, only another Federal Income Tax Return is acceptable verification of income going forward. The CCIS will **NOT** accept another notarized statement as income verification unless the p/c has new self-employment and has not yet filed a Federal Income Tax Return that includes income from the new self-employment.

Self-employment income may not always be received on a consistent basis (such as monthly or weekly), but is meant to cover a specific time period, usually 52 weeks. The co-payment **will not** be decreased because a p/c indicates that his/her income is less than expected for a particular month or week, as the income may increase in subsequent months or weeks and average out to the amount reported on the Federal Income Tax Return.

If a p/c states he does not have a copy of the most recent tax return documents, the CCIS must require the p/c to complete the **IRS Form 4506-T Request for Transcript of Tax Return** and submit the form to the IRS. The 4506-T can be found on the IRS website: [www.irs.gov/pub/irs-pdf/f4506t.pdf](http://www.irs.gov/pub/irs-pdf/f4506t.pdf)

**Determining whether a p/c files taxes is not the responsibility of the CCIS.**

The CCIS may not investigate these types of issues as they are the responsibility of the IRS only.

The CCIS must ensure only that the p/c meets the definition of self-employment as set forth in **§ 3041.3** (relating to definitions), satisfies the verification requirements set forth in **§ 3041.65(b)** (relating to verification of income) and meets all additional eligibility criteria set forth in 55 Pa.Code, **Chapter 3041** (relating to subsidized child care eligibility).

**EXAMPLE:** A p/c that is an undocumented immigrant has a child that is a United States Citizen. The p/c cleans houses and receives payment in cash, but does not have a Social Security number and does not file a tax return. Because the p/c cannot provide the required verification, a Federal Income Tax Return, the family is not eligible for subsidized child care.

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**NOTE:** Undocumented immigrants who do not have a Social Security Number may use a W-7 Form to apply for an Individual Taxpayer Identification Number that will allow them to file a Federal Income tax Return.

If the self-employment income is not yet reflected in the most recent Federal Income Tax Return, the p/c must submit to the CCIS, the **Self-Employment Income Notarized Statement**, which will suffice until April 15<sup>th</sup> when the p/c must submit the Federal Income Tax Return.

If the p/c has been self-employed in the same business for more than a year, but has not filed a Federal Income Tax Return for the self-employment income, the CCIS will send a Missing Information Letter (MIL) to the p/c. The p/c will be required to provide an income tax return no later than 30 calendar days from the date of the application or no later than the redetermination due date. If the p/c fails to submit the tax return within these time frames, the family becomes ineligible for subsidized child care.

**NOTE:** If the p/c indicates that he filed an extension, he is still required to actually file their income tax return within 30 calendar days from the date of the application.

If a p/c has been self-employment in multiple businesses and the CCIS is having issues determining if a tax return is required or if a notarized statement is acceptable, please contact your Subsidy Coordinator for assistance. These cases will be reviewed on a case by case basis.

## Summary of Verification Requirements

| <i>Category</i>  | <i>Required Verification</i>   |
|--|--|
| <b>Existing Self-Employment</b>  |  |
| P/C is self-employed and self-employment income is reflected in most recent Federal Income Tax Return.   | <i>Federal Income Tax Return</i><br>Copy of most recent Federal Income Tax Return; include all applicable forms and schedules. If the p/c has been self-employed for a year or more, but not in the same business, a notarized statement may be submitted along with the tax return if the current self-employment income is not accurately reflected in the tax return. |
| <b>Newly Self-Employed:</b>  |  |
| P/C is self-employed for more than three months but less than one year and his/her self-employment income is not reflected in the most recent Federal Income Tax Return. | <i>A Notarized Statement</i><br>Notarized Statement of Self-Employment Income.   |

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[See Manual Section “405.12.3.3 – Questions – 405.5 – Verification of Self-Employment Income”](#)

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## 405.6 CALCULATING SELF-EMPLOYMENT INCOME

As set forth in **Chapter 3041, Appendix A, Section T**, profit from self-employment is the “total gross receipts minus costs of doing business.” The costs of doing business include:

1. Costs of maintaining a place of business such as rent, utilities, insurance on the business and its property and property taxes.

NOTE: If a business is operated in a home, the costs of maintaining a place of business are only those costs identified for the part of the home used exclusively for the business.

2. Interest on the purchase of the income-producing equipment and property.
3. Employee labor costs, such as wage, salaries, taxes, benefits, Unemployment Compensation or Worker’s Compensation.
4. Cost of goods sold, supplies and materials.
5. Advertising costs.
6. Accounting and legal fees.
7. Transportation costs necessary to produce income.

The CCIS will complete the following steps to determine self-employment income when a p/c provides a Federal Income Tax Return as verification:

1. Identify the gross profit and net profit reported on the appropriate schedule.
2. Review the deductions claimed by the p/c to determine if the deductions are allowable as specified in **Chapter 3041, Appendix A, Section T**.
3. If there are deductions that are not allowable per Chapter 3041, add the amount of those deductions to the net profit.
4. The net profit, plus the amount of any non-allowable deductions, will equal the p/c’s self-employment income which will be used to determine both eligibility and the number of hours of care.

NOTE: Please refer to **Manual Section “405.5 – Verification of Self-Employment Income,”** for additional information regarding Federal Income Tax Return Schedules.

The CCIS will complete the following steps to determine self-employment income when a p/c provides a Notarized Statement of Self-Employment Income and supporting documentation:

- (1) Identify the gross income reported on the notarized statement.
- (2) Review the supporting documentation to identify the total amount of allowable business expenses, as specified in **Chapter 3041, Appendix A, Section T**.
- (3) Subtract the allowable business expenses from the gross profit to get the net profit which is the amount of income used to determine both eligibility and the number of hours of care.

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To determine eligibility, as specified in [§ 3041.43](#) (relating to work, education and training), the CCIS must divide the net profit from self-employment income by the number of weeks the income was intended to cover. The weekly amount is then divided by the Pennsylvania minimum wage to determine if the p/c is meeting the work hour requirements for the specified number of weeks.

## EXAMPLES:

1. A carpenter submits a Federal Income Tax Return indicating that his annual net profit was \$5320.00 for the entire 52 weeks of the year.

\$5,320 for 52 weeks  
 $\$5,320/52 = \$102.31/\$7.25 = 14 \text{ hours per week}$   
*INELIGIBLE (Not meeting work-hour requirement)*

2. A carpenter submits a Federal Income Tax Return indicating that his annual net profit was \$5320.00 for the entire 52 weeks of the year. He also attends training for 10 hours per week.

\$5,320 for 52 weeks  
 $\$5,320/52 = \$102.31/\$7.25 = 14 \text{ hours per week} + 10 \text{ hours of training}$   
*ELIGIBLE for up to 24 hours per week*

3. A school bus driver submits a Federal Income Tax Return indicating that her net profit for the 36 weeks that she works during the school year was \$5320.00

\$5,320 for 36 weeks  
 $\$5,320/36 = \$147.78/\$7.25 = 20 \text{ hours per week}$   
*ELIGIBLE for up to 20 hours per week*

4. A landscaper submits a Federal Income Tax Return indicating that his net profit for the 24 weeks that he works during the warm weather months was \$5320.00.

\$5,320 for 24 weeks  
 $\$5,320/24 = \$221.67/\$7.25 = 31 \text{ hours per week}$   
*ELIGIBLE for up to 31 hours per week*

## NOTES:

- If the income covers less than a six-month period, a tracking date should be set to reevaluate whether the p/c continues to meet the work-hour requirements when the period of self-employment ends. If the income covers more than a six-month period, a redetermination must be completed as usual.
- If seasonal employment continues beyond the calculated number of weeks, the p/c must provide additional verification regarding how long work will continue and amount of income.

OCDEL Policy highly recommends using the [Self-Employment Calculation Worksheets](#) that have been developed to calculate the self-employment income and the hours of care. The worksheets indicate the line numbers associated with the total net profit, line numbers that are **NOT** allowable deductions and need to be added back into the net profit and the number of weeks the income is intended to cover.

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[See Manual Section “405.12.3.4 – Questions – 405.6 – Calculating Self-Employment Income”](#)

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## 405.7 WORK & CARE HOURS FOR THE SELF-EMPLOYED

As set forth in [§ 3041.67](#), “acceptable verification of hours of work, education, training or enrollment in education or training includes one of the following:

- (7) A Federal Income Tax Return showing profit from self-employment that when divided by the Pennsylvania minimum wage is equal to or greater than the required number of hours, as specified in [§ 3041.43](#) (relating to work, education and training) and is equal to or greater than the number of hours of care needed.

If using the [Self-Employment Calculation Worksheets](#) explained in Manual Section “405.6 – Calculating Self-Employment Income, the hours of care will be determined if the correct net profit and deductions are entered.

The number of hours of care for a self-employed p/c is determined by the net profit reported on the Federal Income Tax Return or the Self-Employment Income Notarized Statement. The net profit is divided by the Pennsylvania minimum wage to determine the number of hours of care for which the p/c is eligible.

The p/c may indicate the days and times that care is needed, within the established number of hours.

**EXAMPLE:** The Federal Income Tax Return indicates a net profit of \$12,463.00 from self-employment.

$$\begin{aligned} \$12,463.00 \text{ (Net profit)} / 52 \text{ (Weeks)} &= \$239.67 \\ \$239.67 / \$7.25 \text{ (PA minimum wage)} &= 33 \text{ (Hours of care per week)} \end{aligned}$$

The p/c can indicate at what times through the week the care is needed, up to 33 hours.

The p/c will indicate the days and times care is needed by completing the [Self-Employment Schedule of Care](#) form.

At a minimum a new form should be completed and signed each year when a new tax return is submitted at redetermination. The p/c may change, increase or decrease days or hours, within the determined number of hours of care, as needed by completing and signing a new form.

A self-employed p/c is eligible for sleep time hours, as specified in [§ 3041.14](#) (relating to subsidy benefits). The p/c must provide verification indicating the p/c’s work hours end between 12 a.m. and 9 a.m. to be eligible for continued care during sleep time. Examples of acceptable verification include:

- A statement from the client to whom the p/c is providing service
- Receipts or invoices that are time stamped
- Collateral contact with a customer

If a p/c is eligible for sleep time hours, he may receive up to eight hours of care, in addition to the number of hours of care calculated by the income.

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For husband and wife businesses, both husband ***and*** wife must meet the work requirement. Therefore, the net profit reported on the Federal Income Tax Return or the Self-Employment Income Notarized Statement will be divided between both husband and wife. The CCIS may only pay for hours in which both parents are working.

**EXAMPLE:** The Federal Income Tax Return indicates a net profit of \$18,096.00 from self-employment for husband and wife.

$\$18,096.00 \text{ (Net profit)} / 52 \text{ (Weeks)} = \$348.$

$\$348.00 / \$7.25 \text{ (Minimum wage)} = 48 \text{ (Hours of care per week)}$

$48 \text{ (Hours of care per week)} / 2 \text{ (p/c)} = 24 \text{ (Hours of care per week for each p/c)}$

The husband and wife can indicate at what times through the week the care is needed, up to 24 hours. However, the husband and wife must need to work during the same hours in order for there to be a need for care.

**NOTE:** If the business does not require both parent/caretakers to work the same hours, there is no need for care during the hours that only one p/c is working.

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[See Manual Section “405.12.3.5 – Questions – 405.7 – Work & Care Hours for the Self-Employed”](#)

## 405.8 P/C RESPONSIBILITIES

The p/c must:

1. Inform the CCIS of the self-employment status of any family member.
2. Submit a Federal Income Tax Return as verification of self-employment, if self-employed in the same business for a year or more.
3. Submit a notarized statement and supporting documentation as verification, if self-employed in the same business for greater than three months, but less than one year.
4. Report changes as required in [§ 3041.127](#) (relating to parent and caretaker report of change).

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[See Manual Section “405.12.3.6 Questions – 405.8 – P/C Responsibilities”](#)

# SELF-EMPLOYMENT

## 405.9 CCIS RESPONSIBILITIES

The CCIS must:

1. Determine if a family member is self-employed as defined in [§ 3041.3](#) (relating to definitions).
2. Determine if the net profit from self-employment on the most recent Federal Income Tax Return, when divided by the Pennsylvania minimum wage, is equal to or greater than the required number of hours, as specified in [§ 3041.43](#) (related to work, education and training) and is equal to or greater than the number of hours of care needed.
3. Set redeterminations for a self-employed p/c to an April/October redetermination cycle, so that the self-employment income from the most current tax return can be used during the April redetermination.
4. Determine the family's initial and ongoing eligibility for the subsidized child care program based on the eligibility criteria set forth in 55 Pa.Code, [Chapter 3041](#) (relating to subsidized child care eligibility).

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[See Manual Section “405.12.3.7 – Questions – 405.9 – CCIS Responsibilities”](#)

## 405.10 PELICAN CCW

CCIS staff must enter self-employment data into PELICAN CCW appropriately. Observe the screenshot below. Explanation of fields and appropriate entry instructions are broken down by section.

The screenshot shows the 'Self-Employment Detail' form in the PELICAN CCW system. At the top, there is a navigation bar with 'Help | Logout' and a breadcrumb trail: 'Home | R&R | Provider | Case | Payments | Reports | Correspondence | Administration'. Below this is a sub-navigation bar: 'Client Search | Enrollment Search | Inbox Home'. The main form area has a title 'Self-Employment Detail' and a dropdown menu for selection. A table displays the following data:

| County | Record  | Office                   | Status  | Mode   | Parent/Caretaker    | Caseload ID |
|--------|---------|--------------------------|---------|--------|---------------------|-------------|
| 36     | 7704031 | CCIS of Lancaster County | Pending | Intake | HOUSEPLANT, HARRIET | 0317        |

Below the table, the form is divided into three main sections:

- Individual\*:** Includes a dropdown menu for selection, 'Self Employment Begin Date\*' (with a '1' next to the field), 'Self Employment End Date', and 'Reason for Closure' (with a dropdown menu).
- Address:** Includes fields for 'Business Name', 'Business Address', 'City', 'State' (dropdown), 'Zip', and 'Business Phone Number' (with 'Ext.' field).
- Income:** Includes 'Tax Year', 'Annual Earned Income\*' (with a '\$' symbol), 'Tax Document' (dropdown), 'Hours Worked per Week\*', and 'Date Change Reported'.

At the bottom of the form, there are 'SAVE' and 'CANCEL' buttons. The footer of the page shows 'UserID: t-test21 | Office: CCIS of Lancaster County' and 'System Acceptance Test | Version 7.0.1.68'.

### Section 1:

- Select the individual for which self-employment is being entered.
- Enter the self-employment begin date for new self-employment.

**NOTE:** This date should not be changed for a redetermination if the p/c remains self-employed for the same business.

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- Enter a self-employment end date and a termination reason of either voluntary or involuntary only when appropriate.

Examples of voluntary termination include:

- Business closes by choice
- Business sold by choice

Examples of involuntary termination include:

- Business is no longer profitable
- Health issues
- Emergency
- Fire
- Theft

NOTE: Under “Reason for Closure,” the CCIS may not select Transfer and Ineligible reasons under any circumstance.

## Section 2:

- Enter the p/c’s business information.

## Section 3:

- Enter the self-employment income amounts as instructed in this chapter.

NOTE: The “Annual Earned Income” field is only to be used for the self-employment income the CCIS used to determine the number of hours of care. If a p/c is a shareholder in a corporation that also pays him wages, the profit from the corporation should be entered on the “Other Income” screen. The wages should be entered on the *Employment and Wage* screen.

- Enter the “Tax Year” listed on tax documents (typically the year previous to the current year) the p/c provided.
- Enter the hours worked per week, based on the net profit from the Federal Income Tax Return or notarized statement, divided by the Pennsylvania minimum wage.

NOTE: The self-employment income will continue to be entered as an **annual amount** on the *Self-Employment Detail* screen. The CCIS must perform the calculation regarding minimum wage outside of the system and enter the number of hours per week derived from the calculation in the “Hours worked per week” field.

- Enter a tax document in the “Tax Document” field only when a tax document is used for verification. Although PELICAN currently displays more options, the acceptable verification selections are:
  - 1040
  - 1065
  - Schedule C
  - Schedule C-EZ
  - Schedule E
  - Schedule F

**Other choices are not acceptable verification and are not to be selected.**

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[See Manual Section “405.12.3.8 – Questions – 405.10 – PELICAN CCW”](#)

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## 405.11 UPDATED INFORMATION & ADDITIONAL RESOURCES

This section contains a listing of updated information distributed following issuance of this manual section via Announcements, Updates and Communiqués, as well as additional resources available to the CCIS.

### 405.11.1 Announcements

| DATE ISSUED | ANNOUNCEMENT NUMBER | TITLE |
|-------------|---------------------|-------|
|             |                     |       |
|             |                     |       |
|             |                     |       |
|             |                     |       |
|             |                     |       |
|             |                     |       |
|             |                     |       |
|             |                     |       |
|             |                     |       |

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## 405.11.2 Updates

| DATE ISSUED | UPDATE NUMBER | TITLE |
|-------------|---------------|-------|
|             |               |       |
|             |               |       |
|             |               |       |

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## 405.11.3 Communiqués

| DATE ISSUED | COMMUNIQUE NUMBER | TITLE |
|-------------|-------------------|-------|
|             |                   |       |
|             |                   |       |
|             |                   |       |
|             |                   |       |
|             |                   |       |

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### 405.11.4 Additional Resources

The CCIS may use the following pertinent IRS URLs to obtain the most current tax information:

| FORMS  |   |
|--|---|
| SUBJECT  | URL   |
| <b>1040</b> U.S. Individual Income Tax Return  | <a href="http://www.irs.gov/pub/irs-pdf/f1040.pdf?portlet=3">http://www.irs.gov/pub/irs-pdf/f1040.pdf?portlet=3</a> |
| <b>1065</b> U.S. Return of Partnership Income  | <a href="http://www.irs.gov/pub/irs-pdf/f1065.pdf">http://www.irs.gov/pub/irs-pdf/f1065.pdf</a>                     |
| <b>1120S</b> U.S. Income Tax Return for an S Corporation                                   | <a href="http://www.irs.gov/pub/irs-pdf/f1120s.pdf">http://www.irs.gov/pub/irs-pdf/f1120s.pdf</a>                   |
| <b>Schedule C</b> Profit or Loss from Business   | <a href="http://www.irs.gov/pub/irs-pdf/f1040sc.pdf">http://www.irs.gov/pub/irs-pdf/f1040sc.pdf</a>                 |
| <b>Schedule C-EZ</b> Net Profit from Business  | <a href="http://www.irs.gov/pub/irs-pdf/f1040sce.pdf">http://www.irs.gov/pub/irs-pdf/f1040sce.pdf</a>               |
| <b>Schedule E</b> Supplemental Income and Loss   | <a href="http://www.irs.gov/pub/irs-pdf/f1040se.pdf">http://www.irs.gov/pub/irs-pdf/f1040se.pdf</a>                 |
| <b>Schedule F</b> Profit or Loss from Farming  | <a href="http://www.irs.gov/pub/irs-pdf/f1040sf.pdf">http://www.irs.gov/pub/irs-pdf/f1040sf.pdf</a>                 |
| <b>4506-T</b> Request for Transcript of Tax Return   | <a href="http://www.irs.gov/pub/irs-pdf/f4506t.pdf">http://www.irs.gov/pub/irs-pdf/f4506t.pdf</a>                   |
| FORM INSTRUCTIONS  |   |
| <b>1040</b> U.S. Individual Income Tax Return  | <a href="http://www.irs.gov/pub/irs-pdf/i1040.pdf?portlet=3">http://www.irs.gov/pub/irs-pdf/i1040.pdf?portlet=3</a> |
| <b>1065</b> U.S. Return of Partnership Income  | <a href="http://www.irs.gov/pub/irs-pdf/i1065.pdf">http://www.irs.gov/pub/irs-pdf/i1065.pdf</a>                     |
| <b>1120S</b> U.S. Income Tax Return for an S Corporation                                   | <a href="http://www.irs.gov/pub/irs-pdf/i1120s.pdf">http://www.irs.gov/pub/irs-pdf/i1120s.pdf</a>                   |
| <b>Schedule C</b> Profit or Loss from Business   | <a href="http://www.irs.gov/pub/irs-pdf/i1040sc.pdf">http://www.irs.gov/pub/irs-pdf/i1040sc.pdf</a>                 |
| <b>Schedule E</b> Supplemental Income and Loss   | <a href="http://www.irs.gov/pub/irs-pdf/i1040se.pdf">http://www.irs.gov/pub/irs-pdf/i1040se.pdf</a>                 |
| <b>Schedule F</b> Profit or Loss from Farming  | <a href="http://www.irs.gov/pub/irs-pdf/i1040sf.pdf">http://www.irs.gov/pub/irs-pdf/i1040sf.pdf</a>                 |
| USEFUL PUBLICATIONS  |   |
| SUBJECT  | URL   |
| <b>Pub 334 - Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)</b> | <a href="http://www.irs.gov/pub/irs-pdf/p334.pdf">http://www.irs.gov/pub/irs-pdf/p334.pdf</a>                       |
| <b>Pub 535 Business Expenses</b>   | <a href="http://www.irs.gov/pub/irs-pdf/p535.pdf">http://www.irs.gov/pub/irs-pdf/p535.pdf</a>                       |
| <b>Pub 583 Starting a Business and Keeping Records</b>                                     | <a href="http://www.irs.gov/pub/irs-pdf/p583.pdf">http://www.irs.gov/pub/irs-pdf/p583.pdf</a>                       |
| <b>Pub 541 Partnerships</b>  | <a href="http://www.irs.gov/pub/irs-pdf/p541.pdf">http://www.irs.gov/pub/irs-pdf/p541.pdf</a>                       |
| <b>Pub 542 Corporations</b>  | <a href="http://www.irs.gov/pub/irs-pdf/p542.pdf">http://www.irs.gov/pub/irs-pdf/p542.pdf</a>                       |
| <b>Pub 1779 Employee/Independent Contractor Brochure</b>                                   | <a href="http://www.irs.gov/pub/irs-pdf/p1779.pdf">http://www.irs.gov/pub/irs-pdf/p1779.pdf</a>                     |
| <b>Pub 3402 – Tax Issues for LLCs</b>  | <a href="http://www.irs.gov/pub/irs-pdf/p3402.pdf">http://www.irs.gov/pub/irs-pdf/p3402.pdf</a>                     |

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## 405.12 TRAINING GUIDE

This section contains information pertinent to training the Self-Employment Manual Section. The following subsections contain the goals and objectives of the manual section, as well as helpful question and answer checkpoints.

### 405.12.1 Goals

The information in this section contains the goals with regard to determining eligibility for the Subsidized Child Care Program as it relates to Self-Employment. The following are the goals of this manual section:

1. To identify self-employment income.
2. To differentiate between the separate types of self-employment.

### 405.12.2 Objectives

The following are the objectives of this manual section:

1. To understand the various types of self-employment.
2. To understand acceptable verification for self-employment.
3. To understand the various tax forms.
4. To understand how to enter self-employment income into PELICAN CCW.
5. To understand how to calculate self-employment income and determine the number of hours of care.
6. To understand where to go for additional self-employment resources.

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[Return to Manual Section “405.3 – Goals & Objectives”](#)

[Return to Manual Section “405.4 – Identifying Self-Employment”](#)

### 405.12.3 Section Checkpoint Questions

The Policy and Operations Divisions of the Bureau of Subsidized Child Care Services developed the following questions as a check point to ensure comprehension of the information presented within this section. Upon review of the information within this section, CCIS staff should be able to answer all of the questions listed below.

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## 405.12.3.1 Questions - Manual Section “405.1 – General Policy & Regulation”

1. The Internal Revenue Service (IRS) identifies which of the following as self-employment?
  - a. Operating a trade or business as a sole proprietor
  - b. A member of a partnership or limited liability company that files a Form 1065, U.S. Return of Partnership, that operates a trade or business
  - c. Otherwise being in business for one’s self
  - d. Having a part-time business in addition to other employment
  - e. All of the above
2. TRUE or FALSE. A p/c that verifies she works in her own business for 30 or more hours per week is considered self-employed, for subsidized child care eligibility purposes, even if she can show no profit.

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[Return to Manual Section “405.1 – General Policy & Regulation”](#)

[See Answers](#)

## 405.12.3.2 Questions - Manual Section “405.4 – Identifying Self-Employment”

3. Which of the following may be considered self-employment?
  - a. A child care provider
  - b. An individual that mows lawns
  - c. An individual that sells Pampered Chef
  - d. An individual that is paid cash “under the table”
  - e. A postal worker
  - f. All of the above
  - g. a thru d above
4. TRUE or FALSE. There are 3 types of self-employment: Partnerships, Farmers, and S Corporations.
5. TRUE or FALSE. A p/c that is paid “under the table” can complete the Cash Verification form to verify income.

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[Return to Manual Section “405.4 – Identifying Self-Employment”](#)

[See Answers](#)

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## 405.12.3.3 Questions – Manual Section “405.5 – Verification of Self-Employment Income”

6. TRUE or FALSE. A p/c must submit a Federal Income Tax Return to verify self-employment income.
7. Acceptable verification of self-employment income may include:
  - a. Federal Income Tax Return
  - b. P/C Self-Employment Income Worksheet
  - c. Notarized Statement of Self-Employment Income
  - d. Business license
  - e. All of the above
  - f. a and c from above
8. TRUE or FALSE. Non-tax document verifications (i.e., deposit slips, accounting ledgers, etc) are acceptable as long as they are from the previous tax year.
9. TRUE or FALSE. All self-employed parent/caretakers must complete a Self-Employment Verification Form.
10. TRUE or FALSE. In order to verify a p/c’s self-employment income, the CCIS should always request a copy of the most recent Federal Income Tax Return. A Notarized Statement with supporting documentation should only be accepted if the p/c has not yet filed a Federal Income Tax Return that includes income from the self-employment.
11. Jennifer Jones applies for child care in June of 2012. Jennifer indicates she is self-employed with a begin date of February 23, 2012. Jennifer’s most recent tax return does not reflect this employment. Jennifer is determined eligible for child care. Her first redetermination is due December 30, 2012. Must Jennifer provide a federal income tax return with the November 2012 redetermination in order to maintain eligibility?
12. TRUE or FALSE. If the p/c states she does not have a copy of the most recent Federal Income Tax Return, the CCIS will give the p/c IRS Form 4506-T Request for Transcript of Tax Return.
13. TRUE or FALSE. As per the IRS, all self-employed individuals must file a tax return.

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[Return to Manual Section “405.5 – Verification of Self-Employment Income”](#)

[See Answers](#)

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## 405.12.3.4 Questions – Manual Section “405.6 – Calculating Self-Employment Income”

14. The costs of doing business may include:

- a. Rent
- b. Property taxes
- c. Advertising costs
- d. Office supplies
- e. Employee wages
- f. a, b, c, and e from above
- g. None of the above
- h. All of the above

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[Return to Manual Section “405.6 – Calculating Self-Employment Income”](#)

[See Answers](#)

## 405.12.3.5 Questions – Manual Section “405.7 – Work & Care Hours for the Self-Employed”

- 15. TRUE or FALSE. A p/c can self-certify the days and hours of care needed, within the determined number of hours for which the p/c is eligible.
- 16. An application is received for LI child care. Both parents jointly operate their own business. Mom works for 15 hours per week. Dad works for 45 hours per week. Is this family eligible for child care based on their work hours?

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[Return to Manual Section “405.7 – Work & Care Hours for the Self-Employed”](#)

[See Answers](#)

# SELF-EMPLOYMENT

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## 405.12.3.6 Questions - Manual Section “405.8 – P/C Responsibilities”

17. A self-employed p/c is responsible for which of the following:
  - a. Informing the CCIS of the self-employment status of any family members.
  - b. Submitting a Federal Income Tax Return as verification of self-employment, if self-employed in the same business for a year or more.
  - c. Submitting a notarized statement and supporting documentation as verification, if self-employed in the same business for less than one year.
  - d. Reporting changes as required in § 3041.127 (relating to parent and caretaker report of change).
  - e. All of the above.
  - f. None of the above.

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[Return to Manual Section “405.8 – P/C Responsibilities”](#)

[See Answers](#)

## 405.12.3.7 Questions - Manual Section “405.9 – CCIS Responsibilities”

18. TRUE or FALSE. The CCIS must require that a p/c who, has been self-employed in the same business for a year or more and has not filed a Federal Income Tax Return, file a Federal Income Tax Return by the next redetermination.

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[Return to Manual Section “405.9 – CCIS Responsibilities”](#)

[See Answers](#)

## 405.12.3.8 Questions – Manual Section “405.10 – PELICAN CCW”

19. TRUE or FALSE. If a p/c is a stakeholder in a corporation that also pays him/her wages, all income, both profit from the corporation and wages paid to the p/c by the corporation, is considered self-employment and should be entered as “Annual Earned Income” on the Self-Employment detail screen.

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## 405.12.4 Section Checkpoint Answers

The Policy and Operations Divisions of the Bureau of Subsidized Child Care Services provided the answers to all of the questions asked in Manual Section “405.12.3 – Section Checkpoint Questions.”

### 405.12.4.1 Answers – Manual Section “405.1 – General Policy & Regulation”

1. e. – all of the above.
2. FALSE. A p/c must show profit from self-employment and meet the work requirement in order to be considered self-employed.

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### 405.12.4.2 Answers – Manual Section “405.4 – Identifying Self-Employment”

3. g. – a through d above.
4. FALSE. There are many types of self-employment that could be reported to the CCIS. This chapter identifies and attempts to define the most common types of self-employment, which include: Sole Proprietorships, Partnerships, Farmers, S Corporations, and Limited Liability Companies. If other types of self-employment are reported, please refer to the IRS website for further information.
5. FALSE. Completion of the Cash Verification form is no longer acceptable for a p/c that is working “under the table”, even if the employer is willing to verify the income. If an employer is not withholding taxes from the p/c’s earnings, the p/c must pay his/her own taxes. The p/c will be considered self-employed and submit a Federal Income Tax Return or notarized statement, as appropriate, to verify income.

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## 405.12.4.3 Answers – Manual Section “405.5 – Verification of Self-Employment Income”

6. FALSE. A Federal Income Tax Return is not required to verify self-employment income if the p/c has been self-employed in that business for less than one year.
7. f. – a and c from above
8. FALSE. Receipts and ledgers are only acceptable when attached to a Notarized Statement of Self-Employment Income and submitted by a p/c that has been self-employed in the same business for less than one year.
9. FALSE. The Self-Employment Verification Form is no longer acceptable to verify self-employment income. A p/c must submit a Federal Income Tax Return, if self-employed in the same business for a year or more. The p/c may submit a Notarized Statement of Self-Employment Income, if the p/c has not been self-employed in the same business for at least one year or has not yet filed a Federal income Tax Return.
10. TRUE
11. No. Jennifer’s self-employment began in 2012. When Jennifer has her redetermination in December 2012, the notarized statement she provided at application will continue to serve as verification of her self-employment income. At redetermination she should be reminded that she will need to provide her Federal Income Tax Return by April 15, 2013. In March 2013, a Missing Information Letter should be sent requiring Jennifer to provide her income tax return by April 15, 2013.
12. TRUE
13. FALSE. As a general rule, the IRS states only self-employed individuals with net income greater than \$400 must file a tax return. However, a p/c with a profit of \$400 or less, would not meet the definition of self-employment as set forth in [§ 3041.3](#) (relating to definitions).

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405.12.4.4 [Answers – Manual Section “405.6 – Calculating Self-Employment Income”](#)

14. h. – All of the above.

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405.12.4.5 [Answers – Manual Section “405.7 – Work & Care Hours for the Self-Employed”](#)

15. TRUE
16. NO. Both p/cs must meet the work hour requirement. In this example, Mom is only working 15 hours per week. She must work at least 20 for the family to be eligible.

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405.12.4.6 [Answers – Manual Section “405.8 – P/C Responsibilities”](#)

17. e. – All of the above.

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## 405.12.4.7 Answers – Manual Section “405.9 – CCIS Responsibilities”

18. FALSE. If the p/c has been self-employed in the same business for more than a year, but has not filed a Federal Income Tax Return for the self-employment income, the CCIS will send a Missing Information Letter (MIL) to the p/c. The p/c will be required to provide an income tax return no later than 30 calendar days from the date of the application.

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## 405.12.4.8 Answers – Manual Section “405.10 – PELICAN CCW”

19. FALSE. The “Annual Earned Income” field is only to be used for self-employment income. If a p/c receives wages from a corporation of which he/she is also a shareholder, the income from wages is entered on the Employment and Wage screen.

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