	GEORGIA DIVISION OF FAMILY AND CHILDREN SERVICES MEDICAID PROCEDURE MANUAL			
	Chapter:	**2400**	**Effective Date:**	**February 2020**
	Policy Title:	**Self-Employment**		
	Policy Number:	**2415**	**Previous Policy Update:**	**MT 49**

REQUIREMENTS

Earnings from an applicant/recipient's (A/R) own business or self-employment, as opposed to wages or a salary from an employer, are included as earned income when determining eligibility for any Medicaid Class of Assistance (COA) and when determining ABD patient liability/cost share budgets.

BASIC CONSIDERATIONS

Net Earnings

The net earnings from self-employment (NESE) is the gross income from any trade or business, plus capital gains, less allowable business expenses, including depreciation.

NESE also includes any distributive share (whether or not distributed) of income or loss from a trade or business operated as a partnership.

Appreciation

Appreciation, or capital gain, is an increase in the value of a business resource, and is a result of any of the following:

- improvement in the property
- normal market increases
- interest accrued

Determine appreciation by obtaining verification of the value of the resources from a reliable source

BASIC CONSIDERATIONS (cont.)

Depreciation

Depreciation occurs when a business resource loses value because of either of the following:

- destruction of property in a storm, fire or other disaster
- long term use of the resource reduces its value (e.g., vehicles, machinery)

Determine depreciation by obtaining verification of the value of the resource from a reliable source.

PROCEDURES

ABD MEDICAID

Develop NESE in the following situations:

- the A/R was self-employed in the prior tax year
- the A/R is currently self-employed
- the A/R has been self-employed during the current tax year

Calculate NESE on a tax year basis.

- Subtract all allowable IRS business deductions claimed on the self-employed individual's federal tax return from the gross self-employment earnings for the year to determine the NESE.

- Divide the NESE equally among the 12 months in the tax year to determine monthly earnings.

Divide net losses from self-employment over the tax year in the same way as net earnings. Deduct each month's net loss from other earned income for that month.

Divide the entire taxable year's NESE equally among 12 months in the taxable year, even if the business is seasonal, starts late in the year, ceases operation before the end of the tax year or ceases operation prior to the initial application for ABD Medicaid.

When a Medicaid individual, a member of a Medicaid couple, a Medicaid individual's ineligible spouse, or one of two ineligible parents incurs a verified net loss, deduct the loss from other earnings for the tax year in which the loss was incurred, regardless of which individual incurred the loss.

In the event cash or in-kind items are withdrawn from a business for personal use, determine whether the withdrawals were properly accounted for in determining NESE.

PROCEDURES (cont.)

ABD MEDICAID (cont.)

Accept the individual's allegation that withdrawals were deducted on his/her tax return in determining the cost of goods sold or that they were deducted on his business records.

If a withdrawal(s) was deducted, then it was properly accounted for.

FAMILY MEDICAID

Capital Gains

Consider the total proceeds from the sale of capital goods or equipment, less depreciation, as capital gains income.

Add capital gains income to the gross self-employment income.

Business Expense

Deduct from the gross self-employment wages all allowable IRS business deductions claimed on the self-employed individual's federal tax return.
For information on business expenses, refer to
https://www.irs.gov/businesses/small-businesses-self-employed/deducting-business-expenses

NOTE: The following expenses are not allowable deductions for self-employed individuals:

- Payment on the principal of the purchase price of income-producing real estate, equipment, machinery, etc.
- Federal **income** taxes

NOTE: A corporation or partnership can deduct state and local income taxes imposed on the corporation or partnership as business expenses. Various federal, state, local, and foreign taxes directly attributable to a trade or business can be deducted as business expenses. For more information on this, refer to
http://www.irs.gov/publications/p535/ch05.html#d0e3422

- Portions of self-employment taxes. Refer to Line 27 on Form 1040 for portion that is allowable.
- Personal expenses (transportation to and from work, living expenses)

Boarder Income

Deduct actual cost of doing business from the boarder income.

PROCEDURES (cont.)

FAMILY MEDICAID (cont.)

Rental Income

Rental income is budgeted as earned or unearned, depending on the number of hours an individual is engaged in property management.
Consider self-employment income from rental property as follows:

- If the individual is actively involved in property management at least 20 hours per week, count the gross income, less the cost of doing business, as **earned** income

- If the individual is not actively involved in property management at least 20 hours per week count the gross income, less the cost of doing business, as **unearned** income.

Annualized Income

Annualize self-employment income if the following occurs:

- the self-employment income represents a year's support, even if the income is received in a short time period
- the self-employment income accurately reflects the AU's current circumstances.

NOTE: Annualize the self-employment income, even if the AU receives additional income from other sources.

Do not annualize self-employment income if the following occurs:

- the self-employment income is not an accurate reflection of the AU's current circumstances because income has recently increased or decreased

- the self-employment income represents support for only part of the year

- the self-employment income is from a new business in operation for less than one year

To annualize self-employment income, total the gross annual receipts, subtract the cost of doing business and divide by 12.

Non-Annualized Income

Refer to Chart 2415.1, Calculation of Non-Annualized Income, in this section.

PROCEDURES (cont.)

FAMILY MEDICAID (cont.)

Self-Employment Income Budgeting Procedures

Follow the steps below to determine self-employment income for inclusion in the budget. Refer to Chapter 2650, Family Medicaid Budgeting.

Step 1 Add all gross self-employment income.

Step 2 Add any capital gains, less depreciation.

Step 3 Subtract the cost of doing business.

NOTE: For MAGI Medicaid, the salary the client pays themselves out of the business is not considered a business expense and should be included in the income budget.

Step 4 Consider the result as the adjusted gross self-employment income.

Step 5 Calculate other deductions. Refer to Section 2655, Family Medicaid Deductions.

VERIFICATION

ABD and Family Medicaid

Verify gross self-employment earnings and allowable IRS deductions through the use of any of the following:

- federal income tax return
- business records including receipts, bills and invoices
- the A/R’s signed statement if neither of the above are available.

NOTE: Assume that any deductions taken on a tax return or business record is allowable by the Internal Revenue Service.

Document the case record as to why federal income tax returns or business records were not used if the A/R’s statement was accepted as verification.

NOTE: The A/R’s statement of self-employment earnings and allowable deductions is accepted as verification for Pregnant Woman and Newborn COAs unless questionable.

Use Chart 2415.1 to determine treatment of income that is not annualized:

CHART 2415.1
CALCULATION OF NON-ANNUALIZED INCOME - FAMILY MEDICAID

IF THE INCOME	THEN
does not reflect current circumstances (recent increase or decrease in income)	determine the best estimate of current gross income less cost of doing business to be used as the monthly amount budgeted.
is from a new business, i.e., in operation less than one year	average gross income less cost of doing business over the period of operation to determine projected monthly income.
represents support for only part of the year	average gross income less cost of doing business over the number of months the income is intended to cover.
is received monthly	count total gross monthly income less cost of doing business.