

County of San Diego, Health and Human Services Agency (HHS) CalFresh Program Guide

Self-Employment Income

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63-225

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Revision Date:

07/01/2022

Background:

Federal law requires self-employment income to be counted as earned income in the determination of CalFresh benefits.

Purpose:

This section defines what self-employment income is and how it should be calculated. The section is being relocated to the income chapter. It is being revised to incorporate the language for gig-economy contractor income and merge information regarding boarders.

Policy:

Self-employment income is considered earned income and must be determined on a case-by-case basis. Individuals who work and receive an Internal Revenue Services (IRS) form 1099 for their earnings, or files taxes as self-employed, are considered self-employed. Staff must not restrict self-employment to a particular type of employment or limit self-employment to how income taxes are filed. If a customer states they are self-employed, staff must consider them self-employed unless it is questionable. For example, a customer states they are an independent contractor and staff find this questionable, staff should check with the parent company to see if it considers the customer to be self-employed or an employee.

1. **Types of Self-Employment:**

Self-employment income shall include but is not limited to:

Type	Description
Independent Contractor	An individual who provides goods or services to another entity under a specific contract or agreement. The independent contractor is not subject to the control of the entity they are performing the services for. There is no employee/employer relationship.
Gig-Economy Contractor	<p>An independent contractor paid on a per task basis for a job that is usually coordinated in conjunction with an online or application-based tool provided by a third party. Examples include, but are not limited to, UBER, Lyft, Postmates, and DoorDash.</p> <p>Individuals working in the gig-economy often receive payment via direct deposit. The total payment amount deposited may not reflect the gross income amount earned prior to deductions, including various fees charged by a third-party including application fees. Income verification, such as a paystub, physical or electronic earnings statement, or notification of per-gig gross payment, must be requested from the applicant or recipient. For tax filing purposes, gig-economy contractors will receive IRS Form 1099-MISC for total services performed for the year.</p> <p>Note: Healthcare subsidies paid to the gig-economy contractor must be counted in the gross income.</p>

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Rental Property	Owning a property and renting it out when a member of the household (HH) is actively engaged in the management of the property at least an average of 20 hours a week. Refer to section 63-223 on how to treat rental income if a HH member is not actively engaged in managing the property.
Capital Gains	The proceeds from the sale of capital goods or equipment shall be calculated in the same manner as a capital gain is calculated for federal income tax purposes. Note: If the capital gain amounts are obtained from the federal income tax forms, count the entire proceeds of the sale as gross income, even if only 50 percent of the proceeds are taxed for federal income tax purposes.
Farming or Fishing	Farmers and fishermen who anticipate at least \$1,000 in annual gross income are entitled to offset a self-employment farming or fishing loss from other countable income. A loss occurs when the annual net self-employment income is determined to be less than zero. Deduct the loss from any other countable HH income accordingly: 1. Offset farm or fishing self-employment losses first against other self-employment income. 2. Offset any remaining farm or fishing self-employment losses against the total amount of earned and unearned income after the earned income deduction has been applied.
Roomer (Room Rental)	A HH in the business of renting rooms which receives payment for the rental of rooms in the home the HH resides in. The "20 hours a week management" provision does not apply to a room rental. See Section 2 below for determining the cost of doing business for room rental. Note: When two or more HHs split the rent and all members of the HH are listed on the lease, whether one member pays a portion of the rent to the other or to the landlord directly, is a shared living situation not a roomer.
Boarders (Non-Commercial)	Income from boarders includes all direct payments to the HH for the boarder's room and meals. Shelter expenses paid directly by the boarder to an individual outside the HH must not be considered income. See Section 2 below for determining the cost of doing business for a boarder and Section 63-101.8 for more information on boarders.

2. Costs of Producing Self-Employment Income:

All self-employed customers are given a deduction from their gross self-employment income to cover the cost of producing the income. The customer will choose one of the following deduction types:

- Actual business expenses; or
- 40 percent standard deduction

The customer may choose the option that is most advantageous for them. Only one deduction type may be chosen at a time and will be applied to all sources of self-employment. Customers are allowed to change the method of deduction only at recertification or every 6 months.

If the customer chooses actual business expenses, all expenses must be verified. If the customer states they want to use actual business expenses but does not provide verification, allow the 40 percent standard deduction. The following are examples of allowable and non-allowable business expenses:

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Allowable Business Expenses	Non-Allowable Expenses
<ul style="list-style-type: none"> • Costs of goods, supplies, and materials • Livestock, seed, and fertilizer • Work-related clothing • Payments on the principal of the purchase price of income-producing real-estate, capital assets, equipment, and machinery • Business-related vehicle expenses and transportation costs incurred while on the job, including the cost of maintaining the vehicle, mileage, tolls, gasoline, insurance • Advertising costs • Postage • Cost of maintaining a job site, including a room in one's home (allow only the portion used for business as a deduction, calculate in same manner as room rental business expense) • Telephone and electricity costs • Bookkeeping and payroll costs • Employee wages and salaries • Employee taxes • State and local sales tax paid • Professional licenses and/or permits necessary to practice a trade or profession • Insurance premiums on equipment and real estate used in producing income • Taxes on income producing property, business profit taxes, and other mandatory business-related taxes • Third-party fees • Web-based application or platform fees 	<ul style="list-style-type: none"> • Depreciation claimed for tax purposes • Net losses from previous periods • Federal, state, and local income taxes • Money set aside for retirement purposes • Personal expenses not related to the business, such as transportation to and from work, meals, clothing, entertainment, etc. • Wages, salaries, and advances paid to the business owner • Costs of maintaining a business in the individuals place of residence such as rent, utilities, and property taxes are not allowed if the client already receives these shelter and utility deductions in their CalFresh budget • Any expense that exceeds the payment a HH receives from a roomer or boarder for room rental and room and meals

If a customer is self-employed as a day care provider and they choose actual business expenses, the cost of meals provided must be calculated as follows:

Business Expenses	Options
Meals	<ul style="list-style-type: none"> • The current reimbursement amounts used in the Child and Adult Care Food Program (CACFP); or • Standard amount based on estimated per-meal costs

Note: If a customer reports being self-employed and having a child or adult daycare and they receive a reimbursement under CACFP please elevate to CalFresh program.

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If a customer is self-employed renting to roomers or boarders and they choose actual business expenses, the cost of doing business must be calculated as follows:

Business Expenses	Options
Meals	<ul style="list-style-type: none">• The maximum CalFresh allotment for the number of boarders; or• The actual verified separate and identifiable cost of providing meals, if the actual costs are greater than the maximum monthly CalFresh allotment for the number of boarders
Room	<ul style="list-style-type: none">• Square footage of the home; or• Number of rooms

Note: Refer to Room Rental Business Expense Desk Aid for calculations.

References:

CFR 273.11(a), 273.11(b), MPP 63-503.41, ACIN I-03-02, I-73-04, I-37-06, I-73-09, I-84-09(e), I-31-19.

Sunset Date:

This policy will be reviewed for continuance by 07/31/2025

Approval for Release:



Rick Wanne, Director
Self-Sufficiency Services