



Commonwealth of Massachusetts
Executive Office of Health and Human Services
Division of Medical Assistance
600 Washington Street
Boston, MA 02111

Eligibility Operations Memo 99-12
July 1, 1999

TO: MassHealth Eligibility Operations Staff

FROM: Tom DeVouton, Director, MassHealth Enrollment Center Operations

RE: **EARNED INCOME FROM SELF-EMPLOYMENT**

Introduction

The Division uses gross income to determine financial eligibility for MassHealth under Health Care Reform. In the case of self-employment income, there are special rules, described below, for determining gross income. The Division considers gross countable earned income from self-employment as the total amount of business income reported on line 12 of the taxpayer's U.S. tax return. This memo reviews what constitutes countable earned income from self-employment, and outlines how to determine monthly, countable income from self-employment, how to verify self-employment income, and how to code MBRs with the correct self-employment income.

Earned Income from Self-Employment

Earned income from self-employment is the income a person derives from engaging in a trade or a business when he or she works for himself or herself, rather than for others. The self-employed person usually files the Form 1040 (U.S. Individual Income Tax Return) with Schedule C (Profit or Loss from Business) attached to report his or her earnings to the federal government. The Division's regulation at 130 CMR 506.003(A)(2) has recently been clarified to define gross countable earned income for the self-employed as the total amount of **business** income listed on a U.S. individual tax return.

Schedule C

Schedule C is the **federal** tax form attachment that is used by a self-employed person to report his or her net business profit or loss to the federal government. It is usually submitted with Form 1040. Schedule C allows a person to deduct certain business expenses from his or her business revenues resulting in a net profit or loss. The resulting amount appears on line 31 (*Net profit or (loss)*) on Schedule C. This income amount is also recorded on the Form 1040 at line 12.

**Form 1040
Line 12**

Line 12 of Form 1040 is the total business income or (loss) reported on line 31 of each attached Schedule C.

- If an individual owns and operates one business, he or she completes one Schedule C, and reports the net profit or net loss from the Schedule C on line 12 of Form 1040.
- If an individual owns and operates more than one business, he or she completes a separate Schedule C for each business and report the total net profit or net loss from each Schedule C on line 12 of Form 1040.
 1. The federal government allows individuals who own multiple businesses to deduct a business net loss from another business net profit.
 2. The individual reports the resulting amount on line 12 of Form 1040 as either total business income or (loss).
 3. If all businesses owned by an individual operate at a net loss, the individual reports the combined net loss from each Schedule C on line 12 of Form 1040.

Examples

1. A husband and wife file a joint tax return. He owns a flower shop and she owns a photo lab. They each complete a separate Schedule C for their respective businesses. The husband's Schedule C has a business net **profit** of \$10,000 and his wife's Schedule C has a business net **profit** of \$5,000. Their combined annual business income on line 12 of Form 1040 is \$15,000 ($\$10,000 + \$5,000 = \$15,000$).
 2. A husband and wife file a joint tax return. He owns a tailor shop and she owns a gift shop. The husband's Schedule C has a business net **profit** of \$10,000 and his wife's Schedule C has a business net **loss** of \$5,000. Their combined annual business income on line 12 of Form 1040 is \$5,000 ($\$10,000 - \$5,000 = \$5,000$).
 3. A man owns a photo lab and a photo shop. He files a separate Schedule C for each business. The Schedule C for his photo shop has a business net **loss** of \$2,000. The Schedule C for his photo lab has a business net **loss** of \$3,500. His combined annual business loss on line 12 of Form 1040 is -\$5,500 ($-\$2,000 + -\$3,500 = -\$5,500$).
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**Determining
Self-Employment
Income When
There Is One
Business**

To determine monthly, countable, earned income from self-employment when there is one business listed on the MBR, follow the steps below.

Use the individual's most recently filed Form 1040 with Schedule C. The countable self-employment income is the amount listed on line 12 (*Business income (or loss)*) in the *Income* section of Form 1040.

• **If line 12 has business income:**

1. divide the income by 12 to determine the countable, monthly amount; and
2. enter the monthly, countable amount in the "Working" section on page 2 of the MBR, and code it as verified, monthly self-employment.

Example

Roofer Brown is self-employed. He submits his 1998 Form 1040 with Schedule C.

- Mr. Brown's Form 1040, line 12 shows a self-employment business **income** of \$20,000. (See attached sample tax forms: Form 1040 and Schedule C.)
 - \$20,000 divided by 12 months = \$1,666.66. His verified, countable, monthly self-employment income is \$1,666. (See "Working" section on attached page 2 of sample MBR.)
- **If line 12 shows a business loss:**
1. in the "Working" section on page 2 of the MBR:
 - a. enter \$1 (one dollar), and code it as verified, monthly self-employment. *Negative income amounts such as a business loss should not be entered on MA21. Therefore, the \$1 income amount is necessary to make the link between the individual and his or her self-employment on MA21;*
 - b. enter 1 (one) hour, and code it as verified, monthly hours worked; and
 - c. subtract \$1 (one dollar) from any other gross countable income, if any. Code the MBR with the resulting amount; and
 2. include a note explaining that the one dollar and one hour represent a business loss as reported on the individual's U.S. tax return. Also, if applicable, state that \$1 was subtracted from another gross income amount.

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Determining Self-Employment Income When There is One Business
(cont.)

Example

Mary Green is self-employed. She submits her 1998 Form 1040 with Schedule C.

- Ms. Green's Form 1040, line 12 shows a self-employment business loss of \$2,400. Line 7 shows wages of \$7,200. (See sample tax forms: Form 1040 and Schedule C.)
- Her verified, countable, monthly self-employment income is \$1, and her monthly hours worked are 1.
- Her verified, countable, monthly wages are \$599 (\$7,200 divided by 12 = \$600; \$600 - \$1 = \$599). (See "Working" section on attached page 2 of sample MBR.)

Determining Self-Employment Income When There is More Than One Business

To determine monthly, countable, earned income for "each" self-employment listed on the MBR, follow the steps below.

Use the individual's most recently filed Form 1040 with a Schedule C for each business. The Schedule Cs provide the net profit or net loss on line 31 for each business.

- **If both Schedule Cs have a net profit on line 31, the combined net profits should equal the business income listed on line 12 of Form 1040.**
 1. Use the net profit on line 31 of each Schedule C.
 2. Divide each net profit by 12 to determine the countable, monthly income for each business.
 3. Enter the monthly, countable income for each business separately in the "Working" section on page 2 of the MBR, and code both as verified monthly self-employment.

Example: Line 12 of Form 1040 = business income of \$1,500

Business	Schedule C Line 31	Net Profit or Net Loss	Monthly Countable Income Coded on MBR
#1	\$1,000	Profit	\$83 (\$1,000 divided by 12 = \$83.33)
#2	\$500	Profit	\$41 (\$500 divided by 12 = \$41.66)

Determining Self-Employment Income When There is More Than One Business
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- **If one Schedule C has a net loss on line 31 and the other Schedule C has a net profit, the net profit minus the net loss should equal the business income or loss listed on line 12 of Form 1040.**
 1. Use the net loss and net profit on line 31 of each Schedule C.
 2. Subtract the net loss from the net profit.
 3. If the result is a net profit, divide the net profit by 12 to determine the countable, monthly self-employment income for the business with the profit.
 4. For the business with the net loss, enter \$1 and 1 hour in the "Working" section on page 2 of the MBR, and code it as verified monthly self-employment.
 5. For the business with the net profit, subtract \$1 from the monthly, countable income. Enter this amount in the "Working" section on page 2 of the MBR, and code it as verified monthly self-employment.
 6. Include a note to explain the above computations.

Example: Line 12 of Form 1040 = business income of \$5,000

Business	Schedule C Line 31	Net Profit or Net Loss	Monthly Countable Income Coded on MBR
#1	(\$5,000)	Loss	\$1
#2	\$10,000	Profit	\$415 [\$10,000 profit - (\$5,000 loss) = \$5,000 profit divided by 12 = \$416 (\$416 - \$1 = \$415)]

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**Determining
Self-Employment
Income When
There is More
Than One
Business**
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Note: If the result of subtracting the net loss from the net profit is a net loss, code both businesses on the MBR as a business loss.

Example

Business #1 has a net **profit** of \$2,000.

Business #2 has a net **loss** of (\$4,000).

- The \$2,000 profit minus the (\$4,000) loss = a (\$2,000) loss on line 12 of Form 1040.
- In this situation, verified, countable income for each business on the MBR is \$1. See the rules in the next section for coding an MBR when line 12 of Form 1040 shows a business loss.

• **If both Schedule Cs have a net loss on line 31, the net losses should equal the business loss listed on line 12 of Form 1040.**

1. Enter \$1 and 1 hour for each business in the "Working" section on page 2 of the MBR and code both as verified monthly self-employment.
2. Subtract \$2 from other gross countable income, if any.
3. Include a note to explain the above use of the \$1 to represent a business net loss from each business and subtraction of \$2 from another gross income source, if any.

Example: Line 12 of Form 1040 = a business loss of (\$5,000). There is no other income reported on the MBR.

Business	Schedule C Line 31	Net Profit or Net Loss	Monthly Countable Income Coded on MBR
#1	(\$3,000)	Loss	\$1
#2	(\$2,000)	Loss	\$1

**Other Reliable
Evidence of Self-
Employment
Income**

The Division allows the use of other reliable evidence of self-employment income in certain situations, as described below.

- If an individual has not filed a recent tax return, the person may submit a signed accounting of income and expenses from a Certified Public Accountant.
 - If an individual keeps his or her business records without assistance from an accountant, the person may submit his or her current business records. These business records may include Form 1099s, W-2s, and all other relevant documents.
 - If an individual reports that his or her current business records more accurately reflect his or her income from self-employment than does the most recently filed tax returns, the person may submit the business records signed by an accountant.
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**Nonacceptable
Evidence of Self-
Employment
Income**

The Division does not allow the following tax forms as verification of self-employment income.

- The Massachusetts State Income Tax Return with the state's Schedule C.
 - Form 1099-MISC (Miscellaneous Income). This form does not always represent a person's **total** yearly self-employment income (e.g., a consultant may have more than one Form 1099-MISC, with each form representing work for a different business).
 - Form 8453 (U.S. Individual Tax Declaration for Electronic Filing). This form only provides the **total** income amount reported on Forms 1040, 1040A, or 1040EZ, and does not give a breakdown of the income by source.
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Reminder

The following are things to remember when determining self-employment income.

- The most recent tax form is the last tax form the individual filed. The form may be signed or unsigned. The form can be no earlier than the tax form that was due the preceding April 15th. The Division will currently only accept the 1998 U.S. tax return.
 - If an individual is a partner in a partnership or a shareholder in an S corporation, the MEC designee should contact the Policy Hotline for information on how to treat self-employment income from these entities.
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Reminder
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- Rental income reported on line 17 of Form 1040 is not treated as self-employment income. It is considered unearned income in accordance with 130 CMR 506.003(B). Therefore, to determine gross countable rental income, use the total on line 3 of Supplement E.
 - Eligibility workers should:
 1. review the “*Income*” section on the Form 1040 to determine if there is any other countable earned or unearned income (e.g., wages, dividends, interest, alimony, or rental income). If any other income is listed, workers should code the MBR with the specific, countable income for each applicable family group member;
 2. include a note on the MBR to explain any request for additional information, or any reason for accepting other evidence of self-employment in place of the recent U.S. tax return; and
 3. accept Form 1040 as verification of self-employment without the Schedule C attached as long as there is only one self-employment and the business income or loss amount is listed on the Form 1040 at line 12.
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Questions

If you have any questions about these procedures, please contact the MassHealth Policy Hotline at (617) 210-5331 through your MEC designee.
