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## Self-Employment

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### Policy

Income from self-employment minus allowable business expenses is counted as earned income for all programs. When a self-employment business is owned by more than one person, the net income or loss is divided among the partners based on each one's share of the business. Income and expenses for the year are added up and divided by 12 to get a monthly amount.

- E If the self-employment was started during the current calendar year, the income and expenses are added up and divided by the number of months it has been in business to get a monthly amount.

### Expenses

Whether a business expense is allowed or not depends on the program. The following expenses are allowed for all programs:

Cost of stock and inventory;

Cost of operating machinery or equipment;

Rent for the business property;

Taxes on the business property, such as real estate and vehicle taxes;

Mortgage interest, vehicle loan interest, and interest on loans made to the business;

Fire, theft, flood, or similar insurance, liability insurance, and contributions to industrial compensation and unemployment insurance;

Wages paid to employees;

Costs of employee benefits, such as health insurance, dependent care assistance, and life insurance;

Business transportation, such as lease payments, license and registration, vehicle insurance, gas, oil, tires, repair costs, garage rent, tolls, parking;  
 Advertising costs; and  
 Utilities.

Other business expenses allowed for tax purposes are treated differently depending on the MA program. See the table below:

If the program is...	And the expenses are...	Then the expense is...
ALTCS SSI-MAO MSP AHCCCS FTW	<ul style="list-style-type: none"> <li>• Depreciation;</li> <li>• Federal, state, or local income tax payments;</li> <li>• Entertainment expenses;</li> <li>• Personal transportation;</li> <li>• Cost of purchasing capital equipment;</li> </ul>	Not allowed as a deduction from gross self-employment income.
Adult Caretaker Relative Pregnant Woman Child KidsCare	<ul style="list-style-type: none"> <li>• Payments on the principal of loans; and</li> <li>• Carryover of previous year's losses.</li> </ul>	Allowed as a deduction from gross self-employment income.

**Expenses that Exceed Income**

A business may report a net loss for the year. This is when the business' expenses are higher than the income earned. How a loss is treated depends on the MA program:

If the program is...	Then a loss is treated as follows...
ALTCS SSI-MAO	The net income is counted as \$0. The excess expenses are not deducted from the budget group's other income.

MSP FTW	
Adult Caretaker Relative Pregnant Woman Child KidsCare	<p>The prorated amount of the loss is subtracted from the budget group's countable income for the month.</p> <p><b>See &lt;Example of Net Loss for MAGI groups&gt;</b></p> <p><b>NOTE</b> If the remaining income is not enough to cover living expenses, the person must explain how these costs are being met (see MA 607, Expenses Exceed Income).</p>

### Definitions

Term	Definition
Partnership	A self-employment business owned by more than one person.
Self-Employment Income	<p>Income received from working for one's self. It includes income from a person's own business, including:</p> <ul style="list-style-type: none"> <li>• Independent contracting;</li> <li>• Rental income (see MA606.AAA);</li> <li>• Ranching or farming;</li> <li>• Can and bottle recycling;</li> <li>• Blood and plasma sales;</li> <li>• Cleaning;</li> <li>• Wholesale or retail sales; and</li> <li>• Other services like cleaning, accounting and others.</li> </ul>
Schedule C; Profit or Loss from Business	The Schedule C is used to report income or loss from a business or profession the person operates as sole owner.
Schedule E; Supplemental Income and Loss	The Schedule E (Form 1040) is used to report the income or loss from rental real estate, royalties, partnerships, S-corporations, estates, trusts and interests in real estate mortgage investments.

Schedule F; Profit or Loss from Farming	Schedule F (Form 1040) is used to report farm income and expenses.
Schedule K-1	The Schedule K-1 reports each partner's share of business income and expenses. It also states what percent of the business the partner owns.

## Proof

BEFORE REQUESTING ADDITIONAL PROOF, SEE [VERIFYING SELF-EMPLOYMENT INCOME](#) FOR DETAILS ON WHEN SELF-EMPLOYMENT INFORMATION IS CONSIDERED REASONABLY COMPATIBLE.

If the person files taxes and the self-employment income on the most recent tax return is normal and expected to be about the same for the current year, the most recent federal tax return including the Schedule C, Schedule C-EZ, Schedule E, or Schedule F can be used for proof of self-employment income and expenses.

- E If the current tax return shows that the self-employment was not in business for the whole year, it can still be used as proof when it reflects normal, ongoing income for the months it was in business. The income and expenses are divided by the number of months it was in business to get a monthly amount.

If the person does not have a current tax return or the tax return does not reflect what they expect to make for the current year, proof of self-employment income and expenses must be provided for at least the last 90 days. If the self-employment fluctuates from month to month, the person must provide proof for additional months as needed to support their stated annual income. Proof of self-employment income and expenses include the following:

Business bank account statements showing income deposited and business expenses paid. The business expenses must be clearly identified and separated from any personal expense amounts ;

For expenses, receipts, bills and electronic payment histories;

For income, invoices and statements from the source of the income;

Collateral contacts with the self-employed person's customers to confirm income;

Collateral contacts verifying expense amounts.

## Programs and Legal Authorities

This requirement applies to the following programs:

Program	Legal Authorities
ALTCS	42 USC 1382a(a)(1)(B)
SSI-MAO	20 CFR 416.1111(b)
Medicare Savings Program	AAC R9-22-1909
Freedom to Work	
Adult	42 CFR 435.603
Caretaker Relative	42 CFR 457.10, 300, 301 and 315
Pregnant Woman	
Child	
KidsCare	

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