U.S. HUNGER SOLUTIONS

Best Practices for Standard Self-Employment Deduction

SCOPE ■ State

PROGRAM ■ Supplemental Nutrition Assistance Program (SNAP)

PRACTICE ■

States can adopt a simplified method of estimating self-employment costs that are deducted from earned income in the SNAP benefit calculation. Most states establish a flat deduction of gross income, typically between 40 percent and 50 percent.

WHY ■

A standard self-employment deduction is a key way to support low-income working households. SNAP-eligible low-income working households participate in SNAP at lower rates than the total population (75 percent of those eligible versus 85 percent in 2016).[i] Simplified processes can help remedy this.

Self-employed workers incur various business expenses that can be difficult and time-consuming to verify during the SNAP certification process. States have the option of simplifying this process with a standardized deduction — usually as a flat percentage — to streamline the application process and reduce errors. This simplified approach helps ensure that the costs of self-employment are fairly represented in the SNAP calculation.

BACKGROUND ■

In most states, caseworkers must calculate the net self-employment income of SNAP applicants by following complicated accounting rules, which are time-consuming and prone to errors. Specifically, caseworkers must subtract allowable costs of producing self-employment income — such as rent, equipment, license fees, advertising, transportation costs, and bookkeeping expenses — from gross self-employment income. Caseworkers also must understand what kinds of business expenses are not deductible for SNAP, such as depreciation, even though they may be allowed for tax purposes.

As of October 1, 2017, 23 states opted to bypass this complicated process by using an alternative method of determining self-employment expenses, such as a simplified self-employment expense method approved by the U.S. Department of Agriculture, Food and Nutrition Service (USDA-FNS), or the standard amount the state uses for its Temporary Assistance for Needy Families (TANF) program.[ii]

7 CFR 273.11(b)(3) provides two options for states interested in developing a simplified self-employment deduction:

- Use the standard amount the state uses for its TANF program.

- Use an amount approved by USDA-FNS. State agencies using this option must submit a proposal to USDA-FNS for approval showing the simplified self-employment deduction will not increase Program costs.

Most states with a simplified self-employment deduction have elected the first option to align income-counting rules in SNAP and TANF. States with a standard deduction also typically permit self-employed individuals with business costs exceeding the standard deduction to claim actual costs with full documentation.[iii]

SPOTLIGHT

- ***Ohio:*** In 2010, the Ohio Department of Job and Family Services (ODJFS) adopted a 50 percent self-employment standard deduction for both TANF and SNAP. To establish the 50 percent rate, ODJFS staff analyzed caseload data from TANF and SNAP. Among SNAP participants, approximately 4 percent of the caseload (23,000 households) reported self-employment with an average cost of business of 50.14 percent.[iv] Because Ohio revised its SNAP and TANF self-employment policies at the same time, approval from USDA-FNA was not required.
- ***South Dakota:*** In 2007, the South Dakota Department of Social Services requested approval from USDA-FNS to adopt a 55 percent self-employment deduction. To justify the 55 percent rate, South Dakota conducted a detailed analysis of 800 self-employed people in their SNAP caseload, excluding businesses reporting no expenses and those reporting a net loss. The analysis revealed an average expense ratio of 67 percent, which was rounded down to 55 percent after additional adjustments were made to account for businesses that would likely continue to claim actual expenses, and to ensure the proposed method would not increase Program costs. As a quality control measure, applications from self-employed individuals claiming actual business expenses are sent to the SNAP State Office for processing.[v]

TIP

Adopting a simplified self-employment deduction for SNAP based on the state's TANF policy will sometimes require a review of, and possibly revisions to, state TANF rules. Since eligibility workers are often shared between SNAP and TANF, states can develop a unified training and communication plan to inform caseworkers and advocates of the new policies. This communication and training plan can highlight the expected time-savings and reduction in administrative errors.

KEY STEPS

States interested in adopting a simplified self-employment deduction should undertake the following:

- Review the state's TANF policy on how net self-employment income is calculated. If the state TANF policy allows for a simplified self-employment deduction, advocate for this option for SNAP if the self-employment deduction is reasonable.
- If existing policy does not already use a flat percentage to calculate deductible business expenses, consider working with state TANF officials to revise the policy. States may choose to look to neighboring or comparable states for model policies.
- If necessary, review a sample of the SNAP and TANF caseload that reports receiving self-employment income. Consider disregarding self-employed

businesses reporting excessively high or low expenses, as South Dakota did. Calculate the average business expenses for the remaining case sample.

- Formally change the state's SNAP and TANF policy to reflect a reasonable standard expense ratio. The majority of states following this path have established a simplified self-employment deduction between 40 percent and 50 percent of gross income.

CHALLENGES

If a state decides to align its SNAP and TANF policies to create a simplified self-employment deduction, no separate approval from USDA-FNS is necessary. Instead, states will need to review, and possibly revise, their TANF policy for handling self-employment income, which may require a budgetary analysis. States that establish a flat percentage deduction based on the average business costs of self-employed individuals should not see a meaningful change in costs in their TANF program.

For states that wish to implement a simplified self-employment deduction for SNAP only, USDA-FNS approval is required. States taking this approach will need to submit the following information to USDA-FNS:

- A description of the proposed method;
- The number and type of households, and the percentage of caseloads affected; and
- Documentation indicating that the proposed procedure will not increase Program costs.

As with any policy changes, states will need to update application forms and computer systems, as well as provide updated training to caseworkers reflecting the new policy.

LESSONS

A standard self-employment deduction is a common-sense strategy for states to simplify the calculation of net income for SNAP applicants who are self-employed and reduce processing errors. Among the states adopting this policy, the vast majority have found alignment with TANF policy to be the most appropriate.

Anti-hunger advocates in states that have not yet adopted a simplified self-employment deduction can begin a dialogue with state agency leaders about the advantages of a standard self-employment deduction policy. Because states across the country have implemented this policy (including at least one state in every USDA-FNS region besides the Northeast), state agency leaders can easily connect to peer states to learn more about their implementation experiences.

MORE RESOURCES

- ***SNAP State Options Report*** (14th edition), USDA Food and Nutrition Service, May 31, 2018 (see ***page 13*** for states' treatment of self-employment income).
- Ohio's ***Standard Self-Employment Policy*** from June 21, 2010.

RESOURCES TO MAKE YOUR CASE

- ***Easy Choices in Tough Times: Strategies to Help Working Families***, D.C. Hunger Solutions, December 2009.

For technical assistance, contact:
Food Research & Action Center (FRAC)
1200 18th Street, NW
Suite 400
Washington, DC 20036
202.986.2200
http://frac.org/

For more on ending hunger, read FRAC's ***A Plan of Action to End Hunger in America***.

ENDNOTES

[i] U.S. Department of Agriculture, Food and Nutrition Service. (2019). *Reaching Those in Need: Estimates of State SNAP Participation Rates in 2016*. Available at: **https://fns-prod.azureedge.net/sites/default/files/resource-files/Reaching2016.pdf**. Accessed on August 16, 2019.

[ii] U.S. Department of Agriculture, Food and Nutrition Service. (2018). *State Options Report* (14th edition). Available at: **https://fns-prod.azureedge.net/sites/default/files/snap/14-State-Options.pdf**. Accessed on August 19, 2019.

[iii] San Diego County, California. (2016). Households with Self-Employment Income. Available at: **http://hhsa-pg.sdcounty.ca.gov/FoodStamps/63-240/63-240%20Households_with_Special_Circumstances/63-241%20Households%20with%20Self-Employment%20Income.htm**. Accessed on August 19, 2019.

[iv] Ohio Department of Job and Family Services. (2010). Food Assistance Transmittal Letter No. 308: Self-Employment Standard Deduction. Available at: **http://emanuals.jfs.ohio.gov/CashFoodAssist/FACM/FATL/FATL-308.stm**. Accessed on August 19, 2019.

[v] South Dakota Department of Social Services. (2015). *SNAP Policy and Procedure Manual, Section 8701.5: Simplified Self-Employment Calculation Process*. Available at: **https://dss.sd.gov/docs/economicassistance/snap/snapmanual.pdf**. Accessed on August 19, 2019.