

Health Care Finance and Administration	Section: Financial Eligibility Requirements
Policy Manual Number: 110.025	Chapter: ABD Earned Income

## ABD EARNED INCOME

**Legal Authority:** Social Security Act, Sections 1611 and 1612; 20 CFR 416.1100

### 1. Policy Statement

Earned income is compensation an individual receives for the performance of services or as a result of his or her own efforts either as an employee or through self-employment. Income eligibility for the ABD TennCare Medicaid categories is determined using the Supplemental Security Income (SSI) treatment of income rules.

### 2. Earned Income

<b>Bonus</b>	Countable. A bonus is a one-time payment that an individual receives in addition to his or her normal job wages or salary.
<b>Commission</b>	Countable. Commission is income received by an individual for services performed. Commission income often paid based on a percentage of a sale or a fixed amount per sale.
<b>Contractual</b>	Countable. Income paid to an individual based on a contractual agreement. To calculate contractual income, average the full amount of income paid on a contractual basis over the number of months the contract covers.
<b>Differential</b>	Countable. Payment made to an individual by an employer for a period during which he or she is performing service in the uniformed services while on active duty for a period of more than 30 days. Payment represents all or a portion of the wages the individual would have received if he or she was performing services for the employer.
<b>Domestic Volunteer Act</b>	Payments to volunteers from the following programs are excluded: <ul style="list-style-type: none"> <li>• Title II Retired Senior Volunteer Program</li> <li>• Foster Grandparent Program</li> <li>• Title III Service Corps of Retired Executives, Senior Companion Program and Active Corps of Engineers</li> </ul>
<b>Earned Income Tax Credit</b>	Excluded. Earned income tax credit payments received as advance payments or as refunds are excluded.
<b>Farming or Fishing</b>	Farming or fishing income may also be considered self-employment income.

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	<p><b>1. Farming Income</b></p> <p>Countable. An individual is in the business of farming if he or she cultivates, operates or manages a farm for profit, either as owner or tenant. A farm can include livestock, dairy, poultry, fish or fruit. It can also include plantations, ranches, ranges and orchards.</p> <p><b>2. Fishing Income</b></p> <p>Countable. Fishing income includes amounts an individual receives from catching, taking, harvesting, cultivating or farming fish, shellfish, crustacean, sponges, seaweeds or other aquatic forms of animal or vegetable life, as well as money from patronage dividends and fuel tax credits and refunds.</p> <p><b>3. Counting Farming or Fishing Income</b></p> <p><b>a. Income Received on a Regular Business</b></p> <p>If an individual has a federal tax return available to verify the earnings from last year and the business model remains the same, prorate the reported annual profit over 12 months. Count the result as earned income, taking into account any changes for the prorated period.</p> <p>If the individual does not have a federal tax return available from the previous year, determine the monthly income received and any expenses the applicant has paid or expects to pay in that month.</p> <p><b>b. Income Received Annually or Infrequently</b></p> <p>If farming or fishing income is received on an annual or infrequent basis, prorate the annual amount with anticipated changes over 12 months and count the monthly income as earned income.</p> <p><b>4. Verification</b></p> <p>If verification is required for farming or fishing income, request at least one of the following documents:</p> <ul style="list-style-type: none"> <li>• A copy of the agreement executed by the owner and the individual working the farm (the applicant could be either the</li> </ul>
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	<p>owner or tenant); or</p> <ul style="list-style-type: none"> <li>• A copy of the most recent profit or loss statement; or</li> <li>• A copy of the previous year's Federal income tax return.</li> </ul>
<b>Irregular or Infrequent Income</b>	<p>Exclude up to \$30 per calendar quarter of earned income that is received either irregularly or infrequently. In order to be excluded, the income need only be irregular or infrequent.</p> <p>Income is considered to be irregularly received if an individual cannot reasonable expect to receive it. Income is received infrequently if an individual receives it only once during a calendar quarter from a single source and the individual did not receive that type of income in the previous month or in the month following the month in which the money was received. A single source of earned income is an employer, trade or a business.</p> <p>The \$30 deduction from this income type should be documented in case notes.</p>
<b>Older American Act</b>	<p>Title V of the Older Americans Act of 1965 provides part-time jobs for unemployed low-income people age 55 and older who have poor employment prospects. Count only wages and salaries paid to individuals as a result of their participation in a program funded under Title V of the Older Americans Act of 1965 as earned income.</p>
<b>Plan to Achieve Self-Support</b>	<p>Income an individual uses to pursue PASS is excluded. PASS is an agreement between an individual with a disability or blindness and the Social Security Administration (SSA) which allows the individual to set aside income or resources to pursue a work goal. Individuals with PASS plans are SSI recipients.</p>
<b>Royalties and Honoraria</b>	<p>Countable. Royalties are earned income when they are either received as part of a trade or business or received by an individual in connection with any publication of his or her work. Royalties are counted as unearned income in all other situations. For example, an individual may receive payment for the use of a patent or natural resource that he or she owns.</p> <p>Honoraria are payment for services when fees are not legally or traditionally required. Honoraria are counted as earned income. For example, a professional who speaks at a meeting may receive an honorarium for his or her service and time.</p>
<b>Severance</b>	<p>Countable. Severance pay is countable earned income in the month received.</p>

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<b>Sheltered Workshop Earnings</b>	Excluded. Under some circumstances, income earned by enrollees in a nursing facility may be considered therapeutic. These individuals are recognized as having a greater need for a personal income, because of the nature of their activities. Retention of additional income derived from work is considered essential for achieving a degree of independence.
<b>Sick or Disability Pay</b>	Countable. Sick or disability pay is a payment made to or on behalf of an employee by an employer or private third party for sickness or accident disability. Sick or disability pay is counted as earned income when it is received within 6 calendar months after the individual has stopped work. Sick or disability pay received more than 6 months after stopping work is counted as unearned income.
<b>Tips</b>	Exclude the first \$20 of cash tips received in a month. Any amount that exceeds \$20 is countable.
<b>Volunteers In Service To America (VISTA)/AmeriCorps</b>	Volunteers in Service to America under Title I of the Domestic Volunteer Services Act of 1973 (VISTA) payments are excluded.
<b>Wages</b>	<p>Countable. Wages include all payment from employment, and the term is generally defined to mean gross wages. Gross wages are the total amount paid to the individual before deductions.</p> <p>Wages are counted (considered available to the individual) at the earliest of the following:</p> <ul style="list-style-type: none"> <li>• When wages are received or paid; or</li> <li>• When wages are credited to the individual's account; or</li> <li>• When wages are set aside for the individual's use.</li> </ul> <p>Deferred wage payment occurs when wages are paid at a time later than the wages normally would have been paid. If wage payments are deferred due to circumstances beyond the employee's control, consider the payment earned income when it is actually available to him or her. If the wage payment(s) is deferred at the employee's request, determine when the wages would normally have been paid and consider them earned income for that period.</p>
<b>Work Study</b>	Exclude educational income that is directly contingent upon the individual attending an institution of higher education, including work study and stipends.

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<b>Workforce Investment Act (WIA)</b>	Excluded. The Workforce Investment Act (WIA) replaced the Job Training Partnership Act (JPTA). All WIA payments are excluded earned income.
<b>Earned In-Kind Wages</b>	Countable. Non-cash compensation by an individual for work performed in place of, or in addition to, wages, profit or payment in cash. The value of in-kind wages is determined by the current market value of the item(s) minus the amount of the outstanding balance due on the item, if any.
<b>Earned In-kind Food, Earned In-kind Shelter, and Earned In-kind Food and Shelter</b>	<p>Earned in-kind food, clothing, shelter or other items received in lieu of cash wages are countable, unless provided to a person who meets an exception below.</p> <p>Earned in-kind food, clothing, shelter or other items that are considered wages should be entered into the eligibility determination system as Earned In-kind Wages, in order to be counted.</p> <p>Exceptions:</p> <p>In-kind payments of food or shelter to the following people, or under the following conditions, are treated as unearned income:</p> <ul style="list-style-type: none"> <li>• Certain agricultural employees (a farmer provides commodity payments—lodging, food, livestock, grain or milk products—to an employee and the commodity cannot be converted to cash or is equivalent to a cash payment);</li> <li>• Domestic employees;</li> <li>• Service not in the course of the employer’s trade or business;</li> <li>• Service by certain home workers;</li> <li>• Members of the Uniformed Services; and</li> <li>• Provided on the employer’s business premises, for the employer’s convenience, and in the case of shelter received, its acceptance by the employee is a condition of employment.</li> </ul> <p>Payments that meet one of these conditions should be entered into the system as Unearned In-kind Income.</p>
<b>Earned In-Kind Not Food or Shelter</b>	Excluded. This includes clothing that is not considered part of an employee’s wages.
<b>Self-Employment</b>	Net earnings from self-employment are countable. Self-employment is the act of engaging in a trade or business; which is an activity carried on for a livelihood or in good faith to make a profit. Individuals may be

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	<p>contractors, franchise holders, owners, operators, partners, etc. An individual must meet all of the following criteria to be considered self-employed:</p> <ul style="list-style-type: none"> <li>• Earns income directly from the business or trade, not from wages or salary from an employer;</li> <li>• Is responsible for the payment of their entire Social Security and federal withholding taxes;</li> <li>• Does not have an employee/employer relationship with another individual and the services performed cannot be controlled by an employer; and</li> <li>• Should file self-employment tax forms (Schedule F, C, C-EZ, SE ETC).</li> </ul> <p>Net income is the gross income from any trade or business less allowable deductions for that trade or business, Allowable deductions include expenses paid to operate the business or participate in the trade, including:</p> <ul style="list-style-type: none"> <li>• Car and truck expenses;</li> <li>• Depreciation;</li> <li>• Employee wages and fringe benefits;</li> <li>• Property, liability or business interruption insurance;</li> <li>• Interest on loans for your business;</li> <li>• Legal and professional services;</li> <li>• Rent or lease of business property and utilities;</li> <li>• Commissions, taxes, licenses and fees;</li> <li>• Advertising;</li> <li>• Contract labor; and</li> <li>• Repairs and maintenance.</li> </ul> <p>There are different types of business structures referred to as self-employment. Some of the common structures include:</p> <ul style="list-style-type: none"> <li>• Sole Proprietorship: A self-employment business that is not incorporated and has one or two owners. A Limited Liability Company (LLC) is not a sole proprietorship.</li> <li>• Independent Contractor: An individual who pays his or her own employment taxes and does not have an employee/employer relationship is considered self-employed, unless incorporated or an LLC.</li> <li>• Sharecropper: If a sharecropper pays the costs of doing business and receives a portion of the net income in exchange for his or</li> </ul>
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	<p>her labor, he or she is considered self-employed, unless incorporated or an LLC.</p> <p>If an applicant is self-employed and has a partner, the applicant's self-employment net earnings will be based on his or her distributive share from the business.</p> <p><b>Federal Income Tax Return Forms</b></p> <p>1. Net Earnings from Self-Employment (NESE)</p> <p>Self-employed individuals report their Net Earnings from Self-Employment (NESE) on the Schedule SE tax form. Other forms may be used to report income (Schedule C, Schedule F, etc.) but the amount listed on the Schedule SE should be used to verify self-employment earnings, whenever possible. The NESE is the gross income from any trade or business less allowable deduction for that trade or business. NESE also includes any profit or loss in partnership. For the purpose of determining eligibility, count the NESE on a taxable year basis and divide the total of these earnings equally among the months in the taxable year.</p> <p>Verify net earnings from self-employment on Schedule SE. The amount of net earnings from self-employment that should be reported based on a Schedule SE may be found under:</p> <ul style="list-style-type: none"> <li>• Section A, line 4; OR</li> <li>• Section B, line 4.c.</li> </ul> <p>If line 4 or 4.c. show a positive amount of less than \$400, then line 3 is used even if the amount on line 3 is greater than \$400.</p> <p>2. Schedule SE may not be available or usable when:</p> <ul style="list-style-type: none"> <li>• An individual has started a new business and was not self-employed in the prior tax year; or</li> <li>• An individual has applied for or is receiving Title II (Social Security) benefits.</li> </ul> <p>3. Other Tax Forms and Business Records</p> <p>IF an individual does not have a Schedule SE, then other tax forms may be used to determine and verify net self-employment earnings.</p>
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	<p>Other forms include:</p> <ul style="list-style-type: none"> <li>• Schedule F: Used to report income and expense from a farm operation. Net profit or loss is listed on the Schedule F.</li> <li>• Schedule C: Used to report profit or loss from a Sole Proprietor business (general). Net profit or loss is listed on the Schedule C.</li> <li>• Business Records: When a federal income tax return is not available, or the individual has changed, stopped or added to the business, business records may be used to determine net earnings. When business records are used, use the individual's gross income and allow the same deductions that are allowed by the IRS.</li> </ul>
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