



## **Policy Clarification 2021-11-02**

### **Title: Self-Employment Updates**

**Date: 11/30/2021**

**From: Erin Kelley, Senior Manager**

**Program(s) Impacted: All Medical Programs**

The purpose of this document is to provide clarification on how to count self-employment income found on a tax return, tax-filing deadlines, and income from “gig” jobs, such as ride-share and food-delivery services. Related manual references will be updated with the next scheduled revision.

### **Self-Employment via Tax Return**

Previous policies related to self-employment budgeting include [PM2014-01-01](#), [PM2014-11-01](#), [PM2016-05-01](#), and [PC2019-04-01](#). These policy documents all refer to the use of specific line numbers from the 1040 or 1040 Schedule 1 tax forms in budgeting self-employment income; however, as the organization of tax documents is subject to change by the IRS each year, it is here clarified that when budgeting self-employment income using a tax return, the amounts used should be identified based on the name of the line items themselves and are not contingent on the numbering or the form names. The line items below will determine what amounts to budget:

- Business income – Net profit amount from Schedule C or C-EZ
- Rental real estate, partnerships, S-corporations – Total rental real estate amount from Schedule E
- Farm income – Net farm profit from Schedule F
- Capital Gains – Capital Gains amount from the 1040 divided by 12
- Other Gains – Other Gains amount from the 1040 (Schedule 1) divided by 12

### **Tax-Filing Deadlines**

Per PM2014-01-01, the most recent tax return should be used for verification of self-employment, and if it is after April 15<sup>th</sup> and the applicant has not filed their tax return, the prior year’s return may be used as long as they have filed an extension with the IRS (verification of the extension is not required). It is clarified here that the April 15<sup>th</sup> date is contingent on the IRS filing deadline and subject to change accordingly with any IRS extensions.

## “Gig Economy”

Self-employment income is considered income received by an individual’s own business, trade, services or profession (see KFMAM 5330 for self-employment criteria). Similarly, income from contract labor, which requires the employee to absorb expenses in order to maintain employment, is treated as self-employment income and counted the same way (Medical KEESM 6320).

There are times where a reported job will need to be evaluated on case-by-case basis. One such instance is “gig” employment or economy which has grown increasingly popular in recent years. “Gig” economy is recognized by the IRS as an activity where an individual’s earned income is produced by on-demand work, services, or goods. Examples include but are not limited to food delivery services (i.e. Uber Eats, DoorDash, EatStreet and Grubhub), ridesharing services (i.e. Uber or Lyft), selling homemade goods online, freelance work, and other similar professional services.

Because MAGI methodology considers taxable income to determine financial eligibility for MAGI programs and gig income is considered taxable by the IRS, this income must be counted in the eligibility determination and verified accordingly. In most cases, gig employees would be classified by their employers as independent contractors vs. employees. Contractors would not have taxes withheld from their pay and would be responsible for filing their own taxes, either at the end of the year or through other allowable arrangement with the IRS. Other considerations for contract laborers include the following:

- They are subject to self-employment tax
- There is no employer-employee relationship
- The employer does not have the legal right to control the details of how services are performed

We will typically expect this type of employment to fall under self-employment and default to self-employment processing guidelines. In situations where it cannot be clearly ascertained whether the applicant is a contractor or an employee, we would defer to IRS classification for Medicaid/CHIP processing purposes as employers are responsible for making this distinction at the time of hire based on IRS rules.

For questions or concerns related to this document, please contact the KDHE Medical Policy Staff at [kdhe.medicaideligibilitypolicy@ks.gov](mailto:kdhe.medicaideligibilitypolicy@ks.gov).

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