



Self-Employment Income Calculation Policy

April 5, 2019

Gross income is used minus cost of goods sold (not cost of goods in inventory – that is an exempt asset).

Equipment, vehicles, furniture, fixtures, etc. are already exempt from being counted as assets so they are not allowed to also be deducted from income.

Businesses that do not have 2 full prior years of income:

1. Use the tax returns to get gross income earned in the first year of business minus cost of goods sold (if taxes have not been paid, use the Profit and Loss for that year to get gross income minus cost of goods sold). Divide by the number of months the business was operating during that year. Multiply by 12 to get one year of income for the first year.
2. If the business has a full year of income in the second year of operation, use the tax returns to get gross income minus cost of goods sold. This will be the income for the second year.
3. If there is no income for the current year. Average the first and second years.
4. If there is income for the current year, use the Year to Date (YTD) Profit and Loss to get gross income minus cost of goods sold. Divide by the number of months to date in the current year. Multiply by 12 to get one year of income for the current year.
5. Average the current year with the past year(s).
6. If there is only the current year, use the current year number.

Businesses that have 2 full prior years of income:

1. Use tax returns for each of the 2 prior years.
2. Take the gross income minus cost of goods sold for each year.
3. Use the YTD Profit and Loss for the current year. Take the gross income minus cost of goods sold. Divide by the number of months to date in the current year. Multiply by 12 to get one year of income for the current year.
4. Average the current year with the 2 prior years.
5. If there is no income for the current year, do number 1 for 3 prior years and average the 3 prior years.
6. If the third prior year is the first year the business was operating, use the tax returns to get gross income minus cost of goods sold. Divide by the number of months the business was operating in that year. Multiply by 12 to get one full year for the first year in business.

Seasonal Businesses:

1. Use the steps above to get average monthly income. Multiply by 12 to get one full year of income.