

**Workforce Development Division  
Workforce Policy and Service Delivery Branch  
Technical Assistance Bulletin 277**

**Keyword:** Child Care

**Subject:** Determining Net Self-Employment Income Using a Standard Deduction

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This Technical Assistance (TA) Bulletin provides Local Workforce Development Boards (Boards) with information about the use of a standard deduction for determining net self-employment income for Child Care Services customers.

**Background**

Many self-employed individuals with low incomes apply for services under the Child Care Development Fund (CCDF). To determine eligibility for services, Child Care Services eligibility staff must obtain the applicant’s documentation of gross self-employment income and then deduct allowable expenses in order to determine an applicant’s net income from self-employment.

Determining income and expenses for self-employment income can be challenging for eligibility staff who have little knowledge of accounting principles. Additionally, applicants often lack knowledge of allowable self-employment expenses. Compiling and examining numerous expense receipts and other documents can place a burden on the applicant and the eligibility staff.

**Standard Deductions**

Documenting and verifying self-employment expenses present challenges to Child Care Services programs and the families they serve. Boards can choose to develop policies and procedures that allow applicants to take a standard deduction in order to simplify the eligibility determination process for self-employed individuals. The applicant provides documentation of the gross income from self-employment, and eligibility staff deducts a standard percentage to determine the net self-employment amount.

Other states use standard deductions that range from 20 percent to 50 percent of the gross business earnings. The Administration for Children and Families suggests that because of the extreme variations of expenses across different types of businesses, agencies may want to consider establishing separate standard deduction rates based on business structure and type of business activity.<sup>1</sup> However, in practice, no lead state agencies use varied rates based on type of self-employment.

Child Care Services Guide Section D-109.e provides Boards with the flexibility to determine how to use a standard deduction for calculating net self-employment income.

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<sup>1</sup> National Center on Child Care Subsidy Innovation and Accountability, [Self-Employment in CCDF](#)

### Standard Deduction Policies in Other States

Boards that use a standard deduction for determining net self-employment income can use the information in this TA Bulletin to develop local procedures.

### States with Basic Standard Deduction Policies

Three states use a standard deduction and do not allow applicants to itemize self-employment expenses:<sup>2</sup>

State	Standard Deduction
Alabama	40% of gross self-employment income
Delaware	40% of gross self-employment income
Oklahoma	50% of gross self-employment income

### Example of a State Policy for a Basic Standard Deduction

The state of Alabama determines income from self-employment as follows:

“Self-employment Income: Gross receipts, including the value of all goods sold and services rendered, from one’s own business, professional enterprise, or partnership, less a standard business expense deduction of 40% (rounded to the nearest dollar) to cover the cost of operating the business.”<sup>3</sup>

### States with Policies That Allow Itemized Expenses

Several states have policies that define a standard deduction but also allow applicants to itemize and document self-employment expenses if they believe their expenses exceed the standard deduction.<sup>4</sup>

State	Standard Deduction
Idaho	50% of gross self-employment income
Michigan	25% of gross self-employment income
Montana	35% of gross self-employment income
North Carolina	20% of gross self-employment income
North Dakota	25% of gross self-employment income
Oregon	50% of gross self-employment income

### Example of a State Policy for a Basic Standard Deduction

North Carolina has the following policy for determining income from self-employment:

“A standard 20% deduction from gross monthly receipts to allow for expenses associated with employment must be provided for all self-employed parents who do not receive FNS [Food and Nutrition Services]. If the parent requests an expense deduction greater than the standard 20%,

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<sup>2</sup> National Center on Child Care Subsidy Innovation and Accountability, [Table of State Self-Employment Policies](#)

<sup>3</sup> Alabama Department of Human Resources, [Child Care and Development Fund for Alabama](#)

<sup>4</sup> National Center on Child Care Subsidy Innovation and Accountability, [Table of State Self-Employment Policies](#)

the parent must provide documentation and follow subsidy policy for determining operational expense.”<sup>5</sup>

Attachment 1, Self-Employment Income and Expense Statement, provides an example of a customer intake form for determining income from self-employment.

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<sup>5</sup> North Carolina Department of Health and Human Services. [North Carolina Integrated Eligibility Manual, §4080.16 Allowable Self Employment Business Expenses](#)