

**MISSISSIPPI DIVISION OF MEDICAID**  
**Eligibility Policy and Procedures Manual**

**200.09.08     NET EARNINGS FROM SELF EMPLOYMENT (NESE)**

NESE is the gross income from any trade or business, less allowable deductions for that trade or business. NESE also includes any profit or loss in a partnership. NESE is determined on an annual basis. The chart below indicates the steps and procedures to determine NESE.

STEPS	PROCEDURE
Determine monthly NESE	<p>Divide the entire taxable year’s NESE equally among the number of months in the taxable year, even if the business:</p> <p style="padding-left: 40px;">Is seasonal  starts during the year  Ceases operation before the end of the taxable year; or  Ceases operation before initial application.</p>
Offset net losses	<p>Any <b>verified</b> net losses from self-employment are divided in the same way as net earnings. Then each month’s net loss is deducted from any other earned income of the individual or spouse in that month. Apply this procedure whether a couple filed jointly or separately and regardless of which member of the couples below incurred the loss:</p> <p style="padding-left: 40px;">An eligible couple  An eligible individual with an ineligible spouse  Two parents</p>
Apply the 7.65% deduction	<p>This deduction recognizes part of the Social Security taxes paid as a business expense. If Social Security taxes are not paid (i.e., when NESE is less than \$400, there is a net loss or when no tax return is filed), the deduction does not apply.</p> <p>When Social Security taxes were paid on NESE, multiply net profit by .9235 to determine countable NESE.</p>

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STEPS	PROCEDURE
Include the distributive share for partnerships	Any distributive share (whether distributed or not) of income or loss from a trade or business carried on by a partnership is included in NESE.
Allow Work Expenses	If an individual is self-employed (whether or not he is also a wage earner), reduce his earned income by any allowable work expenses that have not already been used to compute NESE.
Withdrawals for personal use	<p>When a person alleges (or it is discovered) that cash or in-kind items are withdrawn from a business for personal use:</p> <p style="padding-left: 40px;">Ask the person whether the withdrawals were properly accounted for, e.g., were either deducted on the person's federal income tax return in determining cost of goods sold or the cost of expenses incurred, or deducted on his business records.</p> <p style="padding-left: 40px;">Accept the person's allegation of whether the withdrawals were properly accounted for.</p> <p>If the withdrawals were properly accounted for, do not count them again as income. If the withdrawals were not properly accounted for, and</p> <p style="padding-left: 40px;">The person can estimate the value of the withdrawals, deduct that amount from the cost of goods sold or costs of expenses incurred on the profit and loss statement to arrive at proper NESE.</p> <p style="padding-left: 40px;">The person cannot or will not provide the profit and loss statement, but alleges an amount of NESE, add the value of the withdrawals to the person's allegation of NESE.</p>

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**200.09.08A VERIFICATION OF NESE**

Verify NESE whenever an individual is self-employed or has been self-employed during the current taxable year by obtaining the most recent federal income tax return filed with IRS. If the business is new, use the individual’s business records or the best estimate available.

The following schedules from the federal income tax return can be used to determine NESE:

Schedule	Section or Line
<b>Schedule SE</b>	<b>Net Earnings:</b> Section A, Line 4 or Section B, Line 4.C  NOTE: If line 4 or 4.C shows a positive amount of less than \$400, then line 3 is used, even if the amount of line 3 is greater than \$400. For example, line 3 shows \$410 and line 4/4.C shows \$378. Line 3 should be used because no tax was due.
	<b>Net Loss:</b> Section A, Line 3 or Section B, Line 4.C
<b>Schedule C</b>	Line entitled “Net Profit or Loss”
<b>Schedule C-EZ</b>	Line entitled “Net Profit”
<b>Schedule F</b>	Line entitled “Net Profit or Loss”

**200.09.08B ESTIMATING NESE FOR THE CURRENT TAXABLE YEAR**

Use the first of the following methods in the sequence below, which is applicable:

SITUATION	METHOD
<p>When an individual:</p> <ul style="list-style-type: none"> <li>Has been conducting the same trade or business for several years;</li> <li>Has had NESE which has been fairly constant from year-to-year; and</li> <li>Anticipates no changes or gives no satisfactory explanation of why current NESE would be substantially lower than past NESE</li> </ul>	<p><b>Current Year’s Estimate Based on Prior Year’s Profit</b></p> <p>Use the NESE from the prior year as an estimate for the current taxable year.</p>

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**ESTIMATING NESE FOR THE CURRENT TAXABLE YEAR (Continued)**

SITUATION	METHOD
<p>When an individual:</p> <p style="padding-left: 40px;">Is engaged in the same business he had only in the <b>preceding</b> taxable year; and</p> <p style="padding-left: 40px;">Anticipates no change or gives no satisfactory explanation of why current NESE would be substantially different from what it has been in the past</p> <p><b>Exception:</b> Do not use this method for businesses which are seasonal or have unusual income peaks at certain times of the year, go to the next applicable procedure.</p>	<p><b>Gross-Net Ratio:</b></p> <p>Calculate from the individual’s tax return or business records the ratio between net profit and gross receipt for the last year.</p> <p style="padding-left: 40px;"><b>Example:</b> Net profit of \$1200 for \$6000 gross income or 20%</p> <p>Calculate from his records the actual gross receipts for the current taxable year and project it for the remainder of the year.</p> <p style="padding-left: 40px;"><b>Example:</b> \$4000 in current year’s receipts for the first 6 months gives an assumed gross of \$8000 for the entire year.</p> <p>Apply the previously calculated gross-net ratio to the current year’s assumed gross to arrive at the estimate NESE.</p> <p style="padding-left: 40px;"><b>Example:</b> 20% of \$8000 results in an estimated net profit of \$1600</p>
<p>When an individual is engaged in a new business</p> <p><b>Exception:</b> Do not use this method for businesses which are seasonal or have unusual income peaks at certain times of the year, go to the next applicable procedure.</p>	<p><b>Projecting Partial Year’s Profit for Whole Year</b></p> <p>Obtain the profit and loss statement or other business records for the taxable year to date</p> <p>Ascertain net profit to date and</p> <p>Project that net profit for the entire taxable year.</p>

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**ESTIMATING NESE FOR THE CURRENT TAXABLE YEAR (Continued)**

SITUATION	METHOD
<p>When an individual:</p> <p style="padding-left: 40px;">Is engaged in a new business and records are not yet available; or</p> <p style="padding-left: 40px;">The business has been going on for some time, but no records were kept.</p>	<p><b>Individual’s Estimate:</b></p> <p>Obtain a signed allegation of the individual’s best estimate.</p>
<p>When an individual:</p> <p style="padding-left: 40px;">Alleges his NESE for the current year will vary from NESE for past years; and</p> <p style="padding-left: 40px;">Gives a satisfactory explanation for the variation (and provides relevant documentation if NESE is lower).</p> <p><b>NOTE:</b> In some cases, such as a downturn in the economy, they may not be any documentation of the event. In such cases, the individual’s written statement for the variation is sufficient documentation.</p>	<p><b>Current Year’s Estimate Varies from Past Records</b></p> <p>Obtain a written statement from the individual explaining the basis for the NESE variation.</p> <p>If the individual’s estimate of NESE for the current year is higher than that of the prior years, and the individual satisfactorily explains why, accept the individual’s estimate of NESE.</p> <p><b>Example:</b> Individual recently added new products to his mail order sales catalog and sales have dramatically increased.</p> <p>If the individual’s estimate of NESE for the current year is lower than that of prior years and the individual’s explanation explains why satisfactorily, request any relevant documentation for the file and accept the lower estimate.</p> <p><b>Example:</b> The business suffered a heavy loss or damage due to fire, flood, burglary, serious illness or disability of the owner or other catastrophic event. Relevant documentation would be copies of newspaper accounts, police reports, etc.</p>