

MISSISSIPPI DIVISION OF MEDICAID
Eligibility Policy and Procedures Manual

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
Schedule SE	Net Earnings: 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.
	Net Loss: Section A, Line 3 or Section B, Line 4.C
Schedule C	Line entitled “Net Profit or Loss”
Schedule C-EZ	Line entitled “Net Profit”
Schedule F	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"> Has been conducting the same trade or business for several years; Has had NESE which has been fairly constant from year-to-year; and Anticipates no changes or gives no satisfactory explanation of why current NESE would be substantially lower than past NESE 	<p>Current Year’s Estimate Based on Prior Year’s Profit</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 preceding 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>Exception: 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>Gross-Net Ratio:</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;">Example: 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;">Example: \$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;">Example: 20% of \$8000 results in an estimated net profit of \$1600</p>
<p>When an individual is engaged in a new business</p> <p>Exception: 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>Projecting Partial Year’s Profit for Whole Year</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>Individual’s Estimate:</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>NOTE: 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>Current Year’s Estimate Varies from Past Records</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>Example: 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>Example: 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>