

**NORTH DAKOTA DEPARTMENT OF HUMAN SERVICES  
BISMARCK, NORTH DAKOTA**

January 31, 2013

**IM 5161**

**TO:** County Social Service Directors  
Economic Assistance Policy Regional Representatives  
Economic Assistance Policy Quality Control Reviewers

**FROM:** Carol Cartledge, Director, Economic Assistance Policy

**SUBJECT:** 2012 Self-Employment Income Tax Guidelines

**PROGRAMS:** SNAP

**RETENTION:** Until Manualized

Attached are the 2012 income tax guidelines, sample tax forms, and an anticipated income self-employment worksheet that may be helpful when income tax forms are not used. Also attached is the electronic version in Excel of the self-employment worksheets. Instructions are included as part of the worksheets.

**SNAP**

Self-Employment Income Tax Guidelines – 430-05-30-55-40

**Policy Changes Effective when Using 2012 Income Tax Guidelines**

- 430-05-30-55-15 – Treatment of Expenses, the rates to be used for the Child and Adult Care Food Program reimbursement rates have been updated as follows. These rates are effective when calculating self-employment income based on the 2012 income tax guidelines.

Breakfast	\$1.27
Lunch	\$2.38
Supper	\$2.38
Snacks	\$0.71

## 2012 INCOME TAX GUIDELINE

### I. GROSS INCOME - FARMS (use Schedule F)

- \_\_\_\_\_ Line 34 (net farm profit or loss).
- \_\_\_\_\_ Line 3b (taxable amount of cooperative distributions).
- \_\_\_\_\_ Line 4b (any taxable disaster payments included in this figure). 1/
- \_\_\_\_\_ Minus line 6b (taxable 2012 crop insurance proceeds and certain disaster payments). 1/
- \_\_\_\_\_ Minus line 6d (2011 deferred crop insurance proceeds and certain disaster payments). 1/
- \_\_\_\_\_ **Minus federal gas tax credit - 2011 IRS Form 1040, Line 71, if block b checked or State gas tax refund from 2010 North Dakota tax forms. (See 1/ below.)**
- + \_\_\_\_\_ Plus line 14 (depreciation).
- + \_\_\_\_\_ Plus non-allowable costs of doing business on line 32. 2/
- + \_\_\_\_\_ Plus non-allowable utility costs on line 30. 3/
- + \_\_\_\_\_ Plus non-allowable shelter costs on lines 20, 21a and 29. 4/
- + \_\_\_\_\_ Plus anticipated crop income. 5/
- + \_\_\_\_\_ Plus the difference between line 4a and line 4b. 6/
- \_\_\_\_\_ Payments on the principal of the purchase price of income producing real estate and capital assets, equipment, machinery and other durable goods. 7/
- = \_\_\_\_\_ Total Net Income (enter minus figure as appropriate). 8/

#### Notes:

- 1/ Crop insurance proceeds and state gas tax refunds are treated as lump-sum payments (430-05-30-55-30) when received. Federal gas tax credits are identifiable from line 71 (with Block b checked) of Form 1040 **for 2011**. State gas tax refunds are identifiable from line 6 of North Dakota Tax Department Form R 11, Motor Vehicle Fuel Tax Claim For Refund, **for 2010**. Federal drought assistance payments are asset and income exempt. Payments paid as a result of an emergency or major disaster are excluded by federal law (430-05-50-30).
- 2/ If any non-allowable costs of doing business (430-05-30-55-15) are included in line 32 of Schedule F, they are added back into the income on this line.
- 3/ If utility costs from line 30 of Schedule F are not separately metered from home utility costs, allow the appropriate mandatory utility standard for the household's residence and allow the total utility costs minus the appropriate mandatory utility standard as a self-employment cost of doing business (430-05-30-55-15).
- 4/ If shelter costs from lines 20, 21a and 29 of Schedule F are not separately identified or cannot be prorated, the rent/mortgage, insurance, taxes and interest are added back into the farm income on this line (430-05-30-55-15).
- 5/ This line is used only if line 6b of Schedule F contains an entry. If so, determine the amount of crop income anticipated by the farmer from the land on which a crop loss was incurred in 2012 and enter that amount on this line.

- 6/ Use this line only if line 4a is greater than line 4b. If so, subtract line 4b from line 4a and enter the difference.
- 7/ Verification of the principal amount must be obtained from a source such as the sales contract that states the amount of the monthly/yearly payments on the purchase price of income producing real estate and capital asset, equipment, machinery and other durable goods. The principal portion is not shown on the tax forms as it is not a deductible expense for income tax purposes (430-05-30-55-15).
- 8/ If this line is a minus figure and the applicant meets the definition of a farmer or rancher at 430-05-30-55-10 and the household has other income, farm loss offset procedures at 430-05-30-55-25 may apply.

**II. GROSS INCOME - OTHER SELF-EMPLOYMENT (use Schedule C)**

_____	C, line 29, tentative profit (loss).
+ _____	Plus C, line 12 (depletion).
+ _____	Plus C, line 13 (depreciation).
+ _____	Plus C-EZ, line 3 (net profit).
+ _____	Plus non-allowable costs of doing business on C, line 27a. <u>1/</u>
+ _____	Plus non-allowable utility costs on line 25. <u>2/</u>
+ _____	Plus non-allowable shelter costs on lines 15, 16a and 23. <u>3/</u>
- _____	Payments on the principal of the purchase price of income producing real estate and capital assets, equipment, machinery and other durable goods. <u>4/</u>
= _____	Total Net Income. <u>5/</u>

**Notes:**

- 1/ If any non-allowable costs of doing business (430-05-30-55-15) are included in line 27a of Schedule C, they are added back into other self-employment income on this line. Schedule C, Part V, details "Other Expenses" shown on line 27a. Also enter Schedule C-EZ non-allowable costs of doing business on this line.
- 2/ If utility costs from line 25 of Schedule C are not separately metered from home utility costs, allow the appropriate mandatory utility standard for the household's residence and allow the total utility costs minus the appropriate mandatory utility standard as a self-employment cost of doing business (430-05-30-55-15).
- 3/ If shelter costs from lines 15, 16a and 23 of Schedule C are not separately identified or cannot be prorated, the rent/mortgage, insurance, taxes and interest are added back into the farm income on this line (430-05-30-55-15).
- 4/ Verification of the principal amount must be obtained from a source such as the sales contract that states the amount of the monthly/yearly payments on the purchase price of income producing real estate and capital assets, equipment, machinery and other durable goods. The principal portion is not shown on the tax forms as it is not a deductible expense for income tax purposes (430-05-30-55-15).
- 5/ If the total net income is a minus figure, enter the minus figure only if the "other self-employment" loss is being used to offset other self-employment income. Otherwise, enter zero.

**III. OTHER INCOME** (use Schedule E, Forms 4835, 1065, and 1040)

\_\_\_\_\_ Schedule E, Part I, line 26 (total rental real estate and royalty income or loss).

- \_\_\_\_\_ Minus Schedule E, Part I, line 23b, royalties

+ \_\_\_\_\_ Plus Schedule E, Part I, line 18, depreciation or depletion, total of columns A, B and C.

+ \_\_\_\_\_ Plus Schedule E, Part II, line 32 (total partnership income or subtract if loss).

+ \_\_\_\_\_ Plus Schedule E, Part III, line 37 (total estate and trust income or subtract if loss).

+ \_\_\_\_\_ Plus Schedule E, Part V, line 40 (net farm income or subtract if loss).

+ \_\_\_\_\_ Plus Form 4835, line 12 (depreciation). 1/

+ \_\_\_\_\_ Plus Form 4835, line 30, non-allowable costs of doing business. 2/

+ \_\_\_\_\_ Plus Form 4835, line 28, non-allowable utility costs. 3/

+ \_\_\_\_\_ Plus Form 4835, line 18, 19a and 27, non-allowable shelter costs. 4/

+ \_\_\_\_\_ Plus Form 1065, line 16(c) times applicant's share of the partnership (depreciation). 5/

+ \_\_\_\_\_ Plus Form 1065, line 17 times applicant's share of the partnership (depletion). 5/

+ \_\_\_\_\_ Plus Form 1065, line 20, non-allowable costs of doing business times the applicant's share of the partnership. 6/

+ \_\_\_\_\_ Plus Form 1065, line 20, non-allowable utility costs. 7/

+ \_\_\_\_\_ Plus Form 1040, line 21 (other income). 8/

= \_\_\_\_\_ Total Net Income (enter minus figure if appropriate). 9/

**Notes:**

- 1/ Use this line only if Schedule E, Part V, line 40, contains an entry.
- 2/ Use this line only if Schedule E, Part V, line 40 contains an entry. If line 30 of Form 4835 contains any non-allowable costs of doing business (430-05-30-55-15), add them back into the partnership income on this line.
- 3/ If utility costs from line 28 of Form 4835 are not separately metered from home utility costs, allow the appropriate mandatory utility standard for the household's residence and allow the total utility costs minus the appropriate mandatory utility standard as a self-employment cost of doing business (430-05-30-55-15).
- 4/ If shelter costs from lines 18, 19a and 27 of Form 4835 are not separately identified or cannot be prorated, the rent/mortgage, insurance, taxes and interest are added back into the farm income on this line (430-05-30-55-15).
- 5/ Use this line only if Schedule E, Part II, line 32 contains an entry.
- 6/ Use this line only if Schedule E, Part II, line 32 contains an entry. If line 20 of Form 1065 contains any non-allowable costs of doing business (430-05-30-55-15), add them back into the partnership income on this line.

- 7/ If utility costs from line 20 of Form 1065 are not separately metered from home utility costs, allow the appropriate mandatory utility standard for the household's residence and allow the total utility costs minus the appropriate mandatory utility standard as a self-employment cost of doing business (430-05-30-55-15).
- 8/ If line 21 of Form 1040 contains a carry-over loss (NOL) from prior years, do not enter the NOL.
- 9/ If this line is a minus figure and the applicant's rental or partnership income is from farming or ranching (when the applicant receives or anticipates to receive \$1,000 or more from the business), and the household has other income, farm loss offset procedures at 430-05-30-55-25 may apply.

**IV. INCOME FROM SALE OF CAPITAL ITEMS** (use Forms 4797 & 1040)

If this is an initial application and the applicant was not a participant during the year for which income taxes were filed, use only that income from the sale of capital items that can be reasonably anticipated to recur during the current year.

\_\_\_\_\_ Form 1040, line 13 (capital gain or loss). 1/

- \_\_\_\_\_ Minus Form 4797, line 4 gain from installment sale.

+ \_\_\_\_\_ Plus Form 4797, Part II, line 17(g) - only if a **gain** is shown. 2/

- \_\_\_\_\_ Minus Form 4797, Part II, line 17(g) - only if a **loss** is shown.

= \_\_\_\_\_ Total Net Income (enter a minus figure if appropriate). 3/

**Notes:**

- 1/ If Form 1040, line 13 contains an entry and Form 4797, Part I, line 2, column (e) contains one or more entries, subtract the total of column (e) entries from the 4797, line 9 entry, and enter the total on this line (in place of the 1040, line 13 entry).
- 2/ If Form 4797, Part II, line 17(g) contains a positive entry and line 12(g) also contains a positive entry, use the following computation and enter the total of that computation in place of the Part II, line 17(g) entry.

\_\_\_\_\_ Form 4797, the total of all gains shown in column (g) of lines 10 through 16.

- \_\_\_\_\_ Minus Part II, line 13(g).

- \_\_\_\_\_ Minus Part II, column 10(e), all lines.

+ \_\_\_\_\_ Plus Part III, line 20, all columns.

- \_\_\_\_\_ Minus Part III, line 21, all columns.

= \_\_\_\_\_ Total

- 3/ Policy at 430-05-30-55-10 describes the treatment of proceeds from the sale of land as a non-recurring lump-sum payment when they are received in a single payment rather than in installments.

As per that policy, if Form 4797, Part I, line 2 contains an entry because of a land sale in 2010 in which total proceeds were received in a single payment rather than in installments, any gain shown in column (g) of that entry should be subtracted from "Total Net Income" (or any loss shown in column (g) of that entry added to "Total Net Income"), and the adjusted total used in Section VI, INCOME COMPUTATION.

**V. ROYALTY INCOME** (use Schedule E)

= \_\_\_\_\_ Part I, line 23b, royalties

**VI. PATRONAGE DIVIDENDS** (use Schedule F)

= \_\_\_\_\_ Part I, line 3b.

## VII. INCOME COMPUTATION

### A. Earned Income

Use this computation only if a household actively participated in the self-employment for 20 hours or more per week.

1. \_\_\_\_\_ Enter the total shown for Part I – Gross Income Farms. 1/
- 2.+ \_\_\_\_\_ Add the total shown for Part II – Gross Income Other SE.
- 3.+ \_\_\_\_\_ Add the total shown for Part III – Other Income.
- 4.+ \_\_\_\_\_ Add the total shown for Part IV – Income from Sale of Capital Items.
- 5.= \_\_\_\_\_ Total. 2/
- 6.÷ \_\_\_\_\_ Divide the total of #5 by 12 to arrive at monthly earned income.

#### Notes:

- 1/ If the household is actively engaged in farming 20 hours or more per week and has income from CRP, the CRP income included in Part I will also be considered earned income.
- 2/ If this figure is a minus figure and the applicant meets the definition of a farmer or rancher at 430-05-30-55-10 and the household has other income, farm loss offset procedures at 430-05-30-55-25 apply.

### B. Unearned Income

Use this computation only if a household spends less than 20 hours per week in the self-employment.

1. \_\_\_\_\_ Enter the total shown for Part I – Gross Income Farms. 1/
- 2.+ \_\_\_\_\_ Add the total shown for Part II – Gross Income Other SE.
- 3.+ \_\_\_\_\_ Add the total shown for Part III – Other Income.
- 4.+ \_\_\_\_\_ Add the total shown for Part IV – Income from Sale of Capital Items.
- 5.+ \_\_\_\_\_ Add the total shown for Part V – Royalty Income.
- 6.+ \_\_\_\_\_ Add the total shown for Part VI – Patronage Dividends.
- 7.= \_\_\_\_\_ Total. 2/
- 8.÷ \_\_\_\_\_ Divide the total of #7 by 12 to arrive at monthly unearned income.

#### Notes:

- 1/ If the household is not actively engaged in farming 20 hours or more per week and has income from CRP, the CRP income included in Part I will be considered unearned income.
- 2/ If this figure is a minus figure and the applicant's rental or partnership income is from farming or ranching (when the applicant receives or anticipates to receive \$1,000 or more from that business), and the household has other income, farm loss offset procedures at 430-05-30-55-25 apply.

## ANTICIPATED SELF-EMPLOYMENT WORKSHEET 2012

### I. GROSS INCOME

1. \_\_\_\_\_ Sale of livestock and other items purchased for resale.
2. + \_\_\_\_\_ Sale of depreciable goods or equipment.
3. + \_\_\_\_\_ Sale of non-depreciable assets.
4. + \_\_\_\_\_ Sale of livestock raised.
5. + \_\_\_\_\_ Sale of produce raised.
6. + \_\_\_\_\_ Sale of grain raised.
7. + \_\_\_\_\_ Sale of other products raised (milk, eggs, etc.).
8. + \_\_\_\_\_ Cash distributions from cooperatives.
9. + \_\_\_\_\_ Agricultural program payments.
10. + \_\_\_\_\_ Commodity credit loans.
11. + \_\_\_\_\_ Machine work.
12. + \_\_\_\_\_ Rental income.
13. \_\_\_\_\_ Other self-employment income (specify).  
+a. \_\_\_\_\_.  
+b. \_\_\_\_\_.  
+c. \_\_\_\_\_.

### II. INCOME DEDUCTIONS

1. \_\_\_\_\_ Cost of livestock and other items purchased for resale.
2. + \_\_\_\_\_ Cost or other basis of depreciable goods or equipment sold.
3. + \_\_\_\_\_ Cost or other basis of non-depreciable assets sold.
4. + \_\_\_\_\_ Sales costs.
5. + \_\_\_\_\_ Breeding fees.
6. + \_\_\_\_\_ Chemicals and fertilizer.
7. + \_\_\_\_\_ Feed purchased.
8. + \_\_\_\_\_ Seed purchased.
9. + \_\_\_\_\_ Freight, trucking.
10. + \_\_\_\_\_ Gasoline, fuel, oil.
11. + \_\_\_\_\_ Insurance (include only business related insurance).
12. + \_\_\_\_\_ Labor hired (do not include wages or salaries paid to members of the household).
13. + \_\_\_\_\_ Conservation expenses and land clearing.
14. \_\_\_\_\_ Machine hire.

15. + \_\_\_\_\_ Interest paid (do not include non-business related loans).
16. + \_\_\_\_\_ Rent of farm or pasture.
17. + \_\_\_\_\_ Repairs, maintenance.
18. + \_\_\_\_\_ Storage, warehousing.
19. + \_\_\_\_\_ Supplies purchased.
20. + \_\_\_\_\_ Taxes on income producing property.
21. + \_\_\_\_\_ Utilities (do not include utilities paid on the home).
22. + \_\_\_\_\_ Veterinary fees, medicine.
23. + \_\_\_\_\_ Payments on the principal of the purchase price of income producing real estate and capital assets, equipment, machinery and other durable goods.
24. \_\_\_\_\_ Other expenses (specify).
- +a. \_\_\_\_\_ .
- +b. \_\_\_\_\_ .
- +c. \_\_\_\_\_ .
- +d. \_\_\_\_\_ .
- = \_\_\_\_\_ TOTAL DEDUCTIONS

**III. ROYALTY INCOME**

\_\_\_\_\_ Enter royalty income.

**IV. PATRONAGE DIVIDENDS**

\_\_\_\_\_ Enter patronage dividends.

**V. INCOME COMPUTATION**

A. Earned and Unearned Income.

1. \_\_\_\_\_ Enter total shown for Part I.
2. - \_\_\_\_\_ Subtract total shown for Part II.
3. = \_\_\_\_\_ Total.
4. ÷ \_\_\_\_\_ Divide the total of #3 by 12 to arrive at monthly income.

Use the amount shown in #4 above as earned income if the household actively participated in the self-employment for 20 hours or more per week. Use as unearned income if the household spends less than 20 hours per week participating in the self-employment.



B. Other Unearned Income.

Unearned income from this subsection is counted in addition to earned or unearned income in A above.

1. \_\_\_\_\_ Enter Royalty Income from Part III.
2. + \_\_\_\_\_ Enter Patronage Dividends from Part IV.
3. ÷ \_\_\_\_\_ Divide total by 12 to arrive at other monthly unearned income.