

**DATE ISSUED:** April 14, 2015

**TO:** Ramsey County DWP/MFIP Employment Services Providers

**FROM:** Kate Probert Fagundes – MFIP/DWP Employment Services Division Manager

**SUBJECT:** Self-Employment and Small Business Plan Policy

**PURPOSE:** To communicate DHS guidelines to be followed by Employment Counselors (EC) of Ramsey County Workforce Solutions and its MFIP Employment Service (ES) providers in assisting participants develop Self-Employment Plans that will increase earned income to a level that will allow the family to exit MFIP.

**BACKGROUND:**

Per the MFIP/DWP Manual and Ramsey County’s vision, all participants should be encouraged to look for employment that will lead to their family’s well-being and economic stability. Participants with an approved MFIP Employment Plan (EP) that includes self-employment must meet the same goals. The plan must show their pathway to economic stability through their engagement and successful development of the business. Only the hours the participant earns the federal minimum wage count toward participation requirements. However, hours the participant engages in developing a business plan and actively working toward success in building a vision for the business count towards overall engagement and success of the family. The number of self-employment hours is determined by dividing the net self-employment income by the federal minimum wage. The employment plan needs to include activities that lead to engagement, education, employment and employment retention.

**MFIP Manual SELF-EMPLOYMENT definition:** Employment where people work for themselves rather than an employer, are responsible for their own work schedule, do not have taxes or FICA withheld by an employer, and do not have coverage under an employer's liability or Workers' Compensation Insurance. Self-employment may be included in the Employment Plan contingent on development of a business plan.

**Self-Employment** typically fits the Minnesota DEED definition of Sole Proprietorship: “The business is owned and controlled by one individual. This person alone receives the profits and bears losses from the business, and this person alone is responsible for the debts and obligations of the business. Income and expenses of the business are reported on the proprietor’s individual income tax return, and profits are taxed at the proprietor’s individual income tax rate. If a husband and wife wish to own a business together, they must either form a partnership, corporation, or limited liability company (in order to have each of them as an owner of the business) or a sole proprietorship (in which case only one of them will be the owner of the business). Sole proprietorship is the simplest form of business organization.

<http://mn.gov/deed/newscenter/publications/guidebooks/biz-guidebooks.jsp#>

The most common examples of these types of businesses are daycare in the home, home sales, handyman services, personal care services, paper routes, housecleaning services, accounting and taxi driver.

**Income Patching** is a variation of self-employment, which is the result of the business income combined with a part-time job, and can increase the odds that the family has enough to become self-sufficient and ultimately exit MFIP. Income patchers are as likely as those solely engaged in

running their business to be female, a member of a disadvantaged ethnic or racial group, or part of a low-income household. Income patchers draw most of their personal earnings from their wage jobs rather than their businesses. Income patching is a variation of Microenterprise, also known as a “mom and pop,” a business with five or fewer employees. Most are sole proprietorships, which create employment for the owner as well as their family members. Some grow into larger businesses, employing other community members. They are defined as requiring less than \$35,000 in capital to start up or expand and can generate up to \$50,000 in annual sales. A micro entrepreneur is typically someone who is looking for a way to earn a living or create additional income by owning his/her own business. Microenterprises can be anything from specialty food shops to repair services.

This strategy is important, and worth supporting, given the challenges that individuals at the bottom of the labor market find in securing jobs that pay wages that can support a family. For the lowest-income individuals, pursuing a patching or microenterprise strategy appears to be critical in raising household income above the poverty line:

<http://www.fieldus.org/Publications/TrendlinesPatching.pdf>

**Example: In-Home Daycare Provider** - Family child care governs licensure of providers of child care in a setting other than a child care center, usually the provider’s residence, for fewer than 24 hours per day. The Department of Human Services has delegated licensing of family child care to counties and Minnesota DHS Statute applies. Some, but not all in-home daycare providers require licensure. Read details of the application process at: <https://www.revisor.mn.gov/rules/?id=9502> In some instances, a background check may be required including, not only the licensee, but all other occupants of the household over age 13. In-home daycare income is income received for providing care for other people’s children by a caregiver in their own home. In-home daycare income is earned income. **Verification Sources include:** self-employment report form, client’s ledger/books, tax forms –Sole Proprietor – IRS 1040 and Schedule C.

**Through participants’ successful self-employment plans, the following five of twelve Report Card Performance Measures established in 2014 will contribute toward positive participant and Employment Services Provider outcomes.**

Component #1: Provide Employment Services to MFIP participants 0 – 60 counted months.

Program Outcome	Purpose
#1 Employment	Employment is the primary means to exit MFIP successfully or to become more self-sufficient, including FSS and those extended. All MFIP participants benefit from some employment.
#3 Three year self-support index	Long-term exits off MFIP or working full-time for sufficiency.
#4 Increase family earned income, maintain minimum full-time wages, or start earning income.	Increasing income is a key step towards self-sufficiency.
#6 Participants exiting MFIP	Ultimate goal of MFIP is leaving with income.
#10 Career Planning and Coaching	Supports participants in making job and career choices.

## PROCEDURES:

1. The Employment Counselor (EC) plays a key role by proactively working with the participant from initial phase through development of a suitable self-employment plan. The EC must provide resources to an eligible participant who is in the process of developing a business plan or already have a business.
  - Reality check with the participant, encourage them to take the **Self-Employment Quiz**: [http://www.iseek.org/iseek/\\_media/quiz/selfemployment/self-employment\\_quiz.html](http://www.iseek.org/iseek/_media/quiz/selfemployment/self-employment_quiz.html)
  - Encourage participant to use **ISeek** (Business Resources for Self-Employment) to research resources and guidance for developing their small business plan: <http://www.iseek.org/careers/selfemployment.html>
  - **Minnesota DEED** Small Business Development Centers: <http://mn.gov/deed/business/help/sbdc/>
  - **SCORE Association** provides free advice at a number of metro locations for Business Plans, Business Advice, mentoring, and Small Business Outlook, contact: <https://www.score.org/>
  - **Women Venture** has helped local women create and grow profitable businesses for more than 30 years. For entrepreneurs, GUIDED Business Plan: <http://www.womenventure.org/>
  - **U.S. Small Business Administration (SBA)** Interesting articles and assistance in creating your own business plan: <https://www.sba.gov/writing-business-plan>
2. The EC will provide career guidance, coaching and offer the participant the opportunity to develop a business plan. The EC and participant must mutually agree on achieving a successful business plan and develop measures for mutual accountability to ensure success of the employment plan.
  1. Employment Counselor will provide to the participant (available at DHS edocs):
    - ✓ DHS-6200, DWP/MFIP Self Employment Business Plan (SEBP): This form was designed to meet the needs of a simple business plan and meets the requirement to seek assistance from an expert in small businesses
    - ✓ DHS-3336-ENG Self-Employment Report Form: This form is for participant to record the self-employment income and expenses each month and turn in to financial worker on a monthly basis
  2. If the Standard Self Employment Business Plan (SEBP DHS-6200) is not used, under guidance of the EC, MFIP/DWP participants must seek assistance from an individual or organization with expertise in small businesses.
  3. Employment Counselor and participant maximize engagement by ensuring that all hours of meaningful activities are written into the MFIP Employment Plan. This includes time spent on researching, interviews and meetings, filling out documents and forms, telephone inquiries, and follow-up activities, or additional activities such as assessment, job search, training or education, community work experience, social services, etc.
  4. Employment Counselor use the “job search” activity for participants preparing for self-employment when no income is being earned. Examples of self-employment activities include: developing a business plan, research, etc.
  5. Employment Counselor use the “full-time employment or part-time employment” activity for participants who are already earning an income and develop an employment plan to include self-employment hours and additional goals to achieve self-sufficiency.

6. To determine the number of self-employment hours to include in the EP (see MFIP ES Manual 8.6.3 (Self Employment Earnings and Hours).  
**Example:** \$460.00 Earnings per month ÷ \$7.25 Federal Minimum Wage  
 = 63 hours per month that the participant is earning minimum wage
7. Childcare for Self Employment (MFIP Manual 10.3.2). Participants can receive child care for approved activities in an EP, including hours necessary to develop a business plan and a reasonable amount of start-up time where the business may be generating little or no income. A reasonable amount of start-up time should be determined with assistance from the organization helping to develop the business plan. After a reasonable time frame, child care is for self-employment ONLY for the hours the participant is working toward the minimum wage hours. The client may be working more hours, however child care will not be provided during that time frame. When 1 parent in a 2-parent family is self-employed, child care can only be approved for hours in which the parents' work-related activities conflict.
8. Employment Counselor place signed and dated copies of all forms in participant case files and document in case notes.
9. Employment plans should be reviewed and evaluate every 3 months to determine whether the plan is still appropriate. After this period of time, only hours where the participant is earning minimum wage should be approved. These hours are arrived at by dividing the net gross income by the applicable minimum wage. Participants, without good cause, who fail to make satisfactory progress as established in the business plan must revise the employment plan to replace with other approved work activities as appropriate.

**Important Notice when reporting self-employment expenses to Financial Worker:**

Self-employment expenses that occur after 2/1/15 will no longer be used to calculate self-employment income. MFIP participants may choose between two methods:

**Method 1 Example:** 50% of current gross self-employment income

- Client reports self-employment income.
- Worker informs client of their options for self-employment budgeting.
- Client has chosen the 50% method.
- Worker must verify the self-employment gross income, not expenses.
- Client provides documentation to verify self-employment gross income of \$2000.00.
- Multiply \$2000 by .50=\$1000 as self-employment gross income for the month
- Participants who use the 50% method may choose Taxable Income method at the next benefit month

**Method 2 Example:** Annual Self-Employment taxable income filed with the IRS within the last twelve months

- Client reports self-employment income.
- Worker informs client of their options for self-employment budgeting.
- Client has chosen the taxable income method.
- The self-employment business has been in operation for the last five years.
- Client provides tax forms, showing their business's taxable income (net profit) is \$12,000
- Multiply \$2000 by 12 months - \$1000 as self-employment gross income for one month.
- Participants who use Taxable Income method must continue to use this method until recertification unless there is an unforeseen significant change.

**Effective Date:** May 1, 2015

**WFS Contact:** Your Agency's Lead Planner