VERMONT
DEPARTMENT FOR CHILDREN & FAMILIES
CHILD DEVELOPMENT DIVISION

CDD.1125: Self-Employment

Category: Child Care Financial Assistance Program (CCFAP)

Authority: 33 V.S.A. § 3512; 33 V.S.A. § 3514, Fair Labor Standards Act

Last revised date: 11/21/2022

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Overview

This policy outlines the service need of self-employment to be eligible for child care financial assistance. The purpose of this service need is to support self-sufficiency in Vermont's working families.

One-on-one help is available throughout Vermont at a regional Community Child Care Support Agency. Eligibility specialists are trained to help families with the application process, including understanding how this policy may apply to their application.

Updates

This document has been updated to reflect the new CCFAP policy formatting, including rewriting and reorganizing the previous policy's content and completing a plain language review. Additional changes include:

1. Revision of policy section.
2. Expansion of start-up self-employment from one year to two years.
3. Elimination of the need for partial-year taxes for start-up self-employment.
4. Clarification of income verification when taxes are delayed or unavailable.
5. Clarification and inclusion of a summary chart for types of business verification forms required in sections C and G.
6. Clarification and formulas for calculations in sections A, B, and D.
7. Revision of how self-employment income and service need hours are determined in section D. The previous policy used itemized deductions with added depreciation, minus the Section 179 expense, only. The current policy allows for two additional options of total gross income or half of gross income, in addition to itemized deductions.
8. Expansion of the exceptions in section F to allow more flexibility for individual families.

Policy

Self-employment is defined as a trade or business activity conducted to make a profit. A person is considered self-employed if the individual carries on a trade or business as a sole proprietor or independent contractor or is an owner in a partnership or corporation. Self-employment activity by a primary caretaker(s) may be conducted either in or out of the home. The primary caretaker(s) **must** earn a minimum of one hour of Vermont minimum wage earnings per week as determined by the Child Development Division (CDD).

Procedure

A. Start-Up Self-Employment

1. A start-up self-employment venture is determined to be a new business that has been in operation for two years or less based on the business start date listed on the submitted business plan.
2. Start-up self-employment may **not** be used for a new store or business providing the same services or selling the same product as the caretaker’s initial business.
3. A caretaker **must** submit a business plan for each business they are claiming under self-employment.
4. ***Exception***: There is no minimum income requirement during the first two years of a start-up self-employment business.
5. Verification of Income:
    a. No taxes filed or taxes filed for less than 12 months -
        i. If there are no taxes filed or taxes filed for less than 12 months, the caretaker **must** submit the Statement of Self-Employment Form showing income for a 12 month period. Income for a 12 month period may include actual business income, projections, or a combination of both from the start date of the business.
        ii. Partial-year taxes are **not** required.
    b. Taxes filed for 12 months –
        i. If there are 12 months of taxes filed, the caretaker **must** submit the taxes.
    c. If taxes are submitted and are inconsistent with estimated income on the Statement of Self-Employment Form, there will be no penalty or recoupment of financial support.

   d. **Note**: Eligibility specialists will determine eligibility for a full 12 months and will **not** request updated taxes within the eligibility period.

6. The eligibility specialist will calculate the monthly income utilizing the provided CCFAP Self-Employment Calculator. See calculations below.
7. The eligibility specialist will determine eligible hours based on the submitted business plan for each business.
8. Travel time is allowable up to two hours a day for travel time between the child care facility and the place of self-employment.

B. Ongoing Self-Employment

1. Ongoing self-employment is determined to be a business that has been in operation for two years or more based on the submitted business plan start date.
2. Ongoing self-employment income and service need hours are based on the previous calendar year's taxes.
3. The primary caretaker(s) **must** submit a business plan for each business they are claiming under self-employment.
4. The primary caretaker(s) **must** earn a minimum of one hour of Vermont minimum wage earnings per week as determined by the Child Development Division (CDD). See calculations below.
5. The caretaker **must** submit the previous calendar year's taxes covering a 12 month period.
   a. If the previous calendar year's taxes are **not** available and the primary caretaker applies for CCFAP before April 15 of the current year, the caretaker may submit the taxes for the year preceding the previous calendar year.
      i. *Example*: A primary caretaker is applying for CCFAP in February 2025 but has **not** yet filed taxes for their business for the previous calendar year, January – December 2024. They may submit the taxes for January – December 2023, the year preceding the previous calendar year, to determine eligibility.
   b. If the previous calendar year's taxes are **not** available and the primary caretaker applies for CCFAP after April 15 of the current year, the caretaker **must** provide Form 4868 to provide verification of requested extension.
      i. If Form 4868 is **not** available, the eligibility specialist will connect with the CDD grant monitor to determine eligibility.

   c. **Note**: Eligibility specialists will determine eligibility for a full 12 months and will **not** request updated taxes within the eligibility period.

6. The eligibility specialist will calculate the monthly income using the provided CCFAP Self-Employment Calculator. See calculations below.
7. Service need hours are determined using the minimum wage formula as follows.
   a. Annual income divided by 12 = monthly income
   b. Monthly income divided by 4.3 = weekly income
   c. Weekly income divided by current Vermont minimum wage = service need hours.
      i. **Note**: If the service need hours are less than one, the hours will **not** be rounded up to one. If the service need hours are more than one and have a decimal, the hours will be rounded up to the closest whole number.
8. Service need hours will be determined from the self-employment business plan if:
   a. A business meets the definition of a farm and is indicated to be a farm on the business plan, or
   b. A primary caretaker of a child adopted through the Vermont Family Services Division with an approved adoption agreement has a service need of self-employment.

C. Types of Businesses and Verification

1. Primary caretakers are required to submit their federal Form 1040 regardless of business type to verify taxes have been filed.
2. Sole Proprietorship
   a. This business type provides a service need for one person. If another member of the family is participating in this business, they **must** receive a salary before they can be considered to have a service need.
   b. The primary caretaker **must** submit the federal Form 1040, Schedule 1, and a Schedule C.
3. Joint Venture
   a. This business type provides a service need for both caretakers that are operating the business together.
   b. The primary caretakers **must** submit their federal Form 1040, Schedule 1, and an individual Schedule C for each party.
4. Farm

a. Farming is defined as cultivating, operating or managing a farm for profit. Farming may include stock, dairy, poultry, fruit, furbearing animal, and truck farms, plantations, ranches, nurseries, ranges, greenhouses or other similar structures used primarily for the raising of agricultural or horticultural commodities, and orchards and woodlands.

b. This business type may also provide a service need for the primary caretaker's spouse.

c. The primary caretaker(s) **must** submit their federal Form 1040, Schedule 1, and Schedule F(s).

d. If both caretakers are filing as a sole proprietor, both caretakers **must** submit a business plan showing the hours each is working on the farm.

e. If a farm is a joint venture, this business type provides a service need for two people who are married and file a joint tax return.

f. If a farm is a joint venture and the business is owned by both caretakers, two schedule F's and two separate business plans are required.

5. Partnership
   a. This business type provides a service need for persons listed on Schedule K-1.
   b. The primary caretaker **must** submit their federal Form 1040, Schedule 1, partnership taxes (Form 1065) and Schedule K-1.
6. S Corporation
   a. This business type provides a service need for persons listed on Schedule K-1.
   b. The primary caretaker **must** submit their federal Form 1040, Schedule 1, corporate taxes, Form 1120S, and appropriate Schedule K-1.
7. If rental income is used as the basis for the self-employment income, taxes will be used to determine monthly income and service hours.

D. Options and Calculations

1. A primary caretaker may choose one of three options to determine monthly income. Each option accounts for different business operating expenses and deductions.
   a. This option may **not** be changed during the 12 month eligibility period.
   b. The primary caretaker may choose the same or different option each year upon redetermination, depending on which option benefits the family more.

2. The eligibility specialist will use the CCFAP Self-Employment Calculator provided by CDD to recommend the option that results in the most beneficial eligibility determination for the family. The eligibility specialist will save the calculation sheet in the CCFAP file.
3. If there is a clear and obvious option that results in the most beneficial eligibility determination, the eligibility specialist may continue eligibility determination process without consulting the primary caretaker about the other options.
4. The CCFAP Self-Employment Calculator automatically calculates and compares the options listed below using the same formulas.
5. **Option One**: Gross Income
    a. Sole Proprietorship
        i. To calculate the income and service hours, start with the annual business income found on Schedule C, line 7.
        ii. Divide the annual business income by 12 to determine the monthly income.
        iii. Divide the monthly income by 4.3 to determine the weekly income.
        iv. Divide the weekly income by the current Vermont minimum wage to determine the eligible service hours.
    b. Farm
        i. To calculate the income and service hours, start with the annual business income found on Schedule F, line 9.
        ii. Divide the annual business income by 12 to determine the monthly income.
        iii. Eligible service hours for farms are determined based on the hours listed on the business plan.
    c. Partnership
        i. To calculate the income and service hours, start with the annual business income found on Form 1065, line 8.
        ii. Multiply the annual business income by the percentage of the business owned found on Schedule K-1, line J. This number will be referred to as the caretaker's annual business income.
        iii. Divide the caretaker's annual business income by 12 to determine the caretaker's monthly income.
        iv. Divide the caretaker's monthly income by 4.3 to determine the caretaker's weekly income.

v. Divide the caretaker’s weekly income by the current Vermont minimum wage to determine the eligible service hours.

d. S Corporation

i. To calculate the income and service hours, start with the annual business income found on Form 1120S, line 6.

ii. Multiply the annual business income by the percentage of the business owned found on Schedule K-1, line G. This number will be referred to as the caretaker’s annual business income.

iii. Divide the caretaker’s annual business income by 12 to determine the caretaker’s monthly income.

iv. Divide the caretaker’s monthly income by 4.3 to determine the caretaker’s weekly income.

v. Divide the caretaker’s weekly income by the current Vermont minimum wage to determine the eligible service hours.

6. **Option Two:** Half of Gross Income

a. Sole Proprietorship

i. To calculate the income and service hours, start with the annual business income found on Schedule C, line 7.

ii. Multiply the annual business income by 0.5. This represents a 50% reduction of the total annual business income to account for various deductions and operating expenses. This number will be referred to as the countable annual business income.

iii. Divide the countable annual business income by 12 to determine the monthly income.

iv. Divide the monthly income by 4.3 to determine the weekly income.

v. Divide the weekly income by the current Vermont minimum wage to determine the eligible service hours.

b. Farm

i. To calculate the income and service hours, start with the annual business income found on Schedule F, line 9.

ii. Multiply the annual business income by 0.5. This represents a 50% reduction of the total annual business income to account for various deductions and operating expenses. This number will be referred to as the countable annual business income.

iii. Divide the countable annual business income by 12 to determine the monthly income.

iv. Eligible service hours for farms are determined based on the hours listed on the business plan.

c. Partnership

i. To calculate the income and service hours, start with the annual business income found on Form 1065, line 8.

ii. Multiply the annual business income by the percentage of the business owned found on Schedule K-1, line J. This number will be referred to as the caretaker's annual business income.

iii. Multiply the caretaker's annual business income by 0.5. This represents a 50% reduction of the total caretaker's annual business income to account for various deductions and operating expenses. This number will be referred to as the caretaker's countable annual business income.

iv. Divide the caretaker's countable annual business income by 12 to determine the caretaker's monthly income

v. Divide the caretaker's monthly income by 4.3 to determine the caretaker's weekly income.

vi. Divide the caretaker's weekly income by the current Vermont minimum wage to determine the eligible service hours.

d. S Corporation

i. To calculate the income and service hours, start with the annual business income found on Form 1120S, line 6.

ii. Multiply the annual business income by the percentage of the business owned found on Schedule K-1, line G. This number will be referred to as the caretaker's annual business income.

iii. Multiply the caretaker's annual business income by 0.5. This represents a 50% reduction of the total caretaker's annual business income to account for various deductions and operating expenses. This number will be referred to as the caretaker's countable annual business income.

iv. Divide the caretaker's countable annual business income by 12 to determine the caretaker's monthly income

v. Divide the caretaker's monthly income by 4.3 to determine the caretaker's weekly income.

vi. Divide the caretaker's weekly income by the current Vermont minimum wage to determine the eligible service hours.

7. **Option Three**: Itemized Deductions
   a. Sole Proprietorship
      i. To determine monthly income, start with the net profit from line 31 on the Schedule C.
      ii. Depreciation is **not** an allowable expense; however, Section 179 expense can reduce the countable depreciation. Add depreciation on Schedule C, line 13, minus Section 179 expense on Form 4562, line 12, to the net profit. If the Section 179 expense is greater than the depreciation on Schedule C, line 13, no depreciation is added. This number is referred to as the total countable income.
      iii. Divide the total countable income by 12. This number is the monthly income.
      iv. The monthly income is divided by 4.3 to determine a weekly income.
      v. The weekly income is divided by the current Vermont minimum wage to determine service need hours.
   b. Farm
      i. To determine monthly income, start with the net profit from Schedule F, line 34.
      ii. Depreciation is **not** an allowable expense; however, Section 179 expense can reduce the countable depreciation. Add depreciation on Schedule F, line 14, minus Section 179 expense on Form 4562, line 12, to the net profit. If the Section 179 expense is greater than the depreciation on Schedule F, line 14, no depreciation is added. This number is referred to as the total countable income.
      iii. Divide the total countable income by 12. This number is the monthly income.
      iv. Service need hours are determined from the business plan.
      v. If the farm is operating at a loss, the income will be zero and the hours of child care are authorized will be based on the business plan.
   c. Partnership
      i. To determine monthly income, start with the ordinary business income from Form 1065, line 23.

ii. Depreciation is **not** an allowable expense; however, Section 179 expense can reduce the countable depreciation. Add depreciation on Form 1065, line 16c, minus Section 179 expense on Form 4562, line 12, to the net profit. If the Section 179 expense is greater than the depreciation on Form 1065, line 16c, no depreciation is added. This number is referred to as the total countable income.

iii. Multiply the total ordinary business income (total from ii) by the percentage of the business owned, which is found on Schedule K-1, line J. Add any guaranteed payments found on Schedule K-1, line 4c. This number is referred to as the annual countable business income.

iv. Divide the annual countable business income by 12. This number is the monthly income.

v. The monthly income is divided by 4.3 to determine a weekly income.

vi. The weekly income is divided by the current Vermont minimum wage to determine service need hours.

d. S Corporation

i. To determine monthly income, add any compensation of officers from the Form 1120S, line 7 to the ordinary business income found on Form 1120S, line 22. This number is referred to as the business income.

ii. Depreciation is **not** an allowable expense; however, Section 179 expense can reduce the countable depreciation. Add depreciation on Form 1120s, line 14, minus Section 179 expense on Form 4562, line 12, to the business income (total from i). If the Section 179 expense is greater than the depreciation on Form 1120s, line 14, no depreciation is added. This number is referred to as the business's countable income.

iii. Multiply the business's countable income (total from ii) by the percentage of the business owned, which is found on Schedule K-1, line G. This number is referred to as the caretaker's countable business income.

iv. Divide the caretaker's countable business income (total from iii) by 12. This number is the monthly income.

v. The monthly income (total from iv) is divided by 4.3 to determine a weekly income.

vi. The weekly income (total from v) is divided by the current Vermont minimum wage to determine service need hours.

E. Case Management

1. Eligibility for child care financial assistance based on self-employment will be redetermined annually.
2. No interruption of services will occur based upon a temporary (up to 3 months) change in self-employment status. Following the 3-month period, if the caretaker is unable to secure a new service need, eligibility may be closed. Please refer to CDD.1060 Reporting Changes policy for more information.
3. A new business plan is **not** required annually if there are no changes to the business from the previous eligibility year. Eligibility specialists will review the business plan on file at the annual redetermination and either carry forward the business plan on file or request a new business plan, if needed.
4. The income from each individual self-employment business is added separately in CDDIS on the Household Income and Expense page of the application. If a primary caretaker or other adult household member owns two businesses, each **must** be calculated separately.
5. Eligibility specialists may compare income listed on Form 1040, Schedule 1 to income listed on Schedule C, F and K-1 to ensure all businesses are accounted for.

F. Exceptions

1. If a business is operating at a loss, the eligibility specialist will enter zero for income. This will **not** reduce other sources of income in the household.
2. If a business had an unusual year or taxes do **not** accurately reflect the business, the primary caretaker may write a letter to be reviewed by CDD grant monitors to allow for the use of the Statement of Self-Employment Form. The letter must contain information about why the business had an unusual year or why taxes do not accurately reflect the business. If writing a letter is a barrier, the eligibility specialist will collect and provide this information to the CDD grant monitor.
    a. If this exception is granted, the eligibility specialist will complete the CCFAP Self-Employment Calculator using the information provided on the Statement of Self-Employment.
    b. Service need hours will be determined from the self-employment business plan if:

   i. The business is a start-up business and has been in operation for two years or less based on the business start date listed on the submitted business plan.
   ii. A business meets the definition of a farm and is indicated to be a farm on the business plan, or
   iii. A primary caretaker of a child adopted through the Vermont Family Services Division with an approved adoption agreement has a service need of self-employment.

  c. **Note**: This option is available for ongoing or start-up businesses

3. Eligibility specialists will connect with a CDD grant monitor for any questions regarding exceptions.

G. Summary Table

Self-Employment Type	Required Verification Forms *Only required for option three: itemized deductions
Sole Proprietor	• Form 1040 • Form 1040 Schedule 1 • Schedule C(s) • Business Plan(s) • *Form 4562 (if depreciation is claimed on line 13 of Schedule C)
Farming	• Form 1040 • Form 1040 Schedule 1 • Schedule F(s) • Business Plan(s) • *Form 4562 (if depreciation is claimed on line 14 of Schedule F)

Self-Employment Type	Required Verification Forms *Only required for option three: itemized deductions
Partnership	• Form 1040 • Form 1040 Schedule 1 • Form 1065 • Schedule K-1 • Business Plan(s) • *Form 4562 (if depreciation is claimed on line 16c of the Partnership tax form)
S Corporation	• Form 1040 • Form 1040 Schedule 1 • Form 1120S – S Corporation Tax Return • Schedule K-1 • Business Plan(s) • *Form 4562 (if depreciation is claimed on line 14 of the S Corporation tax form)