Subsidized Child Care Assistance Program Policy Manual

Chapter 7. Family Definition and Determining Income Eligibility

I. CHAPTER OVERVIEW

Subsidized Child Care Assistance (SCCA) is provided to families with a demonstrated need for care and who meet the current income eligibility criteria based on the income unit.

Within this chapter, policy and requirements for the SCCA program include income eligibility, the household income unit, self-employment, sources of income, assessing monthly income, calculation of income, base periods, child support, deductions & disregards. Additionally, this chapter provides policy as it pertains to the types of countable and non-countable income used to determine eligibility.

The SCCA Program requires that all information is accurately entered in North Carolina Families Accessing Services through Technology (NC FAST).

II. INCOME ELIGIBILITY

Individuals who need child care assistance must qualify based on income. The gross monthly income must not exceed the state's maximum income eligibility limit for the number and age of persons in the income unit. The following income limits apply:

A. With Regard to Income

At the time of initial application, income eligibility for children served in the SCCA program must be compared to:

i. 200% of the federal poverty level for children ages 0-5 and for all children with special needs.
ii. 133% of the federal poverty level for all children ages 6-12 who do not have special needs.

At the time of the redetermination, the family income must be compared to:

i. 200% of the federal poverty level for children ages 0-5 and for all children with special needs.

ii. 133% of the federal poverty level for all children ages 6- 12 who do not have special needs.
iii. 85% State Median Income (SMI).

If income is less than 85% SMI but exceeds the federal poverty limits of 133% or 200%, a graduated phase out period of 12 months is given during which services continue with an adjustment of the parental fee. The graduated phase out period shall begin the day after the certification period ends.

A recertification packet is not mailed to children in graduated phase out. In situations where one child is in graduated phase out while the other children are eligible for continued services, the child in graduated phase out is not eligible to recertify and the remaining eligible children will receive a recertification packet.

If the income exceeds 85% SMI at redetermination, a ten (10) work day notice is issued to terminate services if there are more than ten (10) work days left in the current certification period. If there are less than ten (10) work days left in the certification period, the case will terminate at the end of the certification period.

If a recipient reports a decrease in income during the graduated phase out period and the reduced income is at or below the appropriate FPL, the child care worker must process this as a change in circumstance in NC FAST and decrease the income. This will also decrease the parental fee, which is appropriate.

The child care worker will react to the reported decreased income as a change in circumstance and will not complete a new application. Subsidized child care services shall continue through the end of the 12-month certification period. NC FAST will recognize that the family is no longer in graduated phase out and a recertification packet will be mailed to the recipient at the end of the 12-month certification period.

B. Without regard to Income

There are certain situations in which SCCA is available **without regard to income.** Those situations include:

1. Children who need child care assistance to support child protective services in order to remain in his/her own home.
2. Children who need child care assistance and meet eligibility for child welfare services.
3. Children receiving foster care services who are in the custody of a county department of social services (DSS) **and** have been placed with an adult other than their parents or in a licensed foster home.

Refer to the SCCA FPL & SMI Chart and Chapter 11 regarding Redeterminations.

III. DEFINING INCOME UNIT FOR DETERMINING ELIGIBILITY

When the amount of income available to an individual is a condition of eligibility for subsidized child care assistance, it is necessary to determine the number of persons in the individual’s income unit and the amount of the gross monthly income available to that income unit. Therefore, it is necessary to define the term “income unit” to assess whose income must be included when eligibility is determined. The term “income unit” shall apply to persons who live in the same household and who, according to North Carolina law, are responsible for the financial support of the child whose eligibility for child care assistance is being determined. Also considered in this determination are individuals who would normally be part of the unit but are temporarily absent from the home.

NOTE: The household unit for families who are receiving benefits from the Food and Nutrition Services (FNS) program may differ from the income unit for child care assistance. The child care worker should ask the parent questions to clarify any differences.

A. Responsible Adult

The applicant/recipient is the person or persons with whom the child lives and who has the primary responsibility for the care and well-being of the child. However, a child may live with an adult who is responsible for his/her care but is not financially obligated for the support of the child, such as a grandparent, that may have custody of a child.

Legal custody or court-ordered custody does not act to terminate parental rights and therefore does not relieve parents of financial obligation to their child. According to North Carolina General Statute, parents' financial obligations toward their children are relieved when an order of adoption or termination of parental rights is entered by the court.

Couples who are not legally married may claim to be common-law marriage partners; however, common-law marriage is not legally recognized in North Carolina. Marriage must be solemnized as required by law in order for individuals to be considered spouses under the definition of family. However, if both parents (biological or adoptive) of a child in need of child care assistance reside in the same household, both are members of the income unit and both incomes are counted for the purpose of determining eligibility.

The following are defined income units for the purpose of determining eligibility and parental fees for child care assistance:

NOTE: This list is not an exhaustive list.

1. Biological and adoptive parents and their minor children under the age of eighteen. Married parents including stepparents shall be included in the income unit with his/her spouse when the children in need of care include their biological, adoptive, and step children.

    i. An 18-year-old is only included in the income unit if he/she is still attending high school and is scheduled to graduate before age nineteen.

2. A child who lives with both parents and one parent is in college or serving in the military forces in a different locale. The parent in college or serving in the military is included in the income unit and their income is counted. This is an income unit of (3).

3. A child who lives with grandparents, due to the absence of the parent who is in college or serving in the military forces in a different locale. The parent's income must be counted. The grandparents can request child care for the child due to the absence of the child's parent and because they also meet the need criteria. The parent in college or serving in the military is included in the income unit.
4. A minor parent (under the age of 18) and his or her children. If the parents of a minor parent apply for child care subsidy for another child of theirs, the minor parent is counted in the parents' income unit. The grandchild, however, is not. The parents, the minor parent, and their other minor children are included in the parents' income unit.

5. A child who lives with a responsible adult who is not the biological or adoptive parent is considered a child only income unit. If the child has siblings, they are also included in the income unit.

6. Children in foster care will be the case head in their own case and the staff designated by DSS will sign the application, rights and responsibilities and the voucher. With sibling groups, the youngest child will be the case head. If the family is divided, each child will be their own case head.

B. Child Protective Services (CPS), Child Welfare Services (CWS), and Foster Care (FC) Income Units:

When the income unit involves CPS, CWS, or FC, SCCA is provided to children receiving child protective services without regard to the family's income and parental fees are not assessed.

1. CPS

When a recipient applies for child care assistance based on CPS, the recipient will be given 12-months of eligibility. The child must be receiving child protective services and must need child care in order to remain in his/her own home.

When a CPS application is being processed, the child care worker must collect and verify income information from the responsible adult and enter the income into NC FAST to establish a parental fee. The parental fee is waived until the need for CPS ends. Once the CPS need ends, the parental fee can be assessed to the family.

If the income information is not collected from the family at the time of eligibility determination, a parental fee cannot be assessed to the family until the next redetermination at the end of the 12-month certification period. If the income information cannot be collected and verified ~~o~~ the application and subsequent services should continue without the income information.

2. CWS

When a CWS application is being processed, and the applicant is the child's biological or adoptive parent, the child care worker must collect and verify income information and enter the income into NC FAST to establish a parental fee.

The parental fee will be waived until the need for CWS ends. Once the CWS need ends, the parental fee can be assessed to the family. If the income information is not collected from the family at the time of eligibility determination, a parental fee cannot be assessed to the family until the next redetermination at the end of the 12- month certification period. If the income information cannot be collected and verified, the application and subsequent services should continue without the income information.

When CWS is the need type to support implementation of permanent placement and the family is adopting the child, CWS can no longer be the need type once the adoption final. The adoptive parents become financially responsible for the child and the CWS need type ends.

3. FOSTER CARE (FC)

When an application for child care assistance is completed for a child in foster care , the income of the foster parent(s) is not counted. If the foster child receives any income such as social security benefits, the child's income is disregarded and a parent fee is not assessed.

C. Non-parent Caretaker Income Unit:

When the parent of the child receiving subsidy does **NOT** live in the home with the child:

1. The non-parent caretaker and the caretaker's spouse and child(ren) are not included in the income unit.
2. The non-parent caretaker and his/her spouse must meet the need criteria.
3. The income of the non-parent caretaker is **NOT** counted in the calculation of income to determine eligibility for the child. Income is only counted for biological and adoptive parents. Child care workers should verify if the non-parent caretaker is employed.
4. If a non-parent caretaker applies and receives services, and CWS is not involved,
    i. the child care need may be employment, or a need other than CWS.
    ii. the non-parent caretaker remains the case head.
    iii. the income unit will be the child(ren) only.. Income of the child(ren), such as but not limited to, social security survivor benefits and child support continues to be counted and the parental

fee is assessed on the child(ren)'s income alone Refer to Chapter 4 and 5 for information regarding CPS, CWS & FC.

D. Joint Custody Income Unit

Joint custody is when an applicant/recipient shares physical custody of a child. When an applicant/recipient shares physical custody of a child and both applicants/recipients need child care assistance, each applicant/recipient applies separately for SCCA, and each applicant/recipient has their own child care case and service plan based on their individual need for SCCA.

At initial application, child care workers must inquire if the family has joint custody. Child care workers are encouraged to ask joint ~~or split~~ custody questions when completing a thorough interview.

Each parent can complete an application for the period of time the child resides in his/her home. Each application is reviewed separately as each parent must meet eligibility. Each parent shall pay the corresponding parental fee even if the child is with the same child care provider. The joint custody application is largely similar to a traditional application with the exception of changes to the plan of care evidence.

If the parents reside in separate counties, each parent will apply in the county where the parent resides. For example. One parent is in County A and the other parent is in County B.

Refer to Chapters 4 and Chapter 5 regarding Income Unit and Plan of Care and the NC FAST Joint Custody Job Aid.

IV. SOURCES OF INCOME

Although all sources of income must be considered in the base period month the household receives the income, not all income is counted in the family's gross monthly income when determining eligibility for child care assistance.

A. Countable Income

The following are sources of income which must be counted when determining eligibility for child care assistance:

1. Gross earned wages or salaries (earnings received for work performed as an employee), including:
    i. wages,
    ii. salaries,
    iii. commissions,
    iv. tips,
    v. piece-rate payments,
    vi. cash bonuses earned, before any deductions such as for taxes, bonds, pensions, and union dues;
    vii. pay for leave including sick, vacation, or holiday leave should be counted when it is paid at the regular rate of pay and covers the time when the applicant/recipient would typically work. If the applicant/recipient worked during a holiday at a higher rate of pay, the child care worker should assess if this pay is representative.

Note: Child care workers should not count mileage or per diem when listed on a recipient's pay stub.

2. Gross income from taxable self-employment income after deductions made for business expenses and any other expense that is deductible for purposes of federal or state tax returns;

3. Social Security benefits (includes social security pensions, survivors' benefits for both children and adults, and permanent disability insurance payments).

4. Dividends, interest (on savings or bonds), income from estates or trusts, royalties, adjusted gross rental income on houses, stores or other property. Adjusted gross rental income is defined as the rental income remaining after allowable expenses, such as mortgage interest, property taxes, insurance, maintenance, and repairs, have been deducted. Rental assistance provided by an organization on a regular basis.

5. Pensions and annuities paid directly by an employer or union or through an insurance company.

6. Workers' compensation.

7. Unemployment insurance benefits (UIB).

8. Alimony (includes court ordered payments as well as voluntary payments and may include regular payment of bills such as rent and utilities).

9. Child support, direct or indirect (includes payments made to the applicant/recipient or to the court based on terms of an agreement and may include payments such as rent, utilities, insurance, etc.). Note: Do not use Food and Nutrition Services (FNS's) conversion of child support income since the FNS

conversion requirement is based on frequency of pays.

10. Pensions paid to veterans or survivors of deceased veterans.

11. Compensation for veterans with a disability of at least 10% because of injuries or disease that occurred or were aggravated during active military service.

12. Veteran Affairs (VA) Caregiver's Stipend Program VA provides a stipend to caregivers of a veteran injured after September 11, 2001. This is a nontaxable income to the caregiver.

13. On-the-Job Training (OJT) payments.

14. Work Force Investment Act (WIA) payments made to an adult. Previously referred to as the Job Training Partnership Act (JTPA).

15. AmeriCorps stipend (living allowance).

16. Armed Forces pay (only the amount taxable, such as base pay).
17. Work release payments.

18. Cherokee Tribal Per Capita Income paid to adult family members.

19. Work-study payments, if the income is from a program not administered under Title IV of the Higher Education Act or the Bureau of Indian Affairs and is paid directly to the applicant/recipient or responsible adult.

20. Recurring (ongoing) payments paid directly to the applicant/recipient. Recurring payments is income received at regular intervals and may be scheduled at various frequencies. In instances of recurring payments, the child care worker must average the income for the period it covers to reflect the applicant/recipient's regular monthly income accurately.

    Child care workers must document the average monthly amount on the application for Child Care in NC FAST. Examples of recurring contributions include: (Note this is not an exhaustive list).
    i. longevity pay,
    ii. profit sharing,
    iii. bonuses

B. Non-countable Income

Although the income is non-countable, the non-countable income should be addressed in case narrative as non-countable. For example (sale of personal assets). The following are sources of income that are NOT counted when determining eligibility for SCCA:

1. Work First Family Assistance (WFFA).
2. Supplemental Security Income (SSI).
3. Non-recurring lump sum payments are received as a one-time payment and are not on a regular basis. Lump sum payments are usually large, single payments made at a particular time. These payments are considered non-recurring. Examples of a non-recurring payment include: (Note this is not an exhaustive list).
    i. severance pay,
    ii. social security benefits back-pay,
    iii. workers’ compensation,
    iv. alimony (one-time lump sum),

v. holiday bonuses from employers (if not recurring), and
vi. HUD.

4. Foster care assistance payments.

5. Adoption Assistance payments.

6. Payments/trust funds under the Indian Claims Commission.

7. Payments from the Alaska Native Claims Settlement Act.

8. Income from sale of personal assets (stocks, bonds, house, car, and insurance).

9. Bank withdrawals.

10. Money borrowed.

11. Tax refunds.

12. Gifts or contributions. (These are non-recurring gifts or contributions, e.g., gifts for birthdays, holidays, occasional monetary contributions, purchase of diapers, clothing, etc.).

13. Other (non-recurring) in-kind donations from non-legally responsible adults. In-kind donations which are not in the form of direct cash payments to applicant/recipients. This may include food, clothing, furniture contributions, in-kind military benefits, and vendor payments. Does not include instances when individuals use their business to pay for such types of items.

14. Emergency Assistance (EA), Low Income Energy Assistance Program (LIEAP), Crisis Intervention Program (CIP), General Assistance, Progress Energy's Energy Neighbor Fund payments, and other similar energy programs.

15. Section VIII housing subsidy.

16. Capital gains.

17. Value of food stamp benefits allotted under the Food Stamp Act of 1977.

18. Free and reduced lunch program.

19. Any and all food subsidy programs.

20. Relocation/Acquisition Act payments.

21. Earnings of a dependent child under 18 years of age, unless the dependent child is also a minor parent of a child needing child care.

22. Loans, grants (including Pell or Carl Perkins grants), scholarships, and money received through job training programs.

23. Home produce utilized for household consumption.

24. Volunteers in Service to America (VISTA) earnings.

25. Payments received as Earned Income Tax Credits or Dependent Care Credits.

26. All subsidized housing and housing allotments, paid directly to the landlord, including military housing allotments.

27. Money received from an employer as an employee benefit for child care.

28. Work-study payments, if the income is from the College Work-Study Program administered under Title IV of the Higher Education Act or the Bureau of Indian Affairs. (Likewise, if the income from college work-study goes directly to the college, it is not counted as income.) For applicants/recipients that receive Wage$, the income is not counted even though it is taxable and a 1099 is issued.

29. Reimbursement for expenses incurred in connection with employment or education are not countable when determining eligibility for child care assistance. Examples of employment related expenses that are not countable include but are not limited to mileage, medical, per diem, phone calls, travel, and lodging. Examples of reimbursements for educational expenses such as tuition and fees.

30. Social Security benefits should not be counted if the beneficiary does not have access to the benefits. For example, if a teenage parent applies for her own child and receives Social Security benefits, but the teenager’s mother is the payee, the Social Security benefits are countable for the teenager’s mother who is the payee but not for the teenager in her own child care case. The same principle applies if the payee is someone outside of the household and the beneficiary does not have access to the funds.

31. BAH/BAS portion of Armed Forces pay is not countable. All other Armed Forces pay is not countable as long as the soldier is serving in a combat/hot zone.

32. Veterans Benefits such as:
    a. VA Aid and Attendance additional monthly pension benefit administered by the Department of Veterans Affairs that may be available to war time Veterans and surviving spouses who have in-home care or who live in nursing homes or assisted-living facilities.
    b. VA Aid to the Homebound is an additional monthly pension benefit administered by the VA when a person is substantially confined to their immediate premises because of permanent disability.
    c. VA Reduced Improved Pension The Improved Disability Pension provides a monthly benefit to certain low-income veterans.
    d. VA Unreimbursed Medical Expenses Reimbursement from VA for medical bills that the veteran has paid.
    e. Veterans Administration Educational Assistance Program and GI Bill Income received by veterans for educational expenses.

V. SELF-EMPLOYMENT

Self-employment income is the gross income from taxable self-employment income after deductions from allowable business expenses. Self-employment income may be received annually or monthly, or it may fluctuate, as in a seasonal self-employment activity. To determine if an individual is self-employed, the individual's work situation must be evaluated.

An individual is self-employed when he or she is working in their own business, trade, or profession, not for an employer. A self- employed person generally exercises control over how the business will be conducted, not just the product. Self-employment includes but is not limited to selling recyclables, babysitting, roomer/boarder income, rental income, farm income, cosmetologist, carpenter, and income earned by an individual working as a consultant or independent subcontractor, such as Door Dash, Instacart & Uber drivers.

Independent subcontractors are considered self-employed as they are issued a 1099 if they have earned more than $600.00 in the year. Independent subcontractor applicants must be able to provide proof of steady, consistent work hours and wages earned to calculate income.

Note: If Social Security and income taxes are being withheld by an employer, the individual is not self-employed.

- If eligibility is being determined before that year's tax filing deadline, then use the previous year's tax returns if representative.
- If eligibility is being determined after that year's tax filing deadline, then use the tax return for the most recent year if representative.
- If the federal tax return for most recent year is not available, then use quarterly tax statements if representative.
- If quarterly tax statements are not available, the child care worker must use:
  - i. Business accounting records, bookkeeping records such as ledger books, or records maintained by the applicant.
  - ii. Information from the verification forms for Self-Employment Income and Expenses (Attachment 2) to be completed by the applicant/recipient.

Applicants/recipients can be liable for paying self-employment tax even if they receive social security benefits.

When the applicant/recipient indicates a net loss from the business, the child care worker must discuss how current living expenses are being met to determine what other income is available to the family. If client's statement is taken, the information must be recorded in the case narrative (or case notes in NC FAST). The child care worker may accept the applicant/recipient's statement as verification only if:

1. The applicant/recipient cannot obtain the verification from any source, i.e., the source refused to provide verification or cannot be located, and
2. The statement is not questionable. Do not accept the statement if the applicant/recipient refuses or simply fails to provide verification of income.

A. Newly Self-Employed Recipients

In a household with a newly formed business (in operation for less than 12 months), the income must be averaged over the amount of time the business has been in operation. The child care worker must document the month and year that the new business was started. If a recipient becomes self-employed during their eligibility period, the child care worker should consider any income that has been received at the time that the new self-employment is reported. If the recipient reports they have become self-employed, but no earnings have been received due to the business being new, the child care worker must thoroughly document why no self-employment income is being counted. Refer to the Verifications section for information regarding verifying self-employment.

B. Temporary Loss of Profit

"Loss of Profits" means a financial loss caused to the business activity through the interruption of operations or through additional costs incurred for the sole purpose of avoiding or minimizing such interruption. The business or activity is expected to be continued but no profit is realized due to temporary circumstances beyond the control of the applicant/recipient.

If an applicant experiences a temporary loss of profit:

1. At application, if the applicant has been self-employed longer than 12 months and reports they do not have any self-employment earnings, therefore not gainfully employed, the applicant is not eligible since their gross income ($0) divided by minimum wage results in zero gainfully employed hours. The applicant will have to reapply once gainfully employed. If the applicant has been self-employed for less than 12 months and is not gainfully employed, refer to section V.D. Gainful Employment.

2. If a self-employed applicant/recipient reports a temporary loss of profit during the certification period, the child care worker must assess whether this decrease is a normal seasonal variation in business earnings (e.g., lower income during winter for a lawn care business) or an unexpected situation such as illness-related absence from work. If the decrease is normal, it is considered in the income assessment during the 12-month base period, and no adjustments are made to the case. However, if the decrease is unexpected and abnormal, the child care worker must end date the income, discuss how current living expenses are being paid, and explore other potential income sources for the family. The child care worker must advise the applicant/recipient to notify the child care worker within 10 business days of resuming the business activity.

3. If the applicant/recipient reports a temporary loss of profit from their self-employment at recertification but plans to resume earnings, the temporary loss of profit is factored into the 12-month base period for self-employment. The 12-month base period accounts for the fluctuating nature of self-employment income, including temporary loss of profit. The child care

worker should review and average the past 12 months of earnings and expenses from business records, the self-employment verification form or the previous year tax return, if representative, to calculate the income and level of care.

4. In any temporary loss of profit situation, the child care worker must document the case thoroughly. Refer to X. Verification of Income Types

C. Calculation of Self-Employment and Operational Expenses

1. **Tax Forms**
   When an applicant/recipient submits a tax form (Schedule C, Schedule K, etc.) as verification of self-employment, the child care worker must determine the gross income amount from the tax form. The child care worker must then determine the total expenses claimed on the tax form and deduct that total from the gross income amount to determine the countable self-employment income. If expenses claimed on the tax form are less than 20% of the gross income, the applicant/recipient will receive the automatic 20% deduction.

   NOTE: Tax forms must be filed with the IRS in order to be accepted as verification of self-employment.

   For example: An applicant/recipient is self-employed and provides a Form 1040 Schedule C tax form as verification.

Part I	Income	
1	Gross Receipts or sales.	$341,840
2	Returns and allowances	
3	Subtract line 2 from	$341,840

	line 1	
4	Cost of goods sold (from line 42)	$85,310
5	Gross profit. Subtract line 4 from line 3.	$256,530
6	Other income	
7	Gross income	$256,530

In this example, since there are "cost of goods sold" on line 4, the "gross income" on line 7 is less than "gross receipts" or sales on line 1. Line 1 should be used as the gross income amount for SCCA. The amount on line 4 for cost of goods sold should be added to the expenses from Part II of Schedule C. The child care worker must use the expenses from the deductions section on Part II of the Form 1040 Schedule C document.

In this example, the total expenses on line 28 of Part II of the Form 1040 Schedule C are $212,235 (not pictured in the chart above). The child care worker will need to add "cost of goods sold" from line 4 of Part I ($85,310) to the total expenses from Part II ($212,235). $85,310 + $212,235 = $297,545 total allowable expenses.

$341,840 gross receipts minus $297,545 total allowable expenses = $44,295 countable self-employment income.

If a Schedule C form is submitted for verification of self-employment, the child care worker should carefully review Part I - Income to determine the gross income to be counted. On the Schedule C form, if there is income listed on line 6 of Part I for "Other Income", this will result in line 7, "Gross Income", being higher than line 1, "Gross Receipts or Sales". In this case the "Gross Income" from line 7 should be considered the gross income for SCCA purposes. If there is an amount listed on line 4 for "Cost of goods sold", this will result in line 7 being less than line 1. In this case, the higher amount on line 1 should be used as gross income, as the Cost of Goods sold on line 4 should be considered an expense. The child care worker should use the higher amount from either line 1 or line 7. If there are costs of goods sold, this amount should be used as an expense deduction (along with expenses from Part II) as shown in the example above.

2. <u>Expenses</u>

Operational expenses are the cost of carrying on a trade or business. To be deductible, an operational expense must relate to or pertain to a trade or business and be both ordinary and necessary. An ordinary expense is one that is common and accepted in the trade or business. A necessary expense is one that is helpful and appropriate for the trade or business.

A deduction from gross income receipts of a business will be allowed for the ordinary and necessary expenses required for the operation of the business. The individual is automatically eligible for the 20%, which is automated in NC FAST once the child care worker enters the Gross Receipts Evidence. If the recipient has operational expenses greater than the standard 20% deduction, the operational expenses must be verified to be considered a deduction from self-employment income. If a self-employed individual provides their income taxes, the child care worker must use that as expense verification to offer more than 20% deduction, if applicable. Child care workers must enter correct and accurate information into NC FAST.

If the applicant/recipient requests an expense deduction greater than the standard 20%, the applicant/recipient must provide verification of the expenses and the worker must enter the expenses in the Expense Evidence in NC FAST. If Expense Evidence is entered in NC FAST that exceeds

20%, NC FAST will deduct the higher expense amount.

If the applicant/recipient is determined ineligible from gross receipts income with the 20% standard deduction, the child care worker must ask the applicant/recipient if he/she would like the option to deduct actual expenses.

When both parents are self-employed in a two-parent household, each self-employed parent can receive a deduction for self-employment expenses. The 20% automatic expense deduction will be applied to each self-employment. If expense evidence is entered for expenses greater than 20%, the greater amount will be deducted. If one self-employed parent has multiple self-employments, each self-employment and associated expenses is entered separately in NC FAST. For actual expenses, the worker must use expenses reported on the Expense Section on Federal tax documents, or the recipient may provide actual receipts for expenses.

Operational expenses must be carefully reviewed to determine the actual level of income available to the family. Operational expenses include business expenses and any other expense that is deductible for purposes of federal or state tax returns.

Operational expenses include but are not limited to:

1. Taxes required to operate the business.
2. Licenses, commissions, and permit fees.
3. Rent payments (not for home-based businesses, except that part allowed as a deduction by the IRS).
4. Insurance associated with operating the business (fire, liability, theft, storm, health insurance for employees, Unemployment Insurance, and workmen’s compensation costs).
5. Labor costs including wages and contract labor.

6. Maintenance and repairs associated with the business.
7. Cost of products, materials and supplies required to operate the business.
8. Business-related transportation costs as allowed by the IRS.
9. Utilities costs associated with the business.
10. Interest on business debts, including mortgages and loans; necessary for producing income.
11. Actual unreimbursed food costs to provide meals as part of the business, such as licensed child care providers or elder care.
12. Accounting, advertising, and legal costs associated with the business.
13. Telephone expenses, including local and long-distance service, fax, and internet, if the telephone line is used exclusively for business.
14. Depreciation (a reduction in the value of an asset with the passage of time, due in particular to wear and tear. Depreciation deductions: account for the gradual loss in value of assets over time, such as furniture and equipment used in child care, allowing providers to spread these costs over the assets' useful life.)

For more information on self-employment expenses, please refer to the links below:

https://www.irs.gov/instructions/i1040sc 2023 Instructions for Schedule C

https://www.irs.gov/forms-pubs/about-publication-334 Publication 334, Tax Guide for Small Business

https://www.irs.gov/forms-pubs/about-publication-587 Publication 587, Business Use of Your Home (Including Use by Daycare Providers).\

D. Gainful Employment

Gainful employment is defined as making at least minimum wage. Recipients/applicants who are employed, including self-employment, must be gainfully employed. Applicants who have been self-employed for 12 months or longer must be evaluated for gainful employment. Child care workers must determine the number of gainful employment hours to establish the level of care.

Newly self-employed individuals shall receive 12-months of eligbility to allow time to establish gainful employment. At redetermination, newly self-employed applicants/recipients must have established minimum wage. Child care workers must document that they reviewed the gainful employment requirements with applicants/recipients. The recipient is required to report changes in accordance with Recipient Rights and Responsibilities.

1. If the recipient has been in business for less than 12 months at initial application, the recipient shall receive 12 months eligibility and gainful employment will be re-evaluated at redetermination. At redetermination, if gainful employment has not been established in the initial 12 months of eligibility, gainful employment hours must be re-evaluated to determine level of care.

2. If a recipient becomes self-employed during their eligibility period, the eligibility period dates must remain the same. If the recipient has not been self-employed for 12 months at the time of redetermination, recipient shall receive another 12 months of eligibility to determine gainful employment. Gainful Employment shall be re-evaluated at the following redetermination. Eligibility cannot be reviewed prior to the

end of the 12-month eligibility period. Refer to Employment, Self-Employment, and Income Evidence Job Aid.

If the gross amount is less than minimum wage based on the hours the applicant/recipient states they work, the number of hours will be determined by taking the gross income and dividing it by the current minimum wage to determine gainful employment hours in determining level of care.

If the income is $0, it would be considered "No income" and the gainful employment policy should be followed. These hours are used to determine the gainful employment hours for determining the level of care and parental fee.

If a self-employed client applies and voluntarily provides their tax information, the child care worker can accept the tax forms (generally a Schedule C) as verification of their Self-Employment income and the child care worker must use that as verification of their income.

To determine the Level of Care, the child care worker uses gross income (before deductions) to determine level of care.

For example:
The initial gross $17,761/12 = $1480.08/$7.25 =
204.15 hours per month/4 = 51.04 hours per week.
The applicant/recipient is eligible for up to full time care.

Refer to Chapter 5 for information regarding Level of Care.

VI. CHILD SUPPORT

When assessing child support, child care workers must determine if the child support is received or paid out. The base period for child support, and alimony when received is the three months prior to the month of application or redetermination (date received in agency) if representative.

The base period when child support is paid out is one month prior to the month of application or redetermination (date received in agency) if representative.

Child support is a payment made by a non-custodial parent which is available to meet the child's basic needs. It may be paid voluntarily, under a court order or enforced in compliance with a state agreement under Title IV-D. Child support includes both direct and indirect payments. When budgeting child support income, a child is defined as

1. Any individual under the age of 18 or
2. Any individual age 18 and 19, if attending high school full time.

Child support income belongs to the child. Child support evidence must be entered under the child's name. If the child is included in the SCCA income unit, the child support income must be budgeted regardless of whether the child receives child care services or not. When there are siblings in the income unit NC FAST will count child support for both children. There is only one assistance unit created.

Applicant/recipients whose children are not receiving child support should be encouraged to seek the assistance of the local Child Support Services Office in obtaining child support payments from the child's non-custodial parent(s).

However, seeking assistance from Child Support Services shall not be a condition of eligibility for receiving child care assistance. The child care worker should try to obtain a written statement from the non- custodial parent before taking recipient's statement of child support as a last resort.

When assessing child support, child care workers must first determine if the child support is received or paid out.

A. Child Support Received

Child support payments received are counted in the family's total gross monthly income. These payments may appear to be fluctuating income and/or irregular income. The child care worker will use the amounts that the applicant/recipient receives, NOT the amount that the non-custodial parent is obligated to pay.

If child support is received, the base period is three (3) months prior to the month of application or redetermination (date received in agency) if representative. The child care worker must review the payments issued during the 3-month period to determine the number of representative payments and then average the amount received over a period of three (3) months.

If child support payments are received weekly, child care workers are not to convert the weekly payments to a monthly payment. Child care workers must calculate the sum of all child support payments received in the three (3) month base period and take the average by dividing the sum by three (3).

If child support received is based on a new order, and no payments have been received yet, do not project. A new order with payment in the base period requires the child care worker to divide by last three months.

1. Lump Sum Child Support Payments

   Lump sum child support payments shall be disregarded unless the recipient states they only receive child support income via lump sum payments. If a recipient reports receiving child support income only via lump sum payments, the child care worker will use a 12-month base period (prior to the month of application or redetermination if representative), add the total child support payments received (regular payments and lump sum/tax intercept payment) from the 12 months together and average (divide by 12). Document the case record to support the decision to document the case record to support the decision to use a 12-month average. The following are examples of child support lump sum payment types; however, this is not an exhaustive list.

ii. One-time, nonrecurring lump sum payments

iii. Recurring lump sum payments

iv. Tax intercepts, payments received as a result of tax refund intercept.

2. Child Support received for Minor Parent (s)

If major mother/father receives child support for his/her child who is a minor mother/father, the amount of child support that the major mother receives for the minor mother is only counted as income when determining the minor mother's eligibility for child care assistance.

If a minor parent applies for SCCA for his/her child and the minor's parent receives child support for the minor parent, the child support is not counted in the minor parents' case for the child.

B. Child Support Paid Out

When an applicant/recipient whose income is used in determining eligibility for child care assistance pays out any amount of child support, that amount is deducted from the amount of countable gross monthly income for determining eligibility.

If child support is paid out, the base period is one (1) month prior to the month of application or redetermination (date received in agency) if representative. Child care workers need to use the one-month base period.

If a recipient voluntarily reports that child support is being paid out during the certification period, the base period is the month prior to the month the change was reported. Refer to section XIV. Verifying Income below regarding verifying child support paid out.

Child Support Expense evidence must be entered into NC Fast to reflect the amount being paid out and the frequency; for example, if $100 is paid out and reflected on biweekly check stubs from the base month, the Child Care Expense evidence would reflect the amount of $100 with a frequency of biweekly.

Refer to the Income Clarification Chart Regarding Certain Categories of Countable and Non-Countable Income for the SCCA Program.

C. Types of Child Support

1. In-Kind donations paid to the parent or directly to the creditor on the parent's behalf by the non-custodial parent is countable income. Child care workers must use the 3-month base period.

2. Countable child support payments made by the non-custodial parent to the creditor / vendor on behalf of the applicant/responsible adult include:
    - i. rent, mortgage payments,
    - ii. utilities,
    - iii. vehicle payments, and
    - iv. payments for insurance other than health/medical insurance.
    - v. school tuition, camps, lessons, and afterschool activities

3. Non-countable items purchased by the non-custodial parent includes:
    - i. diapers,
    - ii. clothes, and
    - iii. baby food.

4. Terminated child support income

   i. If a child support order terminates,

      a. Child Care Workers must count child support payment(s) in the last month received. The date the last child support payment was received is the date used to end date the child support income.

   ii. If the non-custodial parent is no longer making child support payments, but the child support order has not terminated

      a. The child care worker must use the 3-month base period to calculate the countable child support income
         i. If the new average of child support income is higher than the current child support income, the child support income must not increase and shall stay the same.
         ii. If the new average of child support income is lower than the current child support income, the child support income entered must reflect the lower amount.

NOTE: Recipients are responsible for reporting any changes in child support payments. Child care workers must review both the mandatory and optional reporting requirements with recipients to ensure accurate reporting of child support payments received and any cessation of such payments.

VII. DEDUCTIONS AND DISREGARDS

Deductions and disregards are any dollar amount that is or may be deducted from countable income. It can come in the form of money, property, or services. Child care workers will act by excluding or deducting from the countable income. The deduction may vary by household. If the child care worker deducts or excludes any amount, the total amount excluded must be less than the dollar limit that applies.

Allowable deductions include but are not limited to:

A. Child Support

When adding the child support expense deduction, the collection fee for child support monies is to be included in the calculation of the child support expense deduction.

Example: using the client's pay stubs which will show child support deductions and calculate the average monthly expense based on pay frequency. For example, client is paid weekly, child support expense deduction showing on pay stub per pay period is $ 75.00/ $ 50.00 /$ 80.00/ $ 75.00 = $280.00/4=$70.00 weekly average. $70.00 X 4.3= $301.00 per month.

Child Support Expense evidence must be entered into NC Fast to reflect the amount being paid out and the frequency. For example, if $100 is paid out and reflected on biweekly check stubs from the base month, the Child Care Expense evidence would reflect the amount of $100 with a frequency of biweekly.

Refer to Chapter 7 Attachment 1: Clarification Regarding Certain Categories of Countable and Non-Countable Income Chart.

B. Self-Employment

Refer to the list under section above, V.C. Calculation of Self-Employment and Operational Expenses.

C. Cafeteria or Health Benefit and Employer Sponsored Benefit Plan Income

The type of cafeteria or health benefit plans offered by employers will vary. When the income of an applicant/recipient has both health benefit income and health benefit deductions reflected on the pay stub, the cost of medical, dental and vision insurance premiums are deducted from the countable gross monthly income to determine income eligibility. The child care worker reviews the pay stub or other documentation from the applicant/recipient or employer which reflects health benefit income in the earnings/gross income and deduction sections.

One of the following criteria will determine if the income from the health benefit is countable.

1. The health benefit income is countable if benefits such as medical, dental, or vision deductions are not reflected on the pay stub or other documentation. This is not an exhaustive list. In instances where the employer pays a one-time annual benefit to employees who elect to purchase insurance from another source other than the employer, the lump sum is countable and divided over the months covered by the benefits.

2. If benefit is deducted by the employer, the health benefit income is non-countable. If the recipient received funds in hand to purchase benefit, then the child care worker must count the income.

i. The health benefit income is partially countable if the benefit deduction amounts are less than the benefit dollars listed in the gross income section. When this occurs, the benefit dollars that are not utilized for medical, dental or vision insurance are countable.

ii. The health benefit income is not countable if the deductions equal or exceed the benefit dollars in the gross income section. If health care benefits do not meet the criteria, child care staff should contact their Subsidy Services Technical Assistance Consultant to determine the deductions and countable income.

D. Medical Expenses

When an applicant/recipient states they have out-of-pocket medical expenses, those medical expenses that exceed more than 10% of the gross monthly income must be considered by the LPA/DSS for the purpose of reducing the parental fee, not in determining basic income eligibility. Medical expenses include payments to medical providers, the purchase of prescriptions, and post taxed medical insurance only. To determine the amount of the decrease that is reasonable, the LPA/DSS must:

1. Verify the medical expense that is paid in the base period only. Verification may include a billing statement from the provider showing the amount due after insurance coverage; or proof of the amount covered and uncovered expenses from all insurance carriers.

2. Deduct only the amount of the total medical expenses from the gross income.

3. The parental fee assessed will be reduced by subtracting the amount of

documented medical expenses that exceeds more than 10% of the gross income. Once the medical expenses have been entered in NC FAST, there should be a reduction in the parental fee.

Refer to Chapter 8 for additional information regarding parental fees and Medical Expenses.

E. Alimony

When an applicant/recipient pays out alimony, the amount paid out is deducted from the countable gross monthly income for determining eligibility. The base month for alimony being paid out is one month prior to the month of application or redetermination.

VIII. ASSESSING MONTHLY INCOME FOR DETERMINING ELIGIBILITY

When assessing monthly income, the determination of countable monthly gross income is based on:

- The assessment of the family income that is anticipated during the twelve-month period following the date of application (this includes the child care worker asking questions to ascertain the recipient's financial situation).
- Consideration of all sources of income and determining what income is counted for the eligibility for SCCA,
- Verification of all employment, and all sources of countable income,
- Allowing and verifying child support payments that are received or paid out, and
- Making accurate calculations.

When the family actively receives benefits from FNS, the child care worker's first step is to access the most current FNS income information from NC FAST since the income information shown in NC FAST has been verified. The following types of income that can be deemed from FNS include:

- Earned Income, and
- Unearned Income (excluding child support)

The child care worker must complete the guided interview using the information obtained from FNS. The childcare worker cannot require the applicant to provide additional income information. However, if the applicant voluntarily provides more current information, the new information must be verified following SCCA policy. In the following situations, income is NOT deemed from FNS:

- Non-representative income
- Lottery or gambling winnings
- Self-Employment Income
- Child Support

At the time of application, and redetermination, the child care worker must emphasize to the recipient the importance of reporting changes. The child care worker must use the Recipient Responsibilities for Subsidized Child Care Assistance NC FAST-20009 form, when reviewing the reporting requirements with the applicant/recipient. Refer to Chapter 13 regarding Recipient Rights and Responsibilities.

A. Base Periods & Special Base Periods

The base period report for initial applications is the month prior to the month the initial application is received in the agency. The base period for recertification applications is the month prior to when the recertification application is received in the agency. Refer to Chapter 7 Attachment 3: Application, Recertification & Base Periods Guide

1. Base periods

   Are the periods of time that are the basis for determining income eligibility. The base period establishes a set period for child care workers to create a "snapshot" of a budget unit's income and for which income must be verified. The base period should be an accurate representation of the income the household is expected to have available during the certification period.

   The following are static base periods used for representative income:

   <u>One Month:</u>

   The base period for most income is the month prior to the month of application or redetermination if representative.

   <u>Three Months:</u>
   The base period for child support, spousal support, and alimony is three months prior to the month of application or redetermination if representative. Calculate by adding the income from the three months together and divide it by 3 to obtain a monthly average.

   <u>Twelve Months:</u>
   If the income is received annually or from self-employment, the base period is 12- months. Refer to section V. SELF-EMPLOYMENT

   When the child care worker is assessing a family for application or recertification, the above base periods must be discussed. Documentation requested from the recipient shall be based on the above base periods. For the majority of representative income, a 1-month base period is used.

   NOTE: When child support is received a 3-month base period is used.

Refer to the Chapter 7 Attachment 3: Application, Recertification & Base Periods Guide for reference.

2. Special Base Periods

   Certain types of income require special base periods, particularly if the income is not stable or the income fluctuates. Income that fluctuates significantly should be averaged in such a way that child care assistance will not be interrupted, and the family can anticipate and budget for the parental fee that remains unchanged throughout the eligibility period. This method of calculating income must be used sparingly and carefully.

   i. Non-representative income is income from the base period that is received irregularly, has changed, or terminated, and cannot be reasonably expected to be available to the recipient's household during the certification period.

      a. If reported income is not representative, the child care worker must determine which budgeting method is the most representative estimate of the budget unit's income over the certification period. The child care worker must provide detailed documentation of what was used for representative income and why it was used.

B. Determining Representative Income

The following steps must be used for determining income when non-representative income is in the base period:

1. Explore alternative budgeting methods for averaging income. The child care worker may consider one of the following or other alternative budgeting methods:

i. an average income of the three months prior to application,
ii. an average of six months prior to application, or
iii. an average that includes three months prior to the application and three months of anticipated future income.

If the child care worker uses an alternate budgeting method, the worker must document why the base period is not representative and how the child care worker determined what is representative. Include the calculations in the documentation.

2. Project using the best available information about the number of hours, rate of pay, and frequency of pay expected to be received over the certification period.

i. Nonrepresentative income includes new income that was not previously available to the household but is now or will be available to the household during the certification period. New income can include the following but is not limited to:

- New employment.
- Increase / Decrease in rate of pay.
- New position with same employer.
- Increase/ Decrease in work hours.

If the new income provided is representative, use the appropriate base period income to average gross income.

ii. If new income is not representative due to the household not receiving a full month's income, it may be necessary to project income for future months. Project income by using the best available information about the number of hours, rate of pay, and frequency of pay expected to be received over the certification period.

C. Calculation of Income

The computation of gross monthly income is made based on an assessment of the family's income that is available during the appropriate based period. It includes asking questions to ascertain the client's situation, considering all sources of income, determining what income is counted for the eligibility for child care services, verifying all sources of countable income, and making accurate calculations.

If pay stubs are not available due to the applicant/recipient being newly employed, the DSS/LPA should not delay the approval of the application. Income that is anticipated by someone who is newly employed is based on an employer's statement (either by telephone, written statement, or a wage verification form) that indicates the rate of pay and the number of hours for each pay period the applicant/recipient is scheduled to work.

The calculation of earned income must be clear and can be explained by one of the following:

- An explanation in the case narrative.
- Handwritten notes on the application (DCDEE-0456).
- A calculator tape for income which should be uploaded as an attachment in NC FAST.
- Any unusual circumstances that the child care worker considers in calculating income must be documented in detail in the case narrative.

1. Alternative Budgeting Method-
   If income is not representative, child care workers must provide detailed documentation of why the child care worker used what they used and detailed documentation of why the budget was calculated differently.

2. Calculating Regular ongoing income:

   Income that the household has been or expects to receive on a regular, ongoing basis. This income can fluctuate across pay periods, so the child care worker should use all representative (full) pay received in the base period to average gross income across pay periods to determine the amount of gross income available to the household for each pay period.

   i. Calculation: averaging the representative income to establish an accurate representation of the income expected to be received each pay period.
   ii. Determine the total gross income for each pay stub received during the base period.
   iii. Determine the number of pay dates.
   iv. Divide the total gross income by the number of pay dates; do not round.

   If the base period contains a pay period of $0 that is representative of the regular ongoing pay use $0 in your averaging.

   If the $0 pay is not representative, then do not use that pay period and thoroughly document the reason the income is not representative in the case notes.

   The following formula is used to convert average incomes to a monthly amount:

   - If received weekly, multiply by 4.3
   - If received biweekly, multiply by 2.15
   - If received semi-monthly, multiply by 2
   - If received quarterly, divide by 3
   - If received monthly, use the monthly gross
   - If received semi-annually, divide by 6

- If received annually, divide by 12

The monthly income amount is entered on the application in NC FAST.

3. Calculating Terminated income:

   Income the household has previously received that has terminated or will terminate during the certification period.

   If terminated income is reported prior to the receipt of the last pay, the last pay received is counted and the end date shall reflect the date the last pay is received.

   For example:
   Recipient reports terminated employment on 03/13/2024. The recipient's last pay check is expected on 03/29/2024. The last pay received on 03/29/2024 is counted and the income is end dated on 03/29/2024.

   If terminated income is reported after the last pay has been received. The income shall be end dated the date the recipient reports the terminated income.

   For example:
   Recipient reports terminated employment on 04/15/2024. The recipient's last pay check is expected on 03/29/2024. The last pay received on 03/29/2024 is counted and the income is end dated on 04/15/2024.

   Client statement regarding terminated income is accepted unless it is questionable. If client statement is questionable, child care workers should request verification and must document why verification of terminated income has been requested.

IX. VERIFICATIONS

Verifications are used to support evidence in the determination of SCCA program eligibility. The purpose for verification is designed to prevent and/or identify fraudulent misrepresentation and under/overpayments. Income verification must be completed before a case can be opened.

Adequate verification requires that the applicant/recipient presents sufficient information so the child care worker can make accurate calculations that reflect the applicant/recipient's current income or to accurately determine an average monthly income in those cases where income fluctuates significantly.

It is important for the applicants/recipients to understand they are certifying the accuracy of the information when they sign the application. The child care worker must assist the applicant or household in obtaining verification as needed. The
child care worker must have every check stub received during the base period month. If every check stub is not available, the child care worker must accept any reasonable documentary evidence if the verification adequately proves the information provided on the application. Child care workers must provide detailed documentation of why the child care worker used what they used.

Note: Do not verify the county residency, citizenship, or age of the child as it is not a requirement for SCCA. Refer to Chapter 4 for additional information.

A. There are four main sources of verification that can be used when determining eligibility.

1. Electronic Verifications (the work number) are the best tool for calculating gross monthly income. In addition to showing the name of the employer, the date of pay and gross income earned, this document can provide other valuable information which helps the child care worker make an accurate calculation.

Electronic Verification (OVS) is required for all unearned income types. Electronic matching is the primary income verification source for income received through Social Security, Division of Employment Services (DES), Unemployment Insurance Benefits (UIB), and the Work Number. Child care workers must use OLV/OVS for verification and explore unearned and/or benefit income using the verification hierarchy.

There may be times when OLV/OVS may yield insufficient results from the online data request. If this occurs, it is because there is no social security number (SSN) of a household member. The child care worker can ask the applicant/recipient for SSNs to aid in online verification. However, it must be made clear that providing a SSN remains optional and services will not be denied for an applicant who refuses to provide a SSN. Refer to Chapter 4 regarding SSNs and the application process.

Social Security numbers may be needed for:

- child only cases and
- when the online verification results in insufficient date.

Note: Only pursue other verification methods if there is a discrepancy or if electronic verification is not available or representative.

Refer to the following job aids:
SCCA Job Aid- Requesting and Viewing Online Data (OVS)
SCCA Job Aid- Adding-Editing the Social Security Number SSN
SCCA Job Aid- Registering Persons

2. Documentary evidence for income verification includes items such as but not limited to wage stubs or award letters. Documentary evidence may be provided in person, by mail, or through an authorized representative. The applicant or the household has primary responsibility for providing documentary evidence to support statements on the application and to resolve any questionable information. If the applicant/recipient is unable to furnish source documents, the DSS/LPA must have the applicant/recipient's written permission authorizing the child care worker to contact the necessary individuals, employers, or agencies to verify income. The child care worker documents in the case notes which verification method was used and why previous method was not used. When documentary evidence cannot be obtained or is insufficient to make eligibility determination or determination of the correct benefit level, collateral contact may be necessary.

3. A collateral contact is a person knowledgeable enough about the information needed to provide an accurate statement of verification. Examples of acceptable collateral contacts may include employers, social service agencies, migrant service agencies, who can be expected to provide accurate third-party verification. The DSS/LPA is responsible for obtaining verification from acceptable collateral contacts.

4. The recipient's written statement is acceptable in some circumstances unless otherwise questionable. The following circumstances include but are not limited to
    i. Receiving recurring cash contributions paid to the parent, or
    ii. Child support that is not paid pursuant to a written agreement or court- ordered arrangement.

The recipient’s written statement should be the last resort after all other attempts to obtain verification have been exhausted. The child care worker must enter detailed documentation as to why the recipient's statement is being used and why other methods were not used.

Note: The DSS/LPA must assist the applicant or household in obtaining verification as needed.

X. VERIFICATION OF INCOME TYPES

The applicant/recipient’s income is the “evidence” used to determine eligibility. The family applying for SCCA must meet income eligibility requirements to be approved for services unless the service is available without regard to income (to support care needed for CPS or CWS). In all instances, child care workers must document verification of income. Refer to Chapter 04: Application, Eligibility Determination and Documentation.

Verification of all income is required at:

1. application,
2. annual redetermination,
3. if there is an increase in income that exceeds 85% SMI (this should NOT include irregular income fluctuations),
4. if a recipient voluntarily reports a change in employment and allows a decrease in income.

A. Income Types and the Verification Hierarchy

The following lists the verification methods and hierarchy for each of the standard income types. The verification methods are in descending order when electronic verification is not available or is not the most current.

1. Standard Earned Income- Wages, Salaries, Tips (including Contract Income, pay advances, work-study, longevity pay etc.).

   i. Verify the most recent representative pay.
   ii. Verify the client's status, rate of pay, and average hours worked with employer, either verbally or in writing.
   iii. Accept client's statement as the last possible verification method if unable to obtain from a third party.

2. Special Earned Income- Rentals, Royalties, Self-Employment
   i. Income tax return or tax forms

      a. Tax returns provided by the applicant/recipient are an acceptable form of verification.

      b. (1099) verification for Self-Employment

      Note: For contracted employees that have a 1099, it can be accepted if skillful interviewing is completed to support the DSS/LPA accepting the 1099. Skillful interviewing and documentation should include:

      - How many months does the 1099 cover?

      - Does the client perform any other contract work that the presented 1099 does not cover?

      - Does the income reported on the 1099 meet the gainful employment standard?

   ii. Business records

      a. Business records provided by applicant/recipient are an acceptable form of verification. This may include but is not limited to the following:

- Business accounting records or statements from an outside accountant (generally compiled based on information provided by the applicant/recipient).
- Ledger books or bookkeeping records, including those maintained by the applicant/recipient or an employee, either paper or in software programs such as Quicken.
- Lease agreements that are maintained by the applicant/recipient.

Note: For expenses, verification must indicate the date the expense was paid, to whom it was paid, and the purpose of the expense.

iii. Signed statement of a financial institution, bank, or real estate agent.

iv. Applicant Statement

At application, the applicant’s written statement of income may be accepted **AS A LAST ALTERNATIVE** only if no business or current tax records are available and the applicant has not previously been informed of the requirement to keep business records. Applicant's written statement is acceptable for gross receipt income only rather than net income after operating expenses. The applicant's statement cannot be accepted for operational expenses.

If a recipient does not keep good records, the child care worker can provide the applicant/recipient the Verification Form for Self- Employment Income and Expenses Attachment 2 to verify income.

Note: If an applicant/recipient has just started a new business, the applicant/recipient's statement of income may be accepted as a last alternative only if no business or tax records are available. If the child care worker must accept the applicant's statement of gross income, the reason the applicant has no business records must be documented. In addition, the child care worker must advise the applicant/recipient that at redetermination, it will be necessary to provide adequate business records to establish and verify income to continue to receive services.

3. Child Support Received

The amount of child support received or must be verified through:

i. Online verification system (ACTS)

ii. Provision of the separation agreement or divorce decree, if up to date

   a. Child Support Services
   b. Clerk of Court

iii. Signed statement of the caretaker when the income is received directly to the income unit as a last possible verification method.

   a. The child care worker should obtain the written statement from the non- custodial parent before taking the applicant / recipient's statement of child support.

   b. If the non-custodial parent refuses to cooperate and provide verification of child support, the information should be documented in the case narrative/notes and allow the applicant/recipient to sign a statement verifying the amount of child support received for the base period. The applicant/recipient is not required to prove he/she does not receive child support.

4. Child Support Paid Out

The amount of child support paid out must be verified through:

i. Documentary evidence
   - Pay stubs showing the child support deductions; or
   - Statement from the Child Support office documenting amount payments made.

For additional information regarding policy described in this chapter please refer to:

SCCA Manual:

Chapter 4 Application and Eligibility
Chapter 5 Establishing Plan of Care
Maximum Income Eligibility FPL & SMI Chart-

NC FAST Job Aids:

SCCA-85% SMI Phase-Out Reference Guide

SCCA-Change of Circumstance Evidence and Alignment Reference Guide
SCCA-Change of Circumstance Job Aid
SCCA-Decision details and Change of Circumstance Reference Guide
SCCA-Eligibility Decision Results Reference Guide
SCCA-Foster Care Job Aid
SCCA-Graduated Phase-Out
SCCA-Joint Custody Job Aid for step-by-step instructions self-employment in NCFAST.

SCCA-Reactivate a case in pending closure status.
SCCA-Recertification
SCCA-Employment, Self-Employment, and Income Evidence Job Aid
SCCA-Service plan Reference Guide
SCCA-Tasks Reference Guide
SCCA-Unearned Income Evidence
SCCA-Using FNS Evidence as verified SCCA Evidence