

Ontario Works Directives

5.13: Self-Employment Income

Legislative Authority

Section 7(3) of the Act.

Sections 1(1), 26, 39(1), 48 and 54(1) of Regulation 134/98.

Audit Requirements

Random file reviews are completed to ensure that:

- Documentation is on file to show that income has been determined to be from self-employment;
- Acceptable verification of business assets, income and expenses on a monthly basis is present;
- Accurate calculation of net business income, appropriate business expense deductions and allowable assets are maintained; and
- Participant follow-ups take place and are documented.

Application of Policy

Ontario Works makes a distinction between the treatment of employment earnings and income received from the operation of a business (e.g., self-employment) for the purposes of determining initial and ongoing eligibility and calculating assistance.

Applicants and participants who are determined to have self-employment income are eligible to deduct approved business expenses from that income to calculate their net business income.

Consistent with the treatment of income earned through employment, applicants and participants with earnings from self-employment may also be eligible for earnings exemptions. This includes a \$200 flat rate earnings exemption, as well as a 50% partial exemption of earnings in excess of \$200. (see [Directive 5.3: Earnings Exemptions](#) for more information).

Both earnings exemptions are applied to the net business earnings once approved business expenses have been deducted.

The earnings exemptions can only be applied after three continuous months of being in receipt of financial assistance. However, for re-applicants who exited Ontario Works (or ODSP) with earnings from employment, a business or with amounts paid under a training program, the exemptions can be applied immediately, if the reapplication is made within six months of exiting assistance (see [Directive 5.3: Earnings Exemptions](#) for more information).

Determining Self-Employment Status

"Self-employment" means that the individual operates and controls a business, directly or indirectly. In making a determination about the source of an individual's income (from self-employment or from regular employment) the Administrator may consider several factors that, taken together, suggest that the income is from self-employment. Factors might include but are not limited to whether the individual:

- is both the owner and operator of the business generating the income;
- suffers the financial losses from the business;
- benefits from the profits of the business;
- owns the tools of the trade and business assets;
- is remunerated based on performing a certain contract of work;
- owns the service provided or the product;
- can act independently in carrying on the business;
- is considered self-employed on income tax forms as provided by the Canada Revenue Agency.

Where employment status is unclear, the **Employment Status Assessment Tool** and the **Business Income and Expense Report** may be referred to for further information on determining the source of income.

A person is not self-employed if he/she is an employee. The terms and conditions of the person's employment should be examined and analyzed as they relate to the above factors to determine if a person's income is from self-employment or regular employment.

Treatment of Self-Employment Income

Income Determination

Net business income is used for monthly reporting purposes and is calculated as gross income from self-employment less approved business expenses.

The \$200 flat rate exemption and 50% partial exemption on earnings over \$200 are applied to net business income once approved business expenses have been deducted.

Revenue or business income means the cash coming into the business. Proceeds from business loans and the investment of personal assets into a business are not considered revenue.

Treatment of Assets

A business asset is defined as any item that is necessary for the operation of the business other than a tool of the trade. A tool of the trade is defined as any instrument that is used in an occupation or trade. Business assets are exempt if essential to the operation of the business. The total value of the assets cannot exceed \$10,000. When the value of business assets is between \$10,000 and \$15,000, the Administrator may approve an exemption of the business asset up to \$15,000 as necessary to the operation of a business (see [Directive 4.4: Business Assets](#) for more information). Cash represents part of the business assets retained in the business. The cash portion cannot exceed \$3,000. Cash means cash earned and saved from the business and kept in a business bank account and excludes amounts that have been approved for reinvestment.

Business Loans

Loans for the purposes of operating a business are exempt as income and assets provided prior approval by the Administrator is obtained. To obtain approval, the participant must submit a **Request for Approval Business Loan Expense** (Form # 2789) to verify the purpose of the loan.

Business Expenses

Approved business expenses can vary considerably from business to business. Case workers are expected to apply a “reasonableness” test to ensure that the expense meets the following criteria (the Business Income and Expense Report may be referred to as an optional tool). Reasonable business expenses should:

- be necessary to the operation of the business;
- maintain or increase the likelihood of earning income from the business; and
- be purchased on a “best buy” basis.

Note: If a client pursuing self-employment contributes to CPP or EI special benefits, these should be treated as business-related expenses and deducted from gross business income.

See **Ontario Works Self-Employment Guidelines** for a full list of approved and non-approved business expenses.

Business Reinvestments

Participants may request approval to accumulate business income for the purpose of reinvestment. The amount of business income accumulated monthly may be considered an allowable business expense. The allowable business asset levels must not be exceeded when accumulating savings for reinvestment.

Self-Employment as an Employment Assistance Activity

Administrators in First Nations and northern communities have the discretion to exercise flexibility when approving employment activities and/or expenses based on cultural and geographic considerations in order to support employment outcomes for clients.

Participants interested in being approved for self-employment as an employment assistance activity should be assessed for their potential to successfully achieve financial independence from social assistance using the four-step process to determine whether self-employment is an appropriate employment assistance activity going forward (see **Ontario Works Self-Employment Guidelines** for more information).

Self-Employment - Not Approved as an Employment Assistance Activity

Self-employment that is not approved as an employment assistance activity is permitted provided the participant meets all eligibility criteria for Ontario Works including residency requirements, income and asset rules, and participation requirements in other employment assistance activities. Any time spent on self-employment should not interfere with the participant's Ontario Works approved participation requirements. The income from such self-employment would be subject to regular self-employment business income, expense and asset rules and the earnings exemptions would apply.

Casual Employment

Income from casual/occasional work is treated as income and earnings exemptions may be applied. These persons would not be eligible to deduct business expenses from this income and would be required to report their gross income.

For further information related to Self-Employment as a participation activity, please see [Directive 2.5: Participation Requirements](#).

Record Keeping Guidelines

Participants who have income from self-employment are required to maintain adequate records of income or revenues, expenses, assets and liabilities that are

used to determine monthly allowance. All business records must be accurately kept and used to monitor the business activity.

Business record keeping should follow the **Record Keeping Requirements** (Form #2787). Guides on how best to keep business records may be available through a SEDA.

Employment Benefits and Advance Child Care Payments

Eligibility for the Other Employment and Employment Assistance Activities Benefit and advance child care payments also applies to participants starting their own business to help with the costs associated with starting employment. (see [Directive 7.4: Employment and Participation Benefits](#) for more information).

For further details on the information provided in this Directive, **see Ontario Works Self-Employment Guidelines.**