Chapter 308

SELF-EMPLOYMENT

December 2009

Section I. Definitions

A. “Assessment” is the process by which it is determined that the individual has the skills, attributes, and resources to be a business owner and the business idea is evaluated to see if it is reasonable.
B. “Business Plan” means a formal written document that fully describes the proposed business and covers such topics as a market analysis and marketing plan, start-up and continuing costs, and how the business will operate.
C. “Self-employment” means the customer must have ownership in the business and be involved in the day-to-day operations.
D. “Start-up costs” are expenses such as initial stock and supplies, equipment, rent and utilities for up to 4 months, insurance, site renovations, and licenses needed to open a business.

Section II. Purpose

Using data from the most recent U.S. census, it is estimated that 14% of Vermonters are self-employed. People with disabilities are, according to Census data, more likely to be self-employed than their non-disabled peers. Self-employment is an employment option that a good portion of our VR customers want to explore. DVR will be supportive but realistic about self-employment options. Starting a small business can be difficult and successful customers will be those with a certain set of skills, personality traits, and an active support network.

Section III. Process

The self-employment process is one that can be quite lengthy and requires a team effort between the customer, the VR counselor, and outside consultants. Each member of the team has certain responsibilities with customer commitment and involvement key ingredients in this process. The self-employment process used by VR is designed to ensure that those who complete the process have an excellent chance to launch a successful business. To ensure that we have done all we can to help the person succeed, VR requires the successful completion of each activity/step before proceeding.

A. Reviewing Expectations

It is important that the customer understands at the very beginning of the self-employment process that she/he is expected to complete all assigned tasks. The counselor will provide support and assistance, but the majority of the work that needs to be done, from research to writing a business plan, will be the responsibility of the customer. VR counselors need to be upfront about their knowledge, or lack of knowledge, about developing and evaluating self-employment ideas. As needed, counselors will seek and use the expertise of other staff and consultants.

Finances should be discussed early in the process. VR will not commit to financially supporting a self-employment plan until that plan has been approved and determined to be feasible by VR. Under most circumstance VR will provide no more than 50% of the start-up costs of the business and the customer must either provide or secure, sometimes with assistance from the counselor or consultant, the remaining 50% or more.

Special Note: For customers who receive public benefits such as Social Security, Medicaid, Food Stamps, etc., it is necessary to evaluate how self-employment can impact their benefits. In most cases, the primary consideration is the net income realized from the self-employment activity. Most programs use the same criteria used by the IRS to determine the net income, i.e., gross receipts less allowable business expenses results in the net income figure.

The length of time in which the customer has been engaged in a self-employment activity is a factor. Most programs arrive at a net monthly income by averaging the earnings of the self-employment over the time the business has been operating. For self-employment endeavors operating for more than a year, the individual's income tax return is used to determine net income.

It is important to note that there may be unusual or unique circumstances impacting the self-employed individual's benefits. Benefit program rules and Social Security rules can be confusing. VR Benefits Counselors are available to evaluate those individual circumstances as the self-employment plan is developed. It can be helpful to involve the Benefits Counselor early in the planning process. See Section VI for more information on Social Security Benefits and PASS plans.

Self-Employment Handout A (page 14) is based on information developed by the Research and Training Center on Rural Rehabilitation Services at the University of Montana. This handout should be reviewed with the customer.

Self-employment is the right path for some people, but not for everyone. Sometimes it is the right path, but the timing is wrong or the person needs more training or technical skills development before launching a business. The counselor and the customer should discuss some of the advantages and disadvantages of self-employment identified by those who have become self-employed.

Some of the <u>advantages</u> of self-employment are:

Independence—control the work setting and schedule
Employment when other opportunities are few

Being the boss
Interacting with customers, suppliers, and others
Doing enjoyable work
Sense of achievement/satisfaction if the business succeeds
Control over business decisions
Better standard of living
Feeling part of the community

Some of the disadvantages of self-employment are:

Pleasing the customer (the REAL boss)
Long, hard hours with little free time
Fluctuating income
Unrelenting responsibility
Possibility of business failure
Stress on family/resources
Possible exacerbation of health problems/disability[1]

B. The Assessment Phase

Both the individual and the business idea must be assessed. The customer and the counselor must be convinced that the customer has the interest and personality traits to successfully start and maintain a business. Assessments can be formal or informal. An informal process might consist of a discussion between the customer and the counselor or a vocational evaluator. Areas of discussion would include the customer's, "experience and education, skills and abilities, financial situation, likes and dislikes, current needs, desirable settings/locations, and need for additional education or training."[2]

When a person does not have a specific idea she/he wants to pursue, a more formal assessment may be helpful. These assessments are more in line with determining the customer's interests so they can explore various business options that would be in line with those interests. Two of the assessment tools used by VR are The Career Key, a free on-line interest inventory, and the Harrington-O'Shea Career

[1] Nancy Arnold, *Self-Employment Steps for Vocational Rehabilitation Counselors: Helping a Consumer Start a Business (Missoula, Montana, 2001)*, pp. 21-22; hereafter cited as Arnold.
[2] Arnold, p. 39.

Decision-Making System.
Assessing the business idea involves some customer research and discussions between the customer and counselor. Self-Employment Handouts B (Beginning to Develop Your Business Plan[3]) and C (Monthly Personal and Living Expenses[4]) (See pages 16 and 18) must be completed by the customer and discussed with the counselor. It is important that the customer be as specific as possible when answering the questions in Handout B. For example, the questions, "Where are your customers located?" can not be adequately answered by saying, "Burlington" or "Windham County." The customer must research to determine who is most likely to buy the product/service, where potential buyers reside, how many of them there are, how many products/services will each person buy and how often, etc.

GUIDANCE: Handout C will provide a complete picture of the customer's financial status to help determine the financial contribution she/he can personally make to the business. The responses should be reviewed and discussed with the counselor to make sure all questions have been answered accurately and that there is agreement between the counselor and the customer about expenses and resources impacting on self-employment.

How the customer handles the assignment of completing Handouts B and C can help determine how ready the individual is to pursue the self-employment option. If the person is enthusiastic about the idea of self-employment and determined to succeed, she/he is more likely to complete the assignments in a timely manner. If the answers on Handout B are not specific and comprehensive, it may point to the need for more counselor support or the need for additional training for the customer before proceeding with the idea.

It is important to remember that going from the concept of self-employment to actual start-up of a business will probably not be a straight-line process for most people. There will be a need for reassessments along the way or a need to gain a skill or experience before moving ahead. There may even be setbacks related to the individual's disability. The VR counselor and the VR program must be supportive and understanding of the process. VR will provide the supports and services needed to determine if the person has the skills and traits to be successfully self-employed, and that the business idea is feasible. When those determinations have been made, the customer is ready to develop the Business

[3] Arnold, pp. 34-35.
[4] Arnold, pp. 36-38.

Plan.

C. The Business Plan

It is important that the customer have ownership of the Business Plan. Ownership only occurs if the customer actually writes the Plan or works very closely with the resource person/organization doing the actual writing. The Plan serves as the roadmap for the individual as well as a marketing tool to help secure any needed financial resources. At first sight, the development of a Business Plan may seem like a daunting task. However, it is really only an extension of the feasibility study already completed so it should be a manageable task. Also, there are local/regional resources available to the customer.

VR does not require a specific format for the Business Plan. The Plan must be a comprehensive document that fully explains to reviewers and lenders what the goal is of the business, what it will cost to start and run, and how start-up will be accomplished.

The Vermont Small Business Development Center uses this outline for Plan development:

Executive Summary
Business Description
Management Team
Market Analysis
Marketing Plan
Operational Plan
Financial Data
Supporting Documents

Business Plans must be reviewed and approved by VR before there is any commitment of funds to the implementation of the Business Plan. VR may use staff, the Business Enterprise Specialist, or review panels composed of business people and those with financing expertise to evaluate Plans. The panels will make recommendations to VR regarding the strengths and weaknesses of each Plan. They may also raise other issues that may need to be addressed before proceeding. For example, there may be zoning issues that have not been recognized or addressed.

GUIDANCE: We encourage the creation of review panels as members will bring an expertise not normally found within our own staff resources. We must, however, be cautious to ensure that there are no conflict of interest issues between a panel member representing an existing business and the proposed business. In some instances, we will be dealing with small communities and customers who are well known in those communities. When getting authorizations from the customer to release information to panel members, the customer must be given an opportunity to ask for the removal of one or more panel members who the customer feels can not or will not objectively review the proposal because of personal history with the customer or his/her family.

D. Other Requirements

1. The customer must have some documented ownership in the business and actually be involved in the day-to-day operation of the business.
2. If applicable, the business name must be registered with the Vermont Secretary of State's Office. Registration allows ownership of the business name, gives a right to claim bad debts, and makes it possible to purchase business insurance. It also allows the customer a chance to establish a "track record" for future lending needs.
3. Additional training or education may be required before or in conjunction with the implementation of the Business Plan. Failure to complete required training/education will result in the suspension or discontinuation of the self-employment plan. It is recommended that anyone seriously considering self-employment participate in business development training such as that conducted at a local Small Business Development Center (SBDC) or by the Micro Business Development Program (MBDP). VR expenditures for training and education are considered part of the evaluation costs and not considered part of the "start-up" costs.
4. Bookkeeping is a key element of running a small business. Every expenditure and receipt of income must be recorded, inventory records need to be maintained, tax and payroll forms need to be completed and filed, etc. A self-employed person must have a basic understanding of bookkeeping principles and either the skills to keep the necessary records or the resources to hire a bookkeeping service.
5. Most people cannot start a small business without the support and

assistance of family and friends. Early in the exploration process, the counselor and customer should determine what expertise and support is available to the customer and the level of commitment by the support group to assist the customer during the planning and implementation stages as well as on an on-going basis.

6. Each VR district office will maintain a general list of appropriate local/regional resources that can assist in doing self-assessments, writing feasibility and business plans, and researching potential funding sources. These resources will be shared with each person investigating self-employment as their employment goal.

Section IV. Funding

Small business development requires a commitment of customer resources as well as time. The customer is generally responsible for securing or providing the majority of funds needed to start and maintain a business enterprise. VR will work with the customer to help search out potential resources and may provide up to $2,500 to help leverage funds, pay for tools, inventory supplies, etc. for businesses expected to lead to self-sufficiency. (VR can provide up to $1,500 for business ventures intended to supplement other income but not lead to self-sufficiency.) In limited situations, these funding levels may be waived with the approval of the Regional Manager or the Division Director.

GUIDANCE: As used in this Section, "self-sufficiency" means "livable income" defined as the income needed to meet a family's basic needs plus all Federal and State taxes. "Business ventures intended to supplement other income…" are generally those done on a part-time basis or those not expected to provide a "livable income." Self-employment ventures for those on SSI or SSDI who want to limit their income to maintain benefits would be considered "supplemental," rather than "self-sufficient" ventures.

VR funding is not an automatic "grant." VR funds are to be used to supplement the customer's resources and funding she/he has secured from other funding sources. Customer resources would include such things as cash contributions, tools or equipment to be used in the business, the value of space provided by the customer, a portion of the value of a vehicle to be used in the business, etc.

Evaluation costs, consultant costs, and disability-related accommodations are not included in the spending guideline in this Section. Additional costs after business start-up should be outlined as business expenses in the Business Plan and be part of the overall funding requirement.

The amount of VR funding support should be reflected in the IPE once the Business Plan is developed. The amount of support provided will be dependent on the financial information provided in the Business Plan and the availability of support from other sources.

As the Plan is implemented and the business develops, unanticipated expenses may arise beyond what was outlined in the IPE and the Business Plan. Some of these expenses may be best addressed through an amendment to the IPE or as Post Employment Services. Others may require a short-term loan from VR. In these cases, the counselor and the customer will jointly write up and sign a loan agreement outlining the terms of repayment. Checks made out to The State of Vermont are the preferred method of repayment. If a cash payment is received, a third party should witness the transaction in writing and a written receipt must be issued.

Section V: Follow-Up and Closure

Once the Business Plan is implemented, VR follow-up is critical. The counselor and customer should write a follow-up schedule into the evaluation section of the IPE. At a minimum, VR staff will make monthly visits to the business during the first three months of operation. More frequent visits may occur if appropriate in the judgment of the VR counselor. In most cases, after three months of operation visits will fade to one every two months until the case is closed. Contacts will include periodic reviews of tax records and the business's books by either the counselor or a business consultant.

Once the business is operational, additional VR funds may be used, at the discretion of the counselor, for continued education and training, if needed.

There should be a clear understanding at the time the IPE is written of the criterion to be used for determining success. The criterion will have to be set on an individual basis and may be as simple as “income equals outgo.” When the IPE has been completed, the person should be informed of the additional support available through post-employment services.

GUIDANCE: When determining “success,” we need to look at more than just profits. It is likely that the business owner will have to reinvest any “income over outgo” in the business for some period of time. This reinvestment must be considered when evaluating the success of the business. For example, the customer may say that she/he is not making any money from the business. Yet, a review of the books will show that $1,000 a month of income has been put back into the business. We would count this $1,000 as income when evaluating the business.

Section VI: Social Security Benefits and PASS Plans

A. Social Security Benefits

Customers receiving Social Security Insurance (SSI) or Social Security Disability Insurance (SSDI) must be informed that self-employment may impact their Social Security benefits. This is particularly true for individuals receiving both SSI and SSDI as SSI and SSDI treat self-employment differently.

The SSI program is needs based so it is sensitive to income and resources. The SSI recipient’s net self-employment income is considered earned income. Social Security treats the average monthly self-employment as it would any earnings: applying earned income disregards to arrive at a countable earned income. The countable income reduces the SSI check. Most resources associated with the self-employment (business equipment for example) are exempt resources if they are essential for the business.

The SSDI program evaluates self-employment to determine if the self-employed individual is engaging in SGA (Substantial Gainful Activity). For the SSDI beneficiary there are several critical factors to consider. It is first necessary to find out if the individual has used any or all of his/her Trial Work Period (TWP). SSDI beneficiaries generally have a 9-month Trial Work Period in which they can work at any level without affecting their SSDI benefits.

If the SSDI beneficiary has Trial Work Months available, Social Security still must evaluate the self-employment work activity. The individual will use up a Trial Work Month for any month that his/her net self-employment income is at the current threshold amount (for 2005 that amount is $590) *or* they are working at least 80 hours in the month.
So if the individual has his/her full TWP available, he/she can earn any amount of money for nine months without affecting the SSDI check, but they will use a Trial Work Month for any month they earn at least $590 or work 80 hours.

Once the SSDI beneficiary has exhausted his/her TWP and he/she continues to be engaged in self-employment, Social Security must determine if the self-employment activity is SGA. It is important to know that this determination is not only based on the net earnings of the individual but also on the value of the individual's work activity. To make the determination Social Security uses three tests:

1) Significant services AND substantial income
2) Comparability
3) Worth of work

Meeting any one of the tests will result in a determination of SGA and a cessation of SSDI benefits.

For Test One, an individual is contributing significant services if he or she is the sole proprietor of the business. If there are multiple proprietors, the individual is contributing significant services if he or she contributes more than half the time required for managing the business or participates more than 45 hrs/mo in the business. The individual gains substantial income from the business if the countable amount is more than SGA (the 2005 SGA amount is $830).

Test Two is a comparability test. For this test, regardless of the net income generated by the self-employment, Social Security looks at the individual's work activity. Is the number of hours, skills, duties, and responsibilities contributed by the individual comparable to a non-disabled individual in the community engaged in the same or similar business activity? If so, Social Security considers that the individual is achieving SGA.

Test Three is a determination of worth of work. This is an evaluation of the activity the individual is contributing to the business and determining if the value is more than the SGA amount. In other words, how much would the business owner have to pay an employee to perform the same amount of work? If the amount is greater than the current SGA amount, than the individual's worth of work is determined to be SGA.

As indicated above, self-employment of an SSDI individual requires some complex determinations by the Social Security Claims Representative. Before finalizing a self-employment plan for a VR customer receiving SSDI or SSI benefits***, it is critical to determine his or her current status through a benefits inquiry to SSA.*** It may also be necessary to have a discussion with the individual's Claims Representative. The local VR Benefits Counselor is available to assist with this process.

B. Plan to Achieve Self-Support (PASS)

For SSI recipients with income in addition to their SSI and for some SSDI beneficiaries, the PASS may be an option for establishing a self-employment enterprise. A PASS must be considered carefully as it creates another set of requirements and reporting responsibilities for the customer. VR counselors can utilize the local Benefits Counselor in evaluating the feasibility of a PASS for a customer's self-employment.

Self-Employment Handout A

Roles and Responsibilities:

The Customer's Role – The potential business owner is responsible for:

- Deciding what business to pursue
- Conducting a feasibility study
- Developing a business plan after the feasibility study has been approved
- Obtaining necessary permits, licenses, and insurances
- Enlisting support from family and friends
- Securing business start-up funds
- Developing customers
- Locating supplies
- Starting the business

The Counselor's Role – In addition to the counseling relationship, the counselor's role includes:

- Explaining VR's, the customer's, and any other organization's role in the self-employment process
- Clearly communicating the self-employment process that will be followed including how agency decisions will be made for pursuing self-employment
- Communicating whether and how the agency will help with training, developing a business plan, and VR funding of the business
- Helping the customer decide which business to pursue
- Deciding which assessments, if any, will be used
- Guiding the feasibility study and interpreting feasibility study and assessment results to determine whether or not to proceed
- Supporting the customer and being the liaison between the customer and consultants
- Reviewing the final business plan and determining VR's contribution, if any

The Business Consultant's Role:

- Guides the customer through the business plan process, but does not write the plan
- Recommends potential funding sources
- May help assemble a funding package
- Prepares the customer for meeting potential funders
- Suggests marketing strategies
- May make recommendations on the viability of the feasibility study and the proposed business

Self-Employment Handout B

Beginning to Develop Your Business Plan

Answer the following questions in writing for review with your vocational rehabilitation counselor. For some questions, you may need to talk to business owners or do some research at the library. Your answers will help both you and your counselor clarify your business idea. Your answers are the beginning of your Business Plan and may help your counselor determine whether you and Vocational Rehabilitation should work together toward the goal of self-employment.

1. What business would you like to start?

2. Who will use your service and/or buy your product(s)?

3. Where are your customers located?

4. How many customers do you think you will have during the first year? During the second year? What assumptions did you use to develop these estimates?

5. How much money do you think you will make during the first year? During the second year? Show the items and amounts used to calculate these amounts.

6. How will you tell potential customers about your business?

7. Is there another business like the one you want to open operating in the area you want to serve? Is it successful? Why or why not?

8. Why do you want to start this type of business?

9. What qualifications do you already have for running this business?

10. What will you need to learn to be able to operate this business?

11. Will you hire employees? What skills should they have? How much will you pay them?

12. If you were a potential customer, why would you use this business?

13. If you were a customer, what features would keep you coming back?

14. Who will do the ordering, customer contact, and bookkeeping for your business?

15. What hours and days will you operate?

16. Where will your business be located?

17. What equipment will you need? Do you need it right away? If not, when will you need it? Do you need to own it or can you rent it?

18. Will your disability pose any barriers to your operating this business? If yes, what are they? What are your ideas for overcoming these barriers?

19. How much money will you need to start the business? How much money can you contribute? Who can loan you money? What do you think are likely sources of money for starting your business?

Self-Employment Handout C

Monthly Personal and Living Expenses

Enter actual expenses for the past 4 months from your records and keep track of expenses for this and the next month. Label the months in the spaces provided at the top of the table.

Month							**Total**
Dwelling:							
Rent Payment							
House Payment							
Property Tax							
House Repair							
Miscellaneous Expenses (lawn mowing, cleaning, snow shoveling)							
Homeowner's Association Dues							
Insurance							
Furniture/Appliance Payments							
Transportation							
Car payment(s)							
Other Vehicle Payment(s)							

Month							**Total**
Insurance							
Fuel							
License(s)							
Public Transportation							
Utilities							
Telephone							
Gas							
Water							
Trash							
Personal							
Groceries							
Dining Out							
Entertainment							
Tobacco Products							
Medical/Dental/Vision Insurance							
Clothing							
Laundry/Dry Cleaning							
Med./Dental/Vision Hospital Expenses							
Prescriptions							

Month							**Total**
Credit Card Payments							
Loan Payments							
Pets							

Education							
Dues & Subscriptions							
Gifts							
Donations							
Travel							
Cable TV							
Personal							
Hobbies/Crafts							
Music							
Personal Assistant							
Assistive technology Purchase, payments & maintenance							
Internet Access							
Other:							
Totals							

Average Expenses per Month (Total / 6 months) $ ______________

Sources of Income:

Source	Amount per Month
______________________	______________________
______________________	______________________
______________________	______________________