Streamlining SNAP for the Gig Economy

Simplified Self-Employment Expense Deductions

Jess Maneely, Policy Manager
Caiti Roth-Eisenberg, Policy Analyst

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Introduction

More than one in four workers in the U.S. earn some or all their income through the broadly-defined "gig economy" made up of Uber drivers, artists, freelance contractors, and other self-employed individuals.[1,2,3] While the trend toward gig work has been underway for over a decade, the economic fallout from the COVID-19 pandemic is accelerating this trend. At the same time that tech companies, retailers, and restaurants were closing their doors to support social distancing, companies like Amazon, DoorDash, Instacart, and Shipt created hundreds of thousands of gig economy jobs.[4] Gig work has offered an immediate and flexible way for many, including displaced workers, to pay their bills. Depending on the course of the economy, gig work could become the norm for a growing share of the workforce.

While gig work has been a lifeline for people who have been furloughed or laid off, it can be hard to earn a family-sustaining wage from gig work alone. Even before the current health emergency, a growing number of gig workers were eligible for the Supplemental Nutrition Assistance Program (SNAP, formerly Food Stamps). Between 2006 and 2018, the number of SNAP participants reporting self-employment income almost tripled from 365,000 to 939,000 households. Public benefits like SNAP can help low-income individuals pay for health care and put food on the table, but applications can be very complicated—especially for those who are self-employed, like gig workers. This is because SNAP is designed to meet individual need, which requires an in-depth determination of income available for food. The way SNAP eligibility determinations were originally designed, however, does not reflect the new reality of how many people earn their income.

The challenge is that under rules in most states, people who are self-employed, including gig workers, must navigate an overly complex application process. Applicants are required to document both the source of their income and all costs related to self-employment. This can be cumbersome because self-employed workers often incur many expenses necessary to maintain income (see Appendix A for a list of example expenses). The more thoroughly self-employed applicants document their expenses, the better the SNAP benefit meets the actual food needs of the applicant. This process requires significant effort not only from applicants themselves, but also from state agency staff determining eligibility.

This issue brief explores how states can leverage existing policy to better support self-employed workers. The Simplified Self-Employment Deduction option available to state SNAP programs is a key example of one such supportive policy. Currently, 23 states plus Guam and Washington, DC have adopted a simplified method of determining self-employment income,[5] which allows them to:

- Simplify application processes for self-employed household
- Provide more accurate benefit amounts to self-employed workers
- Streamline eligibility determinations
- Increase administrative efficiency

This brief discusses the advantages of this policy option, highlights the experiences of officials in four states—Alabama, Maryland, Nebraska, and South Carolina—that have adopted a simplified method for calculating self-employment deductions, and offers a roadmap for other states.

The CARES Act recognizes the growing importance of the gig economy by requiring states to offer up to 39 weeks of Pandemic Unemployment Assistance to workers in the gig economy. Reducing barriers for gig workers to apply for SNAP would similarly recognize this growing segment of the workforce.

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[1] Gig Economy Data Hub (n.d.) *How many gig economy workers are there?* https://www.gigeconomydata.org/basics/how-many-gig-workers-are-there

[2] MBO Partners (2019). *MBO Partners State of Independence in America 2019*. https://www.mbopartners.com/state-of-independence/

[3] Upwork & Freelancers Union (2019). *Freelancing in America 2019*. https://www.upwork.com/i/freelancing-in-america/2019/

[4] Titu, N. (2020, May 23). Desperate workers rush to delivery app jobs to find low pay and punishing rules. *Washington Post*. https://www.washingtonpost.com/technology/2020/05/23/gig-work-instacart-shipt-amazon-flex-doordash/

[5] United State Department of Agriculture, Food and Nutrition Service (2018). *State options report: Supplemental Nutrition Assistance Program*. https://fns-prod.azureedge.net/sites/default/files/snap/14-State-Options.pdf

The Gig Economy is Redefining Work

As employers increasingly hire gig workers—such as independent contractors and freelancers—in place of full-time employees, a growing share of the workforce earns some or all of their wages through the gig economy. A recent survey by the Board of Governors of the Federal Reserve System found that three in ten workers were engaged in gig work such as child care, house cleaning, or ride-sharing, as well as goods-related activities, such as selling goods online or renting out property.[6] The share of workers under age 30 in the gig economy is even higher (37 percent).[7] This transformation is continuing. Researchers at Edelman Intelligence project that over half of the U.S. workforce will be freelancers by 2027.[8]

According to Prudential's 2019 Gig Worker On-Demand Economy Survey, people who do gig work exclusively tend to do so out of necessity, not because they want to. Nearly one-third of those who rely on gig work alone say they needed a way to bring in income due to circumstances out of their control. Older workers' participation in the gig economy is more likely to be motivated by financial reasons than other groups: 46% of older gig workers needed money to make ends meet, as compared to 28% of younger gig workers.[9]

Overall, gig work is the primary source of income for nearly one in five people who participate in the gig economy.[10] While freelancing and other forms of work can help many households bring in extra income, a primary reliance on gig work can leave wage earners vulnerable. For example, 58 percent of those who rely on gig work as their primary source of income said they would have a hard time coming up with $400 to cover an emergency bill, compared to 38 percent of people who don't work in the gig economy. Lack of employer-based benefits such health insurance and paid leave are contributing factors.[11]

Gig Workers Face More Hurdles to Apply for SNAP

As the number of gig economy workers has risen in recent years, so has the number of self-employed SNAP participants. From 2006 to 2018, the number of SNAP participants claiming self-employment income almost tripled from 365,000 households to 939,000 households reporting countable self-employment income.[12,13] The rise in the number of participants claiming self-employment income coincides with the rise of the gig economy. The first popularized gig app, AirBnB, was founded in 2008, and Uber was founded a year later.[14]

According to research commissioned by the U.S. Department of Agriculture's Food and Nutrition Service (FNS), the burden of documenting self-employment expenses is one of the main reasons that self-employed people do not participate in SNAP.[15] The process of applying for SNAP for self-employed workers is typically more complicated than for traditional employees or unemployed people, which creates an additional burden for applicants and SNAP

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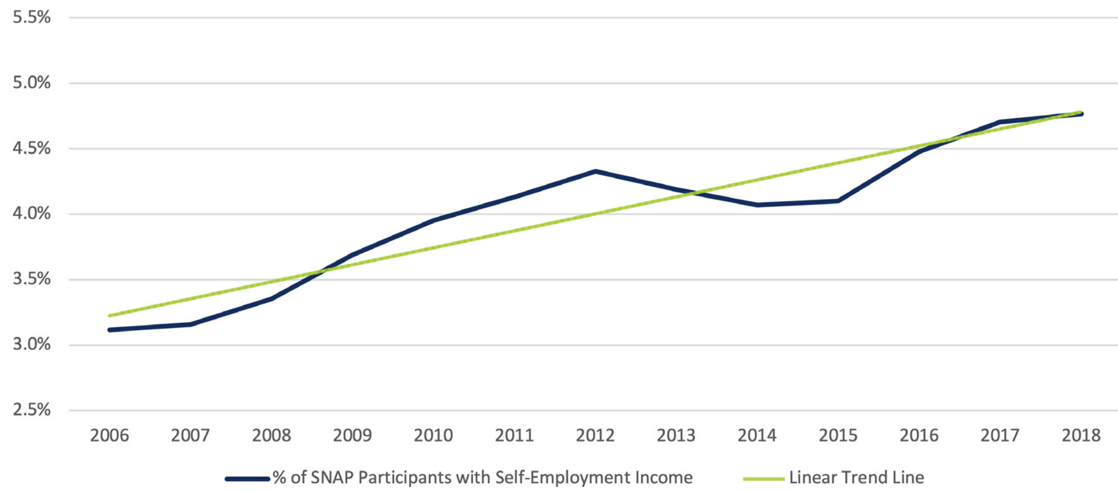
[6] Board of Governors of the Federal Reserve System (2019). *Report on the economic well-being of U.S. households in 2018*. https://www.federalreserve.gov/publications/files/2018-report-economic-well-being-us-households-201905.pdf
[7] Ibid.
[8] Edelman Intelligence (2017). *Freelancing in America: 2017*. Commissioned by Upwork and Freelancers Union. https://www.slideshare.net/upwork/freelancing-in-america-2017/1
[9] Prudential (2019). *Gig workers in America*. https://www.prudential.com/wps/wcm/connect/4c7de648-54fb-4ba7-98de-9f0ce03810e8/gig-workers-in-america.pdf?MOD=AJPERES&CVID=mD-yCXo
[10] Board of Governors of the Federal Reserve System (2019). *Report on the economic well-being of U.S. households in 2018*. https://www.federalreserve.gov/publications/files/2018-report-economic-well-being-us-households-201905.pdf
[11] Ibid.
[12] United States Department of Agriculture, Food and Nutrition Services (2007). *Characteristics of food stamp households: Fiscal year 2006.* https://www.fns.usda.gov/snap/characteristics-food-stamp-households-fiscal-year-2006
[13] United States Department of Agriculture, Food and Nutrition Services (2019). *Characteristics of Supplemental Nutrition Assistance Program households*. https://fns-prod.azureedge.net/sites/default/files/resource-files/Characteristics2018.pdf
[14] William Jessup University (2018). *The history of the gig economy*. https://online.jessup.edu/blog/business/history-of-the-gig-economy/
[15] Rowe, G., O'Brien, C.O., Hall, S., Pindus, N., Eyster, L., Koralek, R., & Stanczyk, A. (2010). Enhancing Supplemental Nutrition Assistance Program (SNAP) certification: SNAP modernization efforts. United States Department of Agriculture, Food and Nutrition Service, Office of Research and Analysis Nutrition Assistance Program Report Series. http://research.urban.org/uploadedpdf/412180-snap-vol-II.pdf.

Figure 1. Trends in Self-Employment among SNAP Participants



This information was compiled from the "Characteristics of Supplemental Nutrition Assistance Households" reports published annually by the United States Department of Agriculture, Food and Nutrition Service. These reports can be found here: https://www.fns.usda.gov/resources

eligibility caseworkers alike. Under federal SNAP regulations, self-employment income is calculated differently than income earned from a traditional employer-employee relationship. Generally, expenses associated with self-employment are excluded from a household's income determination.[16] In practice, this means that the state deducts from gross self-employment income allowable expenses for items such as equipment, advertising, transportation and bookkeeping. The rules are often complex and differ from calculations made for income tax purposes.

For example, Uber drivers may be asked to document how much they spend on gas and tolls. Since Uber drivers and others employed through ridesharing companies typically use their own vehicles, they need to keep detailed documentation of transportation expenses that qualify as allowable self-employment deductions. The recordkeeping burden can result in gig workers underestimating self-employment costs and consequently receiving lower benefit amounts than they would be eligible for if they were able to more easily verify their expenses. In other cases, missing verification of the costs of doing business can make gig workers appear ineligible for benefits.

To ameliorate the documentation burden for self-employed individuals and their SNAP caseworkers, under federal law, states can adopt a simplified method of estimating self-employment expenses. Simplifying this calculation can have positive effects of generating administrative efficiencies, streamlining how caseworkers determine benefit amounts, and decreasing the probability of benefit calculation errors. A simplified method typically uses a standard percentage deduction for self-employed workers, which can reduce cumbersome documentation processes.

State Options Can Simplify Expense Determinations

As of December 2019, 23 states plus Guam and Washington, DC had adopted a simplified method of estimating self-employment income in their SNAP programs.

There are two options for states to implement a simplified determination for self-employment deductions. First, if a state has adopted a simplified self-employment deduction methodology for its Temporary Assistance for Needy Families (TANF) program, it can elect to use the same standard for its SNAP program. Most of the states that currently use standard deductions for SNAP adopted the policy for their TANF programs first in order to achieve this simplification. Alternatively, states can request FNS approval to adopt a standard deduction.

[16] Food stamp and food distribution program: Action on households with special circumstances, 7 C.F.R. §273.11(b)

TANF Approach

States seeking to implement a simplified self-employment deduction can do so by going through their TANF program. If a state's TANF program does not already simplify self-employment deduction calculations (for instance, by using a flat percentage), then SNAP program administrators may consider collaborating with their TANF counterparts to construct a simplified policy for both programs, which can first be implemented for TANF and then adopted for SNAP. When constructing the policy, it may be beneficial to consult states that have already implemented this option. Once the policy is changed, the state will need to update its TANF policy to reflect the simplified method, then mirror the SNAP policy after the TANF changes.

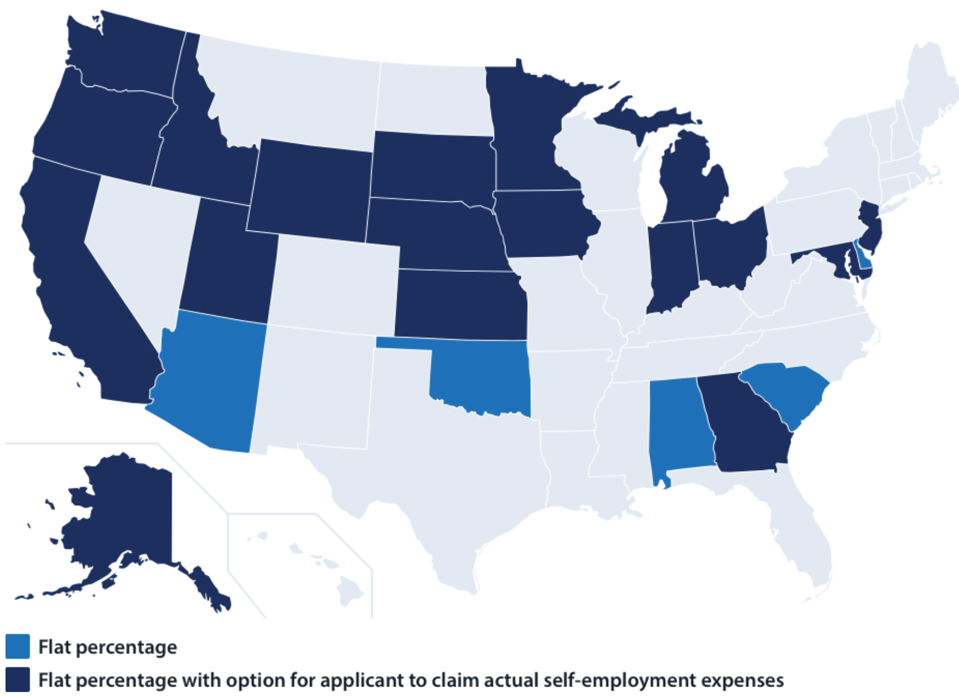
FNS Approval Approach

If seeking FNS approval to simplify the calculation for applicant costs of producing self-employment, states should include the following in their proposal to USDA:[17]

- ✓ A description of the proposed method
- ✓ The number and type of households benefiting, and percent of the caseload affected
- ✓ Documentation indicating that the proposed procedure will not increase program costs

As shown in Figure 2, five states—Alabama, Arizona, Delaware, Oklahoma, and South Carolina—have adopted a flat percentage for calculating self-employment expenses. Eighteen states plus Guam and Washington, DC have adopted a flat percentage while retaining the option for applicants to claim actual self-employment expenses.[18]

Figure 2. States adopting simplified methods to estimate expenses associated with self-employment income



[17] Food stamp and food distribution program: Action on households with special circumstances, 7 C.F.R. §273.11(b)(3)
[18] This information was compiled from the 2018 SNAP State Options Report and the various states' SNAP handbooks. The 2018 Report can be found here: https://fns-prod.azureedge.net/sites/default/files/snap/14-State-Options.pdf. Most state handbooks can be found here: https://www.cbpp.org/research/food-assistance/snap-state-by-state-data-fact-sheets-and-resources

When implementing a new standard deduction, states should consider the details of their policy on reporting and verifying applicant expenses related to self-employment. A review of state policy manuals that outline their practices revealed three different models regarding expense reporting and verification:

1. ***All applicants with verified self-employment income <u>automatically</u> receive the flat percentage deduction.***
   Some states universally apply their standard self-employment income deduction for all applicants with income from self-employment. This practice can still allow applicants to deduct their actual costs-of-doing business when they exceed the standard deduction. Alaska, Idaho, and Ohio are among the states that use this process.

2. ***Applicants must <u>report</u> at least one countable expense to receive the flat percentage deduction.***
   In some states, applicants are required to report at least one countable expense in order to receive the standard deduction. The reported expense does not have to equal the self-employment deduction to achieve the full standard deduction. Some of the states that use this process include Arizona, Nebraska, and South Dakota.

3. ***Applicants must <u>report and verify</u> at least one countable expense to receive the flat percentage deduction.***
   Other states that use a flat deduction require independent verification of at least one countable expense for self-employed SNAP households to receive a deduction. Georgia and South Carolina are among the states that require an expense verification.

Each of the three options listed above represents a simplification for self-employed SNAP applicants, who under traditional SNAP policy would need to report and document every expense related to their self-employment to receive an adequate deduction. Streamlining applications by decreasing levels of verification reduces barriers to completing the SNAP enrollment process. Moreover, modernizing SNAP makes sense for state administrators who will save time and resources under simplified processes, especially given the long-term structural changes we are seeing in the labor markers. Each state's experience is unique, and the flexibility of this option enables states to adopt a simplified self-employment policy in the manner that best suits their needs.

Lessons from States

BDT interviewed state SNAP officials from Alabama, Maryland, Nebraska, and South Carolina about their experiences using simplified methods of calculating self-employment income.

Alabama has used a flat 40 percent simplified deduction for all self-employed SNAP applicants since 1997. The state simplified this policy to better align SNAP with its TANF program, which has in turn reduced paperwork, eliminated complicated calculations from caseworkers' workflow, and simplified the eligibility determination process. Alabama state officials noted that the simplified policy resulted in streamlined application processing and reduced quality control error rates over the years.

Maryland has used a flat 50 percent deduction for self-employed SNAP applicants since 2016. When Maryland first instituted its simplified calculation, the state used a 30 percent deduction. This was determined to be too low, and as a result Maryland increased the deduction to 50 percent in spring of 2016. Maryland also allows applicants to report and verify their actual costs of doing business if their expenses exceed 50 percent.

While the rise of gig work has contributed to caseworker confusion over what counts as self-employment income, the calculation itself is simple for caseworkers to handle as it is built into their eligibility management system. In February of 2018, Maryland DHS revised its SNAP policy manual to include more examples of what counts as self-employment income.

Nebraska adopted the simplified self-employment deduction option in 2016. The state pursued this option because it observed that self-employment was complex and confusing to frontline staff. Additionally, in Nebraska the SNAP and TANF programs are operated under close administrative alignment, so leadership sought ways to increase consistency between the two programs. For this reason, it made sense for the state to elect the simplified option in its TANF program and then adopt the same methodology for dealing with self-employment deductions in SNAP. Not only did the change streamline training for frontline staff and clarify the income budgeting process for self-employment, but the state reported positive feedback from clients as well.

When Nebraska made this policy change, it also expanded the use of the same calculation to its other block grant programs, including the Low-Income Home Energy Assistance Program (LIHEAP), General Assistance, and childcare programs. Oftentimes, beneficiaries of one program may also be eligible for another—for example, TANF recipients typically also qualify for SNAP and LIHEAP. Since there is a significant eligibility overlap, states can achieve greater efficiencies by aligning their policies across these benefits. Program alignment of this sort substantially improves the experience of self-employed people who need assistance and increases the chances that they will remain enrolled as long as they are eligible.

South Carolina has had a simplified self-employment deduction in place for SNAP for more than 20 years, using a flat deduction of 40 percent for all self-employed cases. South Carolina implemented its standard deduction through the USDA approval option. State officials note that the policy streamlines the income budgeting process for their caseworkers and eliminates many pieces of verification that would be necessary for self-employed applicants to receive their appropriate benefit amounts if they were to claim their full list of actual expenses.

Finally, several SNAP officials noted that, as with any policy change, states will need to update their benefit manuals, revise related forms and guidance, and may need to alter eligibility system calculations to reflect their new simplified calculation. States that have undergone this policy change confirmed that while such updates are not without cost, the related costs are typically minimal. One state official specifically mentioned that there are far more benefits from making this policy change than there are costs, anecdotally pointing to cost-savings that result from downstream administrative process simplifications.

Recommendations

With the rise of the gig economy, the world of work is forever changed: some researchers project that over half of the U.S. workforce will be gig workers by 2027. In light of this long-term trend, states should adopt the following recommendations to modernize and simplify the process of calculating countable self-employment income.

States should adopt a flat percentage to calculate deductions for self-employed SNAP applicants. Twenty-three states plus Guam and Washington, DC have done this to date. The officials we consulted in several states cited administrative efficiencies, reductions in benefit calculation errors, and simplified enrollment processes as key benefits of adopting such a policy. States have adopted flat percentages ranging from 25 to 50 percent; see Appendix B for a 50-state summary table that shows how each state handles self-employment expenses.

States should align a standard deduction across multiple programs whenever possible to improve access to assistance for self-employed workers. Based on interviews conducted with state officials who have implemented and maintained a simplified self-employment deduction policy for SNAP, we believe that adopting the option through TANF is a best practice. As seen in the Nebraska example, states administer several programs for which a standard deduction policy could be implemented, such as LIHEAP, General Assistance, and childcare. If the option is adopted in this manner, the state benefits from increased alignment between programs, which in turn has downstream effects that increase administrative efficiency.

States should allow an actual cost option to accommodate self-employed applicants with higher expenses than a state's standard flat percentage takes into account. Allowing an actual cost option makes it possible for individuals to present their expenses if they may be able to receive a higher deduction. This option requires the applicant to report and document expenses to qualify for the higher deduction. Of the 23 states that use a simplified self-employment expense deduction, 18 have chosen this option for their simplified self-employment determinations.

Why Simplify Self-Employment Deductions?

- ✓ **Better serve self-employed SNAP applicants.** Standardized self-employment deduction policies make the SNAP application process easier by reducing barriers associated with documentation of cost-of-doing-business expenses.
- ✓ **Align policy accross programs.** The simplified option can be adopted for SNAP through a state's TANF program and may also be used for other means-tested programs like LIHEAP and childcare.
- ✓ **Generate administrative efficiencies.** Simplified determinations can save administrative time, paperwork, and reduce the burden of documentation on clients and caseworkers.

Finally, in order to optimize the benefits of simplified self-employment deduction policies, states should make applicants aware of all expenses that can be counted to ensure self-employed workers get the deduction they deserve. For example, they could make a checklist of possible self-employment deductions (sometimes referred to as "cost-to-produce deductions," or "cost of doing business deductions") for caseworkers to review with applicants. It is important that applicants are aware of all allowable expenses because, for example, if they live in a state that requires reporting and/or verification of at least one expense in order to get a deduction, the applicant would need to know what counts as an expense. If they're not made aware of all potential expenses, they may not realize that an expense they incur (like mileage on a car, for example) could qualify them for a deduction. Furthermore, in states where SNAP applicants can claim actual expenses, applicants may be able to receive a higher deduction if they are able to identify and report that their expenses exceed the flat percent. States might consider adding a reference list of allowable expenses to their SNAP Policy Manuals. We have included an example list in Appendix A.

As the future of work is transformed by the gig economy, these recommendations will simplify the SNAP application process for the increasingly large segment of low-wage earners who are self-employed. This will generate efficiencies for state agency staff who process applications—as we have already seen in the states that have adopted these policies—while ensuring that workers can access the full amount of food assistance available to them.

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Appendix A: Examples of allowable self-employment expenses[19]

- Costs of maintaining a place of business—For example: Rent, mortgage, utilities including phone and internet expenses, insurance on the business and its property, property taxes, etc.
    - This can include the portion of the costs of your home used for conducting business if you have an at-home business
- Interest paid on the purchase of income-producing property and equipment
- Rental of necessary equipment—For example: Taxi, beauty salon equipment, landscaping machinery, etc.
- Costs for repair and/or replacement of equipment—For example: Cost of car maintenance and repair for ride-share drivers, tool replacement or repair for operating a construction business
- Costs of necessary inventory/supplies—For example: Cleaning supplies for running a house cleaning business, food and diapers for running a day care, hair care products for running a hair stylist business, gasoline for ride-share drivers, etc.
- Advertising costs
- Employee wages paid
- Legal and accounting fees
- Professional licensing fees, including permits for operating the business and union dues if they are necessary for practicing a profession or trade
- Transportation costs necessary to produce income

[19] This list was compiled by reviewing various state manuals with similar lists; it is not necessarily exhaustive. We encourage states to include a list of example expenses in policy manuals and to train case managers to discuss potential expenses with applicants in order to determine whether they have self-employment expenses, and the amount of those costs. This is particularly important for states offering a standard deduction in conjunction with the option to verify actual expenses exceeding the flat percent.

Appendix B: 50-States Summary of SNAP and TANF Simplified Deductions[20]

State	What is the SNAP Standard Deduction?	Can applicants submit actual expenses for a deduction larger than the standard (if the state has a standard deduction)?	What is the TANF Standard Deduction?
Alabama	40%	No	40%
Alaska	50%	Yes	50%
Arizona	40%	No	40%
Arkansas	None	Only actual expenses	None
California	40%	Yes	40%
Colorado	None	Only actual expenses	None
Connecticut	None	Only actual expenses	None
Delaware	51%[21]	No	51%
District of Columbia	None	Only actual expenses	None
Florida	None	Only actual expenses	None
Georgia	40%	Yes	None
Hawaii	None	Only actual expenses	None
Idaho	50%	Yes	50%
Illinois	None	Only actual expenses	None
Indiana	40%	Yes	40%
Iowa	40%	Yes	40%
Kansas	25%	Yes	25%
Kentucky	None	Only actual expenses	None
Louisiana	None	Only actual expenses	None
Maine	None	Only actual expenses	None
Maryland	50%	Yes	50%
Massachusetts	None	Only actual expenses	None
Michigan	25%	Yes	25%
Minnesota	50%	Yes	50%
Mississippi	None	Only actual expenses	None
Missouri	None	Only actual expenses	None
Montana	None	Only actual expenses	None
Nebraska	49%	Yes	49%
Nevada	None	Only actual expenses	None
New Hampshire	None	Only actual expenses	None
New Jersey	Varies[22]	Only actual expenses	None
New Mexico	None	Only actual expenses	None
New York	None	Only actual expenses	None
North Carolina	None	Only actual expenses	None
North Dakota	None	Only actual expenses	None

State	What is the SNAP Standard Deduction?	Can applicants submit actual expenses for a deduction larger than the standard (if the state has a standard deduction)?	What is the TANF Standard Deduction?
Oklahoma	50%	No	50%
Oregon	50%	Yes	50%
Pennsylvania	None	Only actual expenses	None
Rhode Island	None	Only actual expenses	None
South Carolina	40%	No	None
South Dakota	55%	Yes	55%
Tennessee	None	Only actual expenses	None
Texas	None	Only actual expenses	None
Utah	40%	Yes	40%
Vermont	None	Only actual expenses	None
Virginia	None	Only actual expenses	None
Washington	50%	Yes	50%
West Virginia	None	Only actual expenses	None
Wisconsin	None	Only actual expenses	None
Wyoming	25%	Yes	25%

[20] This information was compiled from the 2018 SNAP State Options Report and the various states' SNAP handbooks. The 2018 Report can be found here: https://fns-prod.azureedge.net/sites/default/files/snap/14-State-Options.pdf. Most state handbooks can be found here: https://www.cbpp.org/research/food-assistance/snap-state-by-state-data-fact-sheets-and-resources

[21] Delaware ties its flat percentage to the standard business deduction listed in the Cost-of-Living Adjustment notice each October.

[22] New Jersey allows for a limited flat percentage formula to be used only when calculating expenses derived from income from boarders, other than those in commercial boarding houses or from foster care boarders, provided that the method used is objective and justifiable as is stated at N.J.A.C. 10:87.