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Side business can hurt unemployment benefits
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The upside of working for yourself? It's hard to get fired. That's one reason why many people who have full-time jobs also have a little business on the side.

But surprisingly, if you've recently lost your 9-to-5 job, you might want to consider taking a temporary hiatus from your side business as well in order to maximize your unemployment benefits.

While some states encourage out-of-work individuals to start or grow their own small businesses, other localities will deduct a portion of any money earned from the weekly benefits.

The bottom line is, if you don't want to cheat yourself or the system, it pays to call the local unemployment compensation office and ask lots of questions.

"It depends on the law of each state and the nature of the work," says Peter Bennett, chair of the Tort, Trial and Insurance section of the American Bar Association.

Where am I?
The first consideration from any unemployment insurance office is that your side business doesn't interfere with your ability to find and accept your next full-time job.

"It's a cliche," but finding employment "is a full-time job, and the most demanding job you'll ever have," says Andrew J. DuBrin, psychologist, author of "Bouncing Back: How to Stay in the Game When Your Career Is on the Line" and professor emeritus at the Rochester Institute of Technology.

The general rule-of-thumb for unemployment eligibility: "You must be able to accept work, and you must be looking for work," says Loryn Lancaster, unemployment insurance program specialist with the U.S. Department of Labor.

Beyond that, each of the states has a slightly different set of rules for mixing unemployment benefits and side income.

With some states, part-time self employment doesn't affect your unemployment insurance check as long as you're available full-time and looking for work. So if you want to run an online store on weekends, or do some consulting work after hours, your benefit check won't suffer.

Some states realize that the benefits check might cover the mortgage, but you'll need some form of extra income to stay afloat, says Reich Gardner, president of The Financial Education Company, a publishing house that focuses on personal finance.

"That's why they don't penalize you for part-time employment," he says.

Other states will deduct earnings or a portion of your earnings from your weekly check.


"The way the state looks at it, while you're earning unemployment, any income you earn will be considered," he says.

Still, others will set a threshold for earnings. So while an extra $100 a week from your entrepreneurial activities may not affect your benefits, earning $150 might impact your bottom line.

Different kinds of money
Not all money is the same when it comes to unemployment, either.

Some states may differentiate between wages (what you are paid for your work, whether it's consulting with a Fortune 500 firm or repairing your neighbor's car) and money that you earn from selling items.

"If I'm selling stuff on eBay, I'm not really getting a wage," says Bennett, managing partner of the Bennett Law Firm, which
focuses on employment law.

“That’s different than consulting,” he says. While some business activities could be seen as earning a salary, selling your own goods is often considered converting your existing assets to cash, he says. So, depending on the way your state views it, the activity may not affect your unemployment benefits at all.

Sometimes, though, it’s not as clear-cut. If you’re selling items that you create, like handicrafts, someone could consider the resulting money as wages earned for work.

Another factor that may be important: When you report how much you make, you want to talk about profits, not revenues.

“You report your income, not your sales,” says Lancaster.

Say that you’re running an online store. You sell a china pitcher for $20. But the mailing costs and shipping supplies total $12. In that case, your income is $8, not $20.

When you start to consider the price of doing business, such as mailing costs, supplies and other legitimate business expenses, the outlay can be significant.

Your best bet is to talk to the unemployment office when you apply. Ask plenty of questions. Describe what it is you’re doing or selling, along with your true net income, not the gross amount that the business generates.

Local employment offices have plenty of experience with side businesses, says Lancaster. And the questions that arise from them “aren’t that unique,” she says. “They come across them all the time.”

**Not always either/or**
Six states (Delaware, Maine, Maryland, New Jersey, New York and Oregon), also have programs designed to help out-of-work individuals launch businesses or jumpstart existing enterprises, says Jacob Benus, executive director of Impaq International, a consulting company in Maryland.

Four more states (Alabama, Minnesota, North Carolina and Virginia), are looking to launch programs by early next year, he says.

While the programs vary by state, the general principle is similar. Individuals apply and, in some cases, can receive free business training. Some states will also grant a pass on the requirement to look for work in order to remain qualified for weekly benefits, “which is critical” to start-up entrepreneurs, Benus says.

But the programs remain very small, partly because few people know about them and partly because the states aren’t promoting them, he says.

If you want to get in, you have to ask the unemployment insurance office.

“We’re down to a handful of states who have it on the books and, for a few, it’s a relatively unused program,” Benus says.

New York State has one of the largest programs, with about 1,000 participants, says Benus. Other states’ rosters may number in the dozens or hundreds, he says.

**What now?**
Analyzing exactly how much your side business generates and what it costs (especially in time), can help you make some important decisions while you’re looking for your next job. It will also give you some realistic expectations for what you want to do next and how you want to schedule your time while you’re out of work.

One strategy if you’re juggling a job hunt and your own small business is to set a deliberate schedule for each, says DuBrin. Don’t use the same block of time for both, or switch back and forth between the two, he says. That way, you’re consciously deciding how much time to allot to each.

“A person has to make out a mental plan,” DuBrin says. “No multitasking.”