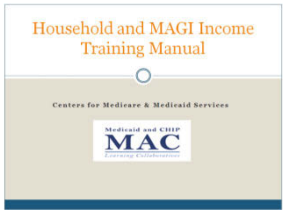
MAGI 2.0: Building MAGI Knowledge

Part 2: Income Counting

All-State SOTA
September 1, 2016
1:30-3:00 pm ET

Introduction

Setting the Stage

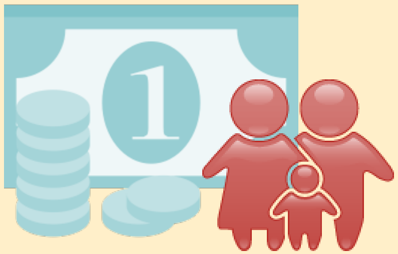


- In 2013, CMS developed a training manual to help states and eligibility workers understand and apply MAGI-based rules for Medicaid and CHIP.
- The manual is available at: https://www.medicaid.gov/state-resource-center/mac-learning-collaboratives/downloads/household-composition-and-income-training.zip

- Today, we share a companion to the 2013 training manual, providing more details on how to apply the MAGI-based income counting rules.
- To identify today's issues and scenarios, we reviewed questions asked by states via the SPA process, individual technical assistance requests, SOTA and the Coverage Learning Collaborative.

Two-Part Resource

Determining Household Composition



Calculating Household Income

Focus of Session

Focus of Today's Session

Determining Household Income

Key Questions When Determining Household Income:

Whose income is counted?

What income is counted?

Over what period is income counted?

Whose Income is Counted?

Generally, to determine MAGI-based household income:

- Count the MAGI-based income of adults in the household
- Do not count the MAGI-based income of children in the household

Let's discuss this rule…

Income Counting Rules

Current Regulations

- Household income includes the MAGI-based income of all individuals in the MAGI-based household, with specific exceptions
- Special rules exist for counting the income of children and tax dependents

Relevant Regulatory Language:

42 CFR 435.603(d)(1)
Household income is the sum of the MAGI-based income…of every individual included in the individual's household [unless an exception applies].

42 CFR 435.603(d)(2)(i)
The MAGI-based income of an individual who is included in the household of his or her…parent and is not expected to be required to file a tax return…is not included in household income whether or not the individual files a tax return.

42 CFR 435.603(d)(2)(ii)
The MAGI-based income of a tax dependent [claimed by someone other than a parent] who is not expected to be required to file a tax return…is not included in the household income of the taxpayer whether or not such tax dependent files a tax return.

Special Income Counting Rule for Children

A child's income is excluded from total household income if:

1. The child is either under age 19* or is an adult child claimed by a parent as a tax dependent,
2. The child and parent^ are both included in the MAGI-based household, and
3. The child's income is below the tax filing threshold (i.e., the child is <u>not</u> expected to be required to file a tax return for the current tax year).

*At state option, includes children aged 19 or 20 who are full time students
^Includes stepparents

42 CFR 435.603(d)(2)(i)

Special Income Counting Rule for Children

Discussion

- This rule applies whether household composition is based on:
  - the rules for tax filers under 435.603(f)(1) or (f)(2), or
  - the non-filer rules described in 435.603(f)(3) for non-filers and exceptions for tax dependents claimed by non-parent listed in 435.603(f)(2)(i)-(iii).
- It does not matter whether the child actually files a tax return.
- Sometimes members of the same family have different MAGI-based households. The rule is applied separately to each household. This may result in the child's income counting for one household and not for another.
- When determining the total household income of a child who is <u>not</u> living with a parent (for example, a child living with a grandparent), the child's MAGI-based income is <u>always</u> counted in determining the child's eligibility, even if the child's income is below the tax filing threshold.

Special Income Counting Rule for Tax Dependents

A tax dependent's income is excluded from total household income if:

1. The tax dependent and the tax filer who expects to claim the individual are both included in the household, and

2. The tax dependent's income is below the tax filing threshold (i.e., the tax dependent is <u>not</u> expected to be required to file a tax return for the current tax year).

42 CFR 435.603(d)(2)(ii)

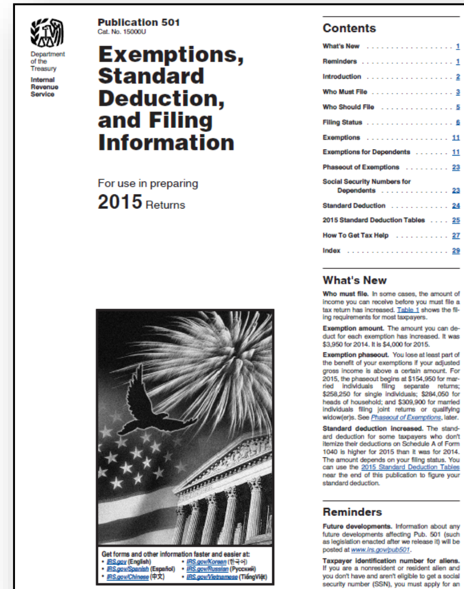
Special Income Counting Rule for Tax Dependents

Discussion

- Some Medicaid households include tax dependents other than the taxpayer's children, such as nieces/nephews or parents of the tax filer. The special income counting rule for tax dependents applies in the case of tax dependents who are claimed by someone other than a parent.
- The tax dependent does not need to be within a specific age range.
- The rule applies to any MAGI-based household that includes both the tax filer and tax dependent, e.g., the tax filer's household and the households of dependents who are children of the tax filer.
- When determining the total household income of a tax dependent who is claimed by someone other than a parent, the tax dependent's MAGI-based income is <u>always</u> counted in determining his/her own eligibility, even if the income does not meet the tax filing threshold.
  - Such a tax dependent's household would not include the claiming tax filer due to the exception at 42 CFR 435.603(f)(2)(i)). This means that the tax dependent's income would <u>not</u> be excluded from his own household income under this rule.
  - <u>Exception in unusual situation:</u> In the event that such a tax dependent's household (established using the non-filer rules described at 435.603(f)(3)) includes the tax dependent's parent, the tax dependent's income <u>would be</u> excluded from his own household income.

What does it mean to have income below the tax filing threshold?

- The IRS establishes annual tax filing thresholds that explain at what income level an individual is required to file taxes.
- The thresholds vary depending on tax filing status (e.g., single filer, joint filer, single dependent).
- The IRS updates the threshold amounts annually.



Department of the Treasury
Internal Revenue Service

Publication 501
Cat. No. 15000U

Exemptions, Standard Deduction, and Filing Information

For use in preparing
2015 Returns

Contents

What's New

Who must file. In some cases, the amount of income you can receive before you must file a tax return has increased. Table 1 shows the filing requirements for most taxpayers.

Exemption amount. The amount you can deduct for each exemption has increased. It was $3,950 for 2014. It is $4,000 for 2015.

Exemption phaseout. You lose at least part of the benefit of your exemptions if your adjusted gross income is above a certain amount. For 2015, the phaseout begins at $154,950 for married individuals filing separate returns; $258,250 for single individuals; $284,050 for heads of household; and $309,900 for married individuals filing joint returns or qualifying widow(er)s. See *Phaseout of Exemptions*, later.

Standard deduction increased. The standard deduction for some taxpayers who don't itemize their deductions on Schedule A of Form 1040 is higher for 2015 than it was for 2014. The amount depends on your filing status. You can use the 2015 Standard Deduction Tables near the end of this publication to figure your standard deduction.

Reminders

Future developments. Information about any future developments affecting Pub. 501 (such as legislation enacted after we release it) will be posted at *www.irs.gov/pub501*.

Taxpayer identification number for aliens. If you are a nonresident or resident alien and you don't have and aren't eligible to get a social security number (SSN), you must apply for an

2015 Tax Filing Threshold

Single dependents (under age 65) are required to file a tax return if **any** of the following apply:

1. Unearned income more than $1,050.
2. Earned income more than $6,300.
3. Gross income more than the larger of:
   a) $1,050, or
   b) Earned income (up to $5,950) plus $350.

https://www.irs.gov/pub/irs-pdf/p501.pdf

Applying the Tax Filing Threshold for Children and Tax Dependents

Discussion

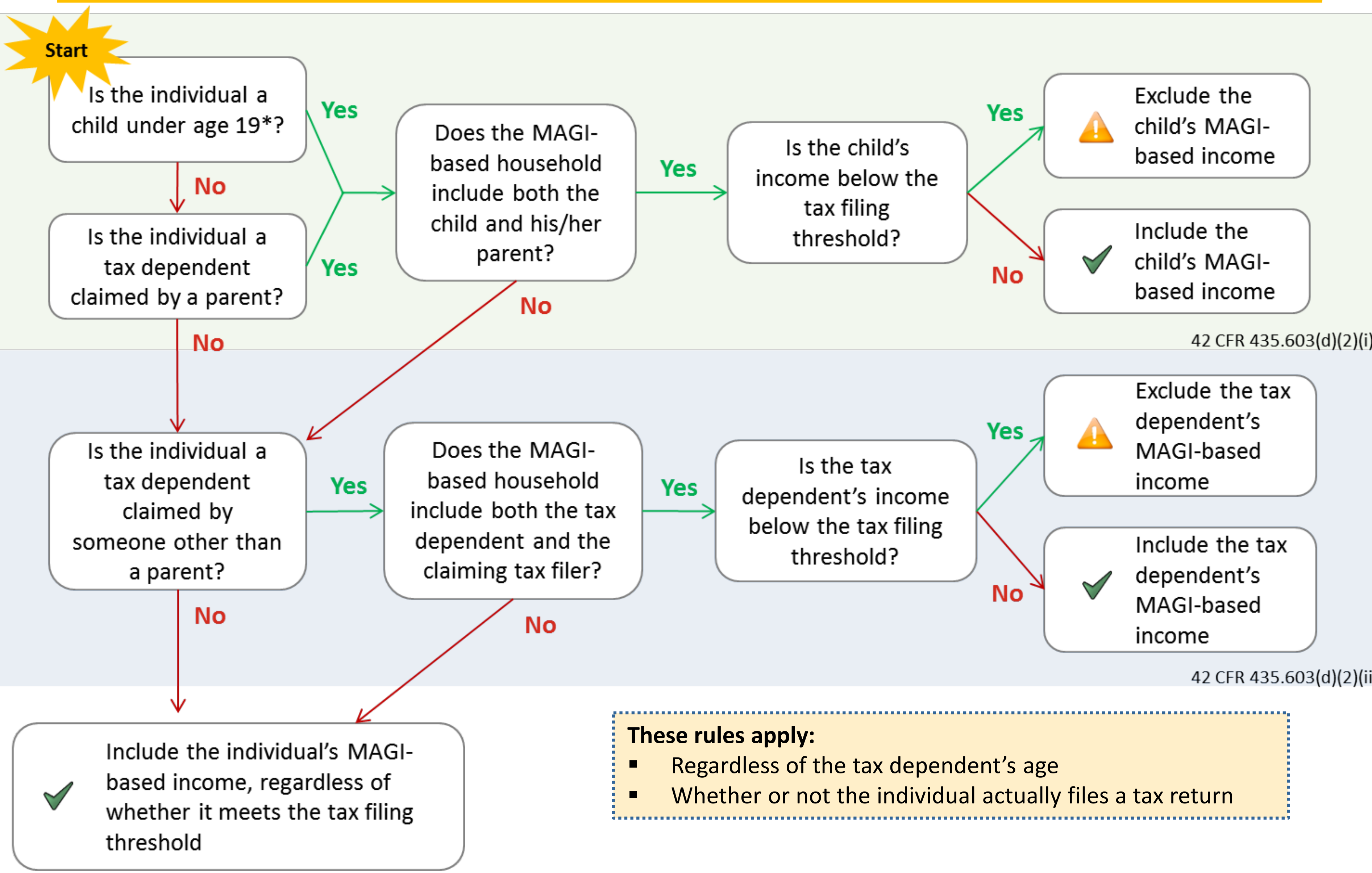
- Using information obtained during the application process, the agency can compare the child or tax dependent's income to the tax filing threshold.
- Because the tax filing thresholds differ for earned and unearned income, the agency will need to separate income into earned and unearned income types to compare to the appropriate threshold.
- The tax filing threshold for the current year is not available until the next tax filing season, so the agency can compare current income against the threshold for the prior tax year. For example, in determining eligibility in August 2016, the agency can use the 2015 tax filing threshold to determine whether a child's income is counted toward the household MAGI.

Federally-facilitated Marketplace (FFM) Practice:

In determining whether or not an individual's income meets the tax filing threshold, the FFM uses the prior year tax filing threshold for "single dependents" because:

- The prior year filing requirement is the most current information available,
- Most children and tax dependents applying for coverage will qualify as single dependents, and
- The filing threshold for married dependents mirrors that of single dependents, except when the dependent's spouse expects to file a separate return and itemize deductions.

Applying the Income Rules for Children & Tax Dependents



These rules apply:
- Regardless of the tax dependent's age
- Whether or not the individual actually files a tax return

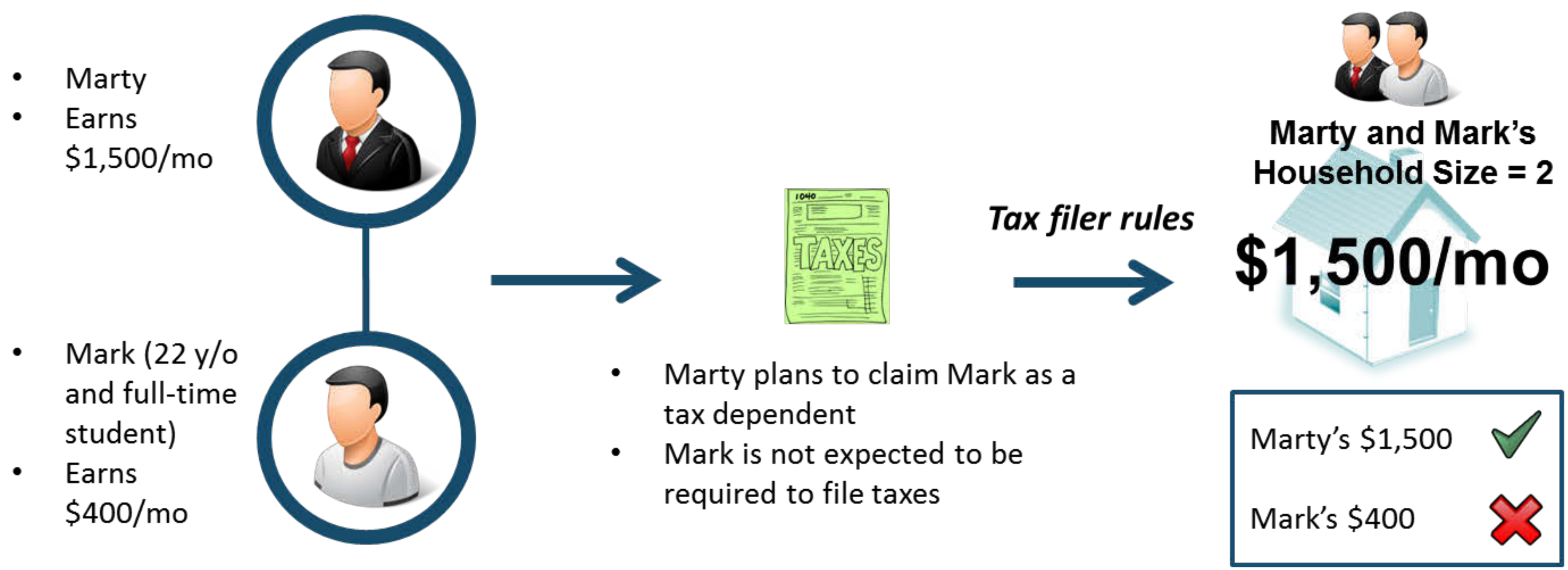
*at state option, including children aged 19 or 20 and a full-time student

Whose Income is Counted?
Scenario 1

Scenario: Marty expects to claim his adult son, Mark (age 22), who is a full-time student, as a tax dependent. Marty makes $1,500 a month. Mark makes $400 a month working as a waiter.

MAGI-based Household: Marty and Mark will be included in each other’s MAGI-based households.

Question: What is the total household income?

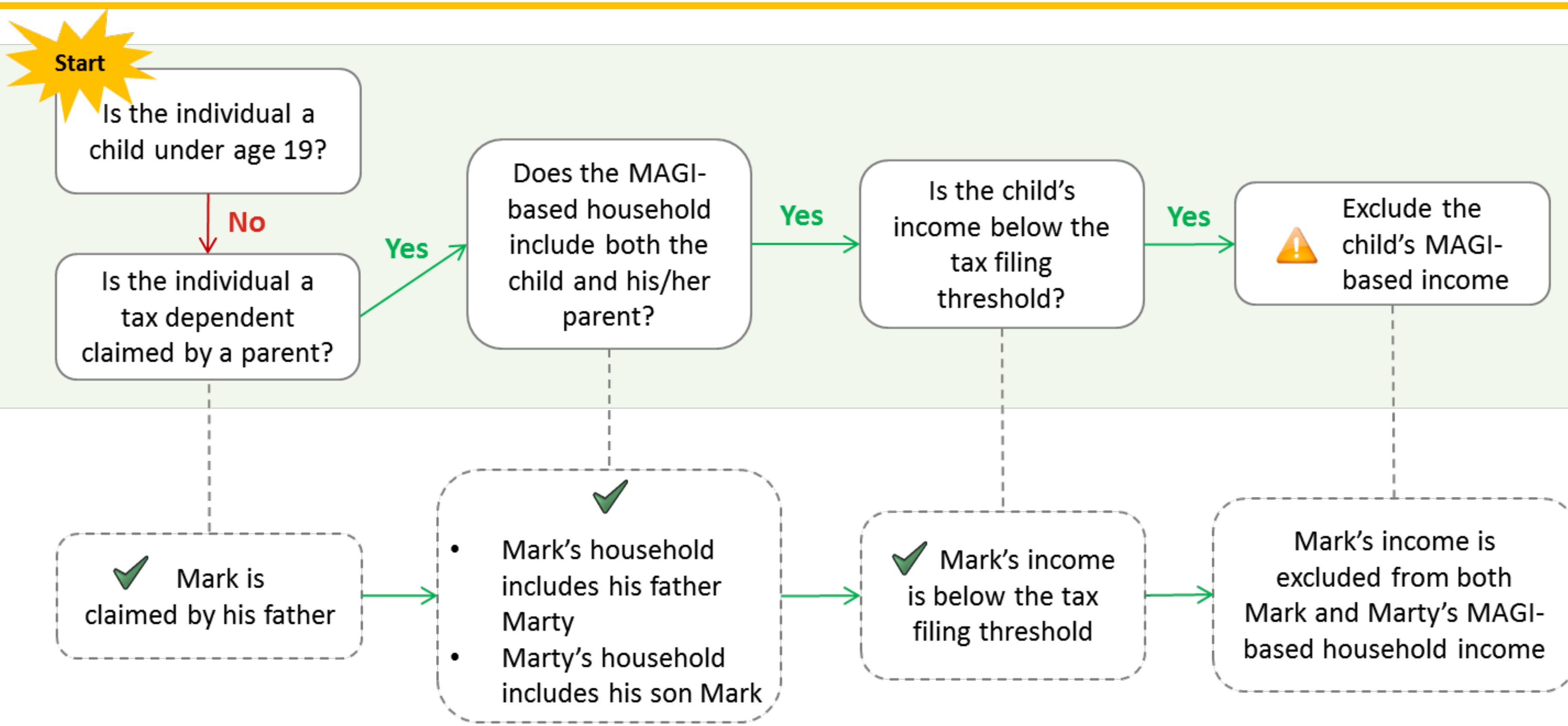


Mark’s Earned Income	Tax Filing Threshold	Expected to be Required to File?
$4,800/yr	$6,300/yr	No

Whose Income is Counted?
Scenario 1, continued

Scenario: Marty expects to claim his adult son, Mark (age 22), who is a full-time student, as a tax dependent. Marty makes $1,500 a month. Mark makes $400 a month working as a waiter.

Question: Is Mark's income excluded from Marty and Mark's total household income under the special income counting rule for children?



Answer: Yes. Mark's income would be excluded from total household income under the special income counting rule for children.

Whose Income is Counted?
Scenario 2

Scenario: Laura and Neil expect to file jointly and claim their son, Jonny (age 16), as a tax dependent. Laura and Neil each make $1,300 a month. Jonny earns $600 a month at his part-time job.

MAGI-based Household: Laura, Neil and Jonny will all be included in each other's MAGI-based households.

Question: What is the total household income?

- Laura & Neil
- Each earns $1,300/mo

- Jonny (16 y/o)
- Earns $600/mo

Tax filer rules

- Laura and Neil expect to file jointly and claim their son, Jonny, as a tax dependent
- Jonny is expected to be required to file taxes

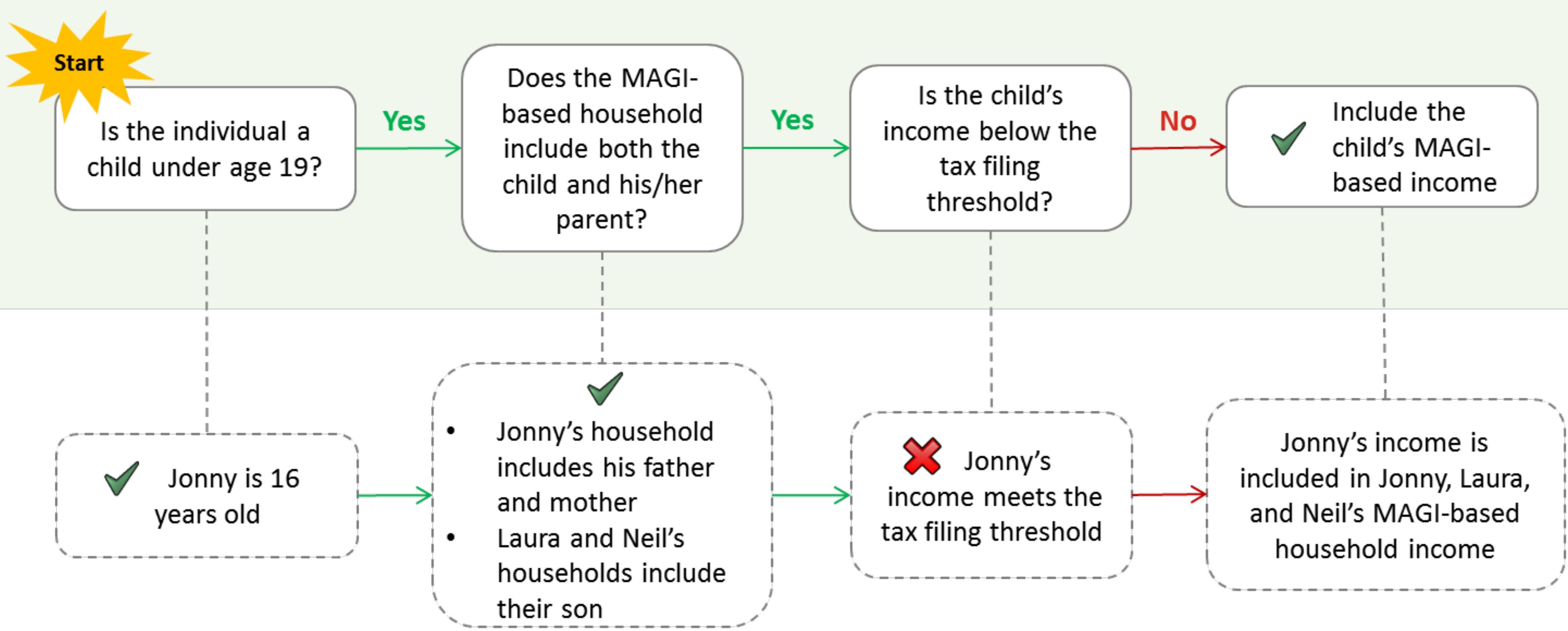
Laura $1,300 ✓
Neil $1,300 ✓
<u>Jonny $600</u> ✓
Total = $3,200

Jonny's Earned Income	Tax Filing Threshold	Expected to be Required to File?
$7,200/yr	$6,300/yr	Yes

Whose Income is Counted?
Scenario 2, continued

Scenario: Laura and Neil expect to file jointly and claim their son, Jonny (age 16), as a tax dependent. Laura and Neil each make $1,300 a month. Jonny earns $600 a month at his part-time job.

Question: Is Jonny's income excluded from total household income under the special income counting rule for children?



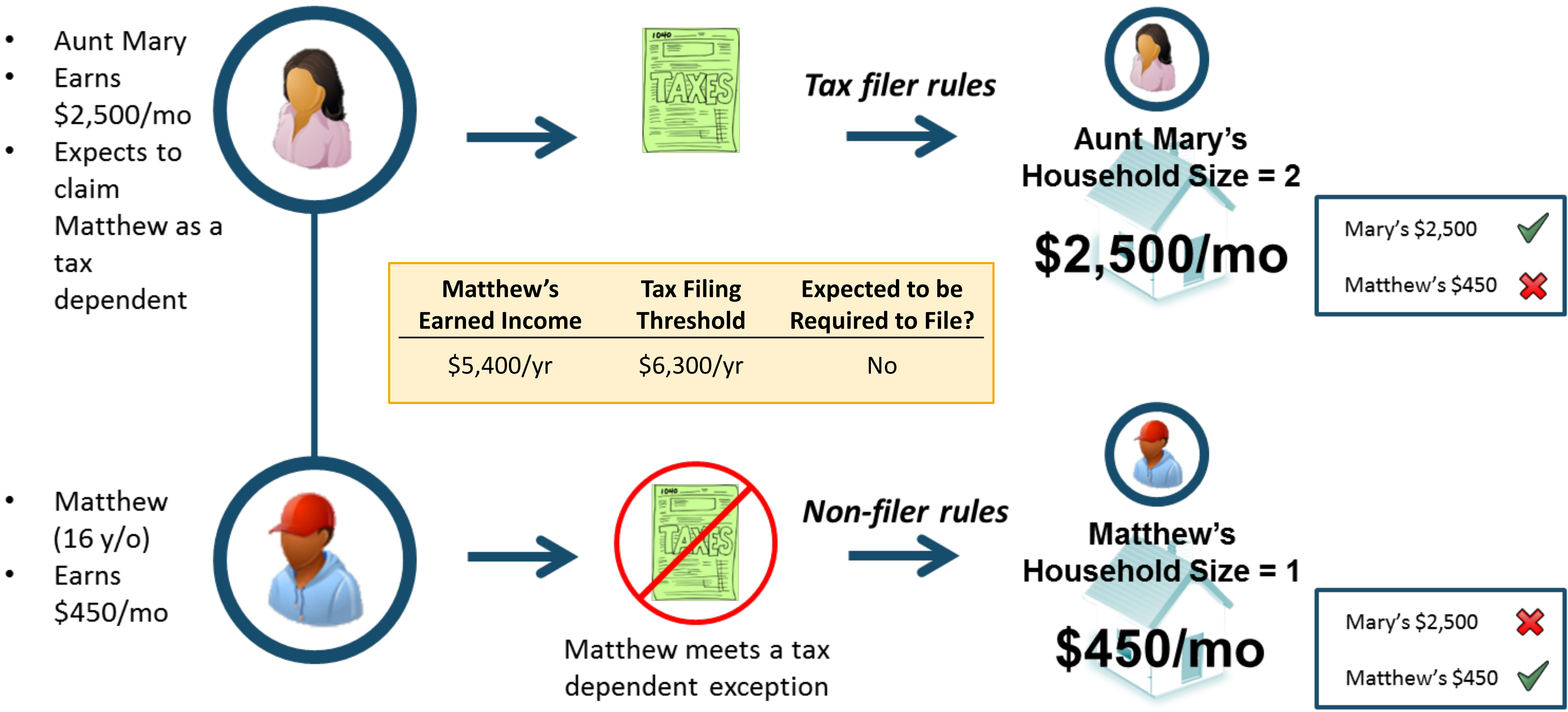
Answer: No. Jonny's income would be not be excluded from total household income under the special income counting rule for children.

Whose Income is Counted? Scenario 3

Scenario: Aunt Mary expects to claim her nephew, Matthew (age 16), as a tax dependent. Aunt Mary earns $2,500 a month in wages. Matthew earns $450 a month from his part-time job.

MAGI-based Household: Aunt Mary's MAGI-based household will include herself and Matthew, but Matthew's MAGI-based household will include only himself.

Question: What is the total household income for Aunt Mary and Matthew?



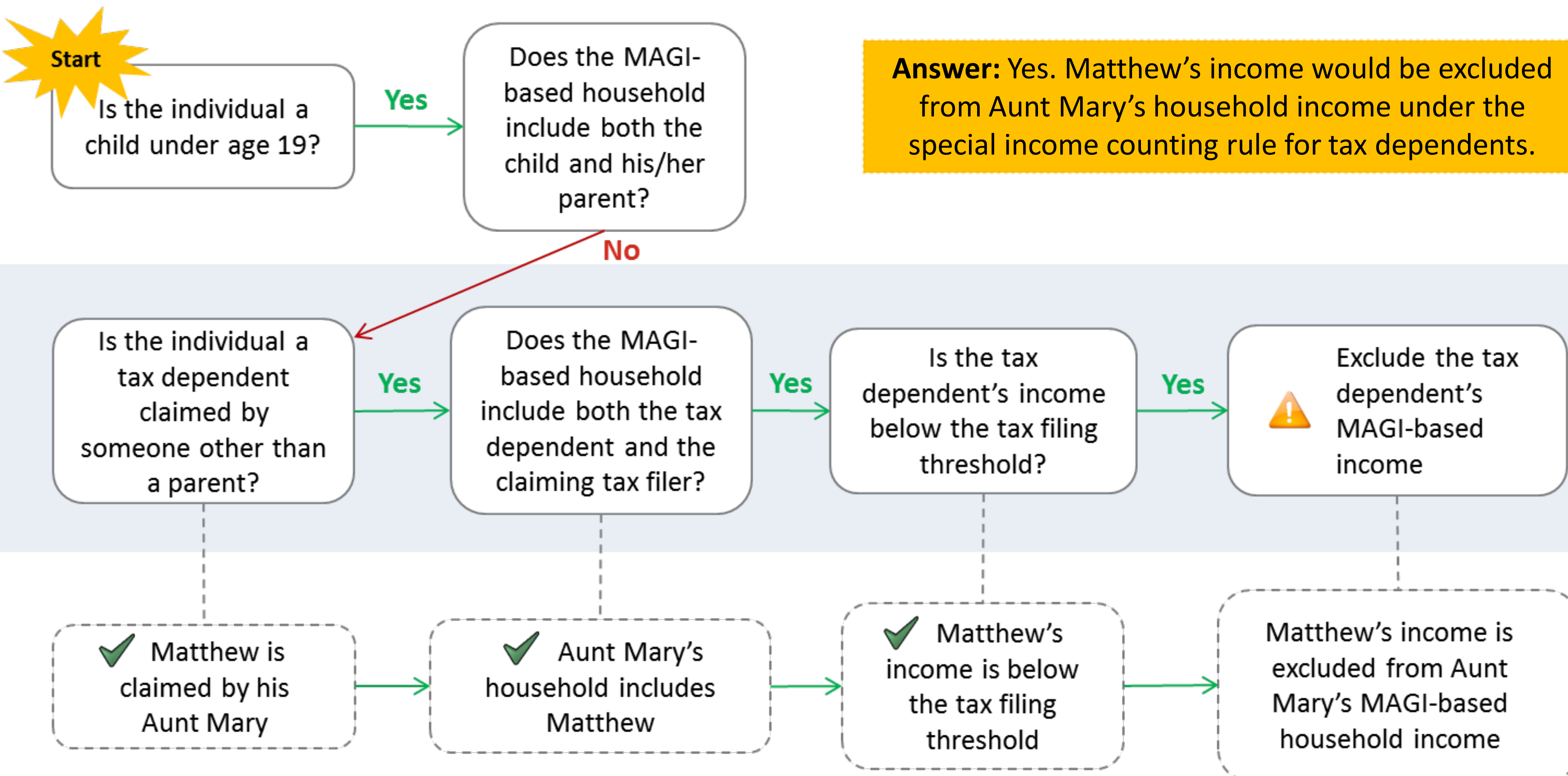
Matthew's Earned Income	Tax Filing Threshold	Expected to be Required to File?
$5,400/yr	$6,300/yr	No

Scenario 3, continued
Aunt Mary’s Total Household Income

Scenario: Aunt Mary expects to claim her nephew, Matthew (age 16), as a tax dependent. Aunt Mary earns $2,500 a month in wages. Matthew earns $450 a month from his part-time job.

Question: Is Matthew’s income excluded from Aunt Mary’s total household income under the special income counting rule for tax dependents?

Answer: Yes. Matthew’s income would be excluded from Aunt Mary’s household income under the special income counting rule for tax dependents.

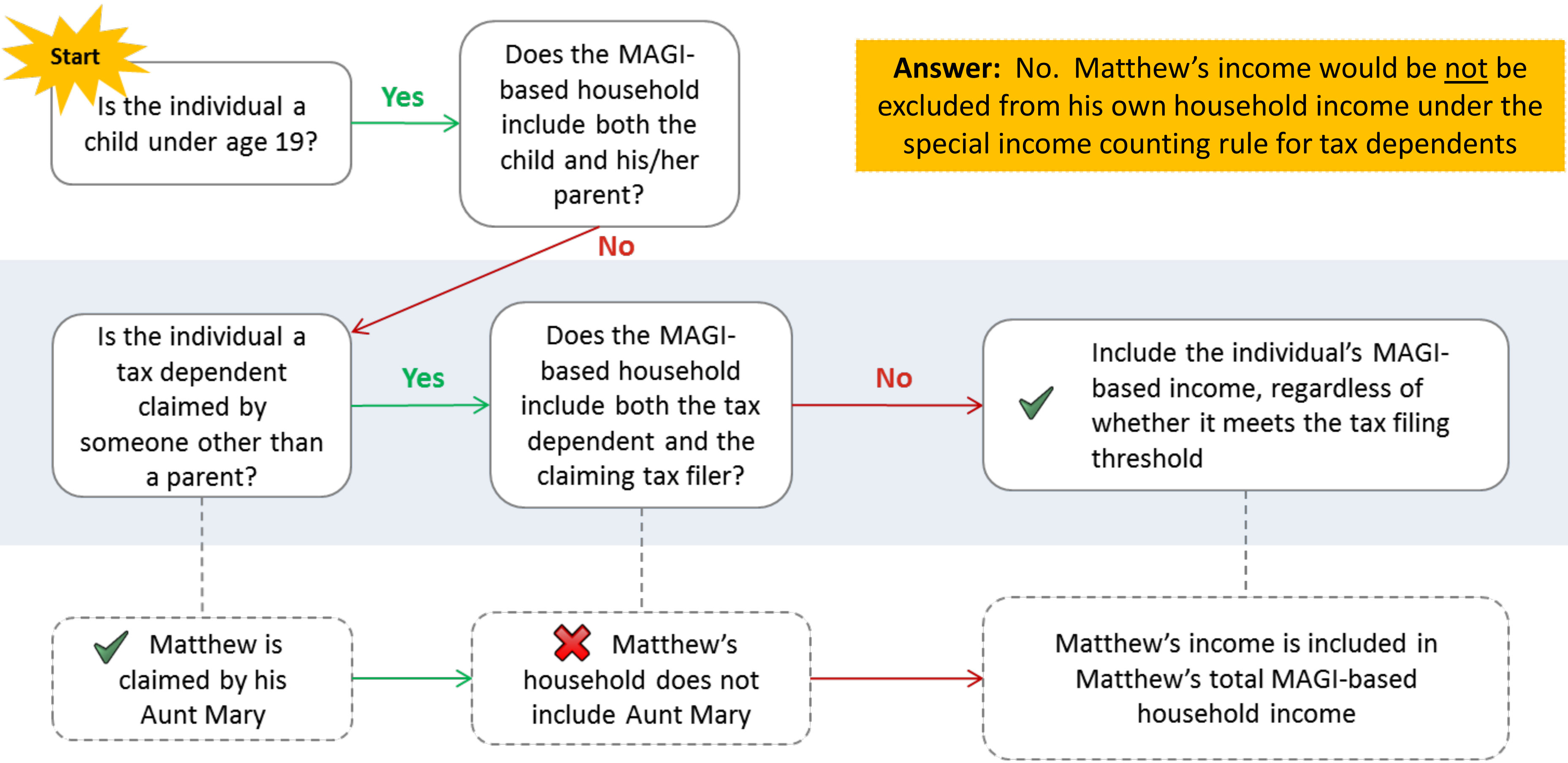


Scenario 3, continued
Matthew’s Total Household Income

Scenario: Aunt Mary expects to claim her nephew, Matthew (age 16), as a tax dependent. Aunt Mary earns $2,500 a month in wages. Matthew earns $450 a month from his part-time job.

Question: Is Matthew’s income excluded from his own total household income under the special income counting rule for tax dependents?

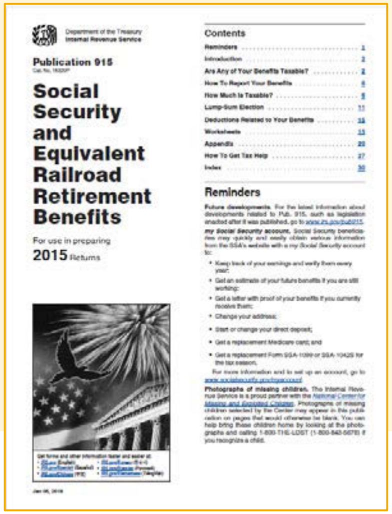
Answer: No. Matthew’s income would be not be excluded from his own household income under the special income counting rule for tax dependents



Social Security Benefits & the Tax Filing Threshold

- All Social Security benefits are counted as part of an individual's MAGI-based income.
- However, in determining whether a child or tax dependent's income is expected to meet the filing threshold, only the <u>taxable</u> portion of Social Security benefits is counted.
- IRS Publication 915 describes:
  1. How to determine whether any portion of Social Security benefits may be taxable, and
  2. If a portion of benefits may be taxable, how to determine the actual taxable amount.

https://www.irs.gov/pub/irs-pdf/p915.pdf


Department of the Treasury
Internal Revenue Service

Publication 915

Social Security and Equivalent Railroad Retirement Benefits

For use in preparing 2015 Returns

Contents

Reminders

Recall the 2015 Tax Filing Threshold

Single dependents (under age 65) are required to file a tax return if **any** of the following apply:

1. Unearned income more than $1,050.
2. Earned income more than $6,300.
3. Gross income more than the larger of:
   a) $1,050, or
   b) Earned income (up to $5,950) plus $350.

Social Security benefits are unearned income.

Should Social Security benefits be applied toward the tax filing threshold?

- To determine whether any of a child or tax dependent's Social Security benefits applies toward the tax filing threshold, first determine whether any portion of those benefits may be taxable.
- Complete Worksheet A in IRS publication 915 (shown below). If the amount in line E is greater than the base amount of $25,000, then a portion of benefits may be taxable.

Worksheet A. **A Quick Way To Check if Your Benefits May Be Taxable**

Note. If you plan to file a joint income tax return, include your spouse's amounts, if any, on lines A, C, and D.

A.	Enter the amount from ***box 5*** of all your Forms SSA-1099 and RRB-1099. Include the full amount of any lump-sum benefit payments received in 2015, for 2015 and earlier years. (If you received more than one form, combine the amounts from box 5 and enter the total.)	A.	________

Note. If the amount on line A is zero or less, stop here; none of your benefits are taxable this year.

B.	Enter one-half of line A	B.	________
C.	Enter your total income that is taxable (excluding line A), such as pensions, wages, interest, ordinary dividends, and capital gain distributions. Do not reduce your income by any deductions, exclusions (listed earlier), or exemptions	C.	________
D.	Enter any tax-exempt interest income such as interest on municipal bonds	D.	________
E.	Add lines B, C, and D	E.	________

Note. Compare the amount on line E to your **base amount** for your filing status. If the amount on line E equals or is less than the **base amount** for your filing status, none of your benefits are taxable this year. If the amount on line E is more than your **base amount,** some of your benefits may be taxable. You need to complete Worksheet 1, shown later. If none of your benefits are taxable, but you otherwise must file a tax return, see *Benefits not taxable*, later, under *How to Report Your Benefits*.

Determining whether Social Security Benefits are Taxable

Scenario: A child receives $2,000 per month in Social Security survivors benefits. The child has no other source of earned or unearned income.

Q: Is any portion of these benefits taxable?

Complete Worksheet A (IRS Publication 915)

A.	Enter the amount from ***box 5*** of all your Forms SSA-1099 and RRB-1099. Include the full amount of any lump-sum benefit payments received in 2015, for 2015 and earlier years. (If you received more than one form, combine the amounts from box 5 and enter the total.)	A.	$24,000
	Note. If the amount on line A is zero or less, stop here; none of your benefits are taxable this year.		
B.	Enter one-half of line A	B.	$12,000
C.	Enter your total income that is taxable (excluding line A), such as pensions, wages, interest, ordinary dividends, and capital gain distributions. Do not reduce your income by any deductions, exclusions (listed earlier), or exemptions	C.	$0
D.	Enter any tax-exempt interest income such as interest on municipal bonds	D.	$0
E.	Add lines B, C, and D	E.	$12,000

A: The amount on line E ($12,000) is less than the base amount ($25,000), so no portion of the child's Social Security benefits would be taxable.

In order for any of the child's Social Security benefits to be taxable, this child would need to have other taxable income (line C) and/or tax-exempt interest (line D) of more than $13,000.

Whose Income is Counted?
Scenario 4

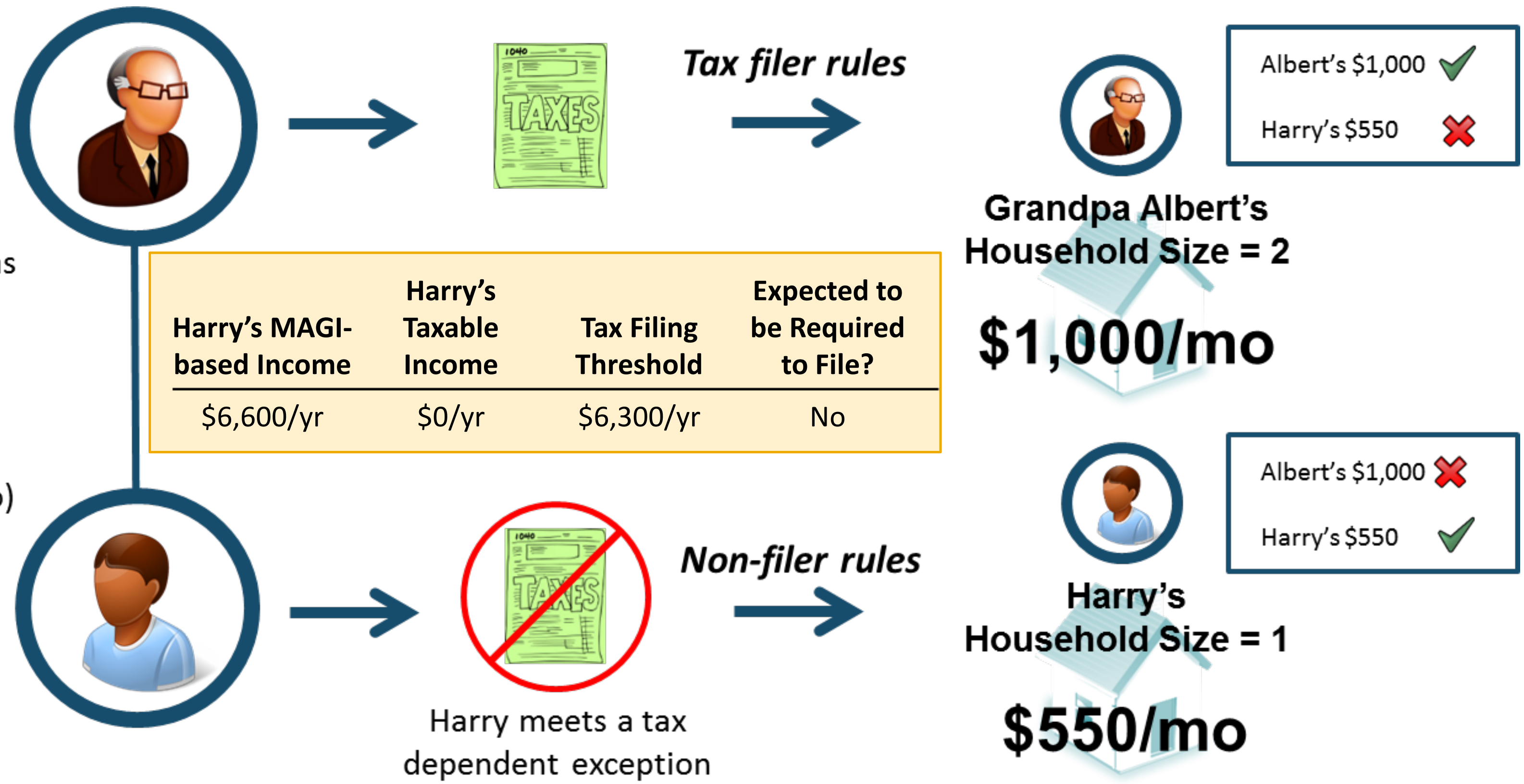
Scenario: Grandpa Albert expects to claim his grandson, Harry (age 15), as a tax dependent. Grandpa Albert earns $1,000 a month in wages. Harry receives $550 a month in Social Security survivor benefits.

MAGI-based Household: Grandpa Albert's MAGI-based household will include himself and Harry, but Harry's MAGI-based household will include only himself.

Question: What is the total household income for Grandpa Albert and Harry?

- Grandpa Albert
- Earns $1,000/mo
- Expects to claim Harry as a tax dependent

- Harry (15 y/o)
- Receives $550/mo in Social Security benefits



Harry's MAGI-based Income	Harry's Taxable Income	Tax Filing Threshold	Expected to be Required to File?
$6,600/yr	$0/yr	$6,300/yr	No

Scenario 4: Harry's Social Security Benefits

Scenario: Grandpa Albert expects to claim his grandson, Harry (age 15), as a tax dependent. Grandpa Albert earns $1,000 a month in wages. Harry receives $500 a month in Social Security survivor benefits.

Question: When determining the total household income for Grandpa Albert, would any portion of Harry's Social Security income be applied toward the filing threshold?

Complete Worksheet A (IRS Publication 915)

A.	Enter the amount from ***box 5*** of all your Forms SSA-1099 and RRB-1099. Include the full amount of any lump-sum benefit payments received in 2015, for 2015 and earlier years. (If you received more than one form, combine the amounts from box 5 and enter the total.)	A.	$6,600
	Note. If the amount on line A is zero or less, stop here; none of your benefits are taxable this year.		
B.	Enter one-half of line A	B.	$3,300
C.	Enter your total income that is taxable (excluding line A), such as pensions, wages, interest, ordinary dividends, and capital gain distributions. Do not reduce your income by any deductions, exclusions (listed earlier), or exemptions	C.	$0
D.	Enter any tax-exempt interest income such as interest on municipal bonds	D.	$0
E.	Add lines B, C, and D	E.	$3,300

- **The amount on line E ($3,300) is less than the base amount ($25,000), so no portion of Harry's Social Security benefits would be taxable.**
- **Because only the taxable portion of an individual's Social Security benefits are applied toward the filing threshold, none of Harry's Social Security benefits would be counted in determining whether or not he would be required to file taxes.**

Scenario 4, continued
Grandpa Albert's Total Household Income

Scenario: Grandpa Albert expects to claim his grandson, Harry (age 15), as a tax dependent. Grandpa Albert earns $1,000 a month in wages. Harry receives $550 a month in Social Security survivor benefits.

Question: Is Harry's income excluded from Grandpa Albert's total household income under the special income counting rule for tax dependents?

Answer: Yes. Harry's income would be excluded from Grandpa Albert's total household income under the special income counting rule for tax dependents

Start

Is the individual a child under age 19?

Yes

Does the MAGI-based household include both the child and his/her parent?

No

Is the individual a tax dependent claimed by someone other than a parent?

Yes

Does the MAGI-based household include both the tax dependent and the claiming tax filer?

Yes

Is the tax dependent's income below the tax filing threshold?

Yes

Exclude the tax dependent's MAGI-based income

✓ Harry is claimed by his Grandpa Albert

✓ Grandpa Albert's household includes Harry

✓ Harry's income is below the tax filing threshold

Harry's income is excluded from Grandpa Albert's MAGI-based household income

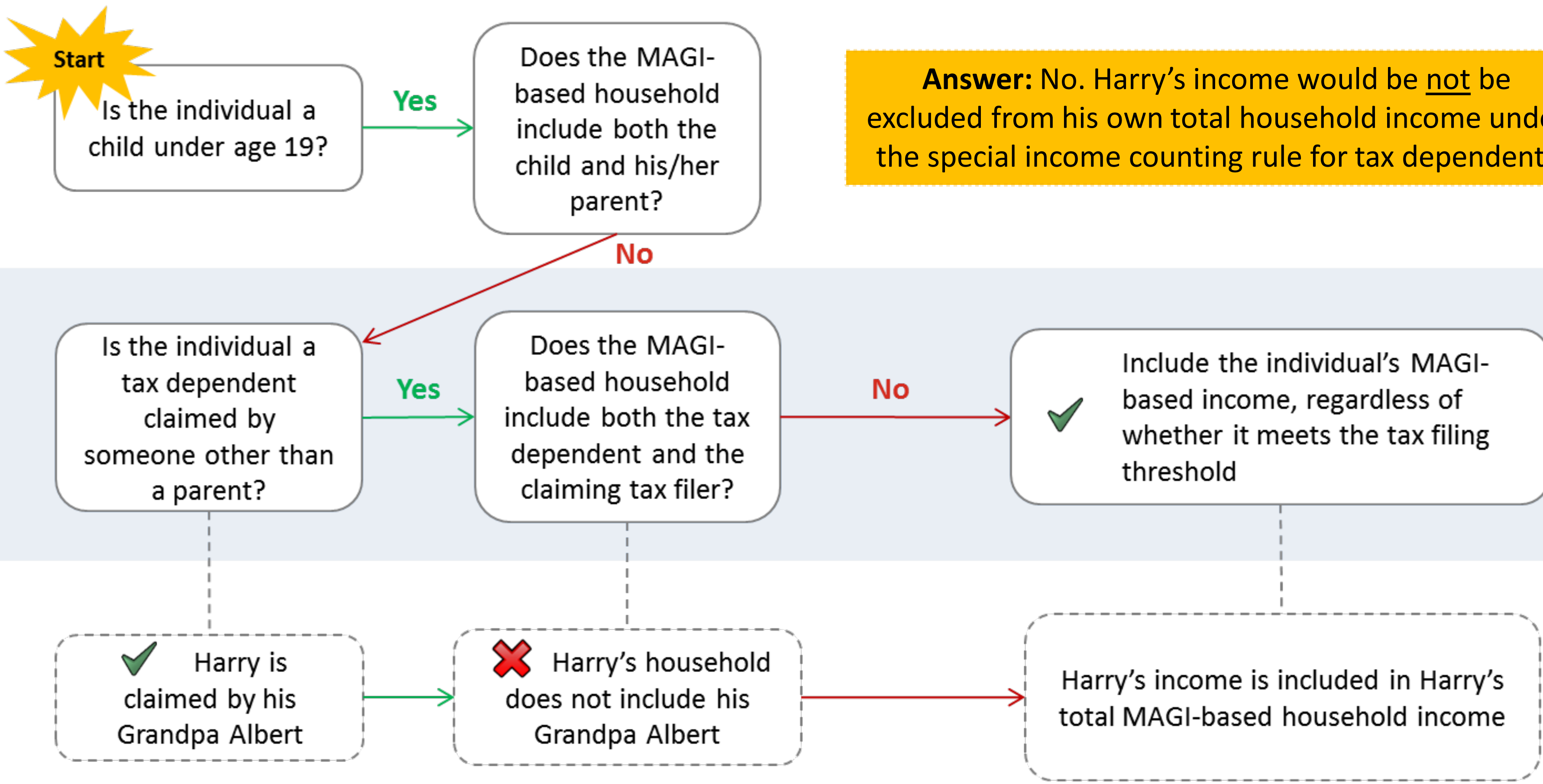
Scenario 4, continued

Harry’s Total Household Income

Scenario: Grandpa Albert expects to claim his grandson, Harry (age 15), as a tax dependent. Grandpa Albert earns $1,000 a month in wages. Harry receives $550 a month in Social Security survivor benefits.

Question: Is Harry’s income excluded from his own total household income under the special income counting rule for tax dependents?

Answer: No. Harry’s income would be <u>not</u> be excluded from his own total household income under the special income counting rule for tax dependents



Social Security Benefits & the Tax Filing Threshold

Discussion

- To review:
  - All Social Security benefits are counted toward MAGI-based income.
  - The relationship between Social Security benefits and the tax filing threshold is only relevant in determining whether a child or tax dependent's MAGI-based income (which includes Social Security benefits) is included in total household income.
- Only the taxable portion of Social Security benefits is applied toward the tax filing threshold. So if no portion of the Social Security benefits is taxable, <u>none</u> of those benefits will be applied toward the tax filing threshold.
- Except in rare cases, such as receipt of a lump sum payment, a child or tax dependent's Social Security benefits will not be taxable unless the child/tax dependent has other income which itself (i.e., not counting Social Security benefits) exceeds the tax filing threshold.
- If a child or tax dependent's income <u>does</u> count toward total household income, all Social Security benefits are counted (both the taxable portion and the non-taxable portion).

FFM Practice:

- When evaluating whether an individual meets the tax filing threshold, the FFM never considers any of the individual's Social Security benefits.

Determining Household Income

Key Questions When Determining Household Income:

Whose income is counted?

What income is counted?

Over what period is income counted?

Taxable Income & Adjustments

The IRS 1040 Form is the starting place to understand what income and adjustments are included in MAGI. We will refer back to it throughout this section.

Income	7	Wages, salaries, tips, etc. Attach Form(s) W-2		7
	8a	**Taxable** interest. Attach Schedule B if required		8a
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	b	**Tax-exempt** interest. **Do not** include on line 8a	8b	
	9a	Ordinary dividends. Attach Schedule B if required		9a
	b	Qualified dividends	9b	
	10	Taxable refunds, credits, or offsets of state and local income taxes		10
	11	Alimony received		11
	12	Business income or (loss). Attach Schedule C or C-EZ		12
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐		13
If you did not get a W-2, see instructions.	14	Other gains or (losses). Attach Form 4797		14
	15a	IRA distributions 15a; **b** Taxable amount		15b
	16a	Pensions and annuities 16a; **b** Taxable amount		16b
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17
	18	Farm income or (loss). Attach Schedule F		18
	19	Unemployment compensation		19
	20a	Social security benefits 20a; **b** Taxable amount		20b
	21	Other income. List type and amount		21
	22	Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶		22
Adjusted Gross Income	23	Educator expenses	23	
	24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24	
	25	Health savings account deduction. Attach Form 8889	25	
	26	Moving expenses. Attach Form 3903	26	
	27	Deductible part of self-employment tax. Attach Schedule SE	27	
	28	Self-employed SEP, SIMPLE, and qualified plans	28	
	29	Self-employed health insurance deduction	29	
	30	Penalty on early withdrawal of savings	30	
	31a	Alimony paid **b** Recipient's SSN ▶	31a	
	32	IRA deduction	32	
	33	Student loan interest deduction	33	
	34	Tuition and fees. Attach Form 8917	34	
	35	Domestic production activities deduction. Attach Form 8903	35	
	36	Add lines 23 through 35		36
	37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶		37

What Income is Counted?

APTC/CSR Eligibility

Modified Adjusted Gross Income (MAGI) for purposes of APTC/CSR includes:

1. Adjusted gross income (taxable income less deductions/adjustments)
2. Social Security benefits not included in taxable income
3. Tax-exempt interest
4. Foreign earned income

26 U.S.C. 36B(d)(2)(B)

Medicaid & CHIP Eligibility

Medicaid/CHIP MAGI-based income includes:

1. Adjusted gross income (taxable income less deductions/adjustments), excluding:
    - Certain taxable American Indian/Alaska Native income
    - Taxable scholarships/awards used for educational purposes
2. Social Security benefits not included in taxable income
3. Tax-exempt interest
4. Foreign earned income

42 CFR 435.603(e)

Countable & Non-Countable Income

Special Rules for Medicaid/CHIP

MAGI-based income, which is used to determine eligibility for Medicaid/CHIP, has important differences from MAGI used by the Marketplace to determine eligibility for advanced payment of premium tax credits and cost sharing reductions (APTC/CSR).

Income Type	Treatment under MAGI For APTC/CSR	Treatment in MAGI-based income for Medicaid/CHIP
Educational scholarships, awards or fellowships used for educational purposes	Counted if taxable Not counted if not taxable	Not counted, regardless of whether taxable or not
Payments derived from American Indian/Alaska Native lands, natural resources, trust settlements or traditional/cultural activities	Counted if taxable Not counted if not taxable	Not counted
Lump sum payments (i.e., prizes, back payment of benefits)	Counted if taxable Not counted if not taxable	Counted only in the month received if taxable; converts to resource next month Not counted if not taxable
State Policy Option Cash support provided by a tax filer to a tax dependent who is not a child of the tax filer (biological, adopted or step)	Not counted	Counted as income of dependent if the state chooses this option ➢ Does not include in-kind support ➢ Must exceed nominal amount

42 CFR 435.603(d)(3); 42 CFR 435.603(e)

How is Taxable Income Treated in MAGI?

Taxable income <u>counted</u> in determining Medicaid/CHIP MAGI-based income:

- Taxable wages/salary (before taxes are taken out)
- Taxable interest
- Self-employment net income (profit after subtracting business expenses)
- Taxable Social Security benefits
- Alimony received
- Most retirement benefits
- Net capital gains (profit after subtracting capital losses)
- Most investment income, such as interest and dividends
- Unemployment benefits
- Rental or royalty income (profit after subtracting costs)
- Other taxable income, such as canceled debts, court awards, jury duty pay not given to an employer, and gambling, prizes, or awards

Income			
	7	Wages, salaries, tips, etc. Attach Form(s) W-2	7
	8a	**Taxable** interest. Attach Schedule B if required	8a
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	b	**Tax-exempt** interest. **Do not** include on line 8a . . . 8b	
	9a	Ordinary dividends. Attach Schedule B if required	9a
	b	Qualified dividends . . . 9b	
	10	Taxable refunds, credits, or offsets of state and local income taxes	10
	11	Alimony received	11
	12	Business income or (loss). Attach Schedule C or C-EZ	12
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐	13
If you did not get a W-2, see instructions.	14	Other gains or (losses). Attach Form 4797	14
	15a	IRA distributions 15a; **b** Taxable amount	15b
	16a	Pensions and annuities 16a; **b** Taxable amount	16b
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17
	18	Farm income or (loss). Attach Schedule F	18
	19	Unemployment compensation	19
	20a	Social security benefits 20a; **b** Taxable amount	20b
	21	Other income. List type and amount	21
	22	Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶	22

Taxable income <u>not counted</u> in determining Medicaid/CHIP MAGI-based income:

- Educational scholarships, awards or fellowships used for educational purposes
- Payments derived from American Indian/Alaska Native lands, natural resources, trust settlements or traditional/cultural activities

42 CFR 435.603(e)(2) and (3)

How is Non-Taxable Income Treated in MAGI?

Non-taxable income counted in determining Medicaid/CHIP MAGI-based income:

- Tax-exempt interest
- Foreign earned income
- Non-taxable Social Security benefits (does not include Supplemental Security Income (SSI) which is never counted in MAGI)
- Medicaid/CHIP only: State option to include actual cash support in very narrow circumstances

Non-taxable income not counted in determining Medicaid/CHIP MAGI-based income:

- Temporary Assistance to Needy Families (TANF) and other government cash assistance
- Supplemental Security Income (SSI)
- Child support received
- Veterans benefits
- Worker's compensation payments
- Proceeds from life insurance, accident insurance, or health insurance
- Federal tax credits and Federal income tax refunds
- Gifts and Loans
- Inheritances

While many of these income types were countable for Medicaid/CHIP prior to MAGI, most non-taxable income is not countable for MAGI

26 U.S.C. 36B(d)(2)(B); 42 CFR 435.603(e) and 435.603(d)(3)

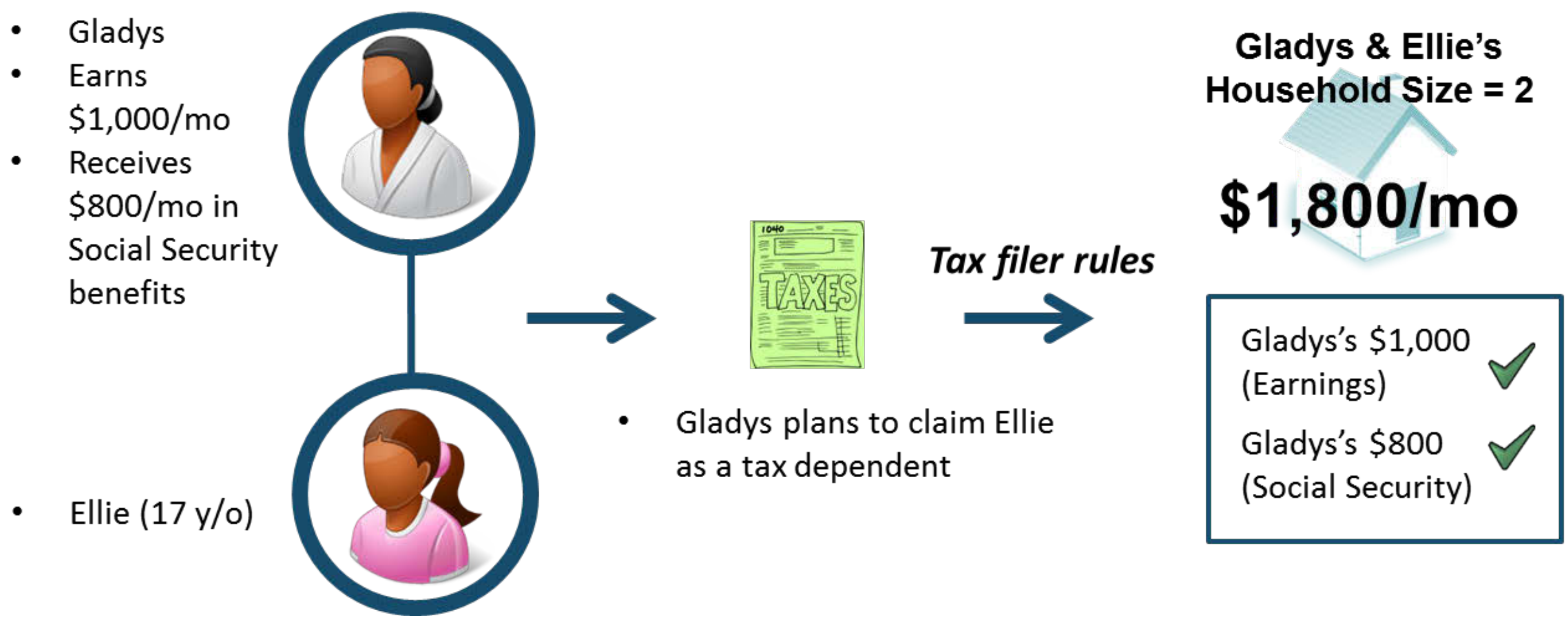
How are non-taxable Social Security benefits treated in MAGI?

Scenario: Gladys expects to claim her daughter, Ellie (age 17), as a tax dependent. Gladys earns $1,000 from her job and receives $800 in Social Security benefits each month. Ellie has no income.

MAGI-based Household: Gladys and Ellie will be included in each other's MAGI-based households.

Question: What is the total household income for Gladys and Ellie?

All of Gladys's Social Security benefits are included in her MAGI-based income, even though none of her Social Security benefits are taxable.

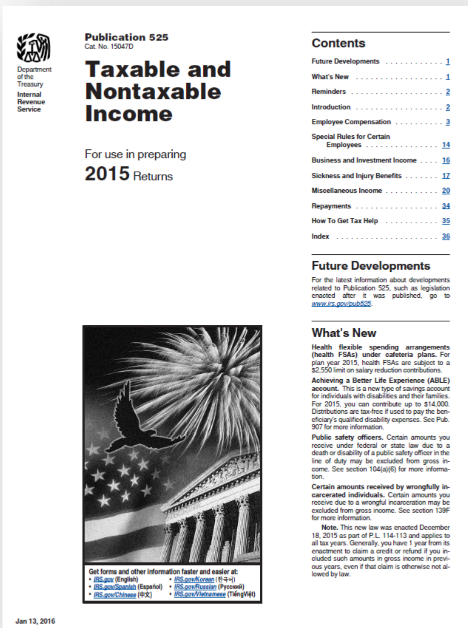


Researching Complex Income Types

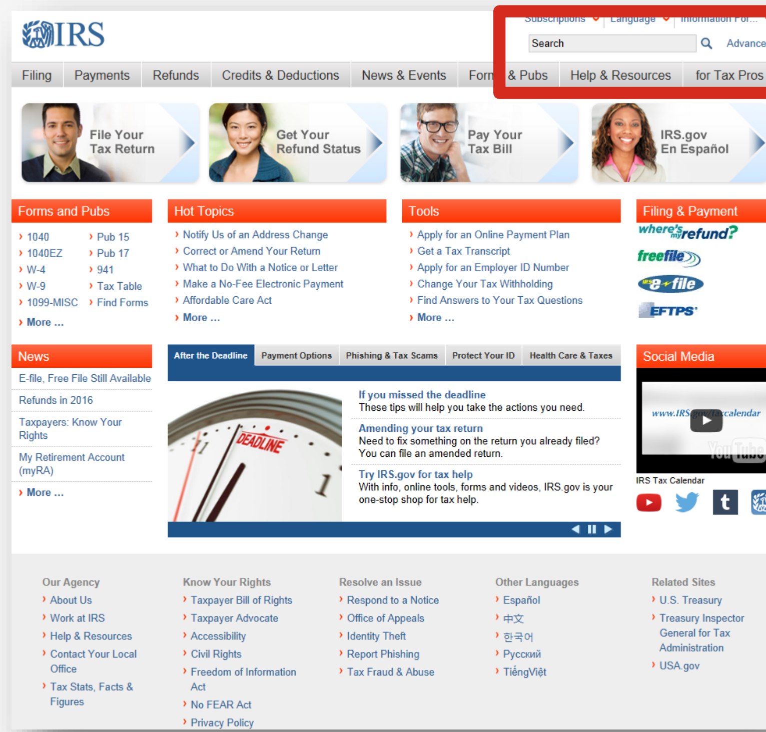
Researching Complex Income Types:

Step 1 – IRS Resources

Step 1: Refer to IRS resources



IRS Publication 525 discusses various types of income and explains whether they are taxable or non-taxable



IRS.gov has an excellent search feature and helpful materials in the "Help & Resources" section (including frequently asked questions, or FAQs)

Researching Complex Income Types:
Step 2 – CMS & IRS Technical Assistance

Step 2: Submit question to CMS

If you are unable to find the information you need through the IRS resources:

1. Submit your questions to CMS through the SOTA process.
2. CMS will work with the IRS to answer the question.
3. IRS or CMS will provide a response to the state and share the information through the Eligibility Technical Advisory Group monthly call if appropriate.

CMS and the IRS are resources to support states in addressing MAGI questions.

Researching Complex Income Types:
Example 1 – AmeriCorps Education Award

Question: Is an **AmeriCorps Education Award** counted for MAGI-based income?

Information from IRS website:

IRS

Subscriptions | Language | Information For...

Search | Advanced

Filing | Payments | Refunds | Credits & Deductions | News & Events | Forms & Pubs | Help & Resources | for Tax Pros

1099-MISC, Independent Contractors, and Self-Employed

Question: I received an AmeriCorps Education Award and an income statement for it. Are these payments taxable?

Answer:
Yes. AmeriCorps Education Awards are taxable in the year they are paid. If you receive an award and the payment was $600 or more during the year, you should receive a Form 1099-MISC, *Miscellaneous Income*. The 1099-MISC will show the amount of the award in box 3, Other Income, with no withholding. Report the payment amount on the "Other income" line of Form 1040, *U.S. Individual Income Tax Return*, even if you do not receive Form 1099-MISC.

Visit AmeriCorps for more information on the Segal AmeriCorps Education Award programs.

Additional Information:
- Publication 970, Tax Benefits for Education

Category: Interest, Dividends, Other Types of Income
Subcategory: 1099-MISC, Independent Contractors, and Self-Employed

Researching Complex Income Types:
Example 1 – AmeriCorps Education Award

Question: Is an **AmeriCorps Education Award** counted for MAGI-based income?

The IRS website indicates that AmeriCorps Education Awards are taxable in the year they are paid.

Taxable income is always counted for MAGI for purposes of APTC/CSR.

However, recall that there are important modifications made to MAGI-based income for Medicaid/CHIP: MAGI-based income excludes educational scholarships, awards or fellowships used for educational purposes.

If the AmeriCorps Education Award is used for educational purposes (i.e., tuition or payment of student loans), it is not counted for MAGI-based income even though it is taxable.

Researching Complex Income Types:
Example 2 – AmeriCorps Living Allowance

Question: Is an **AmeriCorps living allowance** counted for MAGI-based income?

Searching the IRS website and Publication 525 does not yield clear information on AmeriCorps living allowances.

State contacted CMS, which consulted with the IRS to get the answer.

AmeriCorps living allowances are taxable in the year paid to the recipient and count for MAGI-based income.

Deductions

Deductions Must Be Considered in MAGI-based Income

States must incorporate allowable deductions (also known as adjustments) in the calculation of MAGI-based income.

$1,000 monthly wages − **$200 monthly allowable deduction** = **$800 monthly MAGI-based income**

Deductions Incorporated into MAGI-based Income

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

7	Wages, salaries, tips, etc. Attach Form(s) W-2		7
8a	**Taxable** interest. Attach Schedule B if required		8a
b	**Tax-exempt** interest. **Do not** include on line 8a	8b	
9a	Ordinary dividends. Attach Schedule B if required		9a
b	Qualified dividends	9b	
10	Taxable refunds, credits, or offsets of state and local income taxes		10
11	Alimony received		11
12	Business income or (loss). Attach Schedule C or C-EZ		12
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐		13
14	Other gains or (losses). Attach Form 4797		14
15a	IRA distributions	15a	b Taxable amount 15b
16a	Pensions and annuities	16a	b Taxable amount 16b
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17
18	Farm income or (loss). Attach Schedule F		18
19	Unemployment compensation		19
20a	Social security benefits	20a	b Taxable amount 20b
21	Other income. List type and amount		21
22	Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶		22

Adjusted Gross Income

23	Educator expenses	23	
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24	
25	Health savings account deduction. Attach Form 8889	25	
26	Moving expenses. Attach Form 3903	26	
27	Deductible part of self-employment tax. Attach Schedule SE	27	
28	Self-employed SEP, SIMPLE, and qualified plans	28	
29	Self-employed health insurance deduction	29	
30	Penalty on early withdrawal of savings	30	
31a	Alimony paid **b** Recipient's SSN ▶	31a	
32	IRA deduction	32	
33	Student loan interest deduction	33	
34	Tuition and fees. Attach Form 8917	34	
35	Domestic production activities deduction. Attach Form 8903	35	
36	Add lines 23 through 35		36
37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶		37

Net operating loss

Adjustments/ Deductions

MAGI Deductions

Included in the Medicaid/CHIP MAGI-based methodology

Deductions and adjustments incorporated into adjusted gross income, as described on page 1 of IRS form 1040, including:

- Alimony paid to someone else
- Student loan interest paid
- Certain educator expenses
- Certain moving expenses related to a job change
- Most contributions to individual retirement arrangements (IRAs)
- Penalties on the early withdrawal of savings
- Certain business expenses of performing artists, reservists and fee-basis government officials
- Certain tuition and fees
- Health savings account contributions
- Certain self-employment business expenses not included in net income
- Net operating loss

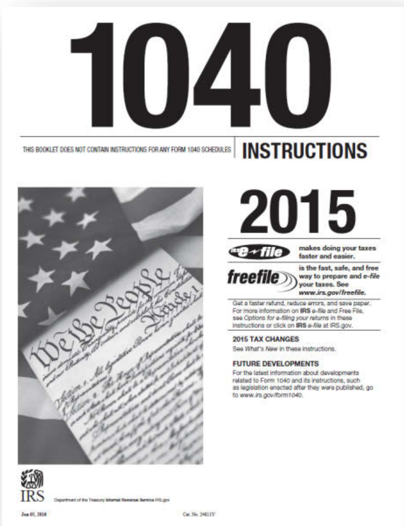
NOT included in the Medicaid/CHIP MAGI-based methodology

Credits and deductions described on page 2 of IRS form 1040, including:

- The standard deduction
- Itemized deductions detailed in Schedule A, such as home mortgage interest, medical and dental expenses, and gifts to charity
- Child tax credit

Net Operating Loss is Applied Under MAGI

A net operating loss may occur when an individual's deductions for a year are more than the individual's income for the year. The net operating loss may then be deducted from future year(s) income.



Net operating loss (NOL) deduction. Include on line 21 any NOL deduction from an earlier year. Subtract it from any income on line 21 and enter the result. If the result is less than zero, enter it in parentheses. On the dotted line next to line 21, enter "NOL" and show the amount of the deduction in parentheses. See Pub. 536 for details.

In applying MAGI-based methodologies, states must subtract net operating loss deductions.

Deductions NOT Incorporated into MAGI-based Income

Form 1040 (2015) Page 2

	38	Amount from line 37 (adjusted gross income)	38
Tax and Credits	39a	Check if: ☐ **You** were born before January 2, 1951, ☐ Blind. ☐ **Spouse** was born before January 2, 1951, ☐ Blind. **Total boxes checked ▶ 39a**	
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐	
Standard Deduction for—	40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)	40
• People who check any box on line 39a or 39b **or** who can be claimed as a dependent, see instructions.	41	Subtract line 40 from line 38	41
• All others:	42	**Exemptions.** If line 38 is $154,950 or less, multiply $4,000 by the number on line 6d. Otherwise, see instructions	42
Single or Married filing separately, $6,300	43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43
Married filing jointly or Qualifying widow(er), $12,600	44	**Tax** (see instructions). Check if any from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972 **c** ☐	44
Head of household, $9,250	45	**Alternative minimum tax** (see instructions). Attach Form 6251	45
	46	Excess advance premium tax credit repayment. Attach Form 8962	46
	47	Add lines 44, 45, and 46 ▶	47
	48	Foreign tax credit. Attach Form 1116 if required 48	
	49	Credit for child and dependent care expenses. Attach Form 2441 49	
	50	Education credits from Form 8863, line 19 50	
	51	Retirement savings contributions credit. Attach Form 8880 51	
	52	Child tax credit. Attach Schedule 8812, if required 52	
	53	Residential energy credits. Attach Form 5695 53	
	54	Other credits from Form: **a** ☐ 3800 **b** ☐ 8801 **c** ☐ 54	
	55	Add lines 48 through 54. These are your **total credits**	55
	56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ▶	56
Other Taxes	57	Self-employment tax. Attach Schedule SE	57
	58	Unreported social security and Medicare tax from Form: **a** ☐ 4137 **b** ☐ 8919	58
	59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59
	60a	Household employment taxes from Schedule H	60a
	b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b
	61	Health care: individual responsibility (see instructions) Full-year coverage ☐	61
	62	Taxes from: **a** ☐ Form 8959 **b** ☐ Form 8960 **c** ☐ Instructions; enter code(s)	62
	63	Add lines 56 through 62. This is your **total tax** ▶	63
Payments	64	Federal income tax withheld from Forms W-2 and 1099 64	
If you have a qualifying child, attach Schedule EIC.	65	2015 estimated tax payments and amount applied from 2014 return 65	
	66a	**Earned income credit (EIC)** 66a	
	b	Nontaxable combat pay election 66b	
	67	Additional child tax credit. Attach Schedule 8812 67	
	68	American opportunity credit from Form 8863, line 8 68	
	69	Net premium tax credit. Attach Form 8962 69	
	70	Amount paid with request for extension to file 70	

Form 1040 Page 2

Tax credits and exemptions are not part of adjusted gross income

Types of Deductions

There are different types of deductions that may be incurred over different timeframes.

Frequency	Examples
Consistent, monthly deduction	▪ Alimony paid ▪ Student loan interest
Lump sum deduction	▪ Certain educator expenses ▪ Certain moving expenses
Annualized deduction	▪ Net operating loss carryover ▪ Deductible part of self-employment tax

Many deductions are not commonly claimed by Medicaid/CHIP-eligible individuals:

- The model single streamlined application asks specifically about deductions for **alimony paid** and **student loan interest**, as these deductions are more common among Medicaid/CHIP-eligible applicants.

32. **Deductions:** Fill in all that apply, and give the amount and how often you pay it. If you pay for certain things that can be deducted on a federal income tax return, telling us about them could make the cost of health coverage a little lower.

NOTE: You shouldn't include child support that you pay, or a cost already considered in your answer to net self-employment (question 30b).

○ Alimony paid $ ______ How often? ______

○ Student loan interest $ ______ How often? ______

○ Other deductions $ ______ How often? ______
Type: ______

Methods to Incorporate Deductions

Different methodologies may be used to incorporate different types of deductions into current monthly MAGI-based income.

Deduction Type	Examples	Permissible Methods for Discussion
Consistent, monthly deduction	▪ Alimony paid ▪ Student loan interest	▪ Deduct the monthly expense from current monthly income
Lump sum deduction	▪ Certain educator expenses ▪ Certain moving expenses	▪ Deduct the full amount of the expense from current monthly income in the month in which the expense was incurred ▪ Divide the total expense by 12 and deduct one-twelfth from current monthly income
Annualized deduction	▪ Net operating loss carryover ▪ Deductible part of self-employment tax	▪ Divide the total projected expense by 12 and deduct one-twelfth from current monthly income

Annualizing Deductions:
Scenario

Scenario: Jon is an elementary school teacher. He spends $240 on supplies for his classroom in August. That same month, Jon applies for Medicaid for his 8 year old daughter Hazel whom he expects to claim as a tax dependent.

MAGI-based Household: Hazel's MAGI-based household will include herself and her father Jon.

Question: How is Jon's educator expense deduction incorporated into Hazel's household income for the month of August?

- Hazel (8 y/o)
- Claimed as a tax dependent by her father Jon
- Jon is an elementary school teacher

- Jon incurs a lump sum expense of $240 in August for classroom supplies

Annualize the deduction

Deduction = $20

Divide the expense by 12 months ($240/12 = $20) and subtract that amount from Hazel's household income for the month of August.

Lump sum deduction in August

Deduction = $240

Subtract the total amount of the expense ($240) from Hazel's MAGI-based income for the month of August.

Note: Hazel's household income for succeeding months will be higher when the lump sum approach is used.

Incorporating Deductions into MAGI

Discussion

- The actual amount of an annualized deduction may not be available until the individual completes a tax return for the current year.
- It is reasonable to utilize a projected annualized deduction based on the prior year and to verify the deduction with the prior year tax return.
- For lump sum deductions that have not yet been incurred, it is reasonable to require the individual to provide historical documentation of the expense in order to include it in MAGI.
- A MAGI-based household may have deductions (such as a net operating loss deduction) that exceed their income.
- If the household MAGI would be less than zero, once deductions are incorporated, the income amount used to determine financial eligibility for Medicaid and CHIP would be $0.

Determining Household Income

Key Questions When Determining Household Income:

Whose income is counted?

What income is counted?

Over what period is income counted?

Budget Periods

Different budget periods are used to determine financial eligibility for Medicaid/CHIP and APTC/CSR.

Financial eligibility for Medicaid/CHIP is based on **current monthly income.**

Financial eligibility for APTC/CSR is based on **annual income** for the calendar year in which benefits are sought.

States have options to minimize churn…

SSA 1902(e)(14)(H)(i); 26 CFR 1.36B-1(e); 45 CFR 155.305(f)(i)

Medicaid/CHIP Budget Period Options

Objective:

- Take into account future changes in income that can be reasonably predicted
- Promote continuity of coverage

State Options:

- For Medicaid/CHIP initial applications and renewals, states may take into account **reasonably predictable** future income, and/or loss of income, in determining current monthly income.
- Once an individual is determined eligible for Medicaid/CHIP, states have discretion to use **projected annual income**, instead of currently monthly income, for the remainder of the current calendar year.

42 CFR 435.603(h)

Reasonably Predictable Changes in Income

Reasonably Predictable

- Under this option, changes in income must be reasonably predictable, such as recurring seasonal employment or a new job with a signed employment contract.
- Uncertain changes, such as job prospects that are not yet finalized, may not be considered.

Future Income

- States may elect to consider future increases in income, future decreases in income, or both.
- Future changes in household composition, such as tax dependent status, may also be considered.

Reasonable Method

- States have flexibility to develop reasonable methodologies, for including a prorated portion of reasonably predictable future income, that work in the context of their eligibility and enrollment systems.
- States may choose the period of consideration (i.e., 6 months, 12 months)
- Income received in prior months cannot be considered in calculating income (but may be useful for verification)

Verifying Reasonably Predictable Changes

IRS data or quarterly wage data can be used to verify reasonably predictable future income electronically.

If no data sources are available to verify future income, documentation could include:

Signed contract for employment

History of predictable income fluctuations

Notice of employment termination or other indication of future income change

Prior year's tax return

States may accept self attestation if reasonably predictable future income cannot be otherwise verified

Reasonably Predictable Changes in Income: Scenario 1

Scenario: Tim works as a lifeguard during the spring and summer. He earns $1,500/month for six months of the year, but does not earn a paycheck between October and March. Tim applies for Medicaid on June 1st. State A has not elected the Reasonably Predictable Changes in Income option. State B has elected the Reasonably Predictable Changes in Income option and considers both reasonably predictable future increases and decreases in income.

Question: If Tim lives in State A or State B, will he be financially eligible for Medicaid?

State A
Current Monthly Income

Household Size = 1 (Tim)

Household Income = $1,500/month

Ineligible for Medicaid in State A
Current Monthly Income > 133% FPL
133% FPL monthly income limit for a 1-person household for 2016 is $1,317

State B
Current Monthly Income Prorated for Reasonably Predictable Changes

Household Size = 1 (Tim)

Household Income = $750/month

Financially Eligible for Medicaid in State B
Current Monthly Income < 133% FPL
133% FPL monthly income limit for a 1-person household for 2016 is $1,317

Prorated for a reasonably predictable decrease in future income. See next slide…

Reasonably Predictable Changes in Income: Scenario 1, cont.

Scenario: Tim works as a lifeguard during the spring and summer. He earns $1,500/month for six months of the year, but does not earn a paycheck between October and March. Tim applies for Medicaid on June 1st. Tim lives in state B, which has elected the Reasonably Predictable Changes in Income option and considers both reasonably predictable future increases and decreases in income.

Does the applicant's income change from month to month?

- Tim's income varies from month to month. He earns income for six months of the year.

Yes

Can the applicant predict his or her income for the next 12 months?

- Tim's income for the 12-month period starting June 1 and ending May 31 will be $9,000 ($1,500/mo*6).

Yes

Has the agency verified the applicant's attested predicted income?

- Yes, the state is able to verify the applicant's attested predicted income using IRS data available through the Hub.

Yes

Divide the projected 12-month income by 12 and compare to monthly income standard – or, compare 12-month projected income to annual income standard.

- Tim's current monthly income is $750 ($9,000/12).
- Tim is below the monthly income limit – the 133% FPL monthly income limit for a 1-person household for 2016 is $1,317.

Reasonably Predictable Changes in Income:

Scenario 2

Scenario: Gavin moved out of his parent's house in August. He earns $950 per month while he attends classes part-time. Gavin's parents together earn $2,950 per month. Because Gavin's parents provided more than half of his financial support for 7-months of the year, they will claim his as a tax dependent for the current year. However, Gavin's parents no longer provide support, so they will not claim him as a tax dependent next year. Gavin applies for Medicaid on September 1st in a state that uses the Reasonably Predictable Changes in Income option to take into account reasonable predictable changes in household composition.

Question: Is Gavin financially eligible for Medicaid in September?

Current Monthly Income in August

Household Size = 3 (Gavin + Parents)

Household Income = $3,900

Ineligible for Medicaid

Current Monthly Income > 133% FPL

133% FPL monthly income limit for a 3-person household for 2016 is $2,234

Predictable Change in Household Composition Applied in September

Household Size = 1 (Gavin)

Household Income = $950/month

Financially Eligible for Medicaid

Current Monthly Income < 133% FPL

133% FPL monthly income limit for a 1-person household for 2016 is $1,317

Reasonably Predictable Changes

Discussion

- Income for the current calendar year may not be used to determine current monthly income with the reasonably predictable changes option because it includes prior month income (except when determining eligibility in January).
- Verifiable income from a previous period may be useful in verifying reasonably predictable income changes – e.g., IRS data, previous year's state income tax data, history of quarterly wage data.
- If a consistent historical pattern of income changes cannot be established through either electronic data sources or paper documentation, states may accept self-attestation of an expected change.
- Any regular, predictable income fluctuation may be considered, such as a regular summer lifeguard's income or the income of teacher or school bus driver who is paid from September to May. This option could also be applied to a self-employed individual whose income and expenses fluctuate throughout the year.
- A change in circumstances that results in different household composition in the current month than the household composition reflected in the tax-filing status for the year may also be taken into account. One example would be a child who is currently claimed as a tax dependent but who has left her home and is no longer living with her parents (and thus could not be claimed in the future).
- A future change, such as marriage planned later in the year or a potential job lead, may not be considered under this option.

Projected Annual Income

Projected Annual

States may consider:

- Projected annual income for the entire calendar year (January-December), including income from prior months; or
- Projected annual income for the remaining months in the current calendar year, including future income only.

Renewal and Mid-Year Redetermination

- This option is available for individuals who have previously been determined eligible based on current monthly MAGI-based income.
- It is used when a change in circumstances would otherwise result in current monthly income over the income standard.

Redetermine in January

- When eligibility is renewed based on projected annual income for the entire calendar year, financial eligibility must be redetermined in January.

Projected Annual Income:
Scenario

Scenario: Wendy and Tony are married. They live together and plan to file a joint tax return for the current year. They were enrolled in Medicaid in February after Wendy was laid off from her job, which paid $800/month. Tony earns $750/month from his job. Wendy reports a change in circumstances in August when she gets a new job that pays $1,200/month.

Question: When Wendy & Tony's financial eligibility is reconsidered in August, are they still eligible?

Current Monthly Income

Household Size = 2 (Wendy & Tony)

Household Income = $1,950/month

Ineligible for Medicaid
Current Monthly Income > 133% FPL
133% FPL monthly income limit for a 2-person household for 2016 is $1,776

Projected Annual Income

Household Size = 2 (Wendy & Tony)

Household Income = $1,317/month

Financially Eligible for Medicaid
Projected Annual Income < 133% FPL
133% FPL monthly income limit for a 2-person household for 2016 is $1,776

Projected annual income (for the current calendar year) divided by 12. See next slide…

Projected Annual Income:

Scenario, cont.

Scenario: Wendy and Tony are married. They live together and plan to file a joint tax return for the current year. They were enrolled in Medicaid in February after Wendy was laid off from her job, which paid $800/month. Tony earns $750/month from his job. Wendy reports a change in circumstances in August when she gets a new job that pays $1,200/month.

	Wendy's Income	Tony's Income
January	$800	$750
February	$0	$750
March	$0	$750
April	$0	$750
May	$0	$750
June	$0	$750
July	$0	$750
August	$1,200	$750
September	$1,200	$750
October	$1,200	$750
November	$1,200	$750
December	$1,200	$750
ANNUAL INCOME	$6,800	$9,000

Financially Eligible for Medicaid Based on Current Monthly Income

Current Monthly Income = $750

Financially Ineligible for Medicaid Based on Current Monthly Income

Current Monthly Income = $1,950

Financially Eligible for Medicaid Based on Projected Annual Income

Projected Annual Income/12 = $1,317

Projected Annual Income

Discussion

- This option is intended to minimize churn for current beneficiaries who otherwise would lose coverage due to a change in circumstances. It helps to promote retention of coverage at least through the remainder of the calendar year.
- When using the projected annual income option, the state may need to request information on the individual's prior income if he has not been enrolled in Medicaid since the beginning of the calendar year.
- On January 1 of the next calendar year, states will need to re-evaluate the financial eligibility of an individual renewed or redetermined eligible based on projected annual income. Because projected annual income is likely higher for the new year, January 1 effectively represents a change in the individual's circumstances. States should establish a system edit to flag this change in circumstances.
- When reconsidering financial eligibility in January, if projected annual income does not exceed the income standard and the state has information available to complete a full eligibility renewal, a new 12-month eligibility period may be established.
  - The state may not require the beneficiary to provide information regarding other criteria needed to complete a full renewal.
  - However, the state must contact the beneficiary prior to sending advance notice of termination if the state determines his income is over the income standard effective January 1.

Gap Filling Rule

Coverage Gap

Coverage Gap:

The difference in eligibility rules between insurance affordability programs can introduce scenarios in which an applicant may appear to be financially ineligible for both Medicaid/CHIP (household income too high) and APTC (household income too low) – i.e., fall into a "coverage gap".

- Election of the Reasonably Predictable Changes in Income and Projected Annual Income options may help to mitigate, but cannot completely eliminate, potential coverage gaps.

Gap Filling Rule:

States must use household income, as calculated by the Marketplace for purposes of eligibility for APTC/CSR, to determine financial eligibility for Medicaid/CHIP if both the conditions below apply:

- Current monthly household income, using Medicaid/CHIP MAGI-based methods (including reasonably predictable changes in income or projected annual income if elected by the state), is over the applicable income standard; and,
- Projected annual household income, using MAGI methods applied by the Marketplace for purposes of APTC/CSR eligibility, is below 100% FPL.

42 CFR 435.603(i)

Gap Filling Rule

Rule Application

- Gap filling is a component of the MAGI-based financial methodology for Medicaid/CHIP. It is only applied in determining financial eligibility for Medicaid/CHIP.
- In order to be determined eligible for Medicaid/CHIP, an individual must meet all other Medicaid/CHIP eligibility requirements (e.g., state residency, categorical requirement such as age or pregnancy, citizenship or immigration status for coverage other than emergency Medicaid).
- The gap filling rule does not establish a special eligibility group.

Household Income for APTC/CSR

- Under the gap filling rule, financial eligibility for Medicaid/CHIP is determined using household income as calculated by the Marketplace for APTC/CSR purposes.
  - Medicaid/CHIP-specific household composition rules (e.g., tax dependent exceptions), income counting rules (e.g., the exception related to lump sum payments) and budget period (e.g., current monthly income) are not used.
  - Financial eligibility for APTC/CSR is based on annual income for the calendar year in which benefits are sought. This means that the individual's prior income for the calendar year, or lack of income, is included in the calculation of financial eligibility.
- If the state knows the determination of annual income made by the Marketplace, it may use that information for the purposes of applying the gap filling rule.

Gap Filling Rule:
Scenario 1

Scenario: Tanya (age 8) lives in State X with both her parents. State X's Medicaid income standard for children ages 6-18 is 133 percent FPL. Tanya's parents are not married and expect to file taxes separately. Tanya's mother earns $1,100 a month and her father earns $1,300 a month. Tanya expects to be claimed as a tax dependent by her father.

Question: Is Tanya financially eligible for Medicaid?

Household Income for Medicaid/CHIP

Household Size = 3	**Household Income = $2,400/mo**
• Tanya meets a tax dependent exception: she is a child living with both parents and expects to be claimed by one parent, but the parents do not expect to file jointly • Non-filer rules apply • Tanya's household includes herself and the two parents with whom she is living	• The budget period for Medicaid/CHIP is current monthly income • Tanya's household income includes her mother's current monthly income ($1,100/mo) and her father's current monthly income ($1,300/mo)

Household Income for APTC/CSR

Household Size = 2	**Household Income = $15,600/yr**
• Rules for APTC/CSR financial eligibility do not include a tax dependent exception • Tanya's household includes herself and her father, who is the tax filer that expects to claim her as a dependent	• The budget period for APTC/CSR is the calendar year in which benefits are sought • Tanya's household income includes her father's annual income for the calendar year ($1,300/mo*12)

Gap Filling Rule:
Scenario 1, cont.

Scenario: Scenario: Tanya (age 8) lives in State X with both her parents. State X's Medicaid income standard for children ages 6-18 is 133 percent FPL. Tanya's parents are not married and expect to file taxes separately. Tanya's mother earns $1,100 a month and her father earns $1,300 a month. Tanya expects to be claimed as a tax dependent by her father.

Question: Is Tanya financially eligible for Medicaid?

Medicaid/CHIP Financial Eligibility

Household Size = 3
(Tanya + Mom + Dad)

Household Income =
$2,400/mo

Ineligible for Medicaid
Current Monthly Income > 133% FPL
133% FPL monthly income limit for a 3-person household for 2016 is $2,234

APTC Financial Eligibility

Household Size = 2
(Tanya + Dad)

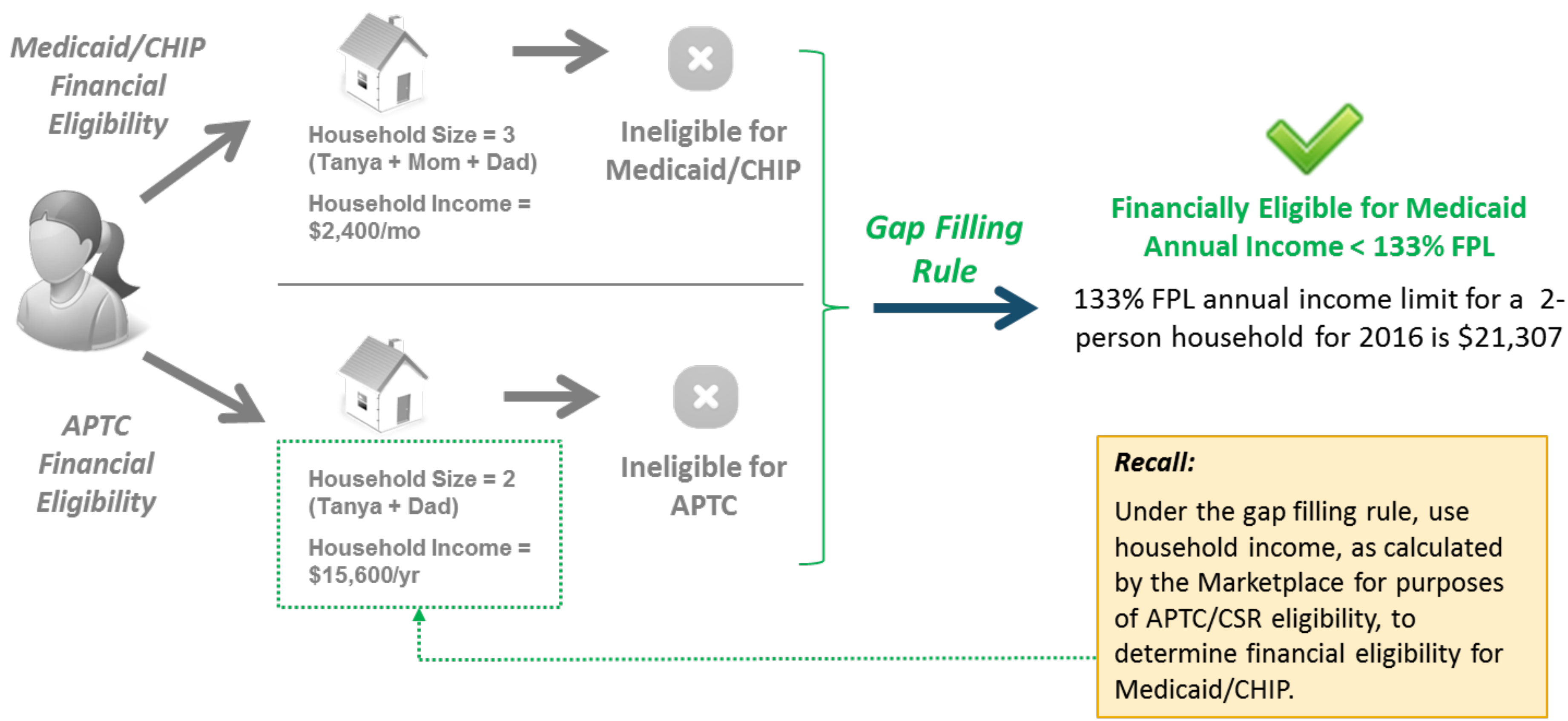
Household Income =
$15,600/yr ($1,300*12)

Ineligible for APTC
Annual Income < 100% FPL
100% FPL for a 2-person household for 2016 is $16,020

Gap Filling Rule:
Scenario 1, cont.

Scenario: Tanya (age 8) lives in State X with both her parents. State X's Medicaid income standard for children ages 6-18 is 133 percent FPL. Tanya's parents are not married and expect to file taxes separately. Tanya's mother earns $1,100 a month and her father earns $1,300 a month. Tanya expects to be claimed as a tax dependent by her father.

Question: Is Tanya financially eligible for Medicaid?



Gap Filling Rule:
Scenario 2

Scenario: Susan and her husband, Jon, are enrolled in Medicaid. In August, Susan notifies the Medicaid agency of an employment change. Between January and July of the current calendar year, Susan was unemployed. She starts a new job on August 1 and will earn $1,500 a month. Susan expects to file jointly with Jon who earns $500 a month and has been working for the full year.

Question: When the agency re-determines financial eligibility for Medicaid, are Susan and Jon still eligible?

Household Income for Medicaid

Household Size = 2	Household Income = $2,000/mo
• Susan's household includes herself and Jon • Jon's household includes himself and Susan	• The budget period for Medicaid is current monthly income • Susan and Jon's household income includes Susan's current monthly income ($1,500/mo) and Jon's current monthly income ($500/mo)

Household Income for APTC/CSR

Household Size = 2	Household Income = $13,500/yr

• Susan's household includes herself and Jon
• Jon's household includes himself and Susan
	• The budget period for APTC/CSR is the calendar year in which benefits are sought
	• Household income includes Susan's and Jon's annual income for the calendar year:
	  ◦ Susan was unemployed for 7 months and expects to work for the next 5 months ($0/mo*7 + $1,500/mo*5)
	  ◦ Jon works the full year ($500/mo*12)

Gap Filling Rule:
Scenario 2, cont.

Scenario: Susan and her husband, Jon, are enrolled in Medicaid. In August, Susan notifies the Medicaid agency of an employment change. Between January and July of the current calendar year, Susan was unemployed. She starts a new job on August 1 and will earn $1,500 a month. Susan expects to file jointly with Jon who earns $500 a month and has been working for the full year.

Question: When the agency re-determines financial eligibility for Medicaid, are Susan and Jon still eligible?

Medicaid Financial Eligibility

Household Size = 2 (Susan + Jon)

Household Income = $2,000/mo

Ineligible for Medicaid

Current Monthly Income > 133% FPL

133% FPL monthly income limit for a 2-person household for 2016 is $1,776

APTC Financial Eligibility

Household Size = 2 (Susan + Jon)

Household Income = $13,500/yr ($1,500*5 + $500*12)

Ineligible for APTC

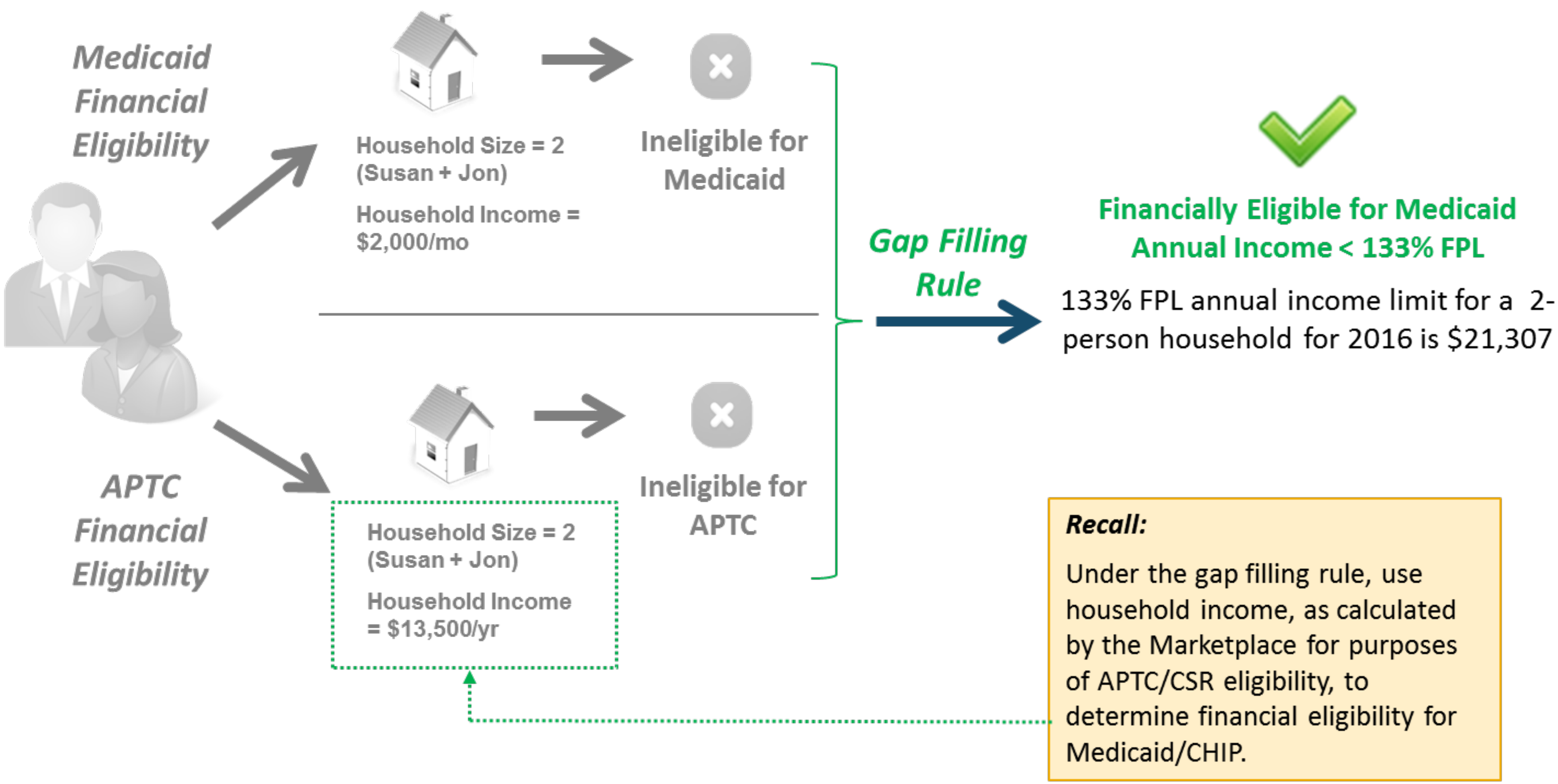
Annual Income < 100% FPL

100% FPL for a 2-person household for 2016 is $16,020

Gap Filling Rule:
Scenario 2, cont.

Scenario: Susan and her husband, Jon, are enrolled in Medicaid. In August, Susan notifies the Medicaid agency of an employment change. Between January and July of the current calendar year, Susan was unemployed. She starts a new job on August 1 and will earn $1,500 a month. Susan expects to file jointly with Jon who earns $500 a month and has been working for the full year.

Question: When the agency re-determines financial eligibility for Medicaid, are Susan and Jon still eligible?



Gap Filling Rule

Discussion

- When the gap filling rule is applied, both the household composition and household income are determined using the MAGI rules used for APTC/CSR eligibility.
- This rule applies only to tax filing households. Non-filer households cannot be determined eligible for APTC/CSR. Note: the FFM alerts households that if they choose not to file taxes, they are not eligible for APTC/CSR.
- The household income used for APTC/CSR eligibility includes projected annual income for the entire calendar year. This includes both prior month income and projected future income for the remainder of the calendar year.
- The gap filling rule applies only to the individual's financial eligibility determination. The individual must meet all other financial eligibility factors, including the requirements for a covered eligibility group such as the adult group.
- States need to re-evaluate the financial eligibility of an individual determined eligible for Medicaid/CHIP using the gap filling rule on January 1 of the next calendar year. Application of the gap filling rule may no longer be appropriate.

Discussion

Questions & Discussion