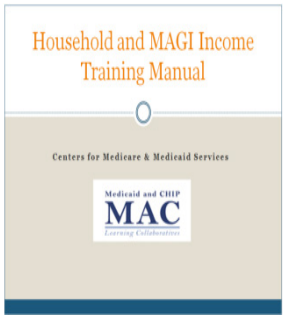
MAGI 2.0: Building MAGI Knowledge

Part 2: Income Counting

Last Updated: **December 11, 2020**

Introduction

Setting the Stage



- In 2020, the Centers for Medicare and Medicaid Services (CMS) updated a training manual originally developed in 2013 to help states and eligibility workers understand and apply Modified Adjust Gross Income (MAGI)-based rules for Medicaid and the Children's Health Insurance Program (CHIP).
- The manual is available at https://www.medicaid.gov/state-resource-center/mac-learning-collaboratives/downloads/household-composition-and-income-training.zip.

- This MAGI 2.0: Building MAGI Knowledge slide deck serves as a companion to the Household and MAGI Income Training Manual, providing more details on how to apply the MAGI-based income counting rules.
- The issues and scenarios reviewed in this slide deck were developed in response to frequently asked technical assistance questions raised by states and revised based on updated guidance that was released.

Two-Part Resource

Determining Household Composition

Calculating Household Income

Focus of This Resource

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 <u>not</u> count the MAGI-based income of children in the household.

Let's discuss this rule…

Income Counting Rules

Regulatory Requirements

- 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 (cont'd)

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-parents 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 dependent 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 not expected to be required to file a tax return for the current tax year).

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

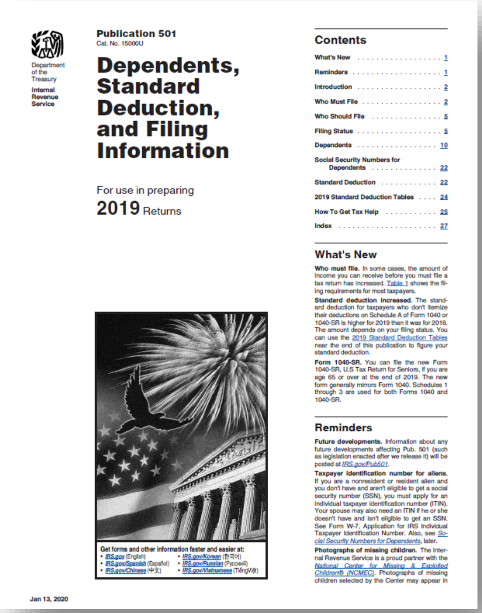
Special Income Counting Rule for Tax Dependents (cont'd)

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 Internal Revenue Service (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

Dependents, Standard Deduction, and Filing Information

For use in preparing
2019 Returns

Contents

What's New

Reminders

Jan 13, 2020

2019 Tax Filing Threshold

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

1. Unearned income more than $1,100;
2. Earned income more than $12,200;
3. Gross income more than the larger of:
   a) $1,100; or
   b) Earned income (up to $11,850) plus $350.

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

Applying the Tax Filing Threshold for Children and Tax Dependents

Discussion

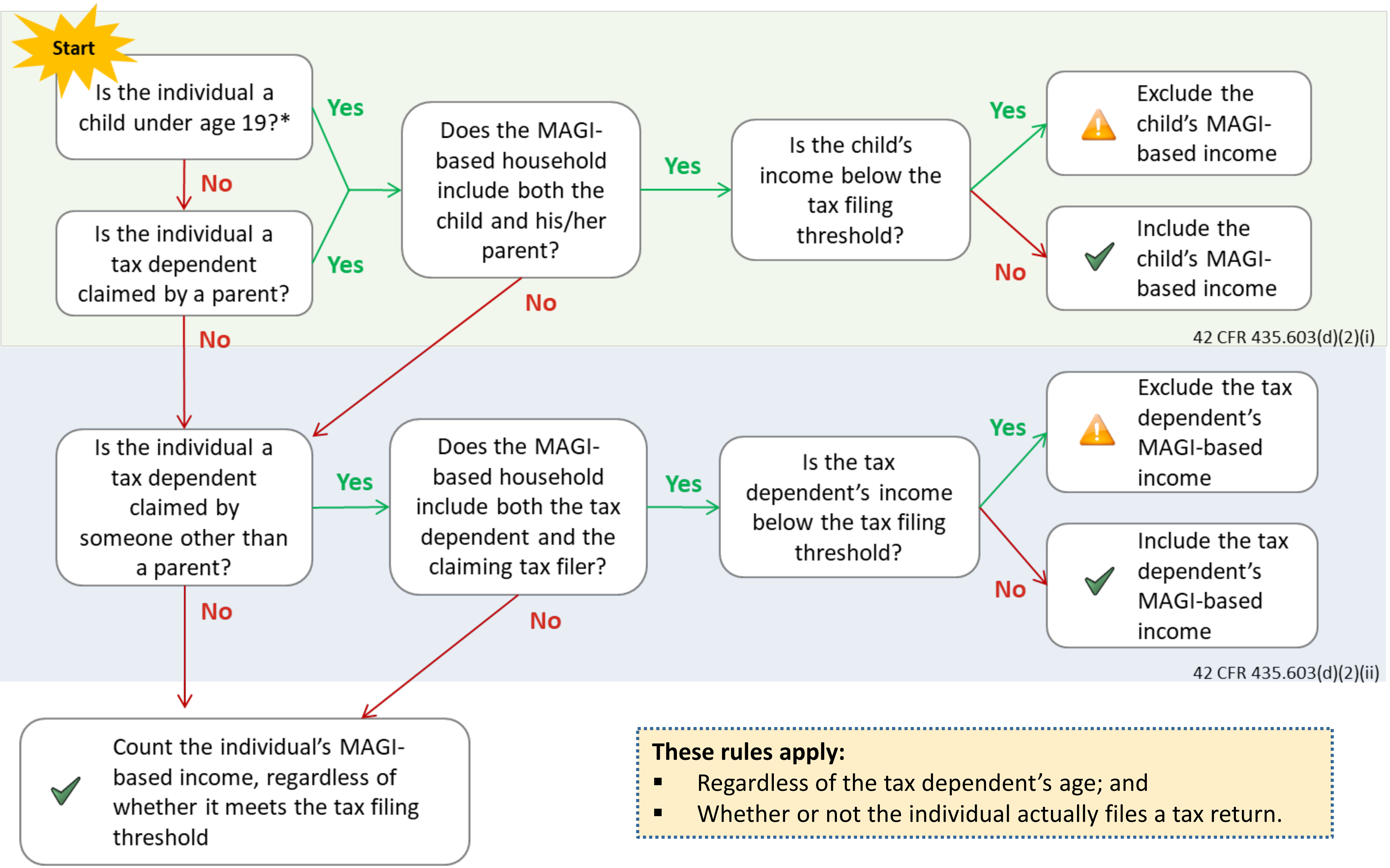
- Using information obtained during the application process, the agency can compare the child or tax dependent's income against the tax filing threshold.
- Because the tax filing thresholds differ for earned and unearned income, the agency will need to separate income into earned and unearned income types to compare against 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 December 2020, the agency can use the 2019 tax filing threshold to determine whether a child's income is counted toward the household MAGI.

Federally Facilitated Marketplace (FFM) Practice:

In determining whether 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; and
- Whether or not the individual actually files a tax return.

*At state option includes 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 $600 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?

- Marty
- Earns $1,500/mo

- Mark (22 y/o and full-time student)
- Earns $600/mo

TAXES

- Marty plans to claim Mark as a tax dependent
- Mark is not expected to be required to file taxes

Tax filer rules

Marty and Mark's Household Size = 2

$1,500/mo

Marty's $1,500 ✓

Mark's $600 ✗

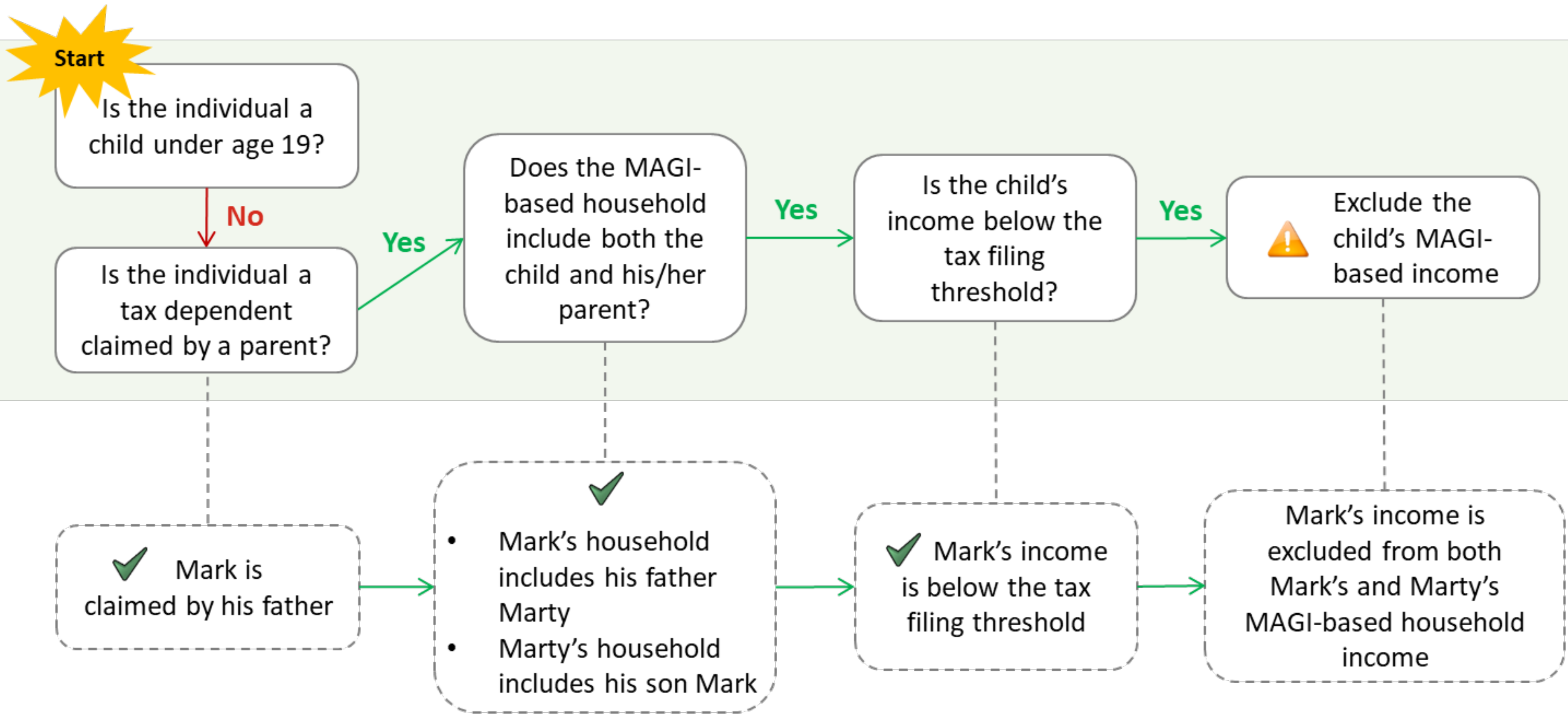
Mark's Earned Income	Tax Filing Threshold	Expected to Be Required to File?
$7,200/yr	$12,200/yr	No

Whose Income Is Counted?

Scenario 1 (cont'd)

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 $600 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 18), as a tax dependent. Laura and Neil each make $1,600 a month. Jonny earns $1,100 a month at his 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 and Neil
- Each earns $1,600/mo

- Jonny (18 y/o)
- Earns $1,100/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

Jonny's Earned Income	Tax Filing Threshold	Expected to Be Required to File?
$13,200/yr	$12,200/yr	Yes

Laura, Neil, and Jonny's Household Size = 3

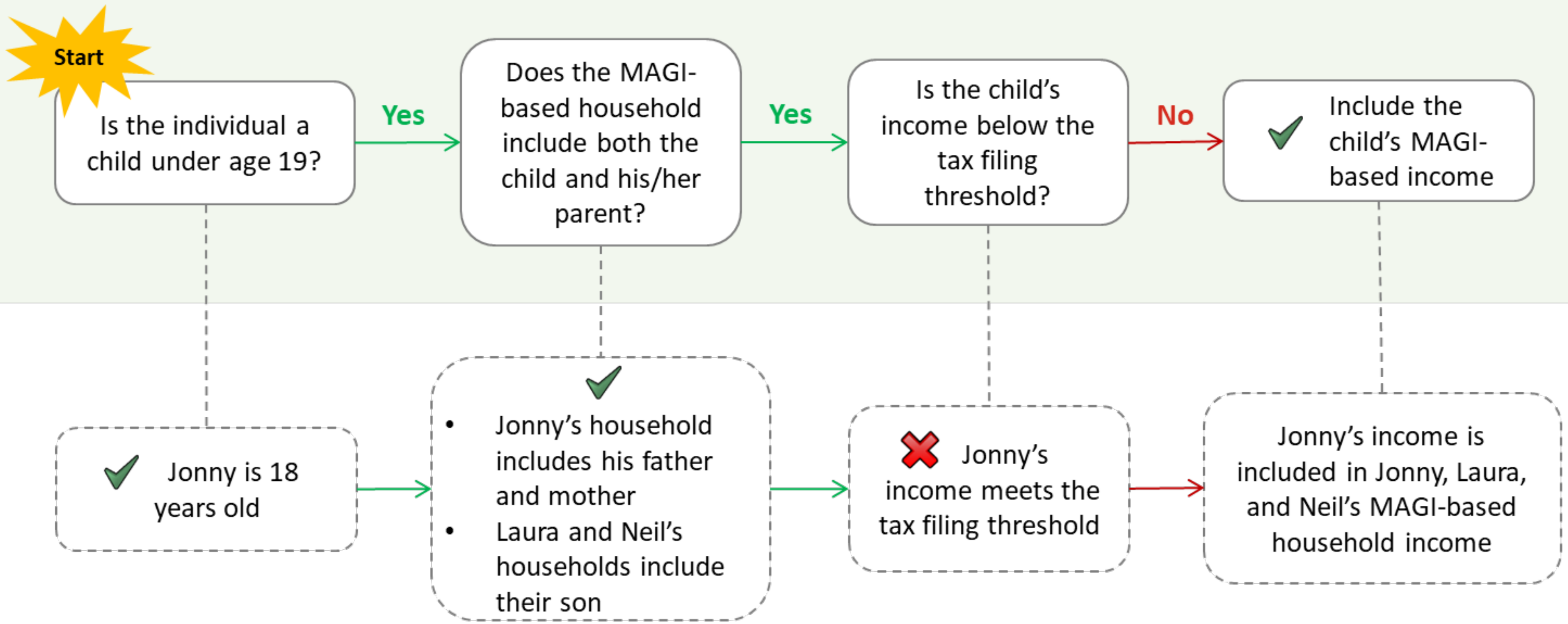
$4,300/mo

Laura $1,600 ✓
Neil $1,600 ✓
Jonny $1,100 ✓
Total = $4,300

Whose Income Is Counted?
Scenario 2 (cont'd)

Scenario: Laura and Neil expect to file jointly and claim their son, Jonny (age 18), as a tax dependent. Laura and Neil each make $1,600 a month. Jonny earns $1,100 a month at his 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 included in 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?

- Aunt Mary
- Earns $2,500/mo
- Expects to claim Matthew as a tax dependent

TAXES

Tax filler rules

Aunt Mary's Household Size = 2

$2,500/mo

Mary's $2,500 ✓

Matthew's $450 ✗

Matthew's Earned Income	Tax Filing Threshold	Expected to Be Required to File?
$5,400/yr	$12,200/yr	No

- Matthew (16 y/o)
- Earns $450/mo

TAXES

Matthew meets a tax dependent exception

Non-filer rules

Matthew's Household Size = 1

$450/mo

Mary's $2,500 ✗

Matthew's $450 ✓

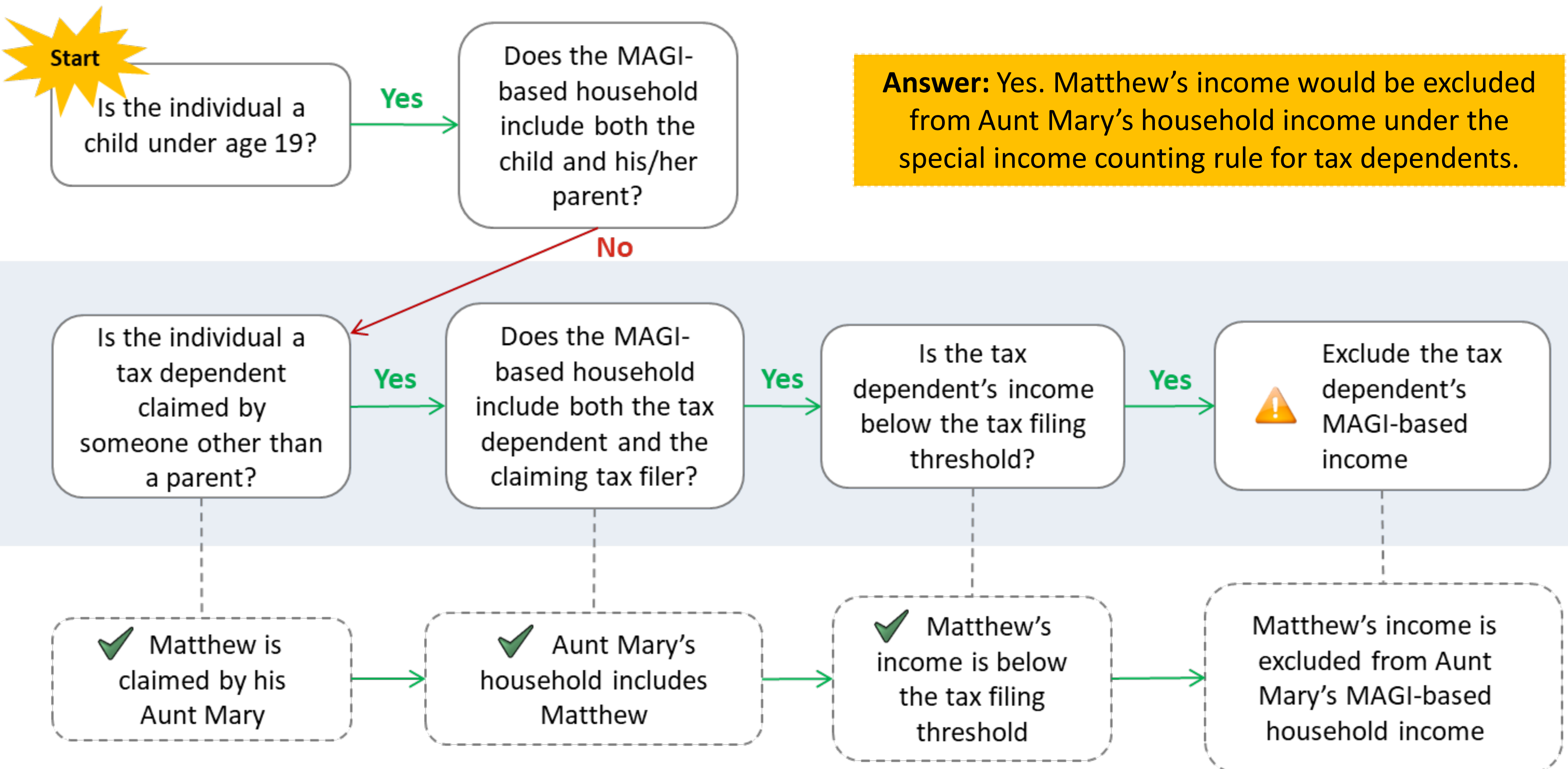
Aunt Mary’s Total Household Income

Scenario 3 (cont’d)

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.



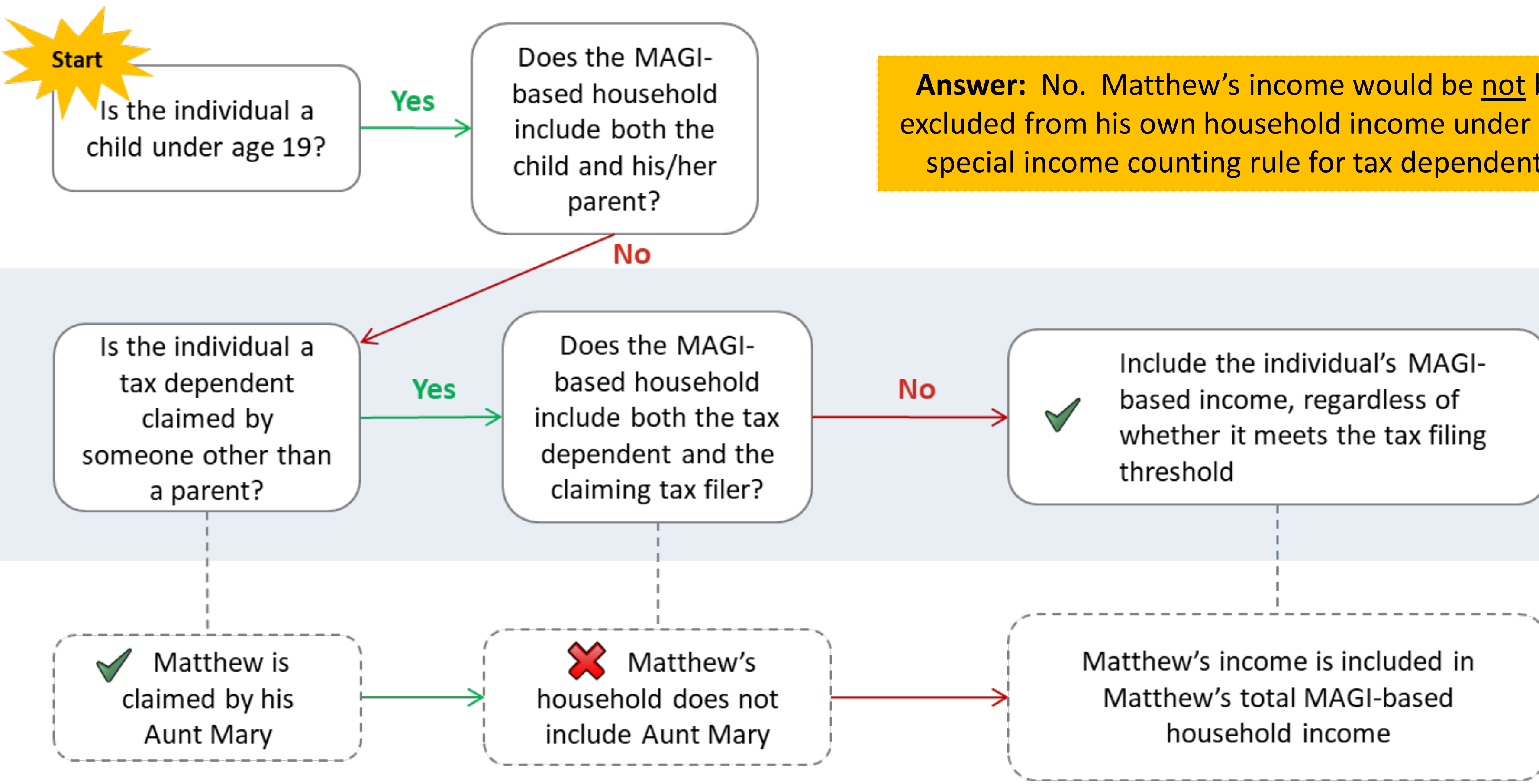
Matthew's Total Household Income

Scenario 3 (cont'd)

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?

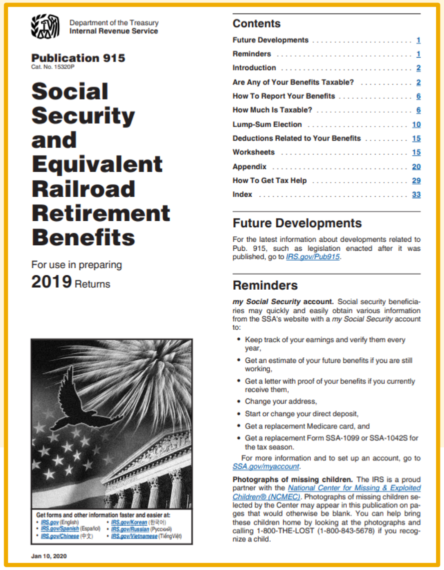
Answer: No. Matthew's income would be <u>not</u> be excluded from his own household income under the special income counting rule for tax dependents



Social Security Benefits and 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 taxable 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
Cat. No. 15320P

Social Security and Equivalent Railroad Retirement Benefits

For use in preparing
2019 Returns

Get forms and other information faster and easier at:
- IRS.gov (English)
- IRS.gov/Spanish (Español)
- IRS.gov/Chinese (中文)
- IRS.gov/Korean (한국어)
- IRS.gov/Russian (Pусский)
- IRS.gov/Vietnamese (TiếngViệt)

Jan 10, 2020

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Future Developments

For the latest information about developments related to Pub. 915, such as legislation enacted after it was published, go to IRS.gov/Pub915.

Reminders

***my Social Security* account.** Social security beneficiaries may quickly and easily obtain various information from the SSA's website with a *my Social Security* account to:

- Keep track of your earnings and verify them every year,
- Get an estimate of your future benefits if you are still working,
- Get a letter with proof of your benefits if you currently receive them,
- Change your address,
- Start or change your direct deposit,
- Get a replacement Medicare card, and
- Get a replacement Form SSA-1099 or SSA-1042S for the tax season.

For more information and to set up an account, go to SSA.gov/myaccount.

Photographs of missing children. The IRS is a proud partner with the National Center for Missing & Exploited Children® (NCMEC). Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Recall the 2019 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 $1,100;
2. Earned income more than $12,200; and
3. Gross income more than the larger of:
   a) $1,100; or
   b) Earned income (up to $11,850) 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 2019, for 2019 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. Multiply line A by 50% (0.50) . . . . B. ______

C. Enter your total income that is taxable (excluding line A), such as pensions, wages, interest, ordinary dividends, and capital gain distributions. Don't 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. 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.

Question: Is any portion of these benefits taxable?

Complete Worksheet A (IRS Publication 915)

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 2019, for 2019 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.	Multiply line A by 50% (0.50)	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. Don't 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

Answer: 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.

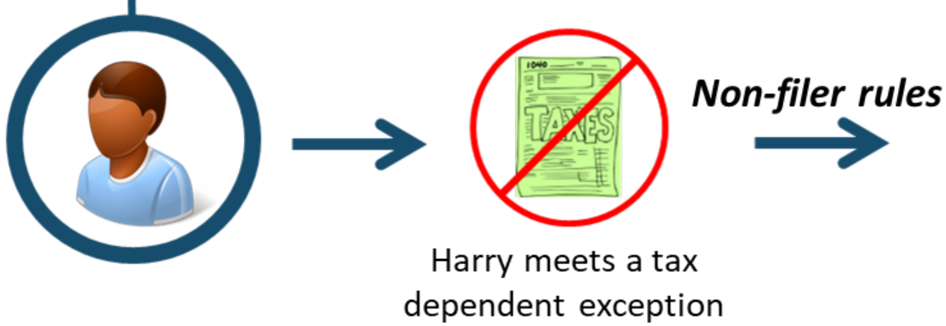
MAGI-Based Household: Grandpa Albert's MAGI-based household will include himself and Harry, but Harry's MAGI-based household will include only himself.

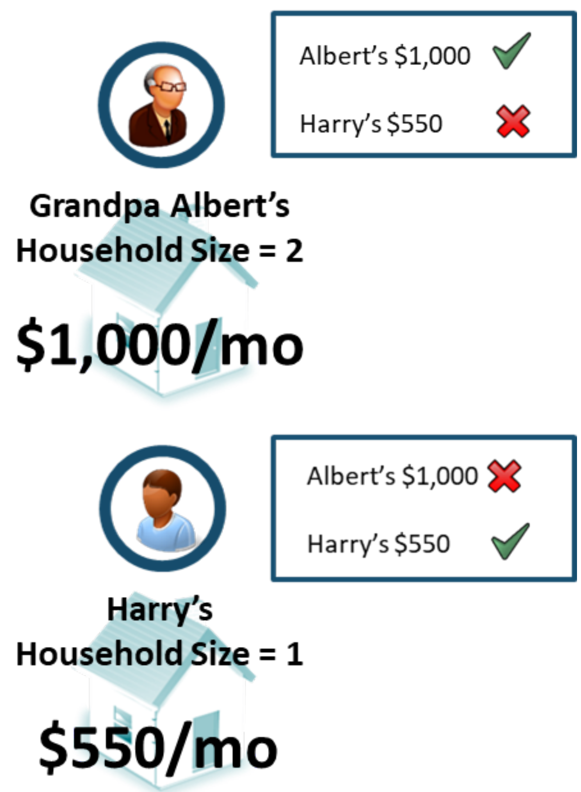
Question: What is the total household income for Grandpa Albert and Harry?

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

Harry's MAGI-Based Income	Harry's Taxable Income	Tax Filing Threshold	Expected to Be Required to File?
$6,600/yr	$0/yr	$12,200/yr	No

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





Harry's Social Security Benefits
Scenario 4 (cont'd)

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: 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)

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 2019, for 2019 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.	Multiply line A by 50% (0.50)	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. Don't 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.**

Grandpa Albert's Total Household Income

Scenario 4 (cont'd)

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

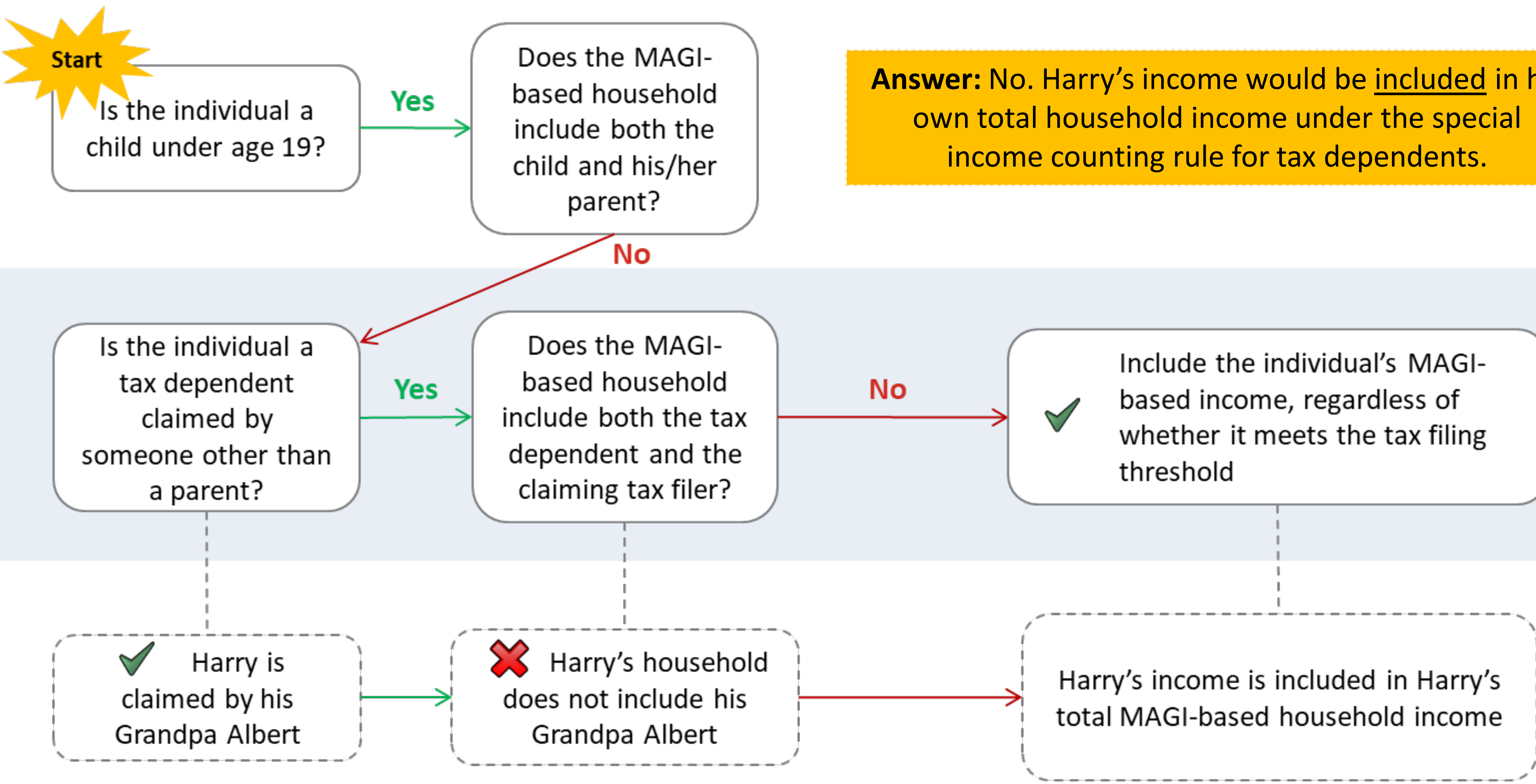
Harry’s Total Household Income

Scenario 4 (cont’d)

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 included in his own total household income under the special income counting rule for tax dependents.



Social Security Benefits and 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:

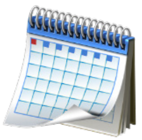
- When evaluating whether an individual meets the tax filing threshold, the FFM never considers any of the individual's Social Security benefits.

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 and Adjustments

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

Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return 2019 OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Check only one box. ☐ Single ☐ Married filing jointly ☐ Married filing separately (MFS) ☐ Head of household (HOH) ☐ Qualifying widow(er) (QW)
If you checked the MFS box, enter the name of spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent. ▶

Your first name and middle initial | Last name | **Your social security number**
If joint return, spouse's first name and middle initial | Last name | **Spouse's social security number**
Home address (number and street). If you have a P.O. box, see instructions. | Apt. no. | **Presidential Election Campaign** Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).
Foreign country name | Foreign province/state/county | Foreign postal code | If more than four dependents, see instructions and ✓ here ▶ ☐

Standard Deduction **Someone can claim:** ☐ You as a dependent ☐ Your spouse as a dependent
☐ Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness **You:** ☐ Were born before January 2, 1955 ☐ Are blind **Spouse:** ☐ Was born before January 2, 1955 ☐ Is blind

Dependents (see instructions): (1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see instructions): Child tax credit	Credit for other dependents
				☐	☐
				☐	☐
				☐	☐
				☐	☐

1	Wages, salaries, tips, etc. Attach Form(s) W-2				1
2a	Tax-exempt interest	2a		b Taxable interest. Attach Sch. B if required	2b
3a	Qualified dividends	3a		b Ordinary dividends. Attach Sch. B if required	3b
4a	IRA distributions	4a		b Taxable amount	4b
c	Pensions and annuities	4c		d Taxable amount	4d
5a	Social security benefits	5a		b Taxable amount	5b
6	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐				6
7a	Other income from Schedule 1, line 9				7a
b	Add lines 1, 2b, 3b, 4b, 4d, 5b, 6, and 7a. This is your **total income** ▶				7b
8a	Adjustments to income from Schedule 1, line 22				8a
b	Subtract line 8a from line 7b. This is your **adjusted gross income** ▶				8b
9	**Standard deduction or itemized deductions** (from Schedule A)	9			
10	Qualified business income deduction. Attach Form 8995 or Form 8995-A	10			
11a	Add lines 9 and 10				11a
b	**Taxable income.** Subtract line 11a from line 8b. If zero or less, enter -0-				11b

Standard Deduction for—
- Single or Married filing separately, $12,200
- Married filing jointly or Qualifying widow(er), $24,400
- Head of household, $18,350
- If you checked any box under *Standard Deduction*, see instructions.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2019)

Form 1040 (2019) Page **2**

12a	**Tax** (see inst.) Check if any from Form(s): 1 ☐ 8814 2 ☐ 4972 3 ☐	12a	
b	Add Schedule 2, line 3, and line 12a and enter the total ▶		12b
13a	Child tax credit or credit for other dependents	13a	
b	Add Schedule 3, line 7, and line 13a and enter the total ▶		13b
14	Subtract line 13b from line 12b. If zero or less, enter -0-		14
15	Other taxes, including self-employment tax, from Schedule 2, line 10		15
16	Add lines 14 and 15. This is your **total tax** ▶		16
17	Federal income tax withheld from Forms W-2 and 1099		17
18	Other payments and refundable credits:		
a	Earned income credit (EIC)	18a	
b	Additional child tax credit. Attach Schedule 8812	18b	
c	American opportunity credit from Form 8863, line 8	18c	
d	Schedule 3, line 14	18d	
e	Add lines 18a through 18d. These are your **total other payments and refundable credits** ▶		18e
19	Add lines 17 and 18e. These are your **total payments** ▶		19

- If you have a qualifying child, attach Sch. EIC.
- If you have nontaxable combat pay, see instructions.

Refund

20	If line 19 is more than line 16, subtract line 16 from line 19. This is the amount you **overpaid**		20
21a	Amount of line 20 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐		21a
▶ b	Routing number ▶ c Type: ☐ Checking ☐ Savings		
▶ d	Account number		
22	Amount of line 20 you want **applied to your 2020 estimated tax** ▶	22	

Direct deposit? See instructions.

Amount You Owe

23	**Amount you owe.** Subtract line 19 from line 16. For details on how to pay, see instructions ▶		23
24	Estimated tax penalty (see instructions) ▶	24	

Third Party Designee (Other than paid preparer)
Do you want to allow another person (other than your paid preparer) to discuss this return with the IRS? See instructions. ☐ **Yes.** Complete below. ☐ **No**
Designee's name ▶ | Phone no. ▶ | Personal identification number (PIN) ▶

Sign Here
Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.
Your signature | Date | Your occupation | If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
Spouse's signature. If a joint return, **both** must sign. | Date | Spouse's occupation | If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)
Phone no. | Email address
Joint return? See instructions. Keep a copy for your records.

Paid Preparer Use Only
Preparer's name | Preparer's signature | Date | PTIN | Check if: ☐ 3rd Party Designee ☐ Self-employed
Firm's name ▶ | Phone no.
Firm's address ▶ | Firm's EIN ▶

Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2019)

Page 1 **Page 2**

What Income Is Counted?

APTC/CSR Eligibility

MAGI for purposes of advance payments of premium tax credits (APTC)/cost-sharing reductions (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 and 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 and 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 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	Excluded from income regardless of whether taxable or not
Payments derived from American Indian/Alaska Native lands, natural resources, trust settlements, or traditional/cultural activities	Counted	Excluded from income
Lump sum payments (i.e., prizes, back payment of benefits)	Counted as part of annual income 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. Exception: Lottery and gambling winnings received on or after January 1, 2018, that exceed $80,000 are counted not only in the month received, but over a period of up to 120 months.
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

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 (for settlements finalized on or before December 31, 2018)
- 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

1	Wages, salaries, tips, etc. Attach Form(s) W-2				1	
2a	Tax-exempt interest	2a		b Taxable interest. Attach Sch. B if required	2b	
3a	Qualified dividends	3a		b Ordinary dividends. Attach Sch. B if required	3b	
4a	IRA distributions	4a		b Taxable amount	4b	
c	Pensions and annuities	4c		d Taxable amount	4d	
5a	Social security benefits	5a		b Taxable amount	5b	
6	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐				6	
7a	Other income from Schedule 1, line 9				7a	
b	Add lines 1, 2b, 3b, 4b, 4d, 5b, 6, and 7a. This is your **total income** ▶				7b	

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 <u>not counted</u> 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
- Workers' compensation payments
- Proceeds from life insurance, accident insurance, or health insurance
- Federal tax credits and federal income tax refunds
- Gifts and loans
- Inheritances
- Alimony received (settlements finalized, and certain agreements modified, after December 31, 2018)

While many of these income types were countable for Medicaid/CHIP prior to MAGI, they are not countable for MAGI

Non-taxable income <u>counted</u> 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

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.

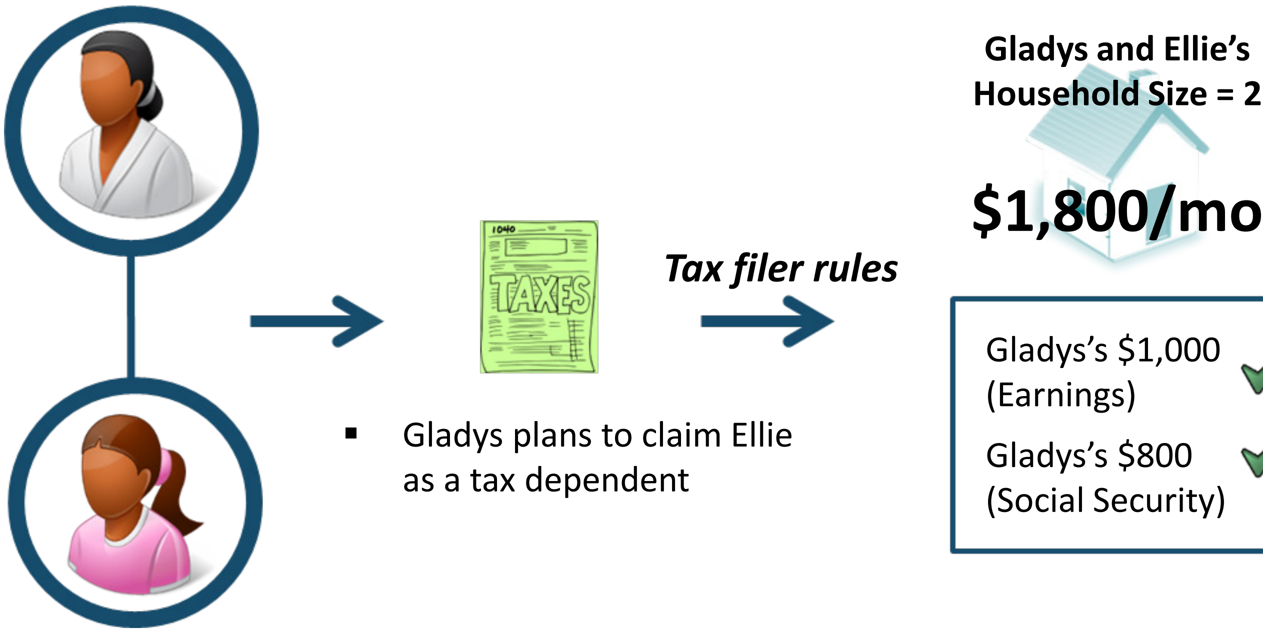
MAGI-Based Household: Gladys and Ellie will be included in each other's MAGI-based households.

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.

- Gladys
- Earns $1,000/mo
- Receives $800/mo in Social Security benefits

- Ellie (17 y/o)



- Gladys plans to claim Ellie as a tax dependent

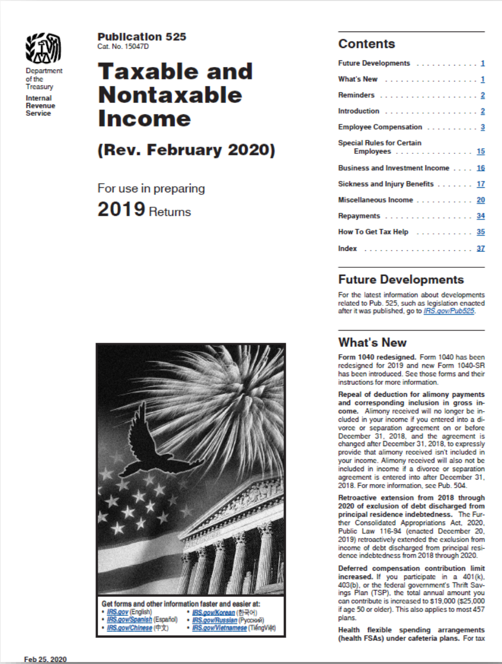
Gladys's $1,000 (Earnings) ✓

Gladys's $800 (Social Security) ✓

Researching Complex Income Types

Researching Complex Income Types:
Step 1 – IRS Resources

Step 1: Refer to IRS resources



Publication 525
Cat. No. 15047D

Department of the Treasury Internal Revenue Service

Taxable and Nontaxable Income

(Rev. February 2020)

For use in preparing 2019 Returns

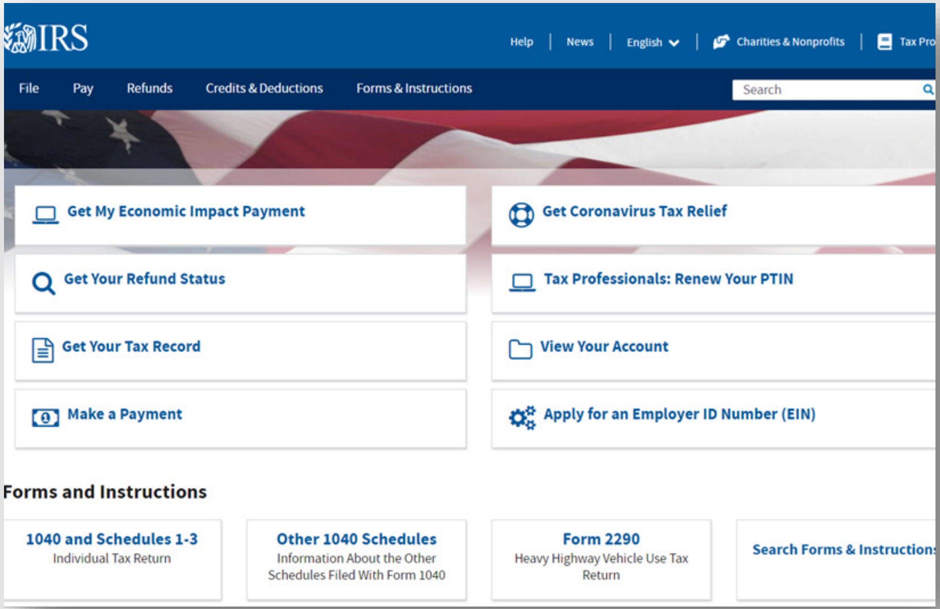
Contents

Future Developments

For the latest information about developments related to Pub. 525, such as legislation enacted after it was published, go to IRS.gov/Pub525.

What's New

Feb 25, 2020



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" section (including frequently asked questions, or FAQs)

Researching Complex Income Types:

Step 2 – CMS and IRS Technical Assistance

Step 2: Submit questions 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:

Home / Help / Frequently Asked Questions / 1099 MISC, Independent Contractors, and Self-Employed 5

Question

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

Answer

Yes, Segal AmeriCorps Education Awards are taxable in the year they're 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. There is no withholding on this payment unless you failed to provide your taxpayer identification number. Report the payment amount on the "Other income" line of Schedule 1 (Form 1040 and 1040-SR) PDF and attach to Form 1040, U.S. Individual Income Tax Return or Form 1040-SR, U.S. Tax Return for Seniors PDF, even if you don't receive Form 1099-MISC.

Additional Information

Publication 525, Taxable and Nontaxable Income

Category: Interest, Dividends, Other Types of Income

Sub-Category: 1099-MISC, Independent Contractors, and Self-Employed

https://www.irs.gov/faqs/interest-dividends-other-types-of-income/1099-misc-independent-contractors-and-self-employed/1099-misc-independent-contractors-and-self-employed-5

Researching Complex Income Types:

Example 1 – AmeriCorps Education Award (cont'd)

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 VISTA member's living allowance** counted for MAGI-based income?

IRS Publication 525 instructs AmeriCorps VISTA volunteers to report their living allowance as income, but this conflicts with information provided to the applicant by AmeriCorps.

State contacted CMS for the answer.

VISTA living allowances are not counted for MAGI-based income even though they are taxable under IRS rules.

Source: Section 404 of the Domestic Volunteer Service Act of 1973 (42 U.S.C. § 5044)

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**

MAGI Deductions

Included in the Medicaid/CHIP MAGI-based methodology

Deductions and adjustments incorporated into adjusted gross income, including:*

- Alimony paid to someone else (settlements finalized on or before December 31, 2018)
- Student loan interest paid
- Certain educator expenses
- 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
- 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

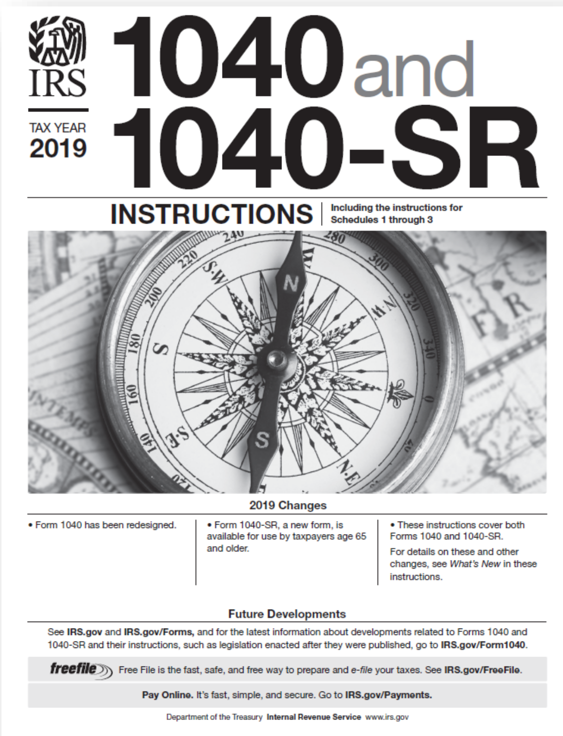
Credits and deductions, including:

- 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

**List is subject to change*

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.



IRS

TAX YEAR 2019

1040 and 1040-SR

INSTRUCTIONS Including the instructions for Schedules 1 through 3

2019 Changes

- Form 1040 has been redesigned.
- Form 1040-SR, a new form, is available for use by taxpayers age 65 and older.
- These instructions cover both Forms 1040 and 1040-SR.

For details on these and other changes, see *What's New* in these instructions.

Future Developments

See **IRS.gov** and **IRS.gov/Forms**, and for the latest information about developments related to Forms 1040 and 1040-SR and their instructions, such as legislation enacted after they were published, go to **IRS.gov/Form1040**.

freefile Free File is the fast, safe, and free way to prepare and *e-file* your taxes. See **IRS.gov/FreeFile**.

Pay Online. It's fast, simple, and secure. Go to **IRS.gov/Payments.**

Department of the Treasury **Internal Revenue Service** www.irs.gov

Jan 08, 2020 Cat. No. 24811V

Net operating loss (NOL) deduction. Include on line 8 any NOL deduction from an earlier year. Subtract it from any income on line 8 and enter the result. If the result is less than zero, enter it in parentheses. On the dotted line next to line 8, 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

any box under *Standard Deduction,* see instructions.

9	**Standard deduction or itemized deductions** (from Schedule A)	9	
10	Qualified business income deduction. Attach Form 8995 or Form 8995-A	10	
11a	Add lines 9 and 10		11a
b	**Taxable income.** Subtract line 11a from line 8b. If zero or less, enter -0-		11b

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2019)

Form 1040 (2019) Page **2**

12a	**Tax** (see inst.) Check if any from Form(s): **1** ☐ 8814 **2** ☐ 4972 **3** ☐	12a	
b	Add Schedule 2, line 3, and line 12a and enter the total ▶		12b
13a	Child tax credit or credit for other dependents	13a	
b	Add Schedule 3, line 7, and line 13a and enter the total ▶		13b
14	Subtract line 13b from line 12b. If zero or less, enter -0-		14
15	Other taxes, including self-employment tax, from Schedule 2, line 10		15
16	Add lines 14 and 15. This is your **total tax** ▶		16
17	Federal income tax withheld from Forms W-2 and 1099		17
18	Other payments and refundable credits:		
a	Earned income credit (EIC)	18a	
b	Additional child tax credit. Attach Schedule 8812	18b	
c	American opportunity credit from Form 8863, line 8	18c	
d	Schedule 3, line 14	18d	
e	Add lines 18a through 18d. These are your **total other payments and refundable credits** ▶		18e
19	Add lines 17 and 18e. These are your **total payments** ▶		19

• If you have a qualifying child, attach Sch. EIC.
• If you have nontaxable combat pay, see instructions.

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 time frames.

Frequency	Examples
Consistent monthly deduction	▪ Alimony paid (settlements finalized on or before December 31, 2018) ▪ Student loan interest
Lump sum deduction	▪ Certain educator 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.

31. **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 (**Note:** Only for divorces finalized before 01/01/2019.)
$ ______ How often? ______

○ Student loan interest
$ ______ How often? ______

○ Other deductions, type: ______
$ ______ How often? ______

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 (settlements finalized on or before December 31, 2018) ▪ Student loan interest	▪ Deduct the monthly expense from current monthly income
Lump sum deduction	▪ Certain educator 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 is less than zero once deductions are incorporated, the income amount used to determine financial eligibility for Medicaid and CHIP is $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 current 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 $1,700/month for six months of the year, but does not earn a paycheck between October and March. Tim applies for Medicaid on June 1. 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 = $1,700/month

Ineligible for Medicaid in State A
Current Monthly Income > 133% FPL
133% FPL monthly income limit for a one-person household for 2020 is $1,414

State B
Current Monthly Income Prorated for Reasonably Predictable Changes

Household Size = 1 (Tim)

Household Income = $850/month

Financially Eligible for Medicaid in State B
Current Monthly Income < 133% FPL
133% FPL monthly income limit for a one person household for 2020 is $1,414

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

Reasonably Predictable Changes in Income: Scenario 1 (cont'd)

Scenario: Tim works as a lifeguard during the spring and summer. He earns $1,700/month for six months of the year, but does not earn a paycheck between October and March. Tim applies for Medicaid on June 1. 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

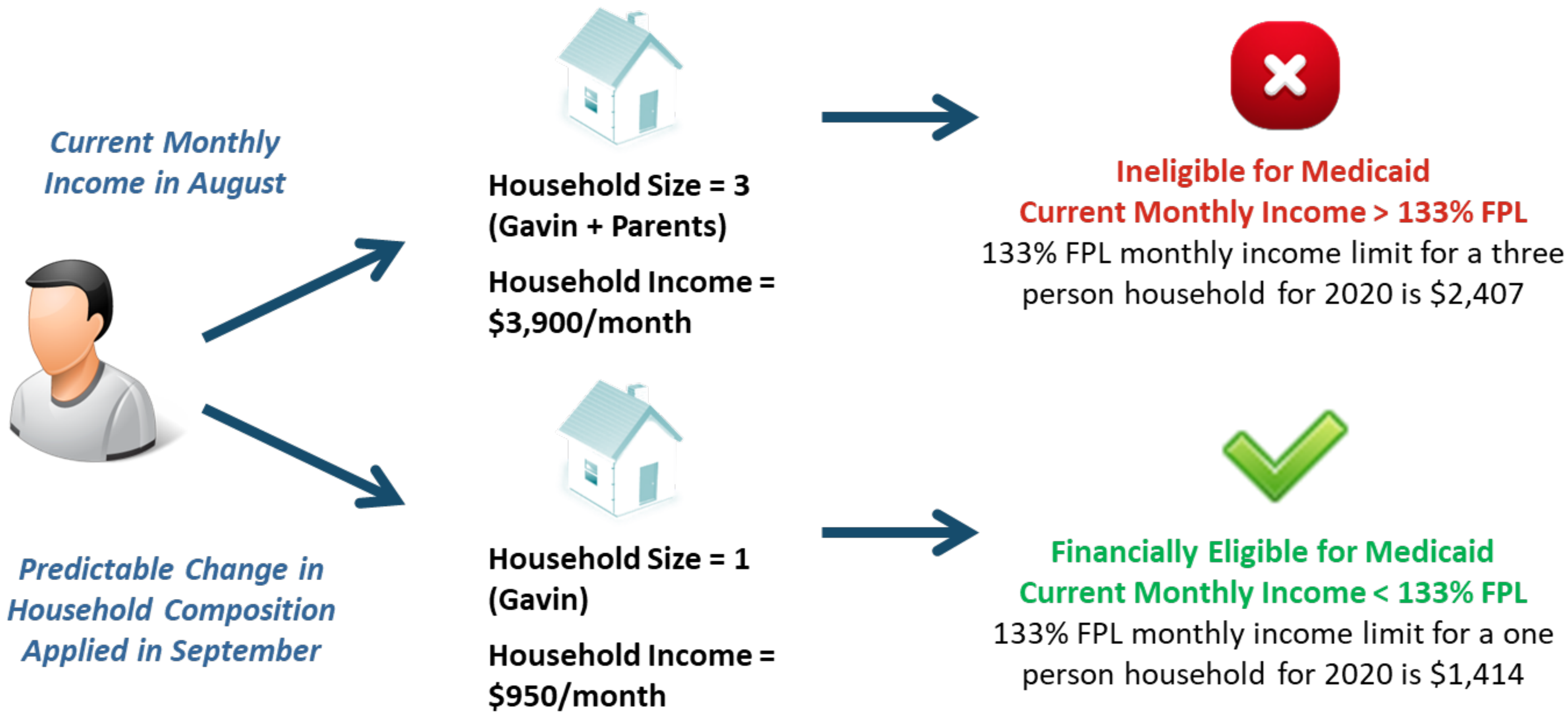
Divide the projected 12-month income by 12 and compare with monthly income standard – or, compare 12-month projected income with annual income standard.

- Tim's current monthly income is $850 ($10,200/12).
- Tim is below the monthly income limit – the 133% FPL monthly income limit for a one person household for 2020 is $1,414.

Reasonably Predictable Changes in Income: Scenario 2

Scenario: Gavin moved out of his parents' house in August. He earns $950 per month while attending 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 seven months of the year, they will claim him as a tax dependent for the current year. However, Gavin's parents no longer provide Gavin financial support, so they will not claim him as a tax dependent next year. Gavin applies for Medicaid on September 1 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?



Reasonably Predictable Changes

Discussion

- Income for the current calendar year may <u>not</u> 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 <u>verifying</u> 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 a 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.
- Predictable changes in household composition may also be considered, such as a child who will be claimed as a tax dependent in the current year but cannot be claimed in the next calendar year.

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.
- At renewal, or when a change in circumstances is reported, the individual's income eligibility should first be considered using current monthly income. If the individual is ineligible, projected annual income may be used.

Redetermination 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 and Tony's financial eligibility is reconsidered in August, are they still eligible?

Current Monthly Income

Household Size = 2 (Wendy and Tony)

Household Income = $1,950/month

Ineligible for Medicaid

Current Monthly Income > 133% FPL

133% FPL monthly income limit for a two person household for 2020 is $1,911

Projected Annual Income

Household Size = 2 (Wendy and Tony)

Household Income = $1,370/month

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

Financially Eligible for Medicaid

Projected Annual Income < 133% FPL

133% FPL monthly income limit for a two person household for 2020 is $1,911

Projected Annual Income:
Scenario (cont'd)

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	$6,850	$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 when a beneficiary's change in circumstances would make him or her ineligible for 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 or she 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 the change in circumstances that occurs at the beginning of the next calendar year.
- When reconsidering financial eligibility in January, if projected annual income does not exceed the income standard and the state has information available regarding other eligibility criteria to complete a full eligibility renew, a new 12-month eligibility period may be established.

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., the applicants falls 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.
- Projected annual household income, using MAGI-based 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, or lack of income, for the calendar year 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% FPL. Tanya's parents are not married and expect to file taxes separately. Tanya's mother earns $1,500 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 = $2,800/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 expecting 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'd)

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% FPL. Tanya's parents are not married and expect to file taxes separately. Tanya's mother earns $1,500 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 =
$2,800/mo

Ineligible for Medicaid
Current Monthly Income > 133% FPL
133% FPL monthly income limit for a three person household for 2020 is $2,407

APTC Financial Eligibility

Household Size = 2
(Tanya + Dad)

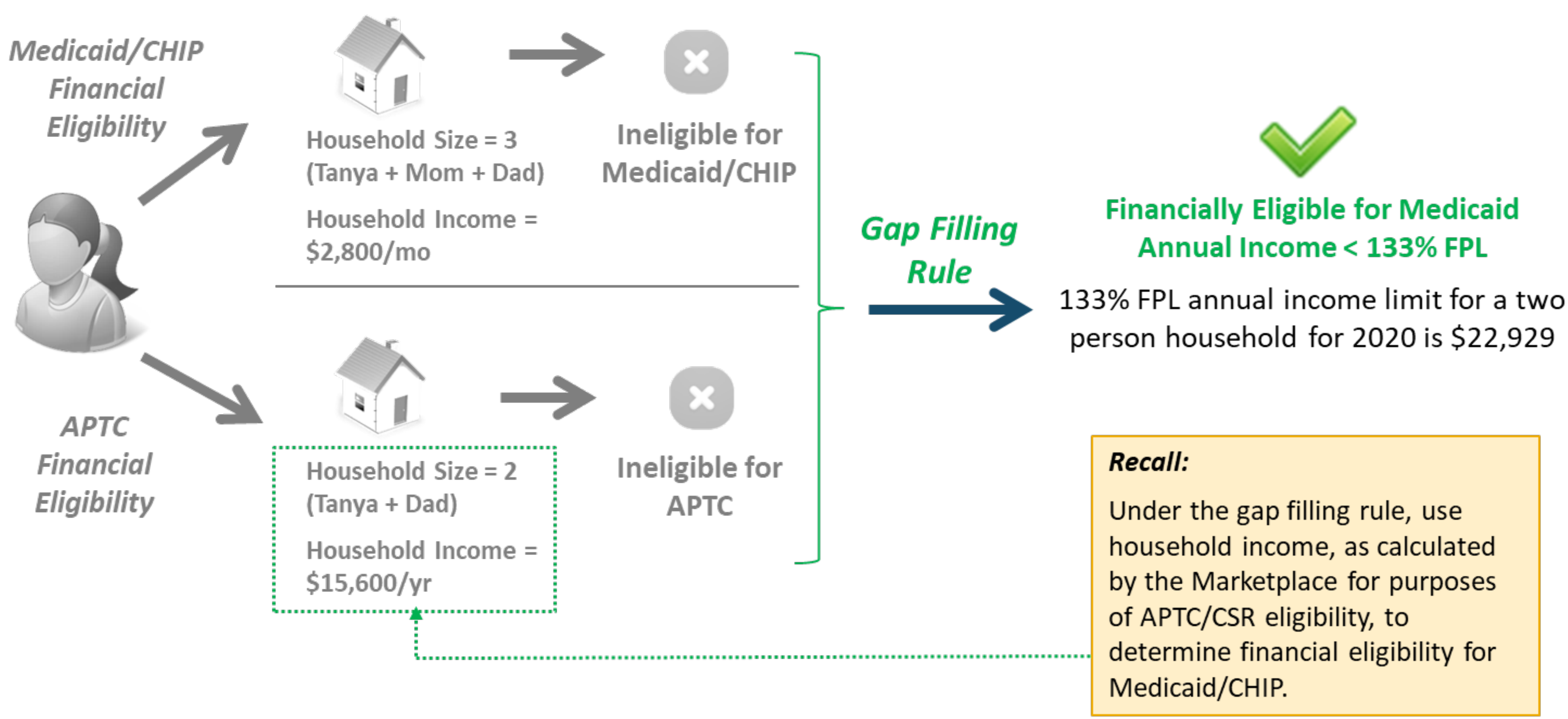
Household Income =
$15,600/yr ($1,300*12)

Ineligible for APTC
Annual Income < 100% FPL
100% FPL for a two person household for 2020 is $17,240

Gap Filling Rule:
Scenario 1 (cont'd)

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% FPL. Tanya's parents are not married and expect to file taxes separately. Tanya's mother earns $1,500 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 redetermines 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 seven months and expects to work for the next five months ($0/mo*7 + $1,500/mo*5) – Jon works the full year ($500/mo*12)

Gap Filling Rule:
Scenario 2 (cont'd)

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 redetermines 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 two person household for 2020 is $1,911

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 two person household for 2020 is $17,240

Gap Filling Rule:
Scenario 2 (cont'd)

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 redetermines 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

APTC Financial Eligibility

Household Size = 2 (Susan + Jon)

Household Income = $13,500/yr

Ineligible for APTC

Gap Filling Rule

Financially Eligible for Medicaid
Annual Income < 133% FPL

133% FPL annual income limit for a two person household for 2020 is $22,929

Recall:

Under the gap filling rule, use household income, as calculated by the Marketplace for purposes of APTC/CSR eligibility, to determine financial eligibility for Medicaid/CHIP.

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.