



What Counts as Income for Premium Tax Credits and Medicaid: Beyond the Basics

Center on Budget and Policy Priorities
August 28, 2013



Topics

- What Counts As Income
- Whose Income Counts (Including a Review of Who is in the Household)
- Examples of How Income Is Counted
- Dealing with Changes in Income



What Counts as Income



Counting Income for Premium Tax Credits and Most Medicaid Beneficiaries

- New tax-based measure called Modified Adjusted Gross Income (MAGI)

$$\begin{aligned} & \text{Adjusted Gross Income (AGI, as defined by IRS)} \\ & \quad + \text{ Excluded foreign income} \\ & \quad + \text{ Tax exempt interest} \\ & \quad + \underline{\text{Non-taxable Social Security benefits}} \\ & \quad = \text{MAGI} \end{aligned}$$

- For Medicaid, a few additional modifications:
 - Exclude certain scholarship and fellowship income
 - Exclude certain Native American and Alaska Native income
 - Count lump sum income only in the month received



MAGI Used to Determine Eligibility for Most (But Not All) Medicaid Beneficiaries

- MAGI rules apply to children, pregnant women, parents/caretaker relatives and new adult group (whether or not state is expanding Medicaid)
- Current income counting rules apply to seniors (people 65 and over) and most people with disabilities



What is MAGI?

- To understand MAGI, need to calculate:
 - Gross Income
 - Adjusted Gross Income (AGI)

Form **1040** Department of the Treasury—Internal Revenue Service (99) **2012**OMB No. 1545-0074 RRU Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2012, or other tax year beginning 2012, ending , 20

Your first name and initial Last name Your social security number

If a joint return, spouse's first name and initial Last name Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. Apt. no.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete space below (see instructions)

Foreign country name Foreign province/state/county Foreign postal code

Filing Status: 1 Single, 2 Married, filing jointly (even if only one had income), 3 Married, filing separately. Enter spouse's SSN above and full name here, 4 Head of household (with qualifying person), 5 Qualifying widow(er) with dependent child

Exemptions: 6a Yourself, 6b Spouse, 6c Dependents (table with columns for First name, Last name, (2) Dependent's social security number, (3) Dependent's relationship to you, (4) if child under age 17 qualifying for child tax credit), 6d Total number of exemptions claimed

Income

7 Wages, salaries, tips, etc. Attach Form(s) W-2 7 8a

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

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form 1040 (2012)



What Counts in Determining Gross Income?

- Income in the form of money, goods, property, and services
- Income is counted unless it is exempted under tax rules
- Calculated on IRS Form 1040 on lines 7 to 22



Types of Income Counted in Gross Income

- Wages and tips
- Unemployment
- Pensions and annuities
- Income from a business or personal services
- Dividends and taxable interest
- Alimony received
- Rents and royalties received
- Portion of Social Security benefits (if other income exceeds certain threshold)



Types of Income *Not* Counted in Gross Income

- Most Social Security benefits
- TANF
- SSI
- Child support
- Gifts
- Qualified scholarships (for tuition only)
- Certain salary deferrals (e.g. cafeteria/flexible spending plans, contributions to "401(k)" plans)



How Is Adjusted Gross Income Calculated?

Form **1040** Department of the Treasury—Internal Revenue Service (99) **2012** U.S. Individual Income Tax Return OMB No. 1545-0047 IRB Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2012, or other tax year beginning _____, 2012, ending _____, 20

Your first name and initial _____ Lastname _____ Your social security number _____

If a joint return, spouse's first name and initial _____ Lastname _____ Spouse's social security number _____

Home address (number and street). If you have a P.O. box, see instructions. _____ Apt. no. _____

City, town, or post office, state, and ZIP code. If you have a foreign address, also complete space below (see instructions) _____

Foreign country name _____ Foreign province/state/county _____ Foreign postal code _____

Filing Status: 1 Single, 2 Married, filing jointly (even if only one had income), 3 Married, filing separately. Enter spouse's SSN above and full name here. ▶, 4 Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter the child's name here. ▶, 5 Qualifying widow(er) with dependent child.

Check only one box. ▶

Exemptions: 6a Yourself. If someone can claim you as a dependent, do not check box 6a. ▶, 6b Spouse. ▶

c Dependents:		(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input type="checkbox"/> If child under age 17 qualifying for child tax credit (see instructions)
(1) First name	Last name			
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

If more than four dependents, see instructions and check here

d Total number of exemptions claimed

Income: 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

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- Line 37 on form 1040
- Gross Income minus adjustments = AGI (Adjustments also known as “above the line” deductions)



What Adjustments are Made to Gross Income to Determine Adjusted Gross Income?*

Examples:

- Contributions to a health savings account
- Job-related moving expenses
- Student loan interest
- Tuition and fees**
- IRA contributions
- Alimony paid

*Note that many adjustments are capped or may be limited based on a taxpayer's income

**For many families, the education tax credit is more beneficial



RECAP: What Counts as Income for Medicaid and Premium Tax Credits?

- For Premium Tax Credits:

$$\begin{aligned} & \text{Adjusted Gross Income (AGI, as defined by IRS)} \\ & \quad + \quad \text{Excluded foreign income} \\ & \quad \quad + \quad \text{Tax exempt interest} \\ & \quad \quad \quad + \quad \underline{\text{Non-taxable Social Security benefits}} \\ & \quad \quad \quad \quad = \text{MAGI} \end{aligned}$$

- For Medicaid, a few additional MAGI modifications:
 - Exclude certain scholarship and fellowship income
 - Exclude certain Native American and Alaska Native income
 - Count lump sum income only in the month received



MAGI Methodology Differs Significantly from Current Medicaid Rules

- Some income that is currently counted is not counted
- Elimination of asset/resource limits
- Elimination of income disregards
 - New disregard equal to 5 percentage points of the poverty line
- New household rules result in changes in *whose* income is counted (e.g. step-parents)



Differences in Income Sources: MAGI and Current Medicaid Rules

Income Source	Current Medicaid Rules	MAGI Medicaid Rules
Self-employment income	Counted with deductions for some, but not all, business expenses	Counted with deductions for most expenses, depreciation, and business losses
Salary deferrals (flexible spending, cafeteria and 401(k) plans)	Counted	Not counted
Child support received	Counted	Not counted
Alimony paid	Not deducted from income	Deducted from income
Veterans' benefits	Counted	Not counted
Workers' compensation	Counted	Not counted
Gifts & inheritances	Counted as lump sum income in month received	Not counted
TANF & SSI	Counted	Not counted



“Budget Periods” Differ for Premium Tax Credits and Medicaid

- **Premium Tax Credits:**

- Eligibility for and amount of APTC is based on *estimate of income for the calendar year* in which APTC are received

- **Medicaid:**

- Eligibility based on *current monthly income*
- For beneficiaries, state option to base on projected income for remainder of calendar year
- For applicants *and* beneficiaries, state option to account for reasonably predictable increases and decreases in income



States Must Convert Current Medicaid Income Eligibility Levels to MAGI

- Maintenance of eligibility (MOE) in effect for children through September 30, 2019
 - Some children may move from CHIP to Medicaid and Medicaid to CHIP
 - Income levels determined separately for children under age 1, 1- to 6-year-olds, and 6- to 18-year-olds
- Parents/caretaker relatives
 - Convert current income limit to establish who is newly eligible (expansion states)
 - Convert minimum statutory level for determining benefits (expansion states) and floor for eligibility (non-expansion states)



Whose Income Counts



Whose Income Counts for Premium Tax Credits and Medicaid?

- Household income = Sum of MAGI of all individuals in the household who are required to file a tax return
 - Income of children and tax dependents not counted unless expected to be *required* to file a tax return
 - Medicaid state option: For tax dependents who are not children of the taxpayer, count cash support (exceeding nominal amounts) provided by person who claims the individual as a dependent



Review: Households for Premium Tax Credits

- Household = individuals for whom a taxpayer claims a deduction for a personal exemption
- Taxpayer can claim personal exemption for:
 - Self and spouse
 - Dependents
 - Children and other relatives who meet certain requirements
 - Person may be a dependent even if he files a tax return (as long as he does not claim his own exemption)
- Based on expected tax filing status



Review: Determining Households for Medicaid

- Three categories of individuals
 - Tax filers not claimed as a tax dependent
 - Tax dependents
 - Non-filers and not claimed as a tax dependent
- Based on expected tax filing status



Medicaid Rule for Tax Filers

- Household = tax filer and all persons whom taxpayer expects to claim as a tax dependent
 - For married couples filing jointly, each spouse is considered a tax filer



Medicaid Rule for Tax Dependents

- Household = household of tax filer claiming the dependent
- 3 exceptions: In these cases, apply the rule for non-filers:
 - Tax dependent who is not a child or spouse of the taxpayer
 - Children living with both parents who are not expected to file a joint return
 - Children claimed as tax dependent by a non-custodial parent



Medicaid Rule for Non-filers and Those Not Claimed as a Dependent

- For adults:
 - Household = individual plus, if living with individual, spouse and children
- For children:
 - Household = child plus siblings and parents (including step-parents) living with child
- At state option, children are either
 - Under age 19, or
 - Under age 19, or full-time students under age 21



Putting It Together: Examples of How Income Eligibility Is Determined



Example: Married Couple with Children (Reyes family)



- Mom and dad file a joint return and claim both children as dependents
- Family’s financial situation:
 - \$10,000 – Mom’s income from own business (counted)
 - \$25,000 – Dad’s salary (counted)
 - \$5,000 – Son’s income from weekend and summer jobs (not counted)
 - **(\$4,000)** – Pre-tax retirement contributions (subtracted)
- Household income for Medicaid and PTC:

	Medicaid			Premium Tax Credits		
	HH	Income	FPL	HH	Income	FPL
Mom	4	\$31,000	132%	4	\$31,000	132%
Dad	4	\$31,000	132%	4	\$31,000	132%
Son	4	\$31,000	132%	4	\$31,000	132%
Daughter	4	\$31,000	132%	4	\$31,000	132%



Example: Married Couple with Children

- Mom and dad file a joint return and claim both children as dependents
- Family’s financial situation:
 - \$10,000 – Mom’s income from own business (counted)
 - \$25,000 – Dad’s salary (counted)
 - \$7,000 – *Son’s income from weekend and summer jobs (counted)*
 - **(\$4,000)** – Pre-tax retirement contributions (subtracted)
- Household income for Medicaid and PTC:



	Medicaid			Premium Tax Credits		
	HH	Income	FPL	HH	Income	FPL
Mom	4	\$38,000	161%	4	\$38,000	161%
Dad	4	\$38,000	161%	4	\$38,000	161%
Son	4	\$38,000	161%	4	\$38,000	161%
Daughter	4	\$38,000	161%	4	\$38,000	161%



Example: Three-Generation Household:



- Rose lives with and supports her 60-year old mother and 7-year old daughter. She claims both as tax dependents.
- Family's financial situation:
 - \$38,000 – Rose's salary (counted)
 - (\$2,500)** – Dependent care expenses (subtracted from income)
 - \$3,000 – mother's income from occasional housecleaning (not counted for PTC; counted for Medicaid)

EXPANSION STATE						
	Medicaid			Premium Tax Credits		
	HH	Income	FPL	HH	Income	FPL
Rose	3	\$35,500	182%	3	\$35,500	182%
Daughter	3	\$35,500	182%	3	\$35,500	182%
Mother	1	\$3,000	26%	Not eligible		

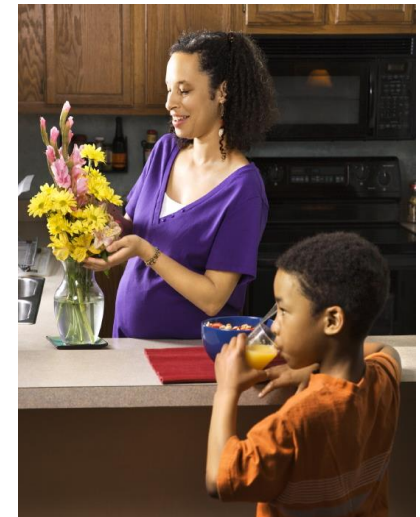
NON-EXPANSION STATE						
	Medicaid			Premium Tax Credits		
	HH	Income	FPL	HH	Income	FPL
Rose	3	\$35,500	182%	3	\$35,500	182%
Daughter	3	\$35,500	182%	3	\$35,500	182%
Mother	Not eligible			3	\$35,500	182%



Example: Child Claimed by Non-Custodial Parent

- Lisa lives with her son and is not married. Non-custodial dad claims son
- Family’s financial situation:
 - \$20,000 – Lisa’s salary
 - \$10,000 – Child support payments received by Lisa (not counted)
 - \$40,000 – Non-custodial dad’s salary
- Household income for Medicaid and PTC:

	Medicaid			Premium Tax Credits		
	HH	Income	FPL	HH	Income	FPL
Lisa	1	\$20,000	174%	1	\$20,000	174%
Son	2	\$20,000	129%	2	\$40,000	258%
Dad	2	\$40,000	258%	2	\$40,000	258%





Example: Non-Married Parents

- Dan and Jen are not married, but live together with their 2 children, Drew and Mary
- Dan claims the children. Jen files on her own
- Family’s financial situation:
 - \$26,000 – Dan’s income
 - \$22,000 – Jen’s income
- Household income for Medicaid and PTC:



	Medicaid			Premium Tax Credits		
	HH	Income	FPL	HH	Income	FPL
Dan	3	\$26,000	133%	3	\$26,000	133%
Jen	1	\$22,000	191%	1	\$22,000	191%
Drew	4	\$48,000	204%	3	\$26,000	133%
Mary	4	\$48,000	204%	3	\$26,000	133%



How Do Income Changes Affect Medicaid and Premium Tax Credit Eligibility?



Income and Household Changes Can Affect Eligibility and/or Amount of Assistance

- Increase or decrease in income
- Household changes:
 - Birth or adoption of child
 - Marriage, divorce or legal separation
 - Death of family member
 - Family member no longer eligible to be claimed as tax dependent



Report Changes in Households and Income to the Medicaid Agency or Marketplace

- Medicaid
 - Change taken into account prospectively
 - Eligibility re-determined based on monthly income
- Premium tax credits
 - APTC will be adjusted prospectively based on recalculated annual income
 - The final credit amount will depend on household at the end of the tax year
 - e.g., Deceased family members and babies born during the year included in household while adult children leaving the household are not



Change in Income: Single 24-year old Individual

January 2014
Income: \$17,235
150% FPL
APTC: \$2,329/year
(\$194/month)



July 2014
Income: \$28,725
250% FPL
APTC: ???



John reports his change in income, and the Marketplace recalculates his new *annual* income to be 200% FPL. His APTC for the rest of the year is calculated as follows:

- Premium tax credit at 200% FPL = \$1,570 (\$131/month)
- APTC received January – June = \$1,164 (\$194/month for 6 months)
- APTC: July – December = $\$1,570 - \$1,164 = \$406/6 = \$68/\text{month}$

(Calculations based on annual premium of \$3,018. KFF Subsidy Calculator at <http://kff.org/interactive/subsidy-calculator/>)



Child Graduates and Gets a Job

- The Reyes family's oldest daughter turns 19, is not in college and gets a full-time job. She will not be claimed as a dependent this year
- Family reports change to the Marketplace in June
 - **Jan–June:** Income is \$45,000/year for family of 4 (191% FPL)
 - **July–Dec:** Income is \$45,000/year for family of 3 (230% FPL)
- APTC recalculated in July based on household of 3 and new benchmark premium





Contact Info

www.healthreformbeyondthebasics.org

- Judy Solomon, solomon@cbpp.org
@JudyCBPP
- Shelby Gonzales, gonzales@cbpp.org
- Tara Straw, tstraw@cbpp.org
- Jesse Cross-Call, cross-call@cbpp.org