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)

  Adjusted Gross Income (AGI, as defined by IRS)
  + Excluded foreign income
  + Tax exempt interest
  + Non-taxable Social Security benefits
  = MAGI

- 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)
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?

- 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:

\[
\text{Adjusted Gross Income (AGI, as defined by IRS)} + \text{Excluded foreign income} + \text{Tax exempt interest} + \text{Non-taxable Social Security benefits} = \text{MAGI}
\]

• 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

<table>
<thead>
<tr>
<th>Income Source</th>
<th>Current Medicaid Rules</th>
<th>MAGI Medicaid Rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-employment income</td>
<td>Counted with deductions for some, but not all, business expenses</td>
<td>Counted with deductions for most expenses, depreciation, and business losses</td>
</tr>
<tr>
<td>Salary deferrals (flexible spending, cafeteria and 401(k) plans)</td>
<td>Counted</td>
<td>Not counted</td>
</tr>
<tr>
<td>Child support received</td>
<td>Counted</td>
<td>Not counted</td>
</tr>
<tr>
<td>Alimony paid</td>
<td>Not deducted from income</td>
<td>Deducted from income</td>
</tr>
<tr>
<td>Veterans’ benefits</td>
<td>Counted</td>
<td>Not counted</td>
</tr>
<tr>
<td>Workers’ compensation</td>
<td>Counted</td>
<td>Not counted</td>
</tr>
<tr>
<td>Gifts &amp; inheritances</td>
<td>Counted as lump sum income in month received</td>
<td>Not counted</td>
</tr>
<tr>
<td>TANF &amp; SSI</td>
<td>Counted</td>
<td>Not counted</td>
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</table>
“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:

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<thead>
<tr>
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<tr>
<td></td>
<td>HH</td>
<td>Income</td>
</tr>
<tr>
<td>Mom</td>
<td>4</td>
<td>$31,000</td>
</tr>
<tr>
<td>Dad</td>
<td>4</td>
<td>$31,000</td>
</tr>
<tr>
<td>Son</td>
<td>4</td>
<td>$31,000</td>
</tr>
<tr>
<td>Daughter</td>
<td>4</td>
<td>$31,000</td>
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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)
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<tr>
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<td>Mom</td>
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<td>$38,000</td>
</tr>
<tr>
<td>Daughter</td>
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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)

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<th>Premium Tax Credits</th>
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<tbody>
<tr>
<td>HH</td>
<td>Income</td>
<td>FPL</td>
</tr>
<tr>
<td>Rose</td>
<td>3</td>
<td>$35,500</td>
</tr>
<tr>
<td>Daughter</td>
<td>3</td>
<td>$35,500</td>
</tr>
<tr>
<td>Mother</td>
<td>1</td>
<td>$3,000</td>
</tr>
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<table>
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<th>NON-EXPANSION STATE</th>
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</tr>
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<td>Daughter</td>
<td>3</td>
<td>$35,500</td>
</tr>
<tr>
<td>Mother</td>
<td>Not eligible</td>
<td>3</td>
</tr>
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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:

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<td></td>
<td>HH Income</td>
<td>FPL</td>
</tr>
<tr>
<td>Lisa</td>
<td>1</td>
<td>$20,000</td>
</tr>
<tr>
<td>Son</td>
<td>2</td>
<td>$20,000</td>
</tr>
<tr>
<td>Dad</td>
<td>2</td>
<td>$40,000</td>
</tr>
</tbody>
</table>
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:

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<tr>
<td>Jen</td>
<td>1</td>
<td>$22,000</td>
</tr>
<tr>
<td>Drew</td>
<td>4</td>
<td>$48,000</td>
</tr>
<tr>
<td>Mary</td>
<td>4</td>
<td>$48,000</td>
</tr>
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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

<table>
<thead>
<tr>
<th>January 2014</th>
<th>July 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income:</strong> $17,235</td>
<td><strong>Income:</strong> $28,725</td>
</tr>
<tr>
<td>150% FPL</td>
<td>250% FPL</td>
</tr>
<tr>
<td><strong>APTC:</strong> $2,329/year</td>
<td><strong>APTC:</strong> ???</td>
</tr>
<tr>
<td>($194/month)</td>
<td></td>
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</table>

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/month

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.healthreformbeyondbasics.org

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