



Updated December 2013

# Question of the Day: Modified Adjusted Gross Income (MAGI)

## **What income counts when determining eligibility for premium tax credits and Medicaid?**

Eligibility for premium tax credits—and for the Children’s Health Insurance Program (CHIP) and most people in Medicaid—is based on “Modified Adjusted Gross Income,” (MAGI). MAGI is adjusted gross income (AGI), determined in the same way as for personal income taxes, plus three types of income that AGI omits: excluded foreign income, tax-exempt interest, and the non-taxable portion of Social Security benefits.

## **How are Social Security benefits counted in Modified Adjusted Gross Income (MAGI)?**

Social Security benefits received by a tax filer and his or her spouse filing jointly are counted when determining a household’s MAGI. For people who have other income, some Social Security benefits may be included in their AGI. One of the modifications to AGI to get to MAGI adds in any Social Security benefits that have not already been included in AGI.

## **If a dependent child receives Social Security benefits, are those counted as part of Modified Adjusted Gross Income?**

It depends on whether the child is required to file a tax return. A household’s Modified Adjusted Gross Income (MAGI) is the sum of the MAGI of the taxpayer, the spouse filing jointly, and dependents who are required to file a return. Dependents who have income above a certain amount (\$6,100 in earned income and \$1,000 in unearned income in 2014) must file their own tax return even though someone else claims them as a dependent. (Social Security benefits don’t count toward these thresholds.) If the dependent with Social Security benefits is not required to file a return, any Social Security benefits he or she receives are not counted.

## **What types of income does Modified Adjusted Gross Income count?**

The best place to start is “gross income.” Next, adjustments to gross income result in Adjusted Gross Income (AGI). Then, three modifications are made to AGI to get to Modified Adjusted Gross Income (MAGI). (See the first MAGI question for the three adjustments.) Under tax rules, gross income can be

in the form of money, goods, property, and services, and includes any income that is not specifically exempted under tax rules. Common types of income that are counted are wages and tips, unemployment benefits, pensions and annuities, income from a business, alimony received, dividends and taxable interest, and rents and royalties received. And, as mentioned in response to another MAGI question, gross income may include a portion of Social Security benefits for people who have other income.

### **What types of income are not counted as part of gross income?**

The most common types of income not counted as part of gross income include cash assistance benefits such as SSI (Supplemental Security Income) or TANF (Temporary Assistance for Needy Families), child support, gifts, inheritances, some scholarship income for tuition, most Social Security benefits, and salary deferrals (i.e., contributions to cafeteria/flexible spending plans and “401(k)” retirement plans).

### **How is gross income adjusted to result in Adjusted Gross Income?**

The deductions subtracted from gross income to get to Adjusted Gross Income (AGI) include contributions to a health savings account, job-related moving expenses, student loan interest, IRA contributions, alimony paid, and in some cases tuition and fees, although for many families the education tax credit is more valuable than the deduction for tuition and fees. (See lines 23 to 35 on the IRS-1040 form for the complete list of deductions.)

### **Does MAGI apply in all state Medicaid programs, even states that are not expanding Medicaid?**

Yes, MAGI applies in all states. However, it is only used to determine income for certain groups: parents and caretaker relatives, children, pregnant women, and the newly eligible adults who are eligible under the Medicaid expansion. It is not used in determining eligibility for seniors (people 65 and over) and people with disabilities who are receiving Medicaid based on disability.

### **You said child support received is not counted in MAGI and alimony paid is deducted in computing AGI. Could you go over that again?**

Child support payments received by a household for the support of a child in the household are not counted in determining the family’s gross income for tax purposes. The parent paying the child support likely already paid taxes on the income being paid as child support. Alimony is treated differently. The person paying the alimony gets to deduct it from his or her gross income to determine AGI and the person receiving the alimony payments counts it in his or her gross income for tax purposes.