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How does the tax bill affect MAGI?

The December 2017 tax law's effective repeal of the requirement to have health insurance is well-known, but other less-discussed provisions of the law will have a modest impact on the calculation of modified adjusted gross income (MAGI) for Medicaid and premium tax credit eligibility. Though most changes take effect this year, they likely won't impact tax credit reconciliation for people who projected their 2018 income under the prior-law rules.

Dependent Filing Requirement Raised

The most significant change raises the income at which a dependent must file a tax return. Fewer dependents will need to file, meaning more families can exclude a dependent's earnings from their household income. For some, lower household income will result in newly qualifying for Medicaid or receiving a higher premium tax credit.

Starting this year, a single dependent under age 65 will be required to file if earned income is greater than $12,000, compared to $6,350 in 2017. A dependent also must file if unearned (investment) income exceeds $1,050 (unchanged by the new law), or if gross income is higher than some combination of earned and unearned income. This change is effective for 2018 and sunsets after 2025.

Income and Deduction Changes

The new law takes alimony off the tax return altogether for newly divorced or separated couples. Previously, the spouse paying alimony would deduct those payments and the spouse receiving alimony would count them as income, both affecting MAGI. Starting with judgments after January 1, 2019, neither spouse will include alimony on the tax return. People whose divorce decrees were finalized prior to that date can choose to adopt this new rule in a modification of their current agreement.

Student loan debt that is forgiven due to the death or disability of the student is no longer included as income, lowering MAGI for the affected students. Moving expenses are no longer deductible, except by members of the Armed Forces. Both provisions sunset after 2025. The tuition and fees deduction, which can reduce income by up to $4,000 for people with higher education expenses, expired at the end of 2017 and was not extended in the tax bill. However, Congress has renewed it retroactively in the past and may do so again.

Household Determination Unchanged

The rules about who can be claimed as a dependent don't change, even though personal exemption deductions are eliminated. While taxpayers will no longer subtract a per-person amount from adjusted gross income on the tax return, dependents will still be determined according to the usual rules. Household size for Medicaid and marketplace eligibility will remain the same.

Increased Exemption Eligibility

One non-MAGI change is noteworthy. Fewer people will pay the shared responsibility fee in 2018 (before it's repealed in 2019) because tax-filing will be triggered at a higher income, qualifying more people for an exemption. For example, a single person doesn't need to file if income is less than $12,000 in 2018, compared to $10,400 in 2017. However, people who are married filing separately now must file regardless of income so won't be eligible for that exemption.