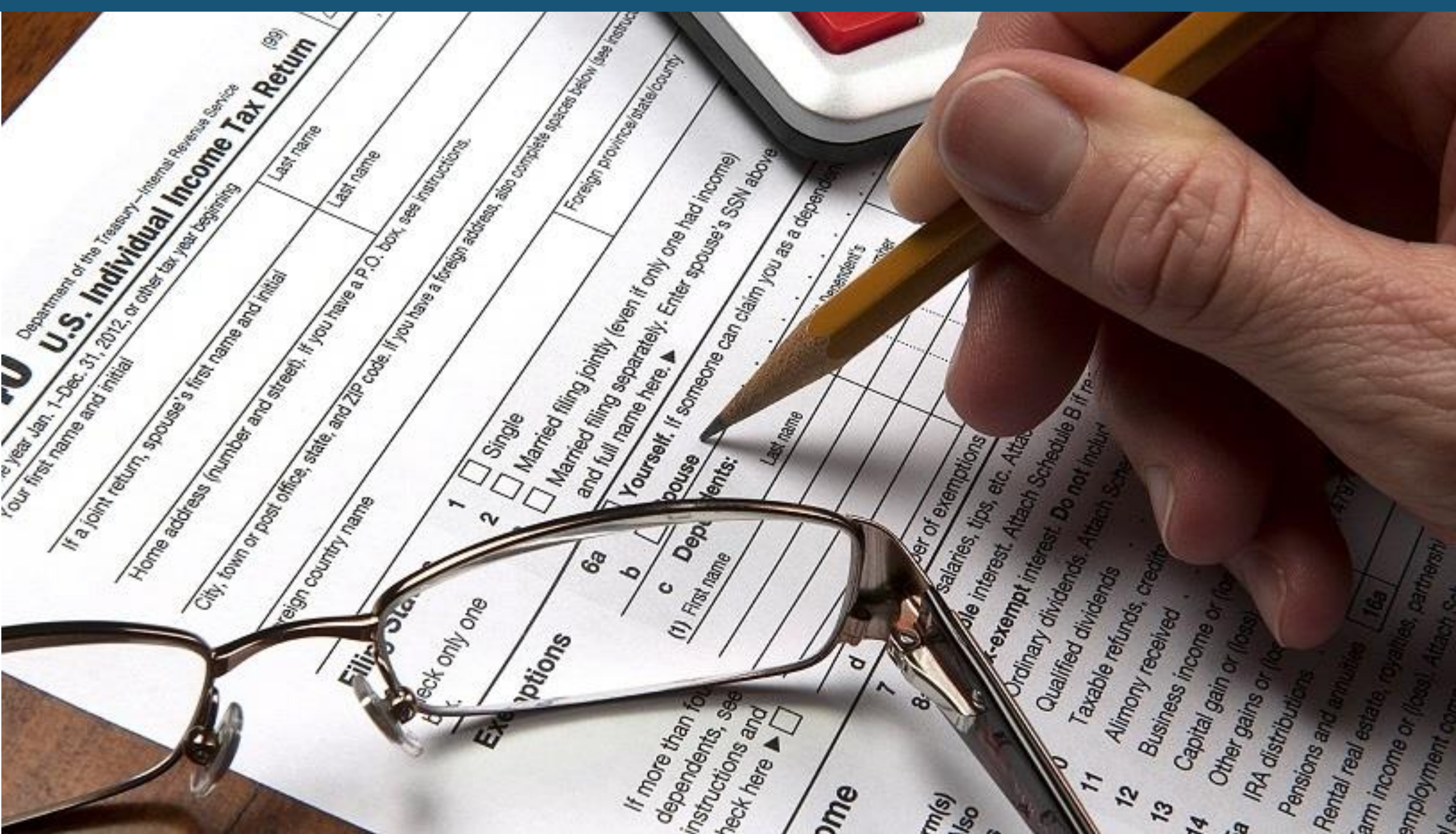
Health Reform: **Beyond the Basics**

The Health Care Assister's Guide to Tax Rules

Determining Income & Households for Medicaid and Premium Tax Credits

Center on Budget and Policy Priorities



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Introduction

The health reform law ushered in revised Medicaid eligibility rules that align with the new rules for premium tax credits, which are used to defray the premium cost of health insurance purchased in the marketplace. Both programs use definitions of income and household that are based on the Internal Revenue Code. The use of tax rules to define what is counted as income and who is in a household is a significant change for people who are familiar with the previous Medicaid rules.

Unlike the standard application of tax rules, which are applied based on actual income and household composition for the previous tax year, applicants for premium tax credits must apply these rules *prospectively* to estimate their income and household size in the coming year. This projection is unique to the administration of premium tax credits. Complications can arise with both the initial estimate of household members and income and with mid-year changes that may affect eligibility.

Household rules define whose income to count in determining eligibility and how many people are in a person's family for the purpose of Medicaid and premium tax credit eligibility. Premium tax credits follow tax rules in determining households; a premium tax credit household is the same as the tax unit. Medicaid, on the other hand, uses a person's status as a tax filer, tax dependent, or non-filer to determine who is in an individual's household and whose income is counted when making an eligibility decision. Both Medicaid and premium tax credits determine eligibility based on income in relation to the federal poverty line, which is dependent on household size.

Income rules determine which types of income are considered in eligibility determinations and which income can be excluded. Medicaid considers *current* monthly income, while premium tax credits are determined based on *projected* annual income. For Medicaid, one only needs to know whether a person's income is above or below the threshold for eligibility. Premium tax credits, on the other hand, are based on a sliding income scale which means the amount of the credit is sensitive to changes in income. Even small increases in the amount of income that is projected will lead to a reduction of the premium tax credit; if the income changes are unreported, a consumer may need to pay back all or part of their tax credit when filing their taxes the following year. Income decreases can make a consumer eligible for a larger premium tax credit and reduce their monthly premium payment.

This guide is designed to familiarize people who are assisting consumers with the health care affordability program application with the tax rules that are applied in determining eligibility for these programs. A basic understanding of these rules can help guide discussions with applicants, especially those with complicated family situations or multiple sources of income, or who are unfamiliar with filing taxes. This is not a comprehensive tax guide, a substitute for seeking tax advice, or sufficient training to enable assisters to provide tax advice.

Tax-Related Elements of the Marketplace Application

State-Based Marketplaces and the Federally-Facilitated Marketplace use applications that gather information to determine eligibility for Medicaid, the Children's Health Insurance Program (CHIP), and premium tax credits. The information includes:

- **Whether the applicant files taxes:** People who receive premium tax credits must agree to file taxes for the year they receive advance payments of the credit to help pay their premiums. Filing taxes is not an eligibility factor for Medicaid, but whether an applicant files taxes makes a difference in determining who is in an applicant's household.
- **Who is in the applicant's household:** The size of an applicant's household will determine the family's income compared to the federal poverty line, and their options for health insurance coverage. Determining who is in a household requires knowledge of the filing status a person will use on her tax return, and understanding how to determine the number of dependents she can claim.
- **What is the applicant's household income:** Eligibility is based on Modified Adjusted Gross Income (MAGI), which is Adjusted Gross Income plus excluded foreign income, tax-exempt interest, and non-taxable Social Security benefits. A household's total income is the MAGI of everyone in the household with a tax filing requirement, including any dependents who are required to file taxes.

Who is a Tax Filer?

The Federally-Facilitated Marketplace application begins with this question: *Does [applicant] plan to file a federal income tax return for 2014?* This question is important for two reasons. First, the answer triggers other questions in the dynamic application that will determine whether the applicant is a tax filer, tax dependent, or neither for the purposes of composing the applicant's Medicaid household. Second, answering that the applicant will *not* file taxes bars a person from consideration for premium tax credits because people who receive premium tax credits must agree to file taxes for the year they receive advance payments of the credits.

When asked whether he or she plans to file taxes, an applicant should answer YES if he or she:

- Expects to have a tax filing requirement and will file;
- Does not expect to have a tax filing requirement but will file anyway, for any reason (such as, to get a refund of federal income tax withheld or to claim the earned income credit); or
- Does not have a tax filing requirement or is unsure about whether tax filing will be required but would file in order to qualify for a premium tax credit.

People who indicate that they will not file taxes will continue the application process to assess their eligibility for Medicaid, CHIP, and to purchase private insurance in the marketplace at full cost, but they will not be considered for premium tax credits.

Who Must File Taxes?

The IRS requires certain people to file taxes. Table 1 indicates who needs to file a tax return based on filing status, age, and income for the tax year.

In some cases, a person who will be claimed as a dependent must file taxes. The factors that determine whether a dependent has to file a return include the amount of the dependent's earned and unearned income, and whether the dependent is married, age 65 or older, or blind. Table 2 shows when dependents need to file a return based on these factors.

Some dependents may have to file a return even if their income is below the thresholds in Table 2. Dependents who have at least $400 in net earnings from self-employment must file a return and some dependents with unreported tip income may also have to file. For a complete list, see IRS publication 17.

Table 1:
Minimum Income Requirements to File a 2013 Federal Tax Return

IF filing status is…	AND age at the end of 2013 was…*	THEN required to file a return if gross income was at least…**
Single	under 65	$10,000
	65 or older	$11,500
Head of Household	under 65	$12,850
	65 or older	$14,350
Married, Filing Jointly***	under 65 (both spouses)	$20,000
	65 or older (one spouse)	$21,200
	65 or older (both spouses)	$22,400
Married, Filing Separately	any age	$3,900
Qualifying Widow(er) with Dependent Child(ren)	under 65	$16,100
	65 or older	$17,300

* Individuals born before January 2, 1949 are considered to be 65 or older at the end of 2013.

** Gross income means all income received in the form of money, goods, property, and services that is not exempt from tax, including any income from sources outside the United States or from the sale of a person's main home (even if part or all of it can be excluded). Gross income does not include any Social Security benefits unless (a) the person is married filing a separate return and lived with the spouse at any time during 2013 or (b) one-half of the person's Social Security benefits plus other gross income and any tax-exempt interest is more than $25,000 ($32,000 if married filing jointly). If (a) or (b) applies, see the Form 1040 instructions to figure the taxable part of Social Security benefits that must be included in gross income. Gross income includes gains, but not losses, reported on Form 8949 or Schedule D. Gross income from a business means, for example, the amount on Schedule C, line 7, or Schedule F, line 9. But in figuring gross income, income is not reduced by any losses, including any loss on Schedule C, line 7, or Schedule F, line 9.

*** If the person did not live with the spouse at the end of 2013 (or on the date the spouse died) and gross income was at least $3,900, then a return must be filed regardless of age.

Table 2:
Minimum Income Requirements for Dependents to File a 2013 Federal Tax Return

IF marital status is…	AND at the end of 2013 was…*	THEN required to file a return if		
		Unearned income was at least…**	Earned income was at least…***	Gross income was at least…****
Single	under 65 years old AND not blind	$1,000	$6,100	the larger of $1,000 OR earned income (up to $5,750) plus $350
	aged 65 or older OR blind	$2,500	$7,600	the larger of $2,500 OR earned income (up to $5,750) plus $1,850
	aged 65 or older AND blind	$4,000	$9,100	the larger of $4,000 OR earned income (up to $5,750) plus $3,350
Married	under 65 years old AND not blind	$1,000	$6,100	$5 and spouse files a separate return and itemizes deductions OR the larger of $1,000 or earned income (up to $5750) plus $350
	aged 65 or older OR blind	$2,200	$7,300	$5 and spouse files a separate return and itemizes deductions OR the larger of $2,200 or earned income (up to $5,750) plus $1,550
	aged 65 or older AND blind	$3,400	$8,500	$5 and spouse files a separate return and itemizes deductions OR the larger of $3,400 or earned income (up to $5,750) plus $2,750

* Individuals born before January 2, 1949 are considered to be 65 or older at the end of 2013.

** Unearned income includes investment-type income such as taxable interest, ordinary dividends, and capital gain distributions. It also includes unemployment compensation, taxable Social Security benefits, pensions, annuities, cancellation of debt, and distributions of unearned income from a trust.

*** Earned income includes salaries, wages, tips, and professional fees. It also includes taxable scholarship and fellowship grants.

****Gross income is the sum of earned and unearned income.

Who Can Be in a Tax Household?

Determinations of eligibility for Medicaid and premium tax credits are based on the number of people in the applicant's household and the income of household members. For premium tax credits, the household is defined using tax rules that determine filing status and dependency. This means that people who file their taxes as a single household will always be considered as a single household for the purpose of determining their eligibility for premium tax credits and the amount of the credits they will receive. Medicaid uses tax filing information to determine who is in a household, but uses different rules that sometimes result in a different outcome than for premium tax credits (for a lengthier discussion of the Medicaid household rules, see the "How Does Medicaid Determine Households?" section).

The tax household is determined based on marital status, relationship, age, residency, and support in paying for living expenses. When people complete their tax returns, these factors are considered based on the calendar year that just ended. However, in the health care context, these factors must be applied prospectively to determine who is in a person's household.

Marital status determines which tax filing status an individual can use. Understanding tax filing status is important when applying for coverage because people who are married cannot receive premium tax credits if they file their taxes using the status of Married Filing Separately. There are five filing status options, which are illustrated in Figure 1, and discussed in more detail in the following sections.

Figure 1:
Tax Filing Status Options and Requirements

What Filing Status(es) Can a Taxpayer Use?

Single	Is unmarried, or legally separated or divorced, as defined by state law
Married Filing Jointly	Is legally married in his state, whether living with or apart from his spouse
Married Filing Separately	Is legally married in his state, whether living with or apart from his spouse
Head of Household	Is unmarried or *considered* unmarried for tax purposes, pays more than half of the costs of keeping up the home for a qualifying person whom he will claim as a dependent
Qualifying Widow(er) with Dependent Child(ren)	Has a spouse who passed away in the two previous tax years and has a child who meets the definition of a Qualifying Child

Single

A person is Single if on the last day of the tax year he or she is unmarried, legally separated or divorced, as defined by state law. Some considerations for people who are filing as Single include the following:

- **Living apart:** Married people *cannot* claim to be Single if they are still married, even if they have been living apart from their spouse for a long time or their spouse is in another country.
- **Legal separation:** Some states do not recognize legal separation (or decree of separate maintenance), meaning that separated spouses must file as married (either jointly or separately) until their divorce is finalized.
- **Divorce:** A divorce decree must be final in order for the tax filer to be considered Single. An interlocutory decree — a temporary court judgment — is not final and does not qualify a person to be Single.

ASSISTERS TIP

What should an assister tell a consumer whose marital status will change during the year?

Under IRS rules, a person's marital status for the entire year is determined by whether he is single, married, legally separated, or divorced on the last day of the calendar year for which the person is filing a tax return. While the IRS determines tax filing status as of the last day of the year, CMS has said that applicants for premium tax credits and Medicaid should provide their current filing status on their application. For example, a person who anticipates being divorced by the end of the year would be considered married when applying for coverage, but should update his marital status with the marketplace when the divorce is finalized.

Married Filing Jointly

A couple can file as Married Filing Jointly if they are legally married in their state, whether they live together or apart. Joint filing means joint responsibility for any tax, interest, or penalty due on the return. This includes joint responsibility for the premium tax credit, even if only one spouse qualifies for the credit. For example, if one spouse receives more advance premium tax credit than they were eligible to receive, both spouses may be liable for any resulting repayment of the credit. Some considerations for people who are Married Filing Jointly include the following:

- **Common law marriage:** Common law marriage — a marriage established when a couple presents themselves as married but does not have a marriage license — is recognized by only about one-quarter of states. In some cases it is only recognized for certain purposes or is only valid if established before a specific date. (At least four states have enacted laws to end recognition of common law marriage and will only recognize marriages established prior to the change in law.) Assisters should consult state law to find out whether common law marriage is recognized in their state and, if so, how someone qualifies.

  In a state that recognizes common law marriage, a couple is considered married for federal tax purposes and should acknowledge their marriage in the health care application. Once established, their "married" status continues to be valid, even if they move to a state that does not recognize common law marriage. (Note that once a common law marriage is established, a couple that wishes to end their relationship and be considered no longer married must usually file for divorce.)

  In a state that does not recognize common law marriage, a couple cannot be considered married without a marriage license, no matter how long they have lived together.

- **Same-sex marriage:** A same-sex couple is considered married for federal tax purposes if their marriage is legally recognized in the state or foreign country of their union. However, states that do not permit same-sex marriage under their own laws may or may not recognize marriages sanctioned by other states in determining eligibility for Medicaid. It's possible that a couple could be considered married for federal tax purposes, and thus premium tax credit eligibility, but unmarried for Medicaid. In states where same-sex marriage is not legal, assisters should check with the state Medicaid agency to determine how same-sex marriages will be treated.

- **Widow/widower:** If a spouse dies during the tax year, the surviving spouse is considered to be married for the entire tax year and can file jointly or separately from their deceased spouse. Note that if the surviving spouse files as Married Filing Separately, he or she will not be eligible for premium tax credits.

- **Non-resident aliens:** In general, a couple cannot file jointly if one spouse is a non-resident for any portion of the year. However, they can choose to file jointly if one spouse is a U.S. citizen or resident and the non-resident spouse agrees to be treated as a U.S. resident for the year; in that case, both spouses would be taxed on worldwide income.

  Note that the IRS generally refers to non-citizens as resident aliens or non-resident aliens, rather than using terms more common in immigration or public benefits, like lawful permanent resident or "lawfully present." (Another term used by the IRS, U.S. national, refers to people who are not citizens but owe their allegiance to the United States; these include American Samoans and Northern Mariana Islanders.) For more on the tax treatment of aliens, see IRS Publication 519.

ASSISTERS TIP

What should an assister tell a consumer who is married but won't file taxes with his or her spouse?

An assister should give the consumer all the information needed to make an accurate prediction of his or her tax filing status and the consequences of mistakenly claiming to be eligible for premium tax credits.

- ✓ First, remember that tax filing is not a factor in determining Medicaid eligibility and people filing as Married Filing Separately can still qualify for Medicaid.
- ✓ Second, make the consumer aware that except for circumstances involving domestic abuse or spousal abandonment, filing taxes as Married Filing Separately disqualifies him from premium tax credits. Knowing this, the consumer and his spouse may choose to file jointly. Also, remember that people may have tax reasons for filing separately from a spouse — receipt of premium tax credits may not be the only consideration.
- ✓ Third, discuss with the client whether they can qualify as Head of Household. Walk through each step of the test to determine if the person will live separately from his spouse in the last six months of the tax year, will pay more than half the cost of keeping up the home, and will claim his child as a dependent.
- ✓ Finally, inform the consumer that he should update his account information if his expected filing status changes. If a married person is denied premium tax credits because they won't file taxes with their spouse but then divorces, he may be newly eligible for premium tax credits for the year. (However, divorce alone does not qualify a person for a Special Enrollment Period; the consumer must already be enrolled in a qualified health plan or will need another qualifying event to enroll in marketplace coverage.)

In general, a person is a resident alien if he or she is a green card holder or meets the substantial presence test, which is based on the length of time an individual is present in the United States. Anyone who does not qualify as a resident alien (and is not a citizen or a U.S.

national) is a non-resident. Non-residents have different tax obligations. (The tests used by the IRS in determining whether someone is a non-resident alien are different than the tests used in determining whether an individual's immigration status qualifies him or her for Medicaid or premium tax credits.)

Married Filing Separately

Some married people do not or cannot file a tax return jointly with their spouse. This might happen because one spouse is not available to sign the return, the couple is separated and unwilling to file taxes jointly, or the couple is together but they don't want to be held jointly liable for each other's taxes. Married people who file separately face several disadvantages: a higher tax rate than couples filing jointly, fewer income deductions are available to them and deductions are phased out at a lower income level, and certain tax credits — including the premium tax credit — are not allowed.

A person who files taxes as Married Filing Separately cannot claim a premium tax credit, regardless of their reason for filing separately. There are two exceptions. The exceptions can be claimed for no more than three consecutive years.

- **Survivors of domestic violence:** A taxpayer who lives apart from his or her spouse and is unable or unwilling to file a joint tax return due to domestic violence will be deemed to satisfy the joint filing requirement by making an attestation on his or her tax return. Under this IRS rule, taxpayers may qualify for premium tax credits despite having the tax filing requirement of married filing separately. Domestic abuse is defined as "physical, psychological, sexual, or emotional abuse, including efforts to control, isolate, humiliate, and intimidate, or to undermine the victim's ability to reason independently." The effects of drug or alcohol abuse by the victim's spouse may be considered. Depending on a family's particular circumstances, the abuse of the victim's child or another family member living in the home may constitute abuse of the victim.
- **Abandoned spouses:** A taxpayer is still eligible for premium tax credits if he or she has been abandoned by a spouse and certifies on the tax return that they are unable to locate the spouse after "reasonable diligence."

Head of Household

A person who is married but does not plan to file jointly with a spouse can sometimes qualify as Head of Household, a filing status that allows a person to be eligible for premium tax credits, rather than Married Filing Separately, which does not.

In general, a person can be Head of Household if he or she is unmarried or *considered* unmarried for tax purposes and pays more than half of the costs of keeping up the home for a qualifying person whom he or she will claim as a dependent. The definition of "qualifying person" varies based on whether the tax filer is actually single or is married but considered unmarried for tax purposes.

For purposes of the health care application, it's not necessary to decide whether a single person is eligible to file as Head of Household since both of the available filing options — Single and Head of Household — are qualifying statuses for premium tax credits. For this reason, the test for Head of Household as a single person, which uses a broader definition of "qualifying person," is not discussed here. But for someone who is married and not filing a joint return, the ability to file as Head of Household rather than Married Filing Separately is important because it makes the person eligible for premium tax credits.

A married person qualifies as Head of Household if he or she is *considered* unmarried. This means that the taxpayer is married but will live apart from their spouse in the last six months of the tax year. The person must pay more than half the cost of keeping up the home, and that home must be the main residence of a child, stepchild, or foster child who will be claimed as a dependent (with one exception explained below). Considerations for people filing as Head of Household include the following:

- **Living apart:** A spouse is considered to live in the home if he or she is temporarily absent from the home. This includes absences due to military service, business, vacation, education, illness or similar circumstances when the spouse is expected to return to the home after the absence.
- **Last six months of the tax year (July 1 to December 31):** The couple must live apart for the last six months of the tax year in which premium tax credits will be claimed. In some cases, this can be very difficult to predict. However, if a person using the Head of Household status in prior tax years has been separated for a long time, they may be able to reasonably anticipate that they will be living apart for the last six months of the year.
- **Cost of keeping up the home:** To qualify as Head of Household, the taxpayer must pay more than half the cost of keeping up his or her home. These costs include rent, mortgage, real estate taxes, insurance on the home, utilities, repairs and food eaten in the home. Any expenses that are paid with TANF or other public assistance are not considered expenses paid by the taxpayer. The costs of medical care, clothing, education, or transportation are not included in the cost of keeping up the home.

ASSISTERS TIP

When Can a Married Person File as Head of Household?

A married person is considered unmarried and is eligible to file as Head of Household if he or she can answer YES to each of the following questions:

Will you file taxes separately from your spouse in the year in which the premium tax credit is received?	☐ Yes	☐ No
Will you live separately from your spouse from July 1 to December 31 in that year?	☐ Yes	☐ No
Will you pay more than half of the cost of keeping up your home in that year?	☐ Yes	☐ No
Do you have a child, stepchild, or foster child (of any age) who lives with you for more than half the year?	☐ Yes	☐ No
Will either you or the child's other parent claim the child as a dependent?	☐ Yes	☐ No

If all answers are yes, the applicant is Head of Household and is considered unmarried. If the answer to any of these questions is No, the applicant cannot file as Head of Household.

- **Qualifying person:** A taxpayer must have a "qualifying person" in order to be Head of Household. For a married person to be considered *unmarried*, his or her home must be the main home for his or her child, stepchild, or foster child for more than half the year. The child can be of any age. (For a single person to be Head of Household, a broader range of people can be the "qualifying person," including any related person who lives with the taxpayer and is a dependent and parents who are dependents even if they do not live with the taxpayer.)

ASSISTERS TIP

Are there any exceptions to the requirement for a married person to file jointly or as Head of Household in order to receive premium tax credits?

Yes, a person who is a survivor of domestic violence or has been abandoned by their spouse may qualify for premium tax credits, even if he or she does not file jointly with the spouse.

- **Exception to dependency requirement:** In general, the taxpayer's child must be his or her dependent in order to claim Head of Household filing status. There is an exception if the child is claimed by the noncustodial parent. For example, if a child lives with her mother for more than half the year, and the parents agree that the child's father can claim her dependency exemption, the mother is still eligible to file as Head of Household.
- **Non-resident alien spouse:** A person can be Head of Household while living with their spouse if the spouse is a non-resident alien for any part of the year and all other tests for Head of Household are met. However, if the taxpayer elects to treat a non-resident spouse as a resident for tax purposes, the couple is considered married and neither will qualify for Head of Household status.

Qualifying Widow(er) With Dependent Child(ren)

A person whose spouse died in the two previous tax years and who has a child who meets the definition of a Qualifying Child can qualify for this tax filing status. For example, if a taxpayer's wife died in 2013, the taxpayer has not remarried, and he will claim his 14-year-old son as a dependent, the surviving spouse may file as a Qualifying Widower in 2014 and 2015. (In 2013, he would have filed as Married Filing Jointly.) This filing status has no impact on eligibility for premium tax credits. If a person qualifies for this tax filing status, he or she should indicate a marital status of Single on the application.

TEST YOUR KNOWLEDGE

How Does Tax Filing Status Affect Eligibility for Premium Tax Credits?

SCENARIO 1: *Sherita is married and has a son, Eddie, who is 9 years old. Sherita's husband moves out in December 2014. They do not expect to reconcile, but they don't expect to divorce in 2015. Sherita is applying for health insurance during open enrollment for 2015. Since her husband left, Sherita pays more than half the cost of keeping up the home. She does not have an offer of insurance through her job, and her income is too high for Medicaid. Does Sherita's projected filing status for 2015 allow her to qualify for premium tax credits?*

ANSWER: She may qualify for premium tax credits, depending on her filing status. Sherita has a few options:

- She could file jointly with her husband if they are still legally married by the end of 2015 and they mutually agree to file together.
- Sherita also appears to qualify as Head of Household if her son, Eddie, will live with her at least half the year, she (or her husband) will claim Eddie as a dependent, she continues to pay more than half the cost of keeping up her home, and her husband is not living in the home during the last six months of the year (July 1 – December 31).

Filing as Married Filing Jointly or as Head of Household will allow her to claim premium tax credits. If she files as Married Filing Separately, however, she will be ineligible for premium tax credits.

SCENARIO 2: *Same facts as in Scenario 1 except Sherita's son, Eddie, is 29 years old. Eddie lost his job and is living with his mother. He will qualify as her dependent. Does Sherita qualify for premium tax credits?*

ANSWER: Sherita can still file as Head of Household (and therefore receive premium tax credits) because Eddie is her child and her dependent, even though he isn't a minor.

SCENARIO 3: *Same facts as in Scenario 1 except Sherita's husband pays the entire mortgage, mortgage interest, and real estate taxes. Does Sherita qualify for premium tax credits?*

ANSWER: Probably not. If Sherita's husband is paying more than half the cost of keeping up the home, then Sherita cannot be Head of Household. She will have to file as Married Filing Separately, unless she and her husband agree to file jointly.

SCENARIO 4: *Same facts as in Scenario 1 except Sherita's husband moves back into the home in June and July of 2015 when they attempt to reconcile. He moves out again in August. Does Sherita qualify for premium tax credits?*

ANSWER: Probably not. Because Sherita and her husband didn't live apart for the last six months of the year, Sherita does not qualify as Head of Household. This is true even though they lived apart for the majority of the year. She'll have to file as Married Filing Separately, unless she and her husband agree to file jointly. If Sherita received advance premium tax credits because she expected to file as Head of Household, she should contact the marketplace to report that she will file as Married Filing Separately. She is no longer eligible for premium tax credits and will have to repay the advance premium tax credits she already received, up to the repayment cap.

Who Can Be Claimed as a Dependent on a Tax Return?

The marketplace application asks for the number of dependents an applicant will claim for tax purposes. This information helps determine the household size and whose income to include in determining the Modified Adjusted Gross Income (MAGI) for the family. In many cases, it will be obvious who can be claimed as a dependent, but in others, the assister may need to ask more questions to help the applicant decide how many dependents, and which dependents, to include on the application.

There are three threshold tests that must be met to claim someone as a dependent. If these tests are satisfied, the prospective dependent must meet additional criteria to be either a Qualifying Child or Qualifying Relative. For the purpose of the health care affordability programs, it isn't necessary to identify which category of dependent someone falls into, but it may be helpful for an assister to understand the rules for dependency to help an applicant who is trying to accurately project household size.

Rules for All Dependents

To be a dependent, three tests must be met:

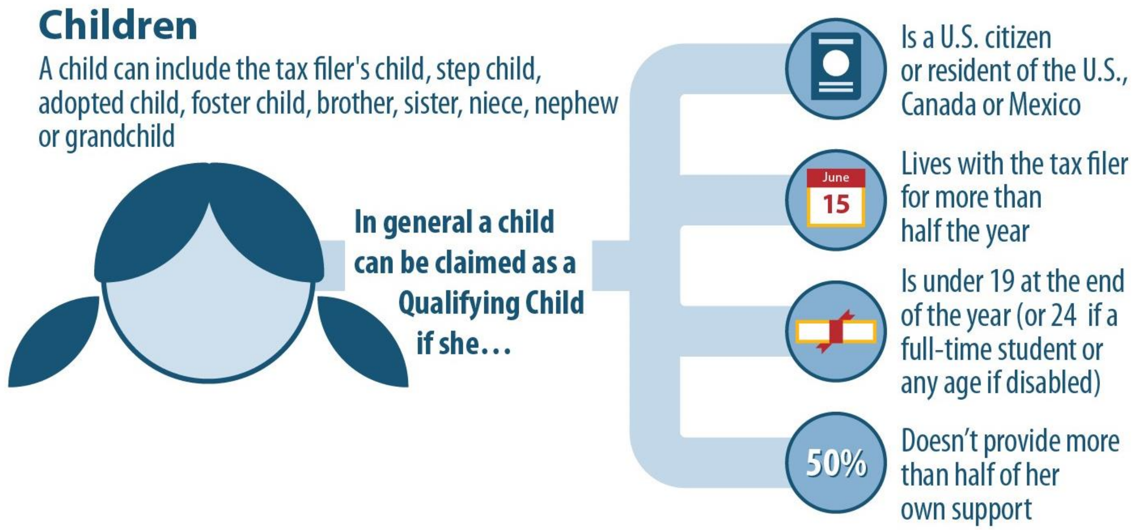
1. The person claiming the dependent cannot be a dependent of another taxpayer. (For example, a 21-year-old college student with a 2-year-old child, both of whom are supported entirely by the student's parents, cannot claim her child as a dependent because *she* is a dependent.)
2. If the prospective dependent is married, he or she can still be claimed as a dependent. However, if the married dependent files a joint return with his or her spouse, the return must be filed only to claim a refund of taxes paid during the year through wage withholding.
3. The prospective dependent must be a U.S. citizen, resident, or national or must be a resident of Mexico or Canada. (Note that although residents of Canada and Mexico can be claimed as dependents on a tax return, they cannot qualify for health care affordability programs.)

Rules for Claiming a Qualifying Child

To be a Qualifying Child, the person must meet the following tests, which are also summarized in Figure 2:

1. **Relationship** – The child must be a:
   - ✓ Biological, adopted, foster, or stepchild of the taxpayer
   - ✓ Brother or sister (including half- and step-siblings) of the taxpayer
   - ✓ Niece, nephew, or grandchild of the taxpayer
2. **Age** – At the end of the tax year, the child must be:
   - ✓ Under age 19 and younger than the taxpayer
   - ✓ Under age 24, if a full-time student for at least five months of the year, and younger than the taxpayer
   - ✓ Any age if permanently and totally disabled

Figure 2:
Who Can Be Claimed as a Qualifying Child?



3. **Residence –** The child must live with the taxpayer for more than half the year.
   - ✓ Temporary absences, such as a child who attends college and is living away from home, are considered time in the parents' home.
   - ✓ There are exemptions for children of divorced or separated parents or parents who live apart. In that case, the parents may agree that the noncustodial parent will claim the child, even if the child lived with the custodial parent for the majority of the year. The custodial parent must agree and must sign a tax form to allow the noncustodial parent to claim the child; the noncustodial parent cannot independently decide to claim the child.
4. **Support –** The child must not provide more than half of his or her own support.
   - ✓ Total support includes rent or fair rental value of the home, food, utilities, and home repairs for the household, with costs equally divided between family members to decide the child's portion. Expenses related to the child's clothing, education, medical, travel and other expenses are included. State benefits based on need, such as TANF (welfare), housing, or food support are not included.
   - ✓ Support the child paid includes all of the child's taxable and nontaxable income, such as wages, Social Security benefits, and other income. This amount also includes student loans that the student is responsible to pay, but does not include scholarships the child receives.
   - ✓ Only funds that are actually used for the child's support are included. If the child works part-time and receives $400 per month but puts that money into a savings account, that money is not included as support paid by the child.

Sometimes a child meets the test to be a Qualifying Child for more than one person. For example, a child may be the qualifying child of both her mother and her grandmother if they all live in the same house. In that case, the IRS has a series of tiebreaker rules that apply to decide who can take the child's dependency exemption. In general, parents are favored over other relatives. If a parent does not claim the child, the dependency exemption can be claimed by another eligible relative (grandparent or aunt/uncle) with the higher income. (See IRS Publication 501 for more information.)

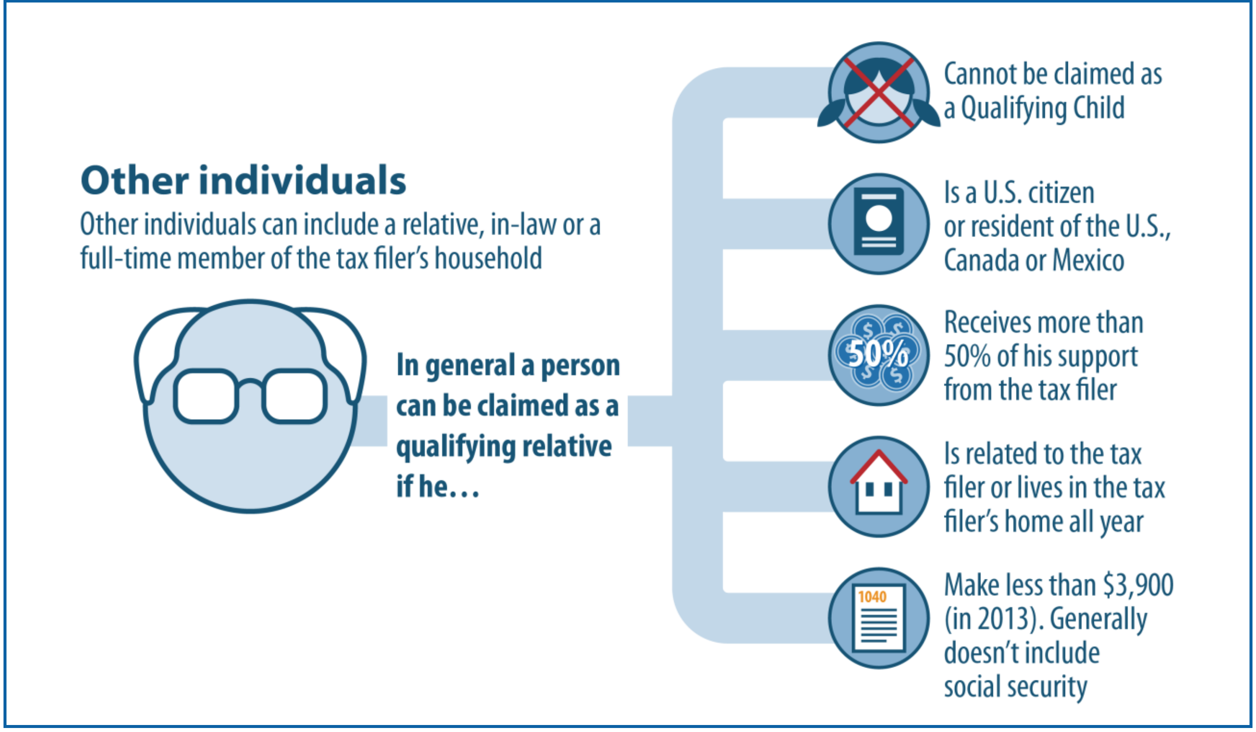
Rules for Claiming a Qualifying Relative

If the prospective dependent does not qualify as the taxpayer's Qualifying Child, they may qualify as a Qualifying Relative. To be a Qualifying Relative, the prospective dependent must meet the following tests, which are also summarized in Figure 3:

1. **Not a Qualifying Child** – The prospective dependent cannot be the Qualifying Child of any taxpayer. However, if the person who could claim the prospective dependent as a Qualifying Child is not required to file a tax return and either does not file a tax return or files a tax return only to claim a refund, the prospective dependent is not considered to be that person's Qualifying Child.
2. **Relationship –** The prospective dependent must either be related to the taxpayer or live in the taxpayer's home for the entire year.
   - ✓ Relatives: The person can be the taxpayer's child, grandchild, sibling, niece/nephew, parent, aunt/uncle. This does not include cousins.
   - ✓ Members of the household: A person who is not related to the taxpayer in one of the ways above can be a dependent if they live with the taxpayer for the *entire* year.
3. **Income –** The prospective dependent must not have gross income greater than $3,900 (in 2013).
   - ✓ Gross income includes all taxable income. It does not include tax-exempt income, such as the non-taxable portion of Social Security benefits.
4. **Support –** The taxpayer must pay more than half the support of the prospective dependent. Support is calculated in the same way as for a Qualifying Child, but the test is different: to be a Qualifying Child, the child must not be paying more than half of his or her own support, but for a Qualifying Relative, the taxpayer must pay more than half of the dependent's support.

Note that there is no test for age or residence (other than for people who are unrelated to the taxpayer.) A Qualifying Relative can be of any age and is not required to live with the taxpayer if related to the taxpayer in one of the ways specified.

Figure 3:
Who Can Be Claimed as a Qualifying Relative?



The Difficulty of Projecting Tax Dependency

It's important to know who an applicant's dependents are because this will influence the determination of who is in the applicant's household, and the applicant's poverty level income for the purposes of determining Medicaid and premium tax credit eligibility. In some cases, however, dependency can be difficult to predict. For example, consider Katie, who is graduating from college in May 2015. She has always been her parents' Qualifying Child. But what will happen in 2015? If Katie does not get a job and her parents continue to support her, she may still be her parents' dependent. However, if Katie gets a job, she may end up providing more than half of her own support and no longer be a dependent. The applicant will need to decide the most likely year-end scenario for his or her family and alert the marketplace right away if things change.

TEST YOUR KNOWLEDGE

Who Can Be Claimed as a Tax Dependent?

SCENARIO 1: *Rachel and her son, Jason (age 9), live with Rachel's boyfriend, Sam, who is not Jason's father. Rachel and Sam both work and file their taxes separately. Who can claim Jason as a dependent?*

ANSWER: Only Rachel can claim Jason as a dependent. Jason meets the test to be her Qualifying Child. (Jason is not Sam's Qualifying Child because he isn't Sam's child.) Because Jason is Rachel's Qualifying Child, he cannot be Sam's Qualifying Relative.

SCENARIO 2: *The same facts as in Scenario 1, except Rachel has no income and is supported by Sam. Who can Sam claim as a dependent?*

ANSWER: Jason cannot be Sam's Qualifying Child because he is not Sam's son. However, Jason may be Sam's Qualifying Relative. In many cases, Jason could not be Sam's Qualifying Relative because he is Rachel's Qualifying Child; however, Rachel doesn't have income and will not file taxes, so Sam is not prevented from claiming Jason as a dependent if all other tests are met. In addition, since Jason is unrelated to Sam, Jason must have lived with Sam for the entire year in order to be Sam's Qualifying Relative. Rachel may also be Sam's dependent as a Qualifying Relative, if all the tests are met.

SCENARIO 3: *The same facts as in Scenario 1, except Rachel has income of $5,000 per year. Who can Sam claim as a dependent?*

ANSWER: Rachel has no tax filing requirement. As long as she does not file or files only to claim a refund of her income tax withholding, Sam is not barred from claiming Jason as a dependent. For the same reasons as in Scenario 2, Jason may be Sam's Qualifying Relative. However, Rachel has exceeded the income limits for a Qualifying Relative so Sam cannot claim her as his dependent.

SCENARIO 4: *The same facts as in Scenario 1, except Rachel's son Jason is 19 years old and not a full-time student. Jason has no income. Who can claim Jason's exemption?*

ANSWER: Jason is not Rachel's Qualifying Child because he is too old. However, he may be her Qualifying Relative, if Rachel provided more than half of Jason's support and all other tests are met. (This is true even if Jason didn't live with Rachel.) On the other hand, if Sam paid more than half of Jason's support and Jason lived with Sam for the entire year, Sam could claim Jason as a dependent.

How Does Medicaid Determine Households?

While premium tax credit household rules are based purely on tax relationships, Medicaid households are determined based on a person's family and tax relationships, as well as their living arrangements. How people file taxes and who is in their tax unit does not always determine who is in their Medicaid household, but it does determine which Medicaid household rules apply in making the household determination.

The most important difference between Premium Tax Credit and Medicaid households is that for premium tax credits, members of a tax unit are always treated as a household in determining their eligibility but for Medicaid, household size and composition are determined separately for each member of the household. This means that each member of a premium tax credit household that files its taxes together will have the same household size. However, for Medicaid, household size may differ for family members even when they are in the same tax filing household. Thus, it is possible that for Medicaid, a family of three filing its taxes together may have two members with a household size of three and the third member of the family may be a household of one.

Another important thing to note is that because premium tax credits are a federal benefit, the rules are established at the federal level and are consistent across states. Medicaid, on the other hand, provides states with several options on how to define households, so it's always important for assisters to check their state's Medicaid rules regarding these options.

In general, there are three sets of household rules that Medicaid applies that depend on whether someone is:

- a tax filer
- a tax dependent
- neither a tax-filer nor a dependent

Medicaid Household Rules for Tax Filers

The Medicaid household is constructed based on an individual's *plan* to file a federal income tax return, regardless of whether or not he or she ultimately files a return at the end of the year or is claimed as a tax dependent. It's not necessary to have filed a federal income tax return in previous years.

The general rules for constructing a Medicaid household are listed below. Figure 4 summarizes the Medicaid household rules and Figure 5 depicts how these rules would be applied:

- **Tax filers claiming their own exemption and not being claimed as a tax dependent.** The household is the tax filer, the spouse filing jointly, and everyone whom the tax filer claims as a tax dependent.
- **Tax dependents.** The household is the same as the household of the tax filer claiming the individual as a tax dependent. However, there are three exceptions to this rule, when the rule for non-filers is applied. These exceptions are:
  - Individuals who expect to be claimed as a dependent by someone other than a parent;
  - Children (under 19) living with both parents, whose parents do not expect to file a joint tax return; and

  - Children (under 19) who expect to be claimed as a dependent by a non-custodial parent

- **Individuals who neither file a tax return nor are claimed as a tax dependent.** The household rules for people in this category differ based on whether the individual is an adult or child.
  - If the individual is an adult, the household includes the individual plus, if living with the individual, his or her spouse and children who are under 19 years old
  - If the individual is a child under 19 years old, the household includes the child and any siblings under 19 years old and parents who live with the child

Special Rules

In addition to the rules for how to construct a Medicaid household based on an individual's expected filing status, a few special rules apply in all situations.

- Married couples who live together are always counted in each other's household regardless of whether they file a joint or separate return. In addition, as noted earlier in this guide, in contrast to the premium tax credit rules, using the Married Filing Separately filing status is not a disqualifying factor for Medicaid.
- Family size adjustments need to be made if the individual is pregnant. In determining the household of a pregnant woman, she is counted as herself plus the number of children she is expected to deliver.

State Options

States also have some flexibility in the following areas:

- In determining the family size of other individuals who have a pregnant woman in their household, states have the option to count the pregnant woman as herself, herself plus 1, or herself plus the number of children she is expected to deliver.
- Whenever an age limit is imposed on whether an individual can be defined as a child (e.g., a child under 19 years old), states have the option to extend the age limit to include children under 21 years old who are full-time students.

Figure 4:
Summary of Medicaid Household Rules

Tax filer not claimed as a dependent	Tax dependent	Non-filer / non-dependent
Individual's household is: • Tax filer and all persons whom taxpayer expects to claim as a dependent[1,2,3,4]	Individual's household is: • The household of the tax filer claiming individual as a dependent[2,3,4] EXCEPTIONS (apply the rules for non-filer) • Tax dependents not a child of the taxpayer • Children under 19[5] living with both parents not expected to file a joint return • Children under 19[5] claimed as tax dependent by non-custodial parents	For adults: • Household is the individual plus, if living with individual, spouse and children under age 19[3,4,5] For children under age 19[5]: • Household is the child plus siblings under 19[5] and parents (including step-parents) living with child[3,4]

[1] For married couples filing jointly, each spouse is considered a tax filer

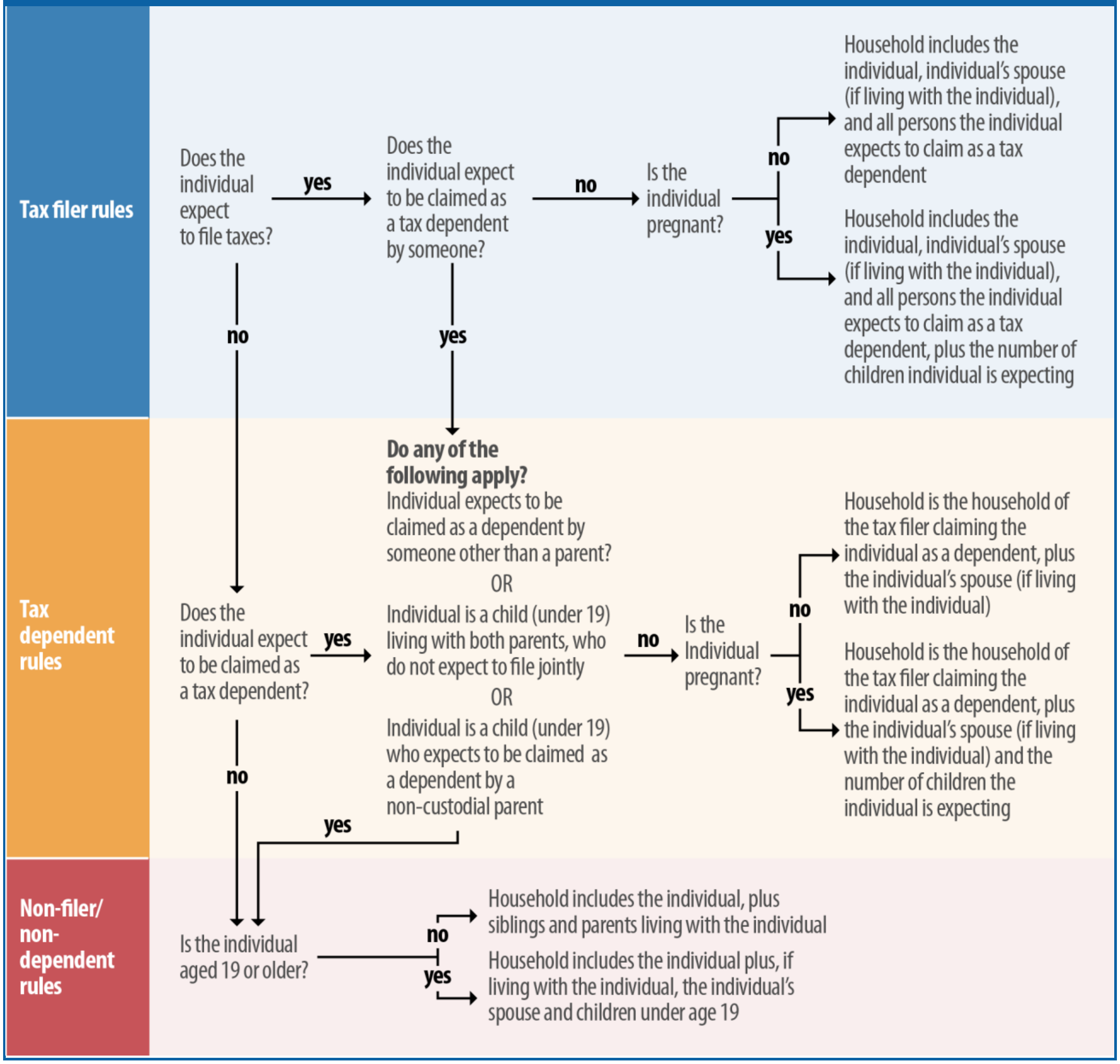
[2] Married couples living together are always in each other's household regardless of how they file

[3] A pregnant woman is counted as herself plus the number of children she is expecting

[4] For individuals whose household includes a pregnant woman, states can count the pregnant woman as 1, 2, or 1 plus the number of children she is expecting

[5] States can extend the age limit to include children under 21 who are full-time students.

Figure 5:
How to Determine An Individual's Medicaid Household



TEST YOUR KNOWLEDGE

How Does Medicaid Determine Households?

SCENARIO 1: *Mark and Denise are married and have a son, Joe. Denise's mother, Laura, lives with them. Mark and Denise file jointly and claim Joe as their Qualifying Child. Laura files taxes on her own. What is the Medicaid household for each member of the family?*

ANSWER: Mark and Denise are considered tax filers. Using the rule for tax filers, their household includes themselves and everyone else in their tax filing unit, so they each have a household of three. Joe is a tax dependent who is the child of the tax filer. Using the tax dependent rule, Joe's household is the household of the tax filer claiming him, so he has a household of three. Laura is a tax filer, so her household includes just herself.

	Tax Filing Status	Medicaid Household	Medicaid Rule to Apply
Mark	Tax Filer	3 (self, Denise, Joe)	Tax filer rule
Denise	Tax Filer	3 (self, Mark, Joe)	Tax filer rule
Joe	Tax Dependent	3 (self, Mark, Denise)	Tax dependent rule
Laura	Tax Filer	1 (self)	Tax filer rule

SCENARIO 2: *The same facts as in Scenario 1, except that Mark and Denise claim Laura as a Qualifying Relative. What is each individual's Medicaid household?*

ANSWER: The same rules applied in Scenario 1 still apply to Mark, Denise, and Joe, except that their tax household is increased to four because it now includes Laura. Laura is now a tax dependent, however, she falls under the exception to the tax dependent rule because she is not a child of the tax filer. Therefore, Medicaid uses the non-filer rule to determine her household, which includes just herself.

	Tax Filing Status	Medicaid Household	Medicaid Rule to Apply
Mark	Tax Filer	4 (self, Denise, Joe, Laura)	Tax filer rule
Denise	Tax Filer	4 (self, Mark, Joe, Laura)	Tax filer rule
Joe	Tax Dependent	4 (self, Mark, Denise, Laura)	Tax dependent rule
Laura	Tax Dependent	1 (self)	Non-filer rule

TEST YOUR KNOWLEDGE

SCENARIO 3: *The same facts as in Scenario 1, except that Mark and Denise file taxes separately. Mark claims Joe as his tax dependent. What is each individual's Medicaid household?*

ANSWER: Even though Mark and Denise are not filing jointly, Medicaid requires that spouses who live together always be included in each other's household. Mark's household includes the people in his tax unit — which is himself and Joe — and Denise. Denise's Medicaid household includes herself and Mark. Laura's household includes herself.

	Tax Filing Status	Medicaid Household	Medicaid Rule to Apply
Mark	Tax Filer	3 (self, Denise, Joe)	Tax filer rule
Denise	Tax Filer	2 (self, Mark)	Tax filer rule
Joe	Tax Dependent	3 (self, Mark, Denise)	Tax dependent rule
Laura	Tax Filer	1 (self)	Tax filer rule

SCENARIO 4: *Mark and Denise divorce. Denise now lives with Joe and Laura, and Mark lives on his own. Denise files as Head of Household and claims Joe as her Qualifying Child. Mark files as Single. Laura files on her own. What is each person's Medicaid household?*

ANSWER: Because Denise claims Joe on her tax return, her household includes herself and Joe. Joe's household is the same as Denise's household. Mark's household includes himself. Laura's household includes herself.

	Tax Filing Status	Medicaid Household	Medicaid Rule to Apply
Mark	Tax Filer	1 (self)	Tax filer rule
Denise	Tax Filer	2 (self, Joe)	Tax filer rule
Joe	Tax Dependent	2 (self, Denise)	Tax dependent rule
Laura	Tax Filer	1 (self)	Tax filer rule

SCENARIO 5: *The same facts as in Scenario 4, except that Mark claims Joe as a dependent on his tax return. Denise still files as Head of Household since Joe lives with her. What is each individual's Medicaid household?*

ANSWER: Using the tax filer rule, Denise's household includes herself. Joe is not in her Medicaid household even though he lives with her because Mark will claim Joe as a dependent. Joe is a tax dependent, but he falls under the exception to the tax dependent rule since he's being claimed as a dependent by a non-custodial parent. Therefore, Medicaid applies the non-filer rule, and Joe's household includes himself and Denise. Mark's household includes himself and Joe, whom he claims as a dependent. Laura's household includes herself.

	Tax Filing Status	Medicaid Household	Medicaid Rule to Apply
Mark	Tax Filer	2 (self, Joe)	Tax filer rule
Denise	Tax Filer	1 (self)	Tax filer rule
Joe	Tax Dependent	2 (self, Denise)	Non-filer rule
Laura	Tax Filer	1 (self)	Tax filer rule

How do Premium Tax Credit and Medicaid Household Rules Compare?

As noted previously, premium tax credit households are defined solely by how people file taxes while Medicaid households take into account people's tax filing situation, their living arrangements, and relationships with members of the household. In many instances, the premium tax credit household will be the same as the Medicaid household, but there will be times when the two programs will calculate different household compositions for the same family. Programmatic differences in how to determine households most commonly arise in cases involving:

- Children being claimed as a tax dependent by a non-custodial parent
- A tax filer who is claiming a person as a Qualifying Relative
- Parents who live together with their child and are unmarried
- Married people who live together and file separate tax returns

In such cases, it's important to remember that the marketplace will always determine Medicaid eligibility first, since eligibility for Medicaid will disqualify someone from premium tax credit eligibility.

TEST YOUR KNOWLEDGE

How Do the Medicaid and Premium Tax Credit Household Rules Compare?

SCENARIO 1: *Janet has a 4-year-old son, Jeremy, who lives with her. However, Janet's ex-husband, Carl, claims Jeremy as a dependent on his tax return. What are the Medicaid and premium tax credit households for each member of the family?*

ANSWER: For Medicaid, Janet and Carl are considered tax filers, so their Medicaid household includes themselves and everyone else in their tax filing unit. This means Janet has a household of one and Carl has a household of two. Jeremy is a tax dependent, but he is being claimed as a tax dependent by his non-custodial dad. Therefore, Medicaid will apply the non-filer rule which means Jeremy's household includes himself and Janet.

For premium tax credits, the households follow the tax unit. Janet's household includes herself. Jeremy and Carl have a household of two, which include themselves. Note that while Jeremy's Medicaid and premium tax credit household size is the same, the people who are included in those households are different.

	Tax Filing Status	Medicaid Household	Medicaid Rule to Apply	Premium Tax Credit Household
Janet	Tax Filer	1 (self)	Tax filer rule	1 (self)
Jeremy	Tax Dependent	2 (self, Janet)	Non-filer rule (exception to tax dependent rule)	2 (self, Carl)
Carl	Tax Filer	2 (self, Jeremy)	Tax filer rule	2 (self, Jeremy)

SCENARIO 2: *Alex and his wife, Rosa, file taxes jointly. They live with and support Alex's mom, Anita, whom they claim as a dependent on their tax return. What are the Medicaid and premium tax credit households for each member of the family?*

ANSWER: Alex and Rosa are tax filers, so their Medicaid household includes themselves and everyone else in their tax filing unit. Anita is a tax dependent, but she is not a child of the tax filer so Medicaid will apply the non-filer rule. Anita's household includes herself.

For premium tax credits, Alex, Rosa and Anita are all in the same household.

	Tax Filing Status	Medicaid Household	Medicaid Rule to Apply	Premium Tax Credit Household
Alex	Tax filer	3 (self, Rosa, and Anita)	Tax filer rule	3 (self, Rosa, Anita)
Rosa	Tax filer	3 (self, Alex, and Anita)	Tax filer rule	3 (self, Alex, Anita)
Anita	Tax dependent	1 (self)	Non-filer rule (exception to tax dependent rule)	3 (self, Alex, Rosa)

TEST YOUR KNOWLEDGE

SCENARIO 3: *Mary and David live together and have a son, Jack. They are not married, so they can't file a joint tax return. Mary files as Single. David files as Head of Household and claims Jack as a dependent. What are the Medicaid and premium tax credit households for each member of the family?*

ANSWER: Using the rule for tax filers, Mary's Medicaid household includes only herself and David's household includes himself and Jack. Jack is a tax dependent but he falls under one of the exceptions because he lives with both his parents who do not file a joint return. Using the non-filer rule, Jack's Medicaid household includes himself and both parents with whom he lives.

For premium tax credits, Mary and David's household remains the same. Jack's premium credit household will be based on his tax filing unit, which includes himself and David.

	Tax Filing Status	Medicaid Household	Medicaid Rule to Apply	Premium Tax Credit Household
Mary	Tax filer	1 (self)	Tax filer rule	1 (self)
David	Tax filer	2 (self, Jack)	Tax filer rule	2 (self, Jack)
Jack	Tax dependent	3 (self, Mary, David)	Non-filer rule (exception to tax dependent rule)	2 (self, David)

SCENARIO 4: *Franz and Helga are married and live together, but they keep their finances separate and they file separate tax returns. What are the Medicaid and premium tax credit households for each member of the family?*

ANSWER: Based on the tax filer rules, Franz and Helga's household includes themselves and everyone else in their tax filing unit. Even though they file taxes separately, Medicaid rules require that married people be included in each other's household regardless of how they file taxes. Therefore, they both have a household of two.

	Tax Filing Status	Medicaid Household	Medicaid Rule to Apply	Premium Tax Credit Household
Franz	Tax filer	2 (self, Helga)	Tax filer rule*	N/A – ineligible due to filing status
Helga	Tax filer	2 (self, Helga)	Tax filer rule*	N/A – ineligible due to filing status

* Medicaid rules also dictate that married people who live together are always counted in each other's household, regardless of whether or not they file a joint tax return.

What Income Counts for Medicaid and Premium Tax Credit Eligibility?

Modified Adjusted Gross Income (MAGI) is the methodology used by all states and the federal government to measure income for most children and non-disabled, non-elderly adults in Medicaid and for all recipients of premium tax credits. The states' previous non-MAGI rules continue to apply to people who are aged or disabled and children in foster care.

While MAGI is used to determine eligibility for both premium tax credits and Medicaid, there are differences in the time period used to count income. Premium tax credit eligibility is based on an annual projection of income, while Medicaid eligibility is based on current monthly income. Figure 6 describes the formula for calculating MAGI. In addition to this calculation, Medicaid excludes from income certain scholarships, awards or fellowship grants used for education purposes and not for living expenses, and certain American Indian and Alaska Native income.

A household's MAGI is the sum of the MAGIs of each family member with a tax filing requirement. If a dependent has a tax filing requirement, the dependent's MAGI is calculated and added to the taxpayer's MAGI to determine the MAGI for the household.

Figure 6:
Formula for Calculating Modified Adjusted Gross Income (MAGI)

Adjusted Gross Income (AGI)
As defined by the IRS, AGI is gross income minus adjustments to income
Line 37
*IRS Form 1040**

+

Non-Taxable Social Security Benefits
Social Security benefits not included in gross income
Line 20a minus 20b
*IRS Form 1040**

+

Tax-Exempt Interest
Interest income that is not subject to federal income tax
Line 8b
*IRS Form 1040**

+

Excluded Foreign Income
Foreign earned income excluded from taxation of individuals who live abroad
*IRS Form 2555**

=

Modified Adjusted Gross Income (MAGI)

* Applicants' most recent tax return can be useful in estimating income if their income has not changed. If a tax return is not available, or if income is different for any reason, the tax return can still be a useful list of what income and adjustments to include.

What Is Gross Income?

All income is taxable, unless it's specifically excluded from taxation. Gross income is all income (earned and unearned) that a person receives during the year before accounting for deductions, exemptions and credits to reduce taxable income and total tax. These income items are listed on the first page of IRS Form 1040. See Tables 3 and 4, based on the IRS Income Quick Reference Guide, for examples of taxable and non-taxable income. For more details on what is taxable versus non-taxable income, consult IRS Publication 17 and IRS Publication 525.

Table 3: Examples of Taxable Income	
Wages, salaries, bonuses, commissions	IRA distributions
Alimony	Jury duty fees
Annuities	Military pay (not exempt from taxation)
Awards	Military pension
Back pay	Notary fees
Breach of contract	Partnership, Estate and S-Corporation income
Business income/Self-employment income	Pensions
Compensation for personal services	Prizes
Debts forgiven	Punitive damage
Director's fees	Railroad retirement—Tier I (portion may be taxable)
Disability benefits (employer-funded)	Railroad retirement—Tier II
Discounts	Refund of state taxes2
Dividends	Rents (gross rent)
Employee awards	Rewards
Employee bonuses	Royalties
Estate and trust income	Severance pay
Farm income	Self-employment
Fees	Non-employee compensation
Gains from sale of property or securities	Social Security benefits (portion may be taxable)
Gambling winnings	Supplemental unemployment benefits
Hobby income	Taxable scholarships and grants
Interest	Tips and gratuities
Interest on life insurance dividends	Unemployment compensation

Table 4: Examples of Non-Taxable Income	
Aid to Families with Dependent Children (AFDC)	Meals and lodging for the convenience of employer
Child support	Payments to the beneficiary of a deceased employee
Damages for physical injury (other than punitive)	Relocation payments
Death payments	Payments in lieu of worker's compensation
Dividends on life insurance	Rental allowance of clergyman
Federal Employees' Compensation Act payments	Sickness and injury payments
Federal income tax refunds	Social Security benefits (portion may not be taxable)
Gifts	Supplemental Security Income (SSI)
Inheritance or bequest	Temporary Assistance for Needy Families (TANF)
Insurance proceeds (Accident, Casualty, Health, Life)	Veterans' benefits
Interest on tax-free securities	Welfare payments (including TANF) and food stamps
Interest on EE/I bonds redeemed for qualified higher education expenses	Worker's compensation and similar payments

Some key things to note in determining income include:

- **Cash income:** Income from work is taxable and must be included in MAGI. A person who receives cash for performing a service is required to track the amount of income they have earned, even if the payer doesn't provide a W-2 or other tax statement. Money earned from temporary, occasional, or "small" jobs, for performing personal services, and cash tips are all included in gross income, such as child care, mowing lawns, cutting hair, shoveling snow, or other work. This income is generally considered "business income," which means that expenses incurred in performing this work can be subtracted before determining gross income. (Expenses cannot be subtracted from wages reported on a W-2.)

- **Projecting and verifying income:** Because the amount of the premium credit is based on a sliding scale, it is important to be as accurate as possible when predicting income in order to get the right amount of credit. Income projections will be simple if a person expects to be in the same job and earning roughly the same amount of money in the year of coverage as he or she did in the previous year. In other situations, such as people who are self-employed and those between jobs, the projecting income will be harder.

  The marketplace will verify income that applicants report by checking IRS and Social Security databases and other wage databases to which it has access. The IRS will provide income from the applicant's last tax filing, which means that often the marketplace is comparing income reported on the application with income that is a few years old. For people whose income has changed or who are self-employed, these numbers are less likely to match the data on file. In some cases, such as people who have not filed taxes in the past, including young adults just entering the work force, the marketplace may not have any information on file. When the income reported on the application does not match the IRS and other information or no information is available, the applicant may be asked to provide additional information to verify his or her income. While this information is being provided, advance payments of the premium credit will be granted based on the applicant's attestation.

- **Pre-tax deductions:** MAGI excludes tax-deferred deductions, such as retirement savings accounts (401(k), 403(b), 457 plans), and pre-tax deductions, such as the employee's share of employer-sponsored health insurance, flexible spending accounts for health care or dependent care, and public transportation or parking benefits. If applicants' projected income and deductions are similar to the previous year, Box 1 of their most recent W-2 or their wages reported on Line 7 of the Form 1040 should be used to determine the amount of their earnings that should be included.

- **Business income:** People who earn money from work that is not reported on a W-2 often must report this income as "business income," whether or not they consider themselves to be business owners. This includes people who are paid as independent contractors (reported on a Form 1099 MISC), are self-employed, or receive cash income.

  Projecting future business income may be challenging. If income is highly uncertain, it is useful to ask the applicant whether the previous year's income is an accurate starting point for the projection and then consider any likely changes to that income. It's important that applicants know what income they projected and that they must track their earnings throughout the year to determine whether they are on target to meet their projections; if not, they should report changes in their income to the marketplace.

  People with business income may deduct certain business expenses, such as supplies, mileage (not including commuting expenses), rent, professional licensing fees, and travel.

What Adjustments (Deductions) Can Be Made From Gross Income?

Allowable income adjustments are those listed on the bottom half of the first page of Form 1040. Some adjustments are rare or have very low dollar limits. For example, unreimbursed classroom expenses paid by a teacher (educator expenses) may be deducted but the deduction is limited to $250 per teacher per year. Among the most common adjustments are:

- **Moving expenses:** Moving expenses may only be deducted if the taxpayer moved due to a change of employment or business location or to start a new business. There are also requirements for the distance and timing of the move relative to starting the new job.

- **IRA contributions:** A contribution to a traditional IRA (not a Roth IRA) may be deductible depending on household income and whether the taxpayer or his or her spouse was offered coverage under an employer retirement plan. In any case, the maximum IRA deduction is $5,500 ($6,500 if over age 50), or twice that amount if Married Filing Jointly. Consult IRS Publication 17, Tables 17-1 and 17-2 for more information about income limits for this deduction.

- **Student loan interest:** The deduction of student loan interest is capped at $2,500 per year. It phases out based on income, but the phase out occurs at income that is generally above 400 percent of the federal poverty level, so the phase-out is irrelevant for calculation of MAGI.

- **Tuition and fees:** Generally, this deduction is available for taxpayers who paid tuition and other required fees for attending college or any post-

ASSISTERS TIP

When in doubt, leave it out!

Some adjustments, like alimony paid or contributions to a traditional IRA, may be safe adjustments if those items were properly claimed in the past. Others, such as work-related moving expenses, are not as easy to predict. Unless a taxpayer is very confident he or she will have such a deduction, consider not projecting adjustments. By not factoring in adjustments, the taxpayer will slightly over-estimate income; while this results in a lower advance credit, it also provides a margin for error in the income projection.

secondary school for themselves, their spouse, or their dependents. The maximum amount of the tuition and fees deduction that can be claimed is $4,000 per year. This deduction is not available for married couples who file separate tax returns. Note that many taxpayers with tuition expenses choose to take either the American Opportunity or Lifetime Learning credits instead of this deduction because in many cases, a tax credit may be more valuable. Therefore, an assister should not assume that every family with tuition expenses should take an adjustment to income. For more details on this deduction, see IRS Publication 970.

As noted, most of the adjustments are capped or are available only to taxpayers within certain income limits. Consult IRS Publication 17 for specific information on qualifications for these adjustments.

When Should a Tax Dependent's Income Be Counted?

Premium tax credit and Medicaid rules require a tax dependent's income to be included in the household income if the tax dependent is *required* to file a tax return. Sometimes, a dependent files a tax return even though he or she is not required to do so — for example, to get a refund of taxes withheld from his or her paycheck. In this situation, the dependent's income would not be counted. A dependent's income is counted only when he or she is required to file a tax return. See Table 2 to review when a dependent is required to file a tax return.

In general, individuals claimed as dependents on someone else's tax return must file taxes if they receive at least $6,100 in earned or $1,000 in unearned income (for 2013 tax year). Note that Supplemental Security Income or Social Security benefits are not counted for the purposes of determining whether a dependent will be required to file a tax return. However, if the dependent does have a tax filing requirement, then Social Security benefits will be counted toward the household's MAGI.

TEST YOUR KNOWLEDGE

What Sources of Income Are Counted for Premium Tax Credits and Medicaid

SCENARIO 1: *Meg files taxes and claims her 17-year-old daughter, Christine, as a tax dependent. Meg's annual income is $30,000. She also receives $12,000 in child support from her ex-husband. Christine has a part-time job and makes $3,000 a year. What is Meg and Christine's MAGI?*

ANSWER: Meg and Christine's MAGI is $30,000. The child support that Meg receives is not taxable, and therefore not counted as income under MAGI rules. Christine doesn't have a tax filing requirement and therefore her income isn't included in the household's MAGI.

SCENARIO 2: *The same facts as in Scenario 1, except that Christine also receives $1,100 in dividends from an investment account that her grandparents set up for her. What is Meg and Christine's MAGI?*

ANSWER: Meg and Christine's MAGI is $34,100. The child support that Meg receives is still not taxable, and therefore not counted. Because Christine received more than $1,000 in unearned income, she is now required to file a tax return. That means that the $3,000 that she earns from her job, and the $1,100 that she received in dividends will be added to the $30,000 that Meg earns in determining the household MAGI.

SCENARIO 3: *The same facts as in Scenario 1, except that instead of child support, Christine receives $10,000 in Social Security survivor's benefits. What is Meg and Christine's MAGI?*

ANSWER: Meg and Christine's MAGI is $30,000. Social Security benefits in the child's name are not counted in determining whether Christine has a tax filing requirement. Her income from her part-time job is not enough to trigger a tax filing requirement. Since she doesn't have to file taxes, none of her income is counted toward the household's MAGI.

SCENARIO 4: *The same facts as in Scenario 1, except that instead of child support, Christine receives $10,000 in Social Security survivor's benefits. In addition, Christine receives $1,100 in dividends from an investment account that her grandparents set up for her.*
What is Meg and Christine's MAGI?

ANSWER: Meg and Christine's MAGI is $44,100. All income received by both Meg and Christine is counted toward their household's MAGI. Because Christine receives more than $1,000 in unearned income, she now has a tax filing requirement. And because she has a tax filing requirement, her Social Security benefits are now counted toward her MAGI.