

State Health Reform Assistance Network

Charting the Road to Coverage

ISSUE BRIEF
February 2014

Consumer Assistance Resource Guide: MAGI Household Income Eligibility Rules

Prepared by *Manatt Health Solutions*

Early evidence from across the nation suggests that consumer assisters are playing a vital role in helping people enroll in the new coverage options made possible by the Affordable Care Act. The State Health Reform Assistance Network has engaged with a number of states to develop easy to understand materials to educate consumer assisters about various issues that may confuse consumers and the assisters trying to help them during the eligibility determination and enrollment process. The following resource guide on MAGI Household Income Eligibility Rules is part of a [series](#) developed to help consumer assisters answer some of the most common eligibility and enrollment questions.

MAGI Household Income Eligibility Rules

To be eligible for an Insurance Affordability Program (IAP)—Medicaid, CHIP or Advance Premium Tax Credits and Cost-Sharing Reductions—an applicant's income must be below a certain eligibility level. Modified Adjusted Gross Income (MAGI) rules—primarily based on federal tax rules—are used to calculate income eligibility when an individual is applying for an IAP. This guide explains the types of income included and excluded when determining eligibility.

ABOUT STATE NETWORK

State Health Reform Assistance Network, a program of the Robert Wood Johnson Foundation, provides in-depth technical support to states to maximize coverage gains as they implement key provisions of the Affordable Care Act. The program is managed by the Woodrow Wilson School of Public and International Affairs at Princeton University. For more information, visit www.statenetwork.org.

ABOUT MANATT HEALTH SOLUTIONS

Manatt Health Solutions (MHS) is an interdisciplinary policy and business advisory division of Manatt, Phelps & Phillips, LLP, one of the nation's premier law and consulting firms. MHS helps clients develop and implement strategies to address their greatest challenges, improve performance and position themselves for long-term sustainability and growth. For more information visit www.manatt.com/manatthealthsolutions.aspx.

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Consumer Assistance Resource Guide

Household Income



February 2014

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Income Eligibility 101

To find out if an individual is eligible for Medicaid, CHIP or Advance Premium Tax Credits and Cost-Sharing Reductions through the Marketplace, the first step is to determine the applicant's household size.

After determining household size, the next step is to calculate income to assess income eligibility. Modified Adjusted Gross Income (MAGI) rules—based on federal tax rules—are used to calculate income for all coverage programs.

Generally, the MAGI rules for all coverage options are aligned but there are some differences between Medicaid/CHIP and Advance Premium Tax Credits and Cost-Sharing Reductions. MAGI rules do not apply for certain populations applying for coverage including the aged, blind, disabled or foster children.

The Income Rules Explained

Whose Income is Counted?

- Generally, MAGI income of all individuals in a household is counted toward household income. The “Household Composition” Resource Guide reviews how to calculate an individual's household.
- EXCEPTION for Medicaid/CHIP: MAGI does not count income for children living with parents or other tax dependents who are not expected to be required to file a tax return.

What Types of Income Count?

- MAGI income includes taxable income, Social Security benefits not included in taxable income, tax-exempt interest and foreign earned income.
- For most people, wages and salaries are the majority of taxable income. Taxable income also includes income from other sources, such as unemployment benefits, alimony received, taxable interest, rental income and capital gains.
- EXCEPTIONS for Medicaid/CHIP:
 - Lump sum payments (such as gifts, prizes and tax refunds) count only in the month received.
 - Scholarships, awards or fellowships used for educational purposes do not count, even if they are taxable.
 - Certain types of American Indian/Alaska Native income (such as tribal land payments) are not countable income.
 - In some states, cash support provided to a tax dependent by someone who is not the parent or step-parent of that tax dependent is countable income. Page 2

The Income Rules Explained

What Types of Income Do Not Count?

- Sources of income that are not taxable are not countable income. This includes income from government cash assistance, Supplemental Security Income (SSI), veteran's benefits, inheritance, child support and certain other income sources.



Countable Income

Taxable wages/salary (before taxes are taken out)

Self-employment (profit once business expenses are paid)

Social Security benefits

Unemployment benefits

Alimony received

Most retirement benefits

Interest (including tax-exempt interest)

Net capital gains (profit after subtracting capital losses)

Most investment income, such as interest and dividends

Rental or royalty income (profit after subtracting costs)

Other taxable income, such as canceled debts, court awards, jury duty pay not given to an employer, cash support, and gambling, prizes or awards

Foreign earned income



Not Countable Income

Temporary Assistance for Needy Families (TANF) and other government cash assistance

Supplemental Security Income (SSI)

Child support received

Veterans benefits

Worker's compensation payments

Proceeds from life insurance, accident insurance or health insurance

Federal tax credits and federal income tax refunds

Gifts and loans

Inheritances

What is the Income Budget Period?

- The Marketplace looks at the household's projected annual income for determining tax credits and Cost-Sharing Reductions.
- Medicaid/CHIP looks at the household's current monthly income.
- Application requests information on both projected annual income and current monthly income.

The Income Rules Explained

What is an Income Deduction?

- People make adjustments or “deductions” to their income when they file taxes.
- Tax adjustments must be subtracted from an individual’s taxable income.
- A list of these adjustments can be found on lines 23 to 35 of the IRS 1040 Form.
- There is a field on the application to list a person’s deductions.

Common Tax Adjustments or “Deductions:”

Certain self-employment business expenses

Alimony paid

Portion of interest on student loans

Most contributions to individual retirement arrangements (IRAs)

Certain tuition and fees

Penalties on the early withdrawal of savings

Certain educator expenses

Certain moving expenses related to a job change

Certain business expenses of performing artists, reservists and fee-basis government officials

Health savings account contributions

How to Determine a Family’s Income?

- The Marketplace application includes specific questions that guide the construction of the household’s MAGI.
- You may also use a prior year’s federal tax return, but it is not required. A tax return can be used under the following circumstances: the applicant wants to use it; the tax return is available; income has not changed since the return was filed; and income is steady month-to-month.

Addressing the More Complicated Issues

What Happens if Someone's Income Changes During the Year?

- Applicants should do their best to accurately project their annual income, including predictable changes in their future income, such as a gain/termination of employment or income from seasonal work.
 - There is a field on the application for each person's expected income for the year. The Marketplace verifies the income information consumers provide against state and federal data sources.
 - If a change in the income occurs, consumers should immediately report the change. This ensures they get the right amount of assistance and reduces the chance they will have a tax liability at the end of the year if they receive Advance Premium Tax Credits.
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What Happens if Someone Had Significant Income Last Year But is Now Unemployed?

- Last year's income does not need to be explained on the application. The budget period for tax credits is projected annual income and for Medicaid it is current monthly income.
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Where Can Someone Find MAGI on Their Tax Form?

- MAGI is not a number on the tax form. However, you can use a prior year's tax form to get information on taxable income and deductions that will help you calculate MAGI as described in this guide.
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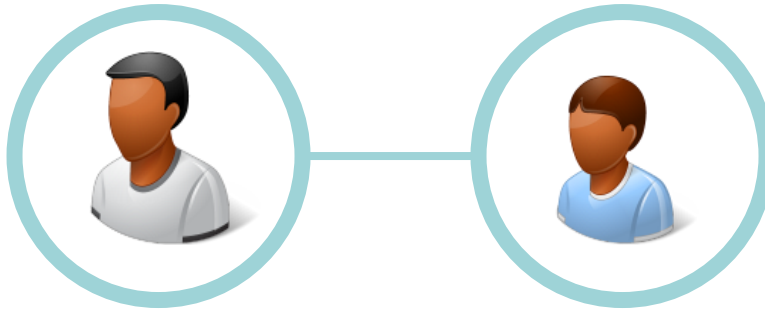
What Happens if Someone Does Not File Taxes?

- Applicants are not required to file taxes to be eligible for Medicaid/CHIP.
- Applicants must expect to file taxes to be eligible for tax credits or Cost-Sharing Reductions.

Let's See How it Works

Scenario 1: Counting Joe's Income

Meet Joe and Jessie: Joe, age 52, claims his son, Jessie, age 20, as a tax dependent. Joe earns \$800 a month in wages and receives \$200 a month in veteran's benefits. Jessie receives \$600 a month in SSI payments.



Joe earns \$800/month in wages and receives \$200/month in veteran's benefits

Jessie receives \$600/month in SSI payments



Joe plans to file taxes. Jessie is not expected to file a tax return.



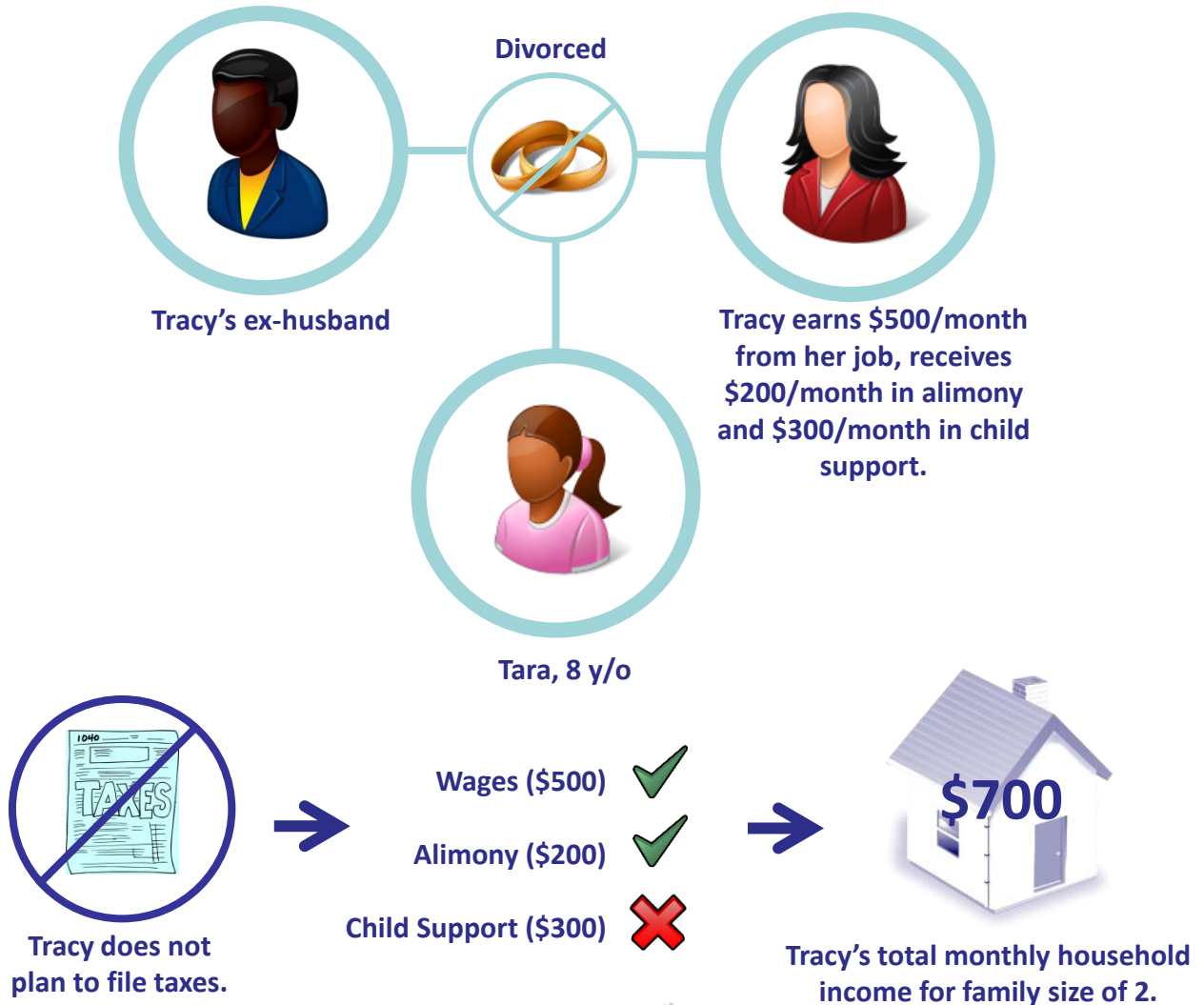
Joe's total monthly household income for a family size of 2.

- Joe's veteran's benefits do not count as income, but his wages do.
- SSI is not countable income, so Jessie's income does not count in Joe's household.
- Even if SSI was countable, Jessie's income would not count in Joe's household because Jessie is not expected to be required to file a tax return.
- Joe's monthly income for a household of two is \$800.

Let's See How it Works

Scenario 2: Counting Tracy and Tara's Income

Meet Tara and Tracy: Tracy, age 42, does not plan to file taxes and lives with her daughter, Tara, age 8. Tracy earns \$500 a month from her job, receives \$200 a month in alimony from her ex-husband and \$300 a month in child support payments.



- Child support is not countable income. Tracy and Tara's monthly income for a household size of two is \$700.
- Because Tracy does not plan to file taxes, Tara and Tracy do not qualify for tax credits but may qualify for Medicaid.