7.10 INCOME

MODIFIED ADJUSTED GROSS INCOME (MAGI) METHODOLOGY

The Patient Protection and Affordable Care Act, enacted March 23, 2010, amended by the Health Care and Education Reconciliation Act of 2010, enacted March 30, 2010, are together referred to as the Affordable Care Act. The Affordable Care Act required a new methodology for determining how income is counted and how household composition and size are determined when establishing financial eligibility for all three Insurance Affordability Programs (IAP) - Medicaid, CHIP and Advance Premium Tax Credits (APTC) through the Exchange.

MAGI methodologies apply to individuals whose eligibility for Medicaid and WV CHIP is determined for coverage effective on or after January 1, 2014.

NOTE: West Virginia received an 1115 waiver to begin using MAGI methodologies to determine eligibility for populations subject to MAGI beginning with applications submitted on or after October 1, 2013, and for any retroactive coverage months requested on applications submitted on or after October 1, 2013.

MAGI methodologies will not be applied to current beneficiaries who were determined eligible for Medicaid or WV CHIP on or before December 31, 2013 until March 31, 2014 or the next regularly-scheduled renewal, or a change is reported of eligibility for such individual, whichever is later.

NOTE: West Virginia received a waiver under section 1902e(14)(A) of the Social Security Act to allow the state to extend the renewal date 6 months for current Medicaid and WV CHIP beneficiaries whose renewal is scheduled to occur between October 1, 2013 and September 30, 2014.

MAGI Methodology is used to determine financial eligibility for WV CHIP and the following Medicaid eligibility groups:

- Parents and Other Caretaker Relatives;
- Pregnant Women;
- Children Under 19;
- Adult Group;

A. BUDGETING METHOD

The budgeting method established in Section 10.6 is used to determine income for the certification period.

B. DETERMINE THE MAGI HOUSEHOLD SIZE FOR EACH APPLICANT

To determine the MAGI household size the following step-by-step methodology is used for each applicant. For purposes of applying the MAGI methodology child means natural, adopted or step child; parent means natural, adopted or step parent; sibling means natural, adopted, half or step sibling.

This methodology must be applied to each applicant in the MAGI household separately:

STEP 1: IS THE APPLICANT A TAX FILER?

IF NO: Move to **STEP 2**.

IF YES: The applicant's MAGI household includes themselves, each individual they expect to claim as a tax dependent, and their spouse if residing with the tax filer. This is known as the tax filer rule.

STEP 2: IS THE APPLICANT CLAIMED AS A TAX DEPENDENT ON SOMEONE ELSE'S TAXES?

IF NO: Move to **STEP 3**.

IF YES: Test against the three exceptions below. If the answer to any of these exceptions is 'yes', then the applicant's MAGI household size must be calculated using **STEP 3.**

1. The applicant is claimed as a dependent by someone other than a spouse or parent.
2. The applicant is a child under 19 who lives with both parents, but both parents do not expect to file taxes jointly.
3. The applicant is a child under 19 who is claimed as a tax dependent to a non-custodial parent(s).

NOTE: For the purpose of this exception, the custodial parent is established based on physical custody specified in a court order or binding separation, divorce, or custody agreement; or, if there is nosuch order or agreement, or in the event of a shared custody agreement, based on with whom the child spends more nights. If such an agreement is unavailable, the custodial parent is the one with whom the applicant spends most nights.

If none of these exceptions are true then the applicant's Medicaid household consists of the applicant, the tax filer claiming them as a dependent, **this could be two people filing jointly,** any other dependents in the tax filer's household, and the applicant's spouse if they reside together. This is known as the tax dependent rule.

STEP 3: IF THE APPLICANT IS NOT A TAX FILER, IS NOT CLAIMED AS A TAX DEPENDENT OR MEETS ONE OF THE EXCEPTIONS IN **STEP 2**:

The Medicaid household consists of the applicant and the following individuals as long as they reside with the applicant:

1. The applicant's spouse;
2. The applicant's children under age 19;
3. For applicants under 19, their parents, and their siblings who are also under 19.

This is known as the non-filer rule.

STEP 4: CASES WHERE APPLICANT CANNOT REASONABLY ESTABLISH TAX DEPENDENT STATUS

If an applicant/tax filer cannot reasonably establish that reported household members will be tax dependents of the applicant for the tax year in which Medicaid is sought, the inclusion of such individual in the MAGI household of the tax filer is determined using rules in **STEP 3**.

EXAMPLE: An applicant indicates she is currently separated and seeking a divorce. The living arrangements of the children are to be determined by family court. She is uncertain if the children will remain in her household for the tax year, or whether she will be able to claim them as tax dependents on next year's tax return. Because the tax dependency status of the children cannot be reasonably established on the date of application, inclusion of the children in the applicant's MAGI household is determined using STEP 3.

NOTE: In the case of married couples who reside together, each spouse must be included in the MAGI household of the other spouse, regardless of whether they expect to file a joint tax return or whether one spouse expects to be claimed as a tax dependent by the other spouse.

NOTE: For the WV CHIP MAGI household, a pregnant woman is counted as herself, plus the number of unborn children she is expected to deliver.

<u>EXAMPLES</u>: (Same as Chapter 9)

1. John and Samantha are married with 2 children, James, 7 and Ruth, 5. John and Samantha file taxes jointly and claim both children as dependents.

John is a tax filer. Using STEP 1 above his household includes himself, each of his tax dependents and his spouse – John, Samantha, James and Ruth = 4.

Samantha is a joint tax filer. Using STEP 1 above, her household includes herself, each of her tax dependents and her spouse – John, Samantha, James and Ruth = 4.

James is a tax dependent. Using STEP 2 he does not meet any of the exceptions. James' household includes himself, the tax filers and other tax dependents – John, Samantha, James and Ruth = 4.

Ruth is a tax dependent. Using STEP 2, she does not meet any of the exceptions; therefore, her household includes herself, her tax filers and other tax dependents in the household – John, Samantha, James and Ruth = 4.

2. Bob and Mary are not married but have one child together, Julie, 9 months. Bob is a tax filer and claims Julie as his dependent. Mary is also a tax filer.

Bob is a tax filer. Using STEP 1 above his household includes himself and his tax dependent Julie – Bob and Julie = 2.

Mary is a tax filer. Using STEP 1 her household includes herself only – Mary = 1.

Julie is a tax dependent. Using STEP 2 Julie meets exception number 2; therefore her household is determined using STEP 3. Julie's household includes herself and her parents – Julie, Bob and Mary = 3.

3. **Frank is a tax filer and claims his 10-year-old son Pete as a tax dependent. Frank is the non-custodial parent as Pete lives with his mother.**

Frank is a tax filer. Using STEP 1 his household includes himself and his tax dependent Pete – Frank and Pete = 2.
Pete is a tax dependent. Using STEP 2 he meets exception 3; therefore his household is determined using STEP 3. Pete's household includes himself and the parent and any siblings with whom he resides. Pete's Medicaid household cannot be determined based on an application submitted by Frank. The parent with whom Pete resides must submit an application on his behalf.

4. **Susan is a tax filer who lives with her 10 year old son Pete. Pete is claimed as a tax dependent by Frank from the example above, his non-custodial parent.**

Susan is a tax filer. Using STEP 1 her household includes herself only – Susan = 1.

Pete is a tax dependent. Using STEP 2 he meets exception 3; therefore, his household includes himself and his custodial parent Susan – Pete and Susan = 2.

5. **Tammy is a tax filer and claims her daughter Rose, 16 and her mother Edith, 76 as tax dependents. Neither Rose nor Edith is a tax filer.**

Tammy is a tax filer. Using STEP 1 her household includes herself and her tax dependents Rose and Edith – Tammy, Rose and Edith = 3.

Rose is a tax dependent. Using STEP 2 she does not meet any exceptions; therefore her household includes herself, Tammy, the tax filer claiming her, and Edith the other tax dependent – Rose, Tammy and Edith = 3.

Edith is a tax dependent. Using STEP 2 she meets exception 1; therefore her household is determined using STEP 3. Edith's household includes herself = 1.

6. **Mary is a tax filer and claims her daughter Corynn, 20 and Corynn's daughter Nicole, 1 as tax dependents. Neither Corynn nor Nicole is a tax filer.**

Mary is a tax filer. Using STEP 1 her household includes herself and her tax dependents Corynn and Nicole – Mary and Corynn and Nicole = 3.

Corynn is a tax dependent. Using STEP 2 she does not meet any exceptions; therefore her household includes herself, Mary, the tax filer claiming her, and Nicole, the other tax dependent – Corynn and Mary and Nicole = 3.
Nicole is a tax dependent. Using STEP 2 she meets exception 1; therefore her household is determined using STEP 3. Nicole's household includes herself and her mother Corynn – Nicole and Corynn = 2.

7. **Alice is a tax filer and claims her 12 year old grandson Michael as a tax dependent.**

Alice is a tax filer. Using STEP 1 her household includes herself and her tax dependent Michael – Alice and Michael = 2.

Michael is a tax dependent. Using STEP 2 he meets exception 1; therefore his household is determined using STEP 3. Michaels household includes only himself = 1.

8. **Brad and Sarah are married and file taxes jointly. Sarah is pregnant.**

Brad is a tax filer. Using STEP 1 his household includes himself and his spouse – Brad and Sarah = 2.

Sarah is a tax filer. Using STEP 1 her household includes herself and her spouse Brad, because Sarah is pregnant her Medicaid household also includes the unborn child – Brad and Sarah and unborn child = 3.

C. DETERMINE THE MAGI HOUSEHOLD INCOME FOR EACH HOUSEHOLD

MAGI household income is the sum of the MAGI-based income of every individual included in the individual's MAGI household. The MAGI household is determined using the MAGI methodology established in Item B above. For purposes of applying the MAGI methodology child means natural, adopted or step child; parent means natural, adopted or step parent; sibling means natural, adopted, half or step sibling.

- INCOME OF EACH MEMBER OF THE INDIVIDUAL'S MAGI HOUSEHOLD IS COUNTED.

  EXCEPTION: Income of children, or other tax dependents, who are not expected to be required to file an income tax return is not counted, whether or not the individual actually files a tax return.

NOTE: A reasonable determination as to whether an individual will be required to file a tax return can be made based on the individual's current income for the applicable budget period. Such a determination would be based on information available at the time of application or renewal. Information regarding "Who Must File" a tax return can be found in IRS Publication 501.

EXAMPLE: A child is 17 years old with a part-time job in the summer and earns $2,100 annually. He is expected to be claimed as a dependent on his parent's tax return. It is determined at application that the child is not expected to be required to file taxes the following year because his income does not exceed the filing requirements established by the IRS. Therefore, the child's income will NOT be included in the MAGI household nor count toward eligibility whether he actually files taxes or not.

EXAMPLE: A child is 18 years old and works part-time through the summer and after school. He earns $7,200 for the year. It is determined at application that he is expected to be claimed as a dependent on his parent's tax return, and will be required to file an income tax return for the year in which Medicaid is being sought. Therefore, this child's income WILL be included for determining eligibility for any MAGI household for which he is a member.

EXAMPLE: Hope is 60 years old and lives with her 40-year-old daughter. Hope will be claimed as a tax dependent on her daughter's taxes next year. Hope receives $960 Social Security income per month, she has no other income. Because Hope has no other income, her SS income is not taxable and she is not required to file taxes. As her daughter's tax dependent, her income does not count toward her daughter's MAGI household. Hope is also applying for health coverage. Her MAGI household will include only herself using non-filer rules in STEP 3 below. Because Hope is neither a child nor a tax dependent in her own MAGI household, her income will count toward determining her MAGI eligibility.

D. CALCULATING MAGI

To calculate the MAGI determine the AGI (Adjusted Gross Income) figure for each member of the MAGI household whose income will count, for the current month. When applicable, the worker will use the budgeting method established in Section 10.6, part B, titled “Budgeting Method”, to anticipate future income amounts, consider past income sources, and build monthly income amounts based upon the applicant’s reported income.

To calculate AGI, the worker must add all of the individual’s income from any of the income sources listed in Section 10.3, Chart 2.

1. Exclusions from AGI:

The following income sources, which may or may not be considered taxable by the IRS, must be excluded from the individual’s income:

a. Child support income

b. Benefits issued through the Department of Veterans’ Affairs

c. Workers’ Compensation Payments

d. Scholarships, awards, or fellowship grants used for education purposes and not for typical living expenses is excluded from income.

- College Work Study program is considered taxable income under IRS rules and therefore cannot be excluded from the MAGI calculation.

e. Income sources specific to Native American and Alaskan Natives:

- Distributions from Alaska Native Corporations and Settlement Trusts;

- Distributions from any property held in trust, subject to Federal restrictions, located within the most recent boundaries of a prior Federal reservation, or otherwise under the supervision of the Secretary of the Interior;

- Distributions and payments from rents, leases, rights of way, royalties, usage rights, or natural resource extraction and harvest from—

  - Rights of ownership or possession in any lands described in paragraph (3)(b) of this section; or

- Federally protected rights regarding off-reservation hunting, fishing, gathering, or usage of natural resources;

f. Supplemental Security Income (SSI)

g. TANF assistance.

h. Federal tax credits.

2. Adjustments to AGI:

The following items, which can be deducted from taxes, are subtracted from the individuals AGI.

a. Educator expenses

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

c. Health savings account deduction

d. Moving expenses

e. Deductible part of self-employment tax

f. Self-employed SEP, SIMPLE, and qualified plans

g. Self-employed health insurance deduction

h. Penalty on early withdrawal of savings

i. Alimony paid

j. IRA deduction

k. Student loan interest deduction

l. Tuition and fees

3. Required Additions to AGI:

To complete the calculation of MAGI for the individual, add the following income sources that may or may not be considered taxable by the Internal Revenue Service (IRS):

a. Foreign earned income and housing cost as defined in 26 USC §911

b Any interest received that would normally be excluded from taxes

c. The portion of the individual's Title II Social Security benefits typically excluded from taxation, as described in 26 USC §86(d).

d. Self-Employment/Farming income, after accounting for depreciation and operating losses. In cases where the business or farm operated at a loss, the worker must subtract the amount of the loss from the income calculation. See the methodology established in 10.8,G,1 for calculating self-employment income.

e. **Cash Support if over $50 per month. For individuals who expect to be claimed as a tax dependent by a grandparent, another relative, or another individual who is not a parent or step-parent, their household income includes cash support provided by the person claiming them as a tax dependent.**

f. Lump Sum Income must be included, but it must only be counted in the month that it is received.

E. MAGI INCOME DISREGARD

The only allowable income disregard is an amount equivalent to 5 percent of the applicable MAGI income when countable income exceeds the FPL limit for WV CHIP eligibility.

The 5% FPL disregard is not applied to every MAGI eligibility determination and should not be used to determine the MAGI coverage group for which an individual may be eligible. The 5% FPL disregard will be applied to the highest MAGI income limit for which an individual may be determined eligible.

EXAMPLE: A WV CHIP applicant has MAGI household income of 216% FPL. The 5% MAGI income disregard will not be applied because the highest income limit of any WV CHIP enrollment group for which the child may be eligible is 300% FPL. If the WV CHIP applicant's income is 305% FPL, then the 5% MAGI income disregard would be applied to bring the child's household income to below 300% FPL. WV CHIP coverage is approved.

F. DETERMINING ELIGIBILITY

The applicant's household income must be at or below the applicable modified adjusted gross income standard for the MAGI coverage groups.