

DEPARTMENT OF HEALTH SERVICES

714/744 P Street
P.O. Box 942732
Sacramento, CA 94234-7320
(916) 657-0258



August 27, 2001

TO: All County Welfare Directors
All County Administrative Officers
All County Medi-Cal Program Specialists/Liaisons
All County Mental Health Directors
All County Health Executives

Letter No.: 01-50

INCOME SIMPLIFICATION

Ref.: ACWDL 00-31 and Errata to 00-31E: Elimination of Face-to-Face Interview at Application

The purpose of this letter is to further standardize all income documentation rules between Medi-Cal and Healthy Families to include the use of federal 1040 forms.

Use of Income Tax Form

Effective November 1, 2001, the following income verification changes shall be implemented for all individuals/families applying for Medi-Cal.

A copy of the previous year's federal income tax return (IRS 1040 and/or 1040EZ) is acceptable verification of income if the income tax return reflects the income reported on the application (see examples). This change extends the option of using the federal income tax form to salaried and/or wage-earning employees, and those who receive unearned income. Please note that income reported on the tax return that is no longer being received is not counted. CWD shall compute benefits based on the tax return provided unless there is a discrepancy. Then current information shall be requested and used to determine eligibility.

- If an applicant submits his/her previous year's tax return to verify income, use only the positive gross amount before taxes are applied in the Income Section (Lines 1–21) of the federal tax return (Enclosure 1). Any negative amount showing in the income section of the tax return shall be treated as zero. The sum of all positive amounts shall be divided by 12. The result is the averaged monthly gross income. This gross income is treated in accordance with existing Medi-Cal regulations based upon the type of income being reported.
- When the individual is reporting self-employment income, then Schedule C or F shall be used to determine the appropriate amount.

EXAMPLES:

1. Elaine applies for Medi-Cal on November 5th. She reports a job that she has had for several years and that she receives alimony checks. Her only verification of income is the previous year's tax return. This is acceptable income verification as long as it reflects the amount reported on the application. Her application indicates that she earns \$2,000 per month and receives \$165 per month in alimony. Therefore, her tax return is used to compute eligibility as follows: Line 7 of her 1040 shows \$24,000 in wages and line 11 of the 1040 shows she received \$2,000 in alimony. By dividing each line by 12, her gross earnings will be \$2,000 per month, and her gross unearned income will be \$166.66.
2. Jerry applies for Medi-Cal but does not have any pay stubs because he does not save them. He provides his previous year's tax return. This is acceptable income verification as long as it reflects the amount reported on the application. His application indicates that he currently earns \$4,000 per month. He has been working steadily since his unemployment stopped in January of last year. Therefore, his tax return is used to compute eligibility as follows: Line 1 shows gross wages are \$46,000 and Line 19 shows unemployment compensation of \$200. His gross income will be computed by dividing Line 1 by 11 (the number of months he had earnings) equaling \$4,181.81 per month. However, as the unemployment benefits have stopped they will not be counted towards determining his Medi-Cal share of cost.

Self- Employment Income Clarification

The treatment of self-employment income remains the same (Medi-Cal Procedures Manual Article 10M). To determine the countable income using the Federal tax returns:

- Take the gross income from Schedule C/F of the previous year's Federal Income Tax return.
- Subtract allowable self-employment income expenses and divide by 12.
- The following deductions are allowed:
 - Transportation costs to call on customers or deliver goods.
 - Interest paid on loans for capital assets or durable goods.
 - Rent paid for space or equipment.
 - Wages and other benefits paid to employees.
 - Costs of materials and supplies.
 - Costs of maintenance and repairs.

- Other income deductions such as the standard work deduction, childcare allowance, medical expenses paid, etc. are applied after determining net self-employment income.
- The following expenses cannot be used in determining net self-employment income for Medi-Cal:
 - Personal expenses such as income tax payments, lunches, and transportation to and from work.
 - Entertainment costs.
 - Depreciation.
 - Expenditures for purchase of capital equipment.
 - Payments on the principal of loans for capital assets or durable goods.

Income Verification and Documentation Matrix (Enclosure 2)

This chart is provided to assist counties in determining the appropriate verification by program for the various types of income reported.

If you have any questions or comments regarding this policy and the current change, please contact Ms. Nancy Forrest at (916) 657-0619. For question regarding the treatment of self-employment income or applicable deductions, please contact Mr. Dave Rappoiee at (916) 657-0163.

Sincerely,

ORIGINAL SIGNED BY
Shar Schroepfer, Chief
Medi-Cal Eligibility Branch

Enclosures

Form 1040 Department of the Treasury—Internal Revenue Service **2000** U.S. Individual Income Tax Return

For the year Jan. 1-Dec. 31, 2000, or other tax year beginning 2000, ending 20 OMB No. 1545-0044

Label (See instructions on page 19.) Use the IRS label. Otherwise, please print or type.

Your first name and initial Last name Your social security number

If a joint return, spouse's first name and initial Last name Spouse's social security number

Home address (number and street) if you have a P.O. box, see page 19. Apt. no.

City, town or post office, state, and ZIP code, if you have a foreign address, see page 19.

Important! You must enter your SSN(s) above.

Presidential Election Campaign (See page 19.) Do you, or your spouse if filing a joint return, want \$3 to go to this fund? You Yes No Spouse Yes No

Filing Status Check only one box.

1 Single

2 Married filing joint return (even if only one had income)

3 Married filing separate return. Enter spouse's social security no. above and full name here.

4 Head of household (with qualifying person) (See page 19.) If the qualifying person is a child but not your dependent, enter this child's name here.

5 Qualifying widow(er) with dependent child (your spouse died) (See page 19.)

Exemptions

6a Yourself, if your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a.

b Spouse

c **Dependents:**

| (1) First name | Last name | (2) Dependent's social security number | (3) Dependent's relationship to you | (4) <input checked="" type="checkbox"/> If qualifying for child tax credit (see page 25) |
|----------------|-----------|----------------------------------------|-------------------------------------|------------------------------------------------------------------------------------------|
| | | | | <input type="checkbox"/> |
| | | | | <input type="checkbox"/> |
| | | | | <input type="checkbox"/> |
| | | | | <input type="checkbox"/> |
| | | | | <input type="checkbox"/> |

If more than six dependents, see page 20.

d Total number of exemptions claimed

Income

7 Wages, salaries, tips, etc. Attach Form(s) W-2 7

8a Taxable interest. Attach Schedule B if required. 8a

b Tax-exempt interest. Do not include on line 8a. 8b

9 Ordinary dividends. Attach Schedule B, if required. 9

10 Taxable refunds, credits, or offsets of state and local income taxes (see page 22). 10

11 Alimony received. 11

12 Business income or (loss). Attach Schedule C or C-EZ. 12

13 Capital gain or (loss). Attach Schedule D if required. If not required, check here . 13

14 Other gains or (losses). Attach Form 4797. 14

15a Total IRA distributions. 15a b Taxable amount (see page 23). 15b

16a Total pensions and annuities. 16a b Taxable amount (see page 23). 16b

17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E. 17

18 Farm income or (loss). Attach Schedule F. 18

19 Unemployment compensation. 19

20a Social security benefits. 20a b Taxable amount (see page 25). 20b

21 Other income. List type and amount (see page 25). 21

22 Add the amounts in the far right column for lines 7 through 21. This is your total income. 22

Adjusted Gross Income

23 IRA deduction (see page 27). 23

24 Student loan interest deduction (see page 27). 24

25 Medical savings account deduction. Attach Form 8853. 25

26 Moving expenses. Attach Form 3903. 26

27 One-half of self-employment tax. Attach Schedule SE. 27

28 Self-employed health insurance deduction (see page 29). 28

29 Self-employed SEP, SIMPLE, and qualified plans. 29

30 Penalty on early withdrawal of savings. 30

31a Alimony paid. b Recipient's SSN. 31a

32 Add lines 23 through 31a. 32

33 Subtract line 32 from line 22. This is your adjusted gross income. 33

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 56. Cat. No. 114293 Form 1040 (2000)

The income reported on Line 7 through 21 is treated in accordance with Medi-Cal regulations. Remember any negative amount should be treated as zero

- If individual is reporting self employment use either IRS 1040 and Schedule C/F or 3 months Profit and Loss to determine gross amount, instead of the amount reported here.
- When computing unearned income use the amounts before taxes are taken (15a, 16a & 20a)

INCOME VERIFICATION AND DOCUMENTATION MATRIX

| Type of Income | Medi-Cal | Healthy Families |
|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|
| Unearned | Most recent check stub available, any type of award letter, bank statement showing electronic deposit which identifies source and gross amount, any type of documentation from party providing the income IEVS Printout, PVS report previous year's tax return (1040) if it reflects current income as stated on the application. | SAME except for IEVS and PVS printouts |
| Earned | Most recent pay stub, statement from employer, previous year's tax return (1040) if it reflects current income as stated on the application. | SAME |
| Self-Employment | Previous year's tax return 1040 including Schedule C or F, or 3 months Profit and Loss Statements. | SAME |

- If applicant cannot provide proof, a declaration under penalty of perjury is acceptable evidence
- When there is a discrepancy between the previous year's tax return and the information reported on the current application, then current information shall be used to determine eligibility.