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

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 questions regarding the treatment of self-employment income or applicable deductions, please contact Mr. Dave Rappolee at (916) 657-0163.

Sincerely,

ORIGINAL SIGNED BY

Shar Schroepfer, Chief
Medi-Cal Eligibility Branch

Enclosures
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

<table>
<thead>
<tr>
<th>Type of Income</th>
<th>Medi-Cal</th>
<th>Healthy Families</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unearned</td>
<td>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.</td>
<td>SAME except for IEVS and PVS printouts</td>
</tr>
<tr>
<td>Earned</td>
<td>Most recent pay stub, statement from employer, previous year's tax return (1040) if it reflects current income as stated on the application.</td>
<td>SAME</td>
</tr>
<tr>
<td>Self-Employment</td>
<td>Previous year's tax return 1040 including Schedule C or F, or 3 months Profit and Loss Statements.</td>
<td>SAME</td>
</tr>
</tbody>
</table>

- 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.