TOBY DOUGLAS
Director

State of California—Health and Human Services Agency
Department of Health Care Services

EDMUND G. BROWN JR.
Governor

January 21, 2015

TO: ALL COUNTY WELFARE DIRECTORS Letter No.: 15-06
ALL COUNTY ADMINISTRATIVE OFFICERS
ALL COUNTY MEDI-CAL PROGRAM SPECIALISTS/LIAISONS
ALL COUNTY HEALTH EXECUTIVES
ALL COUNTY MENTAL HEALTH DIRECTORS

SUBJECT: Modified Adjusted Gross Income (MAGI) Based Upon Fluctuating or Self-Employment Income, Partnership Income, S-Corporation Income, Income from Royalties, Estates, Trusts and Real Estate Rental Income

The purpose of this letter is to provide counties with guidance regarding fluctuating or self-employment income, and the use of projected annual income when transmitting income to the California Healthcare Eligibility, Enrollment and Retention System (CalHEERS) to calculate MAGI. Self-employment or fluctuating income may include income received from self-employment, partnerships, s-corporations, royalties, estates, trusts and real estate rentals.

If an individual reports self-employment income, the amount the client enters or provides on the application should be the net taxable income from self-employment activities, the amount after applying expenses and deductions permitted by the Internal Revenue Service (IRS). The IRS rules are different from the rules for determining net income from self-employment for Non-MAGI eligibility. IRS rules for determining taxable net profit income from self-employment may result in a negative number, a net income loss, that may offset other income the individual reports on their application and, in fact, could result in a negative modified adjusted gross income, or MAGI.

The applicant or beneficiary needs to determine the amount of their net income/loss from self-employment, partnerships, real estate rentals, royalties, trusts and s-corporations. Eligibility Workers may assist individuals with finding answers to questions they have on MAGI expenses and deductions by referring the client to the reference pages of the Single Streamlined Application (SSApp). Please note that the IRS deductions for MAGI are broader than those allowed for non-MAGI net income from self-employment and rental property calculations pursuant to Title 22, CCR, Section 50505 and 50508.

The client may have various versions of the IRS Form 1040 that will contain the income attributable to the individual from taxable self-employment, sole proprietorships, partnerships, and net income from rental of real estate, royalties, estates, trusts, partnerships and s-corporations. The forms also provide guidance on how the amounts are determined (from Form 1065, and/or Schedules C, E, K-1, etc.). Individuals may also contact the IRS for assistance in determining their taxable income or for answers on what expenses or deductions are allowed. Additionally, the individual may contact their accountant or tax advisor. Ultimately, the amount that is entered on the SSApp is the amount that should be transmitted to CalHEERS and the federal hub will determine whether that amount is reasonably compatible. If it is not, then the client should be asked to provide paper verification of income. Acceptable forms of paper verification are contained in the Medi-Cal Eligibility Procedures Manual, Section 4M.

If the client provides projected annual income to the county, counties can divide that amount by 12 and enter the result as the monthly amount. When it comes to income that fluctuates month to month, the SSApp specifically asks for the projected annual income. This amount should take into consideration future increases or decreases of income. However, if the individual's current monthly income is lower than the projected annual income divided by 12, counties should enter the current monthly income. If the individual provides the projected annual income to CalHEERS, CalHEERS will divide the amount by 12, for an average monthly amount.

The Department of Health Care Services (DHCS) expects that in March 2015, an enhancement will be added to CalHEERS that will address the situation when <u>both</u> a monthly amount of income and an amount reflecting the projected annual income are present. CalHEERS will use the projected annual income divided by 12. Shortly thereafter, additional enhancements to CalHEERS will compare the result of the projected annual income divided by 12 to the monthly income amount also reported and then, use the lower of the two monthly amounts. DHCS will keep counties updated as to the effective date of that additional enhancement.

If you have any questions on this letter, please contact Sharyl Shanen-Raya at (916) 552-9449 or by email at Sharyl.Shanen-Raya@dhcs.ca.gov.

Original Signed By:

Alice Mak, Acting Chief
Medi-Cal Eligibility Division