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

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TO: ALL COUNTY WELFARE DIRECTORS
ALL COUNTY ADMINISTRATIVE OFFICERS
ALL COUNTY MEDI-CAL PROGRAM SPECIALISTS/LIAISONS
ALL COUNTY HEALTH EXECUTIVES
ALL COUNTY MENTAL HEALTH DIRECTORS
ALL COUNTY MEDS LIAISONS
ALL CONSORTIA/SAWS PROJECT MANAGERS

Letter No: 19-14

SUBJECT: TAX CUTS AND JOBS ACT INCOME AND DEDUCTION CHANGES

Purpose

The purpose of this All County Welfare Directors Letter (ACWDL) is to provide guidance regarding changes to income and deduction types for Modified Adjusted Gross Income (MAGI) Medi-Cal based on the Tax Cuts and Jobs Act (TCJA).

Background

In 2017, the United States Congress passed the TCJA, which adjusted elements of the tax code and changed the tax-filing thresholds for dependents. This act modified or eliminated certain income and deductions used for eligibility determinations for all the insurance affordability programs.

TCJA affected the following MAGI Medi-Cal income and deductions:

- Tuition and fees deduction
- Domestic production activities deduction
- Moving expenses deduction
- Alimony income and deduction
- Self employment entertainment deduction

The Department of Health Care Services, in collaboration with Covered California, the County Welfare Directors Association (CWDA) and stakeholders, initiated changes to the California Healthcare Eligibility, Enrollment, and Retention System (CalHEERS) to update the affected income/deduction types due to the TCJA. This ACWDL will provide

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counties with information regarding CalHEERS updates as well as guidance on how to treat these income/deduction types, and provide examples of the policy application.

Income and Deduction Changes

1) Tuition and Fees

Prior to the TCJA, individuals could deduct tuition and fees for qualified education expenses paid to an eligible, post-secondary educational institution from their gross income by up to $4,000 for tax purposes.

The Bipartisan Budget Act of 2018 extended the tuition and fees deduction through tax year 2017 but the TCJA did not reauthorize this deduction. As a result, the tuition and fees deduction expired.

Effective January 1, 2019, counties shall no longer allow tuition and fees as a deduction in determining eligibility for MAGI Medi-Cal and shall wait until the next annual redetermination, or reported change in circumstance, and confirm that any existing deduction records in the Statewide Automated Welfare System (SAWS) were end dated.

CalHEERS stopped displaying tuition and fees as a deduction in the online portal starting with the 18.10.2 release implemented on November 12, 2018. Additional changes to SAWS regarding the tuition and fees deduction change will occur in a future system release.

2) Domestic Production Activities

Prior to the TCJA, individuals could use domestic production activities as a deduction. This deduction provided tax incentives for businesses that produced most of their goods or work in the United States rather than sending that work overseas. The TCJA eliminated the use of domestic production activities as a tax deduction after tax year 2017.

Effective January 1, 2019, counties shall no longer allow domestic production activities as a deduction in determining eligibility for MAGI Medi-Cal and shall wait until the next annual redetermination, or reported change in circumstance, and confirm that existing deduction records in SAWS were end dated.

CalHEERS stopped displaying domestic production activities as a deduction in the online portal starting with the 18.10.2 release implemented on November 12, 2018.

Additional changes to SAWS regarding the domestic production activities deduction change will occur in a future system release.

3) Moving Expenses

Prior to the TCJA, individuals who incurred moving expenses due to employment were able to include a portion of that expense as a deduction. The TCJA changed the requirement to allow only active duty military personnel moving due to a change of station to claim the moving expense deduction.

Effective January 1, 2019, counties shall only allow moving expenses as a deduction for MAGI Medi-Cal if the applicant or beneficiary self-attests to having moving expenses as an active duty military personnel moving due to a change of station. Self-attestation of active duty military status and moving due to change of station is sufficient and counties shall not request, or require, verification of either. Counties shall end date any existing moving expense deduction records that no longer meet this criterion in SAWS. CEWs shall wait until the next annual redetermination or reported change in circumstance to take this action.

If the income is not reasonably compatible and the individual is reporting moving expenses as a deduction, paper verifications are required. CEWs shall follow guidance in ACWDL 18-25 for beneficiaries, or ACWDL 08-07 for applicants when requesting additional information.

In the 18.10.2 release implemented on November 12, 2018, CalHEERS changed the tool tip language to reflect the updated description of the deduction.

4) Alimony Income and Deductions

The use of alimony as income or a deduction in the MAGI Medi-Cal eligibility determination changed with the implementation of the TCJA. Effective January 1, 2019, alimony will no longer be counted as income or allowed as a deduction for MAGI Medi-Cal if the divorce or separation instrument execution date, or modification date, is on or after January 1, 2019. The taxable portion of alimony income and deductions will continue to be included in the MAGI eligibility determination for individuals with a divorce or separation instrument execution date on or before December 31, 2018.

Changes to the treatment of alimony income and deductions that would lead to a positive change in Medi-Cal eligibility shall have the change applied effective the first day of the current month. The CEW shall provide a Notice of Action (NOA) to the beneficiary regarding the change.

For current beneficiaries, if the reported change in alimony income or deduction results in an adverse action for Medi-Cal eligibility, the CEW shall provide a timely NOA prior to the change in eligibility. Pursuant to existing Medi-Cal policy, and 22 C.C.R. § 50179(a), counties shall send a NOA to beneficiaries at least ten calendar days prior to the first of the month in which an adverse action is effective.

Applicants and beneficiaries are required to self-attest to the divorce or separation instrument execution or modification date. This information will assist counties in determining whether alimony should be countable income, a deduction, or neither.

While the individual is required to provide the divorce or separation instrument execution date, or modification date, counties shall not require verification of this date, and shall accept written or verbal self-attestation. The CEW shall follow guidance in ACWDL 18-25 for beneficiaries, or ACWDL 08-07 for applicants, when requesting additional information. Without the divorce or separation instrument execution date, or modification date, incorrect income information may be reported resulting in erroneous eligibility determinations. To prevent erroneous eligibility determinations, CEWs shall deny or discontinue individuals who fail to provide the divorce or separation instrument execution date, or modification date for Alimony Income and disallow the Alimony Deduction.

In the future, a new question regarding the divorce or separation agreement execution date will be added to the paper application and SAWS 2 Plus. SAWS and CalHEERS will also add a data element to capture this information in a future system release.

Until the application and systems update, counties are to ask applicants and beneficiaries for the divorce or separation instrument execution, or modification date. CEWs shall use this date to determine whether to use the alimony income or deduction on the MAGI Medi-Cal eligibility determination. The CEW shall clearly document the use of the alimony income or deduction in the case file. Each SAWS will provide additional information regarding the DHCS approved short-term process.

Example 1:

John applies for Medi-Cal on January 15, 2019. John pays $3,000 a month in alimony agreement with a court date of October 31, 2018. Because the court order/execution date was before December 31, 2018, the CEW shall use the alimony paid as a deduction in John's MAGI Medi-Cal eligibility determination.
Example 2:

Samantha reports on her annual Medi-Cal redetermination that she has begun paying $4,000 a month in alimony with a court order agreement date of February 3, 2019. Because the court order date is after January 1, 2019, the CEW shall not use the alimony income deduction in Samantha's MAGI Medi-Cal eligibility determination.

Example 3:

Jackie applied for Medi-Cal on July 1, 2017. Jackie received $2,000 a month in alimony income due to a divorce decree with a begin date of November 18, 2012.

On March 22, 2019, Jackie reports the judge modified her divorce decree on March 2, 2019, and her alimony increased to $2,200 monthly. Because the modification occurred after January 1, 2019, the CEW shall no longer use the alimony income in the MAGI Medi-Cal determination and end date this income effective March 1, 2019.

Example 4:

Dan applied for Medi-Cal on October 1, 2018. Dan reported paying 3,000 a month in alimony due to a divorce decree with a begin date of September 18, 2018. The CEW at the time entered the alimony paid as a deduction.

On February 1, 2019, Dan reports a judge modified his alimony payment to $4,000 a month with an effective date of January 31 2019. Because the modification effective date is January 31, 2019, the CEW removes the alimony paid as a deduction effective January 31, 2019.

Changes to Self-Employment Deduction

Prior to the TCJA, individuals who claimed self-employment deductions for travel, meals and entertainment were able to include a portion of that expense as a deduction. Effective January 1, 2019 entertainment expenses are no longer an allowable self-employment deduction. The IRS updated the 2018 Schedule C tax form to reflect the change to the tax law and CEWs may continue to use the document for verification of self-employment income. If a previous year's Schedule C (tax year 2017, or prior) is submitted as verification of income, the CEW shall deduct any expense deductions for entertainment.

For more information please refer to: *Tax Reform Pub 5307: Tax Reform Basics for Individual, Families* and *IRS Pub 501: Standard Deduction and Filing Information*, and IRS Notice 2018-76 §274

Dependent Tax Filing Threshold Change

The TCJA changed the tax filing requirement threshold for dependents effective January 1, 2018. Counties shall continue to accept self-attestation regarding a dependents requirement to file taxes. Changes to the tax filing requirements do not change how counties count the income of a tax dependent.

Resources

Counties shall direct individuals with questions about the new tax filing requirement threshold to the Internal Revenue Service (IRS) or tax specialists. Counties shall provide individuals the enclosed chart, from IRS Publication 501, when individuals request to learn more about tax dependent filing requirements. Additionally, CEWs may provide individuals with the following IRS resources for additional assistance. The links provided explain the recent changes to the tax code.

https://www.irs.gov/tax-reform

https://www.irs.gov/help/ita/do-i-need-to-file-a-tax-return

https://www.irs.gov/forms-pubs/about-publication-501

https://www.irs.gov/pub/irs-pdf/p5307.pdf

https://www.irs.gov/pub/irs-drop/n-18-76.pdf

If you have any questions or if we can provide further information, please contact Eric Sweeney by phone at (916) 345-8065, or by email at eric.sweeney@dhcs.ca.gov.

Original signed by Y. Huang for
Sandra Williams, Chief
Medi-Cal Eligibility Division

Enclosure

Tax Filing Requirements Chart for Most Taxpayers

IF your filing status is...	AND at the end of 2018 you were...*	THEN file a return if your gross income was at least...**
single	under 65	$12,000
single	65 or older	$13,600
head of household	under 65	$18,000
head of household	65 or older	$19,600
married, filing jointly***	under 65 (both spouses)	$24,000
married, filing jointly***	65 or older (one spouse)	$25,300
married, filing jointly***	65 or older (both spouses)	$26,600
married, filing separately	any age	$5
qualifying widow(er)	under 65	$24,000
qualifying widow(er)	65 or older	$25,300

* If you were born before January 2, 1954, you're considered to be 65 or older at the end of 2018. (If your spouse died in 2018, see Death of spouse, later. If you're preparing a return for someone who died in 2018, see Death of taxpayer, later.

** Gross income means all income you receive in the form of money, goods, property, and services that isn't exempt from tax, including any income from sources outside the United States or from the sale of your main home (even if you can exclude part or all of it). Don't include any social security benefits unless (a) you're married filing a separate return and you lived with your spouse at any time during 2018 or (b) one-half of your social security benefits plus your other gross income and any tax-exempt interest is more than $25,000 ($32,000 if married filing jointly). If (a) or (b) applies, see the Form 1040 instructions to figure the taxable part of social security benefits you must include in gross income. Gross income includes gains, but not losses, reported on Form 8949 or Schedule D. Gross income from a business means, for example, the amount on Schedule C, line 7, or Schedule F, line 9. But in figuring gross income, don't reduce your income by any losses, including any loss on Schedule C, line7, or Schedule F, line 9.

*** If you didn't live with your spouse at the end of 2018 (or on the date your spouse died) and your gross income was at least $5, you must file a return regardless of your age.