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Modified Adjusted Gross Income
MAGI 101

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National public interest law firm working to advance access to quality health care and protect the legal rights of low-income and underserved people.

Washington D.C., Los Angeles & North Carolina

www.healthlaw.org

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What we will cover

Part I

- What is MAGI
- When MAGI applies
- How to count income

Part II

- How to determine household size
  - Marketplace
  - Medicaid
- Exceptions and special rules

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What is MAGI?

- **Modified Adjusted Gross Income** is a methodology for determining financial eligibility across multiple Insurance Affordability Programs (Medicaid, CHIP, APTCs, CSRs)
- Replaces existing income counting and disregards and household rules for most Medicaid eligibility categories
- See NHeLP's *The Advocate's Guide to MAGI* (available on our website: www.healthlaw.org)

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Why MAGI?

- Used to streamline eligibility determinations across multiple Insurance Affordability Programs (IAPs)
  - Medicaid (some categories)
  - Children's Health Insurance Program (CHIP)
  - Marketplace coverage
    - Premium Tax Credits (PTCs)
    - Cost Sharing Reductions (CSRs)
- Based upon the total household income as a percentage of the Federal Poverty Level (FPL) for a household of that size

MAGI in Medicaid

MAGI Medicaid	Non-MAGI Medicaid
Childless adults 19-64	Aged
Pregnant women	Blind
Children up to age 19 (or 21 if full time student, at state option)	Disabled
Parent/Caretaker Relative	Long-Term Care
	Medically Needy
	Foster Care
	QMB/SLMB/QI
	Express Lane Eligibility

(Not a complete list)

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The two faces of MAGI

MAGI rules to calculate:

- What income gets counted
- Who is in the household and household size

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MAGI rules for income

- Based upon the tax household
- Total household income = the sum of MAGI for everyone in the household **required to file** a federal income tax return
- Eligibility is based upon the total household income as a percentage of the Federal Poverty Level (FPL) for a household of that size

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Medicaid/CHIP vs. Marketplace MAGI

- Current monthly vs. projected annual
- Income add-ins for Medicaid
- Lump sum payments
  - self employment deductions
- Married
  - joint filing requirement for APTCs (w/exceptions)
  - same Medicaid household if living together
- When different methodologies make an individual ineligible for either program, Marketplace prevails

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Definitions

- **Tax filer** – someone who files federal income taxes and who claims the personal exemption amount (e.g., is not claimed as a dependent by someone else)
  - Spouses filing jointly are both tax filers
- **Dependents**
  - Qualifying child
  - Qualifying relative

- Some people are required to file a federal income tax return (based on income/filing status)
- Dependents who file taxes are not tax filers (e.g., kid with a summer job)

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Who must file federal income taxes?

- For dependents (2015):
    - Unearned income of more than $1,050
    - Earned income of more than $6,300
    - For people who have both earned and unearned income, where the total is more than larger of $1,050 or earned income (up to $5,950) plus $350
- For non-dependents (2015) with gross income at least
    - $10,300 (under 65)
    - $11,850 (65 or older)
- Requirements differ for blind, aged,– see IRS Pub. 501

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Examples:

- If your child earns $6,000 per year at a summer job, that income does not count toward the household income
- If your child earns $6,400 per year at a summer job, that income will count toward the household income
- If your child receives $1,200 per year in dividend income over the year that would count toward the household income
- If your child receives $7,000 per year in Social Security benefits, that income does not count toward the household income

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What income is counted?

Counted

- Taxable wages/salary
- Self-employment
- Social Security benefits (SSDI, retirement)
- Unemployment benefits
- Alimony received
- Most retirement benefits (incl. VA pensions)
- Interest (including tax-exempt interest)
- Rental income

Not Counted

- Child support received
- Supplemental Security Income (SSI)
- Workers' compensation payments
- Veteran's benefits (service-related disability)
- Gifts/Inheritances

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How to count income

- IRS tax rules (mostly) govern what income is counted
- **<u>STEP 1</u>**: Determine Adjusted Gross Income (AGI) from the 1040 tax form:
    1. Add all income on Form 1040, Lines 7 to 21
    2. Subtract all adjustments on Lines 23 to 35
    3. Total = Adjusted Gross Income (AGI) on Line 37

Income	7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	
	8a	**Taxable** interest. Attach Schedule B if required	8a	
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	b	**Tax-exempt** interest. **Do not** include on line 8a . . . 8b		
	9a	Ordinary dividends. Attach Schedule B if required	9a	
	b	Qualified dividends . . . 9b		
	10	Taxable refunds, credits, or offsets of state and local income taxes	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	
If you did not get a W-2, see instructions.	14	Other gains or (losses). Attach Form 4797	14	
	15a	IRA distributions . 15a — **b** Taxable amount	15b	
	16a	Pensions and annuities 16a — **b** Taxable amount	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	20b	
	21	Other income. List type and amount	21	
	22	Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶	22	
Adjusted Gross Income	23	Educator expenses . . . 23		
	24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ . . . 24		
	25	Health savings account deduction. Attach Form 8889 . 25		
	26	Moving expenses. Attach Form 3903 . 26		
	27	Deductible part of self-employment tax. Attach Schedule SE . 27		
	28	Self-employed SEP, SIMPLE, and qualified plans . 28		
	29	Self-employed health insurance deduction . 29		
	30	Penalty on early withdrawal of savings . 30		
	31a	Alimony paid **b** Recipient's SSN ▶ . 31a		
	32	IRA deduction . 32		
	33	Student loan interest deduction . 33		
	34	Tuition and fees. Attach Form 8917 . 34		
	35	Domestic production activities deduction. Attach Form 8903 . 35		
	36	Add lines 23 through 35	36	
	37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶	37	

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AGI → MAGI

<u>STEP 2</u>: Make adjustments to AGI to calculate Modified Adjusted Gross Income (MAGI)

AGI (from Line 37 of 1040), ***PLUS***

- Excluded Foreign Income
- Tax Exempt Interest
- Non-taxable Social Security benefits

= **M(odified)AGI**

Social Security vs. Supplemental Security

Social Security

Social Security income provided under Title II of the Social Security Act (SSA) includes Social Security Disability Insurance (SSDI), retirement income, and survivor's benefits. These forms of income ***are counted in MAGI.***

Supplemental Security Income (SSI)

Supplemental Security Income (SSI) is provided under Title XVI of the SAA. It is designed to help persons who are aged, blind, or disabled, who are very low income and have limited assets. SSI is **not taxed and does not count towards MAGI.**

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A note about Social Security income

- **Tax filers** – all Social Security income (taxable + non-taxable) will count towards the total household MAGI
- **Dependents** - Social Security income is counted towards the total household MAGI only if the dependent is **required** to file a federal income tax return

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What income is counted?
Special Medicaid exceptions

Certain additional types of scholarship/fellowship income excluded for Medicaid

Certain additional types of American Indian income excluded for Medicaid

Lump Sum Income: only counted in month received for Medicaid; included in annual income for APTC calculation

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Annual income or current income?

- **Marketplace Eligibility** (PTCs/CSRs): Projected annual income
- **Medicaid Eligibility**: Current Income (Point-in-time)
  - **Applicants:** Current monthly income & family size
  - **Recipients**: State may use current monthly income/family size or projected for remainder of calendar year
  - **Applicants/Recipients**: State may adopt method to included prorated future income or increases or decreases in income/family size. Adequate evidence must be provided.

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MAGI rules for income review

MAGI rules are used to calculate:

- What income gets counted
  - No asset test; 5% disregard applies in Medicaid/CHIP
  - Married couples must file jointly for APTCs (with some exceptions)
- Current monthly vs. projected annual
- Income = AGI (from line 37) + add-ins (Modified)
- Total household income = the sum of MAGI for everyone in the household **required to file** a federal income tax return
- Eligibility is based upon the total household income as a percentage of the Federal Poverty Level (FPL) for a household of that size

Household composition and size

Why household size matters

- **Household composition** = identifying individuals who are members of the household
- **Household size** = sum total of individuals in the household
- However, there are <u>different rules</u> for determining who is in the household and how to count them for Marketplace and Medicaid

It can get complicated!

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General principles

- **Conduct** a person-by-person analysis
- **Determine** the Marketplace and Medicaid household for each individual
  - Marketplace household will be the same for all members
  - Medicaid household may vary
- **Ask**: Who is seeking an eligibility determination?
  - Remember: You can apply on behalf of someone else
  - Remember: You do not have to be eligible to be counted as a member of a Marketplace or Medicaid household

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The Marketplace household

- **General rule: Tax filer(s) + dependents**
  - Includes qualifying child and/or qualifying relative
  - Includes dependents who expect to file federal income taxes
  - Spouses must file jointly to qualify for PTCs/CSRs*****

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The Medicaid household

- **General rule** – the Medicaid household is the same as the Marketplace household
  - **Tax filer(s) + dependents**

But there are separate Medicaid rules and exceptions that may apply!

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Be on the alert for…

- Individuals who do not expect to file federal income taxes or be claimed as a dependent (aka non-filers/non-dependents)
  - Separate rules apply to determine their Medicaid household
- Pregnant women – three sets of rules on how to count them!
- Married couples who live together, but file taxes separately
  - Under Medicaid rules, they are in the same household
  - Under Marketplace rules, they are not eligible for PTCs*

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Two big Medicaid exceptions for dependents:

- Child claimed by only one parent when:
  - Both parents live together (but are not married or file jointly), or
  - The child is claimed by the non-custodial parent
- Dependent relatives (other than spouse or child of the tax filer)

➢ **For these, apply the separate Medicaid rules for non-filers/non-dependents**

Rules for non-filers/non-dependents
(apply also to the 2 big exceptions for dependents)

For **adults**, the Medicaid household consists of:

- The individual;
- The individual's spouse if living with the individual;
- The individual's children* if living with the individual.

For **children,*** the Medicaid household consists of:

- The child;
- The child's parent(s) if living with the child;
- The child's sibling(s)***** if living with the child;
- The child's spouse, if living with the child;
- The child's children,***** if living with the child.

***Under 19, or under 21 for full time students (at state option)**

Analyzing the Medicaid household

1. Who is seeking an eligibility determination?
2. Is this person a tax filer or claimed as a dependent?
   - If neither, apply the separate Medicaid rules for non-filers/non-dependents
3. Do any exceptions or other separate rules apply?
   - Dependents
     - Children claimed by only one parent
     - Dependents who are neither the spouse nor the child of the tax filer
   - Married couples who live together but file separately
   - Pregnant women

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Example #1– Medicaid: General Rule -- tax filer(s) + dependents

George and Louise are married. They file a joint federal income tax return. They have one teenage child, Lionel, whom they claim as a dependent (qualifying child).

Marketplace household is three (George, Louise, Lionel)

George's Medicaid household is three (George, Louise, Lionel)
Louise's Medicaid household is three (George, Louise, Lionel)
Lionel's Medicaid household is three (George, Louise, Lionel*)*

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Example #2 – Non-filers/non-dependents (apply the separate rules)

George and Louise are married and live together. They have one teenage child, Lionel, who also lives with them. None expect to file federal income taxes, and no one will claim any of them as a tax dependent.

George, Louise, and Lionel are not eligible for PTCs if they do not file federal income taxes.

George's Medicaid household is three (George, Louise, Lionel)
Louise's Medicaid household is three (George, Louise, Lionel)
Lionel's Medicaid household is three (George, Louise, Lionel*)*

Example #3 – Child claimed by one parent - unmarried filing separately

George and Louise are unmarried and live together. They file separate federal income tax returns. They have one teenage child, Lionel, who lives with them. George claims Lionel as a dependent (qualifying child). Louise files her own tax return.

George's Marketplace household is two (George, Lionel)
Louise's Marketplace household is one (Louise)
Lionel's Marketplace household is two (George, Lionel)

George's Medicaid household is two (George, Lionel)
Louise's Medicaid household is one (Louise)
Lionel's Medicaid household is three (George, Louise, Lionel)

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Example #3 – explanation

George and Louise are unmarried and live together. They file separate federal income tax returns. They have one child teenage child, Lionel, who lives with them. George claims Lionel as a dependent (qualifying child). Louise files her own tax return.

George is a tax filer with a dependent.
Louise is a tax filer with no dependents.

Lionel is claimed as a dependent by one parent, which is his Marketplace household. However, for Medicaid apply the rules for non-filers/non-dependents.

Lionel's Medicaid household includes the parent(s) he lives with.

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Example #4 – Child claimed by non-custodial parent

George and Louise are divorced and live apart. They file separate federal income tax returns. They have one child, Lionel. George claims Lionel as a dependent (qualifying child). Lionel lives with Louise, but spends weekends with George. Louise files her own tax return and does not claim any dependents.

George's Marketplace household is two (George, Lionel)
Louise's Marketplace household is one (Louise)
Lionel's Marketplace household is two (George, Lionel)

George's Medicaid household is two (George, Lionel)
Louise's Medicaid household is one (Louise)
Lionel's Medicaid household is two (Louise, Lionel)

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Example #4 – explanation

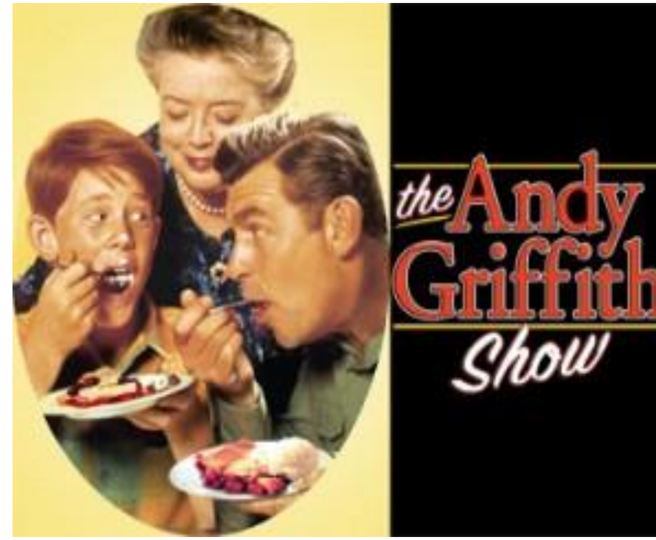
George and Louise are divorced and live apart. They file separate federal income tax returns. They have one child, Lionel. George claims Lionel as a dependent (qualifying child). Lionel spends weekends with George. Louise files her own tax return and does not claim any dependents.

Lionel is in the Marketplace household with George because George claims him as a tax dependent.

Lionel is claimed as a tax dependent by a non-custodial parent. Apply the rules for non-filers/non-dependents. His Medicaid household includes the parent he lives with – Louise.

Example #5 –
Dependent relatives – Medicaid household

Andy and Opie are father and son, who live with Aunt Bee. Andy is a tax filer who claims Opie as a dependent (qualifying child) and Aunt Bee as a dependent (qualifying relative).



Marketplace household is three (Andy, Opie, Aunt Bee)

Andy's Medicaid household is three (Andy, Opie, Aunt Bee)
Opie's Medicaid household is three (Andy, Opie, Aunt Bee)
Aunt Bee's Medicaid household is one (Aunt Bee)

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Example #5 – explanation

Andy and Opie are father and son, who live with Aunt Bee. Andy is a tax filer who claims Opie as a dependent (qualifying child) and Aunt Bee as a dependent (qualifying relative).

Why? Because Aunt Bee is claimed as a tax dependent, but is neither a spouse nor a child of the tax filer (Andy).

Apply the rules for non-filers/non-dependents. Aunt Bee's Medicaid household consists of just her (since she has no spouse or minor children).

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Special rules for pregnant women

- Marketplace rule – a pregnant woman is counted as one person
- In Medicaid, if a pregnant woman is seeking an eligibility determination for herself, she is counted as one person plus the number of children expected to deliver
- However, if a pregnant woman is in the household of someone who is seeking an eligibility determination, states can opt to count her as one person, two people, or one person plus the number of children expected to deliver

Example #6 – pregnant woman seeking eligibility determination

Jennifer is pregnant and expecting twins. She lives in Wheeling, WV with her husband Marc. They file a joint federal income tax return, and claim no dependents.

Jennifer's Marketplace household is two (Jennifer and Marc)

Jennifer's Medicaid household is four (Jennifer, two children expected to deliver, and Marc)

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Example #7 – pregnant woman in the household of someone else seeking an eligibility determination

Jennifer is pregnant and expecting twins. She lives in Wheeling, WV with her husband Marc. They file a joint federal income tax return, and claim no dependents.

WV counts pregnant women as one person, regardless of how many babies are expected, when she is in the household of someone seeking an eligibility determination.

What is Marc's household?

Example #7 – pregnant woman in the household of someone else seeking an eligibility determination

Jennifer is pregnant and expecting twins. She lives in Wheeling, WV with her husband Marc. They file a joint federal income tax return and claim no dependents.

WV counts pregnant women as one person, regardless of how many babies are expected, when she is in the household of someone seeking an eligibility determination.

Marc’s Marketplace household is two (Jennifer and Marc)
Marc’s Medicaid household is two (Jennifer and Marc)

Method for MAGI Madness

1. Who is seeking an eligibility determination?
2. Separate determinations for Marketplace and Medicaid households
3. What is the income for each household member?
4. What income counts toward the total household income?

- Only count a dependent’s income if that dependent is required to file federal income taxes.
- Watch out for pregnant women!
- Watch out for children!
- Learn your state specific rules.
- Misapplying MAGI may result in wrongful denials or terminations

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THANK YOU

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