

Understanding the Affordable Care Act: How MassHealth Will Count Income after January 2014

March 2014

May 2018 UPDATE

- The IRS recognized an exception to the requirement that a married person file jointly in order to qualify for a premium tax credit. A spouse who is unable to file jointly due to abuse or abandonment by the other spouse may still qualify for a premium tax credit. 26 CFR 1.36B-2T (2014).
- The Tax Cuts and Jobs Act of 2017 (TCJA) reduces the personal exemption deduction to \$0 in 2018-2025 but does not eliminate personal exemptions. TCJA also affects three “above the line” deductions used to calculate Adjusted Gross Income: it allows the tuition and fees deduction to expire, it restricts the moving expense deduction to active duty military and it ends the deduction for alimony in orders entered after Dec. 31, 2018. Pub.L. 115-97 (Dec. 22, 2017).
- All dollar amounts in this paper, such as the explanation of the applicable income thresholds that determine when a child has to file a return have changed since this paper was written. Consult IRS.gov or other sources for current amounts.

One aspect of the federal health reform law, the Affordable Care Act (ACA), that has not made the headlines, is a change in the methodology used to determine income for many people currently eligible for MassHealth. The new way of counting income will be based on federal income tax treatment and is called the Modified Adjusted Gross Income (MAGI) methodology. See Box 1. The MAGI methodology will be used starting in 2014 to determine financial eligibility for new federal premium tax credits and cost sharing reduction subsidies and added state ConnectorCare subsidies, *and* for Medicaid financial eligibility for most people other than individuals who are eligible for Medicaid based on being age 65 or older. See Box 2.

Box 1.

How Adjusted Gross Income is modified to become MAGI

Adjusted Gross Income (AGI) corresponds to a line on the federal tax form e.g. line 37 of Form 1040

It is modified by *including* the following sources of income that are not included in AGI on the tax form-

- Certain foreign investment income excluded from AGI by § 911 of the tax code
- Tax exempt interest income
- Social security benefits excluded from AGI by § 86 of the tax code

In addition to these modifications, in Medicaid only, MAGI will *exclude* the following income even if it is included in AGI:

- Scholarships, fellowship grants and awards used for educational purposes
- Certain American Indian/Alaska Native income
- Lump sum income (will only be counted in month of receipt)

Medicaid applicants and recipients who will be subject to MAGI

Under the ACA, Medicaid must use the new MAGI methodology for most people except for adults eligible on the basis of disability or being age 65 or older. The requirement to use MAGI methodology can be waived only for the limited purpose of protecting beneficiaries. Prior to Jan 1, 2014, MassHealth used a gross income test for most of the individuals for whom it must now use MAGI and for disabled individuals under age 65. Massachusetts has chosen to apply the income counting rules of MAGI to adults with disabilities but not the MAGI household rules; instead it will use the non-filer rules to determine the household of individuals with disabilities. See Box 2.

Box 2. Who is subject to MAGI methodology in 2014		
MAGI Applies	MAGI Does Not Apply	MAGI rule for adults with disabilities
<p>Applicants for eligibility based on being:</p> <ul style="list-style-type: none"> ■ Pregnant women ■ Children under age 19 ■ Young adults 19 & 20 ■ Parents/caretaker relatives at any age ■ Other adults under age 65 	<p>Applicants for eligibility based on:</p> <ul style="list-style-type: none"> ■ Being age 65 or older ■ Coverage that includes long term care e.g. nursing facility care or home and community based services ■ Kailiegh Mulligan children <p>Individuals for whom MassHealth does not make an income determination including:</p> <ul style="list-style-type: none"> ■ SSI recipients ■ Deemed SSI recipients ■ TAFDC & EAEDC recipients ■ Deemed newborns ■ Foster care or adoption assistance recipients ■ Former foster care children up to age 26 <p>Applicants for Medicare Buy-In/Savings Programs (QMB, SLMB, Q-1)</p>	<p>For adults eligible based on disability -</p> <ul style="list-style-type: none"> ● Households will be determined using non-filer rules ● Income will be counted using MAGI rules including 5% of poverty income deduction ● Applies to disabled under age 65 & working disabled at any age

How MAGI will change whose income counts

Household composition affects the applicable federal poverty level income ceiling, which varies by family size, as well as affecting household income. In MassHealth prior to Jan. 1, 2014, household members had to be living together, and the income of each member was included in household income. Under the MAGI rules that will be used by the Health Insurance Connector to

determine eligibility for tax credits, a household will include the taxpayer, married couples filing jointly, and tax dependents. Married couples who file separately are not eligible for tax credits. See the Connector MAGI Flow Chart attached as Appendix 2. Further, the income of a tax dependent will not be included in the household income of the taxpayer if the dependent was not required to file a return.

MassHealth modifies the MAGI household rules as applied by the Connector in several ways as shown in Box 3. It keeps married couples who live together in the same household regardless of filing status. MassHealth continues to add the fetus to the household of a pregnant woman for purposes of determining family size. It adds rules for determining the household of tax non-filers. It also uses the non-filer rules in three situations to determine the household of tax dependents: when a tax dependent is claimed by someone other than a spouse or parent, when a child under 19 is claimed by the noncustodial parent, or when a child under 19 is claimed by only one parent and both parents live together but do not file jointly. Because of the exceptions to the tax filing rules, it is necessary to do a separate analysis of the household of each individual seeking MassHealth benefits. See the MassHealth MAGI Flow Chart attached as Appendix 1. Further, like the Connector, it does not include the income of tax dependents if the dependent was not required to file a return, and for non-filers it excludes the income of children who are not required to file a return and are living with one or both parents.

Box 3. Comparison of rules identifying the household			
	MassHealth 1115 (Prior to 1-1-14)	Connector MAGI	MassHealth MAGI **
Individual (Household of 1)	Age 19 or older not living with a spouse or child; Under age 19 not living with parent, sibling under 19, or caretaker relative who opts into household	Unmarried* taxpayer not claiming tax dependents & not able to be claimed as tax dependent by anyone else	Same as Connector and also: For non-filer not claimed as tax dependent and individual claimed as dependent who is treated as a non-filer***: Non-filer is in household of 1 if not living with spouse or child under 19, & if under 19, also not living with parents or siblings under 19
Couple (Household of 2)	Married couple not living with children under age 19	Married* couple filing jointly & not claiming tax dependents or able to be claimed as tax dependents	Same as Connector and also: Married non-filers not claimed as tax dependents by anyone else (or claimed as dependent but treated as non-filer***) & not living with children under 19; married couples living together in same household regardless of filing status and neither claiming tax dependents nor living with children under 19
Family (Household of 2 or more)	Parents, whether or not married, living with one or more children under 19; children under 19 and siblings under 19 whether or not living	Married* couple filing jointly & their tax dependents, or individual taxpayer not treated as married and his or her tax dependents	Same as Connector and also: Married couples living together are in same household regardless of filing status. Household rules for people not filing taxes & not claimed as dependents & certain tax dependents treated as non-filers***: Non-filer household includes

	with parents; children under 19 living with caretaker relative who opts into household		individual & if living with: spouse, child under 19, & if individual is under 19, parents & siblings under 19.
<p>* Individuals who expect to be married on Dec. 31 of year in which they are seeking benefits but expect to be legally separated or eligible to file as a head of a household are not treated as married for tax purposes. On March 26, 2014, IRS issued guidance allowing domestic violence victims who are married filing separately to also qualify for tax credits.</p> <p>**MassHealth includes the fetus in the household size of a pregnant woman.</p> <p>*** A person claimed as a tax dependent by a taxpayer other than a parent or spouse, or a child under 19 claimed by a parent living with the other parent but not filing jointly or by a noncustodial parent, is treated as a non-filer.</p>			

Income not counted by MassHealth and how it will be treated under MAGI

Prior to January 1, 2014, under the 1115 demonstration MassHealth used a simplified gross monthly income standard with no deductions and few disregards. Box 4 lists income that MassHealth rules specifically excluded and how such income will now be treated under MAGI. Not shown are other kinds of taxable income that were not specifically excluded by MassHealth rules but have generally not been considered income in public benefit programs. For example, the amount of a loan that is cancelled or forgiven, which in some circumstances is treated as taxable income, is not recognized as income in most public benefit programs like SSI.¹ However, under MAGI, if a cancelled debt is taxable income, it will count as income for MassHealth purposes, but the lump sum rule should limit it to counting only in the month of receipt.

Box 4. MAGI treatment of income now excluded by MassHealth	
Income excluded by MassHealth prior to Jan. 1, 2014	MAGI treatment²
Income received by TAFDC, EAEDC or SSI recipient	Cash welfare is not counted and earnings from a govt. work training program that do not exceed the amount of a full welfare grant are not counted but there is no specific exclusion of all income received by a welfare recipient
Sheltered workshop earnings	Not counted under state MAGI rules. 130 CMR 506.004(B)
Certain federal veteran's benefits and local veteran's benefits based on need	VA federal benefits are not taxable and neither are any government benefits based on need; veterans' retirement benefits which are not paid through the VA are taxable and counted.
Income in kind	Not counted under state MAGI rules. 130 CMR 506.004 (D)
Income from roomer or boarder in one's home	Not counted under state MAGI rules. 130 CMR 506.004(E)
Other income excluded by federal laws other than SSA	Not clear. If otherwise included in AGI, may depend on whether federal law enacted before or after ACA.

¹ See 20 CFR § 416.1103.

² Tax information from IRS website:

http://www.irs.gov/publications/p525/ar02.html#en_US_2011_publink1000229477

Income now counted by MassHealth that will not be counted under MAGI

Under the gross income standard that applied to most individuals under age 65 in MassHealth prior to Jan. 1, 2014, income was counted without deductions or disregards. MassHealth did not recognize business deductions that a self-employed person can claim on his or her federal taxes e.g. on Schedule C of Form 1040, and rental expenses that someone with rental income can claim e.g. Schedule E of Form 1040. However, under MAGI, only income that is included in Adjusted Gross Income (and the types of income that modify AGI shown in Box 1) will be included in household income. The types of income shown in Box 5 that were included in gross income under the prior MassHealth rules will not be counted under MAGI.

Box 5. Income that will not be counted using Medicaid MAGI methodology

- **5% of poverty level income disregard**
 - MassHealth used no standard disregards with its gross income methodology
 - MassHealth determinations based on MAGI methodology will apply a standard disregard equal to 5 percentage points of the federal poverty level (FPL) for the applicable family size. This effectively raises the 133% FPL income standard for the new Medicaid eligibility group to 138% FPL.
- **Child support received**
 - MassHealth's gross income rules treated child support as income of the child who receives it, but allowed no deduction to the person paying child support.
 - For tax purposes, child support is not included in the AGI of the recipient and will not count in the MAGI of the child or custodial parent. Child support will continue to be included in the income of the person paying it.
- **Income of a child**
 - MassHealth gross income rules counted income of all household members including children.
 - For tax purposes, the income of a child (or other person) claimed as a tax dependent is not included in the taxpayer's income unless the amount of the child's income is high enough to require the child to file a tax return. A single tax dependent under age 65 in 2013 is required to file if the dependent had earned income over \$6,100 or unearned income (not counting nontaxable social security) over \$1000. For non-filers, Medicaid MAGI will exclude a child's income in the same way as a tax dependent if the child is living with at least one parent.
- **Income offset by a business loss**
 - Under the MassHealth gross income test, if someone lost money from self-employment and also had wage income from a job, MassHealth counted the self-employment income as 0 and counted all the wage income.
 - For tax purposes, a business loss is deducted from other income to arrive at AGI, and therefore will lower the MAGI.
- **Gifts, bequests and inheritances**
 - Under the MassHealth gross income test, gifts, bequests and inheritances were treated as income in the month of receipt
 - For tax purposes, gifts, bequests and inheritances are generally not included in AGI and therefore not counted in MAGI (the lump sum rule listed in Box 1 only applies when income is otherwise included in MAGI).

Continued on next page

- **Alimony paid**
 - MassHealth treated alimony as income of the recipient, but allowed no deduction to the person who paid alimony.
 - For tax purposes, alimony is income of the recipient and deducted from the AGI of the person who pays alimony who now will have a lower MAGI.
- **Income excluded from taxable wages**
 - MassHealth used to count income that is withheld from salary but not included in taxable income under various cafeteria plans or flexible spending accounts.
 - Any pre-tax withholding that is properly excluded from federal wages on a W-2 will not be included in AGI and therefore should not count in MAGI
- **Various expenses**
 - The MassHealth gross income rules allowed a deduction only for self-employed business expenses and rental income expenses
 - Over a dozen kinds of other expenses may be deducted from Gross Income to arrive at AGI including-
 - Moving expenses
 - Student loan interest deduction
 - Certain education expenses
 - IRA deduction
- **Any other income, not identified as a Modification listed in Box 1, is counted only if included in AGI**

Winners and losers

The way income is treated using the MAGI methodology compared to the MassHealth gross income methodology is, with a few exceptions, a positive change. Everyone subject to MAGI will benefit from the new standard disregard of 5% of the poverty level. Many common types of income now counted by MassHealth will no longer count under MAGI such as child support received and a child's earnings that are below the filing threshold. See Box 5. Also, IRS rules will now provide detailed guidance on the treatment of income in MassHealth.

It is more difficult to characterize the change in the household composition rules. For non-filers, the Medicaid MAGI household rules are almost the same as the MassHealth gross income rules. However, treating certain tax dependents as non-filers may result in some children having higher MAGI household income than either of their parents which seems unfair even if the children are no worse off than they would have been under the gross income rules. For tax filers and tax dependents, they may be in larger households under MAGI than under gross income rules. Larger households increase the applicable poverty level standard but also include the income of more people. Because the income of tax dependents that is below the filing threshold does not count, the increase in household size is likely to be an advantage for many taxpayers. However, adult tax dependents who will now be included in the same household as a parent are likely to be worse off using MAGI methodology as shown in the example in Box 6. In recognition of the possible adverse effects for certain beneficiaries, the MAGI rules cannot be used to reduce the eligibility of an individual who was eligible for MassHealth on or before Dec. 31, 2013 until the next regularly scheduled annual renewal after March 31, 2014. 130 CMR § 506.007(E).

Box 6. Three-generation household example

Family consists of:

50 yr. old Grandmother with earnings of \$4,500 per mo. / \$54,000 per yr.

20 yr. old Daughter with earnings of \$300 per mo. / \$3600 per yr.

2 yr. old Granddaughter

Grandmother files taxes and claims Daughter & Granddaughter as dependents

MassHealth income ceiling for single adult or parents, 133% of federal poverty level (2014 FPL)

	MassHealth 1115 (2013)	MassHealth MAGI	Connector MAGI³
Grandmother	Individual household; income of \$4,500 per mo. >400% FPL Overincome	Family of 3; income of \$4,500 less \$83, 268% FPL (Daughter's income below filing threshold) Overincome	Family of 3; income of \$54,000, 276% FPL (Daughter's income below filing threshold) Grandmother eligible for tax credit for self
Daughter	Family of 2; income of \$300 per mo. < 100% FPL MassHealth Standard	Family of 3; income of \$4,500 less \$83, 268% FPL (Daughter's income below filing threshold) Overincome	Family of 3; income of \$54,000, 276% FPL (Daughter's income below filing threshold) Grandmother eligible for tax credit for Daughter
Granddaughter	Family of 2; income of \$300 per mo. < 100% FPL MassHealth Standard	Family of 2 (treated as non-filer); income of \$300 per mo. less \$66 disregard < 100% FPL MassHealth Standard	N/A Grandmother can't claim tax credit for Granddaughter

Sources:

§ 2002 of ACA codified at 42 USC 1396a (e) (14) also cited as § 1902(e) (14) of the Social Security Act as amended (MAGI in Medicaid);

Federal regulations: 42 CFR 435.603(Medicaid); 42 CFR 155.305 (Marketplace/Exchange);

Federal IRS definition of MAGI: 26 CFR 1.36B;

Centers for Medicare & Medicaid Services (CMS), Household Composition and Income Eligibility Rules, Nov. 2013, <http://www.medicaid.gov/State-Resource-Center/MAC-Learning-Collaboratives/Learning-Collaborative-State-Toolbox/State-Toolbox-Expanding-Coverage.html>;

130 CMR 506.000 MassHealth Financial Eligibility Regulations;

IRS, Publication 501, Exemptions, Standard Deduction and Filing Information;

IRS Publication 525, Taxable and Nontaxable Income;

All IRS publications available at www.irs.gov.

National Health Law Program (NHeLP), The Advocate's Guide to MAGI, www.healthlaw.org;

Center on Budget & Policy Priorities (CBPP), www.healthreformbeyondthebasics.org

³ The Connector will use the 2013 poverty levels until the next open enrollment period in the fall/winter of 2014 for coverage in 2015.

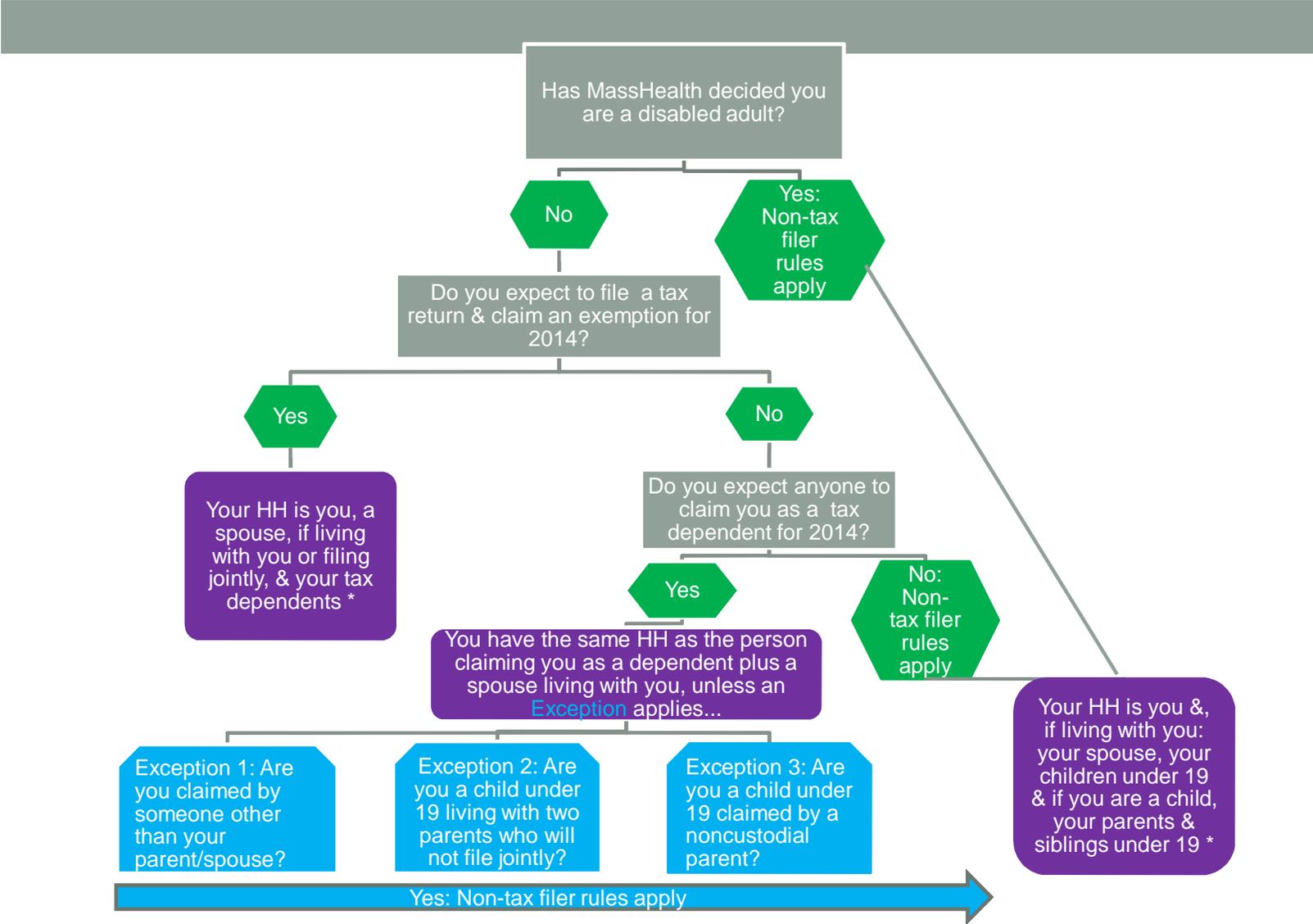
Attachments:

Appendix 1: MassHealth MAGI Household Flow Chart

Appendix 2: Connector MAGI Household Flow Chart

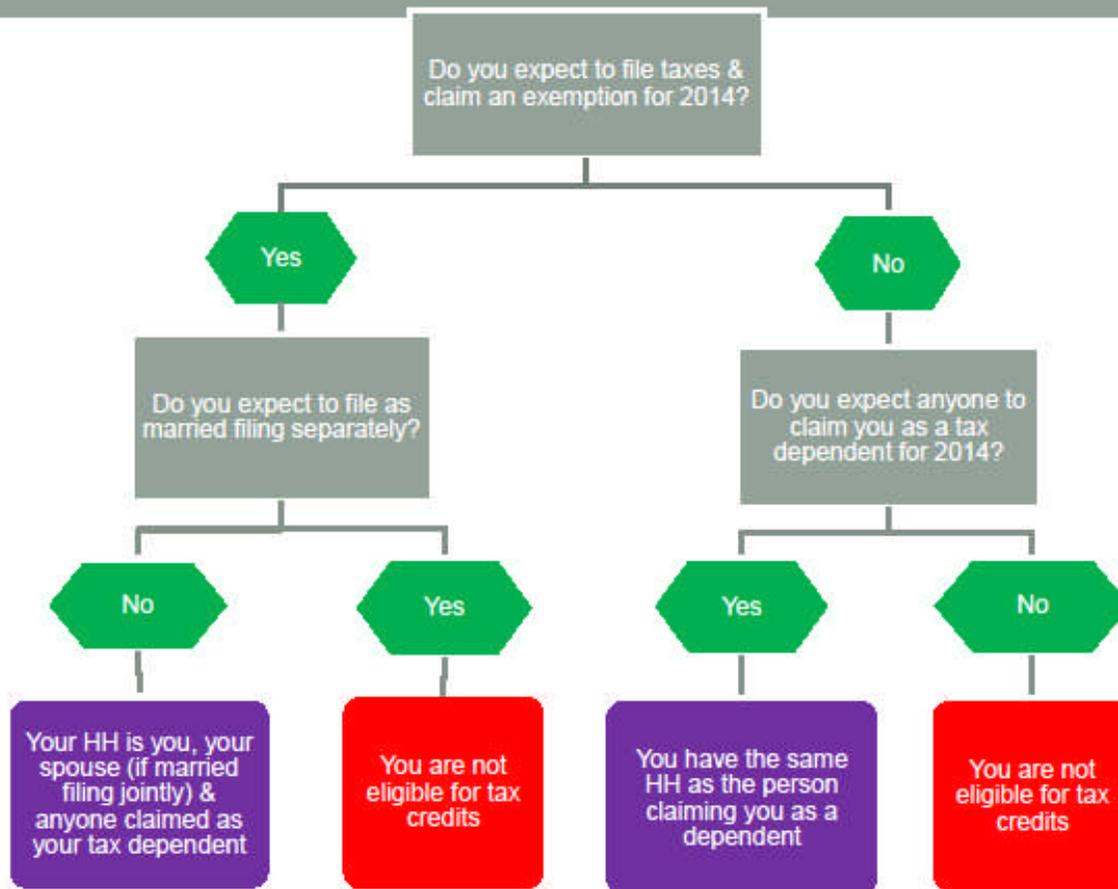
Send questions or comments to Vicky Pulos, vpulos@mlri.org, 617-357-0700 Ext. 318

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MASSHEALTH MAGI Household (HH)

* If a pregnant woman is in household, add number of babies expected to family size.



Connector MAGI Household (HH)