

DEPARTMENT OF HEALTH SERVICES

714/744 P Street
P.O. Box 942732
Sacramento, CA 94234-7320
(916) 657-0258



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

Letter No.: 01-50

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 question 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

Form 1040 Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return 2000 (09) IRS Use Only—Do not write or stamp in this space

For the year (Jan. 1–Dec. 31, 2000, or other tax year beginning in 2000, ending)

Label (See instructions on page 19.) Use the IRS label. Otherwise, please print or type

Important! You must enter your SSN(s) above

Filing Status (See page 19.)

1 Single

2 Married filing joint return (even if only one had income)

3 Married filing separate return. Enter spouse's social security no. above and full name here.

4 Head of household with qualifying person. (See page 19.) If the qualifying person is a child but not your dependent, enter this child's name here.

5 Qualifying widower with dependent child (your spouse died). (See page 19.)

Exemptions

6a Yourself. If your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a.

6b Spouse

6c **Dependents:**

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) If qualifying child for child tax credit (see page 20)
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

6d Total number of exemptions claimed

Income

7 Wages, salaries, tips, etc. Attach Form(s) W-2

8a Taxable interest. Attach Schedule B if required

8b Tax-exempt interest. Do not include on line 8a

9 Ordinary dividends. Attach Schedule D if required

10 Taxable refunds, credits, or offsets of state and local income taxes (see page 22)

11 Alimony received

12 Business income or (loss). Attach Schedule C or C-EZ

13 Capital gain or (loss). Attach Schedule D if required. If not required, check here

14 Other gains or (losses). Attach Form 4797

15a Total IRA distributions

15b Taxable amount (see page 23)

16a Total pensions and annuities

16b Taxable amount (see page 23)

17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E

18 Farm income or (loss). Attach Schedule F

19 Unemployment compensation

20a Social security benefits

20b Taxable amount (see page 24)

21 Other income. List type and amount (see page 25)

22 Add the amounts in the far right column for lines 7 through 21. This is your total income

Adjusted Gross Income

23 IRA deduction (see page 27)

24 Student loan interest deduction (see page 27)

25 Medical savings account deduction. Attach Form 8853

26 Moving expenses. Attach Form 3903

27 One-half of self-employment tax. Attach Schedule SE

28 Self-employed health insurance deduction (see page 29)

29 Self-employed SEP, SIMPLE, and qualified plans

30 Penalty on early withdrawal of savings

31a Alimony paid b Recipient's SSN

31a

32 Add lines 23 through 31a

33 Subtract line 32 from line 22. This is your adjusted gross income

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 56. Cat. No. 11 0205 Form 1040 (2000)

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

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

- 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.