

DEPARTMENT OF HEALTH SERVICES

714/744 P STREET
CRAMENTO, CA 95814



September 16, 1983

To: All County Welfare Directors

Letter No. 83-60

TIP TAX AND WITHHOLDING FROM RETIREMENT INCOME

This letter is to provide you with policy direction concerning the new eight percent tip tax for food and beverage industry employees, and deduction of federal income tax from retirement income.

As a result of this year's federal tax law changes, food and beverage industry employers are required to allocate to their employees and then report to the Internal Revenue Services (IRS) eight percent of the gross receipts of the restaurant as tip income. Whether or not it is actually received, this eight percent allocation will appear on an employee's paycheck as gross earnings. This can result in an incorrectly increased share of cost (SOC) for Medi-Cal beneficiaries.

In determining a person's SOC for Medi-Cal, this eight percent allocation is to be disregarded. Counties are to treat employee tip income under Title 22, CAC, Section 50503 as gross earned income plus tips actually received.

A second change in the tax law allows federal tax to be withheld monthly from pensions, annuities, and other forms of deferred income, rather than requiring lump sum payments. These lump sum taxes are presently excluded as unavailable under Title 22, CAC, Section 50513 which provides that only income which is "actually available" to meet the current needs of a person shall be used in determining the Medi-Cal SOC.

If an individual chooses to have taxes withheld monthly from a retirement check, the amount withheld is to be considered as unavailable income and excluded from the SOC computation, since it is not available to meet the individual's current needs. Retirees still have the option of paying these taxes annually in a lump sum. In those instances, the taxes are to be apportioned monthly and the apportioned amount considered as unavailable income.

We are in the process of preparing regulations to implement these changes. In the interim of filing regulations, any questions regarding this letter should be directed to Kristi Banion at (916) 324-4953.

Sincerely,

ORIGINAL SIGNED BY

Caroline Cabias, Chief
Eligibility Branch

cc: Medi-Cal Liaisons
Medi-Cal Program Consultants