

DEPARTMENT OF HEALTH SERVICES

714/744 P STREET
CRAMENTO, CA 95814

September 28, 1983



To: All County Welfare Directors

Letter No. 83- 64

AVOIDING ERRORS IN COMPUTING MANDATORY DEDUCTIONS FOR TAXES, SOCIAL SECURITY
AND STATE DISABILITY INSURANCE

This letter is intended to help you reduce errors relating to mandatory Ibarra v. Dawson deductions from earned income. (See All County Welfare Directors Letter 83-30).

Persons Affected

The Ibarra decision applies to any earned income used to determine the share of cost for an AFDC-MN case (including those in which a stepparent's income is used), for a medically indigent (MI) pregnant woman or for a medically indigent child. These mandatory deductions are not made in cases where an AFDC-MN or MI person is included with his/her ABD-MN spouse or child.

What is Deducted

When determining eligibility and share of cost for an AFDC-MN MFBU or specific medically indigent persons, all amounts paid for Federal, State and local taxes and all contributions to Social Security and State Disability Insurance (SDI) must be subtracted from the gross earnings. These deductions are made only for these specific items and not for amounts withheld for such things as charitable contributions, union dues, or pension plans. In many cases, a beneficiary's net ("take home") pay does not represent his/her gross earnings minus the mandatory tax deductions.

If your office is still using the October 1980 version of the Statement of Facts for Medi-Cal (MC 210), do not be confused by the wording of Question 23B which speaks of deductions for mandatory retirement, mandatory union dues and mandatory deductions for meals. The Ibarra decision applies only to mandatory tax, Social Security and SDI deductions. The current (July 1982) revision of the MC 210 does not refer to any of the deductions as being mandatory.

Sequence of Deductions

The deductions for taxes, Social Security and SDI are subtracted from gross earned income before any deductions for work-related expenses, dependent care, \$30 and 1/3, court-ordered alimony or child support, or health insurance premiums.

Form to be Used

Enter the mandatory Ibarra withholding information on the August 1982 Allocation/Special Deduction Worksheet (MC 176 W). Since the form does not include a line for these deductions, use the boxes on line 3 (Work Expenses) of Part IV (AFDC-MN/MI Earned Income Deductions) for this purpose. Show how much has been deducted for the mandatory amounts and indicate whether \$75 or \$50 has been deducted for work expenses. If the mandatory deductions are \$200 for a full-time employee, the box would show: \$200/\$75. Similarly, \$100/\$50 would be used for \$100 deducted from the pay of a part-time employee.

Conversion Factors

Be sure to use the same conversion factors when computing both a beneficiary's monthly income and deductions. When a beneficiary is paid every week, multiply his/her gross earned income and the mandatory deductions by 4.33 to get the monthly amounts. When he/she is paid every other week, use 2.167 as the conversion factor to arrive at the monthly amounts. Multiply by two if he/she is paid twice a month.

Abbreviations

Abbreviations used on check stubs for taxes, Social Security and State Disability Insurance may vary. FICA (Federal Insurance Contributions Act) and SDI are almost universally employed to designate the amounts withheld for Social Security and State Disability Insurance. Federal, State and local taxes are abbreviated in various ways, however. For example, STW, SIT, FTW, FW/H, FIT, can be used to stand for State and Federal Tax Withholding.

If you have any questions about this letter, please contact Kristi Banion at (916) 324-4953.

Sincerely,

ORIGINAL SIGNED BY

Caroline Cabias, Chief
Eligibility Branch

cc: Medi-Cal Liaisons
Medi-Cal Program Consultants