

MEDICAID ALERT

May 29, 2015

Treatment of Income of a Dependent Under MAGI- Like Budgeting Rules

The purpose of this Alert is to provide clarification regarding the treatment of a dependent's income under Modified Adjusted Gross Income (MAGI) budgeting rules.

The MAGI methodology uses federal tax rules to compute countable income. Under MAGI rules, the income of a child, or tax dependent who is not required to file a tax return, is not included in the household income. This is true whether or not the child/tax dependent actually files a tax return. The income threshold to determine whether a child/tax dependent is required to file a tax return changes each year and can be found on the Internal Revenue Service's (IRS) website.

The income thresholds for dependents for tax year 2014 are \$6,200 for earned income and \$1,000 for unearned income. If a dependent has **earned income only** and it exceeds \$6,200, the dependent must file a return. If a dependent has **unearned income only** and it exceeds \$1,000, the dependent must file a return. If a dependent has both earned and unearned income **and one** income type exceeds the IRS threshold, the dependent must file a return. In addition, if a dependent has both earned and unearned income and each is less than the applicable threshold, the dependent, nevertheless, must file a return if the **combined (gross)** income exceeds the larger of \$1000 or the amount of the dependent's earned income (up to \$5850) plus \$350.

It is important to note, however, that Title II income, which includes Social Security dependent income (for example, a child receiving a Social Security benefit due to a

disabled or deceased parent), is not considered in determining whether the child's unearned income exceeds the \$1,000 threshold. Thus, when calculating a "MAGI-Like" budget that includes a child under age 21 who is living with his or her parent(s) or caretaker relative(s), if the child only has Title II income, the child is not required to file a return, and the child's Social Security benefit should not be included in the budget.

A child's Social Security benefit should be included in the budget only when:

- the child's earned income exceeds the applicable IRS threshold **OR**
- the child's unearned income (other than Title II income) exceeds the applicable IRS threshold **OR**
- the child's combined earned and unearned income exceeds the larger of \$1,000 or the amount of the child's earned income (up to \$5850) plus \$350.

When a dependent child under age 21 who is living with his/her parent/caretaker relative has other income, either earned or unearned, and does not have Title II income, the same threshold rules apply. These rules do not apply to a 19 or 20 year old who is living alone.

For more detailed information, please refer to GIS 15 MA/08.

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