Issue 67: INSIDER'S EDGE: Adult Dependents Who Are Not Children or Spouses

Meet Aimee and Ray, Insiders!

Dear Marge,

We have received conflicting information about the following scenario. Aimee lives with her boyfriend, Ray, who claims her as a dependent on his taxes. He makes $75,000 a year. Aimee does not have any income and does not plan to file taxes. Does Ray's income count for Aimee's Medicaid application? What about for determining Aimee's eligibility for advance premium tax credits (APTC) and cost-sharing reductions (CSR) to help pay for a qualified health plan (QHP)?

--Curious Readers from Talbot County

Great question! In this case, I imagine some of your confusion may arise from the fact that this seemingly simple household is treated differently for purposes of determining Medicaid eligibility and eligibility for APTC and CSR. The short answer: Ray's income will count for Aimee's application for APTC/CSR, but not her application for Medicaid. Want to know why? Of course you do!

Some readers may be wondering if Ray can even claim his girlfriend, Aimee, as a dependent. Although Aimee isn't related to Ray, she may still meet the requirements of a "qualifying relative". Under IRS rules, a "qualifying relative" can be claimed by a tax filer as a dependent if certain requirements are met (e.g., low income, depends on tax filer for at least one half of financial support, is a relative **or a non-relative who lives with the taxpayer year round**). To learn more about how to determine if an individual is a qualifying relative, visit http://www.irs.gov/publications/p17/ch03.html#en_US_2013_publink1000170933 and see the section "Qualifying Relative".

<u>The Basic Rules: Household Construction and Income</u>

Generally, the household includes:

- The taxpayer,
- The taxpayer's spouse (including stepparents) AND
- Anyone the taxpayer claims as a *dependent*.
    - For example, the taxpayer's older children will count toward the family size if the taxpayer claims them as a dependent *even if* they don't live at home.

An applicant's income will be the modified adjusted gross income (MAGI) of all individuals in an applicant's household who are expected to file taxes.

APTC and CSR

When applying for APTC/CSR, the basic rules apply. Therefore, Ray and Aimee are considered members of the same tax household because Ray claims Aimee as a dependent. However, so long as Aimee's income is below the threshold requiring filing of a tax return, her income will not count toward the total household MAGI.

So what are the households in this situation?

- Aimee: Household of 2—Aimee + Ray
- Ray: Household of 2—Ray + Aimee

So what will the income be for the two households?

- Aimee: $75,000
- Ray: $75,000

Medicaid: The Exceptions

For Medicaid applications, there are a number of situations in which the household construction and MAGI rules used differ from the basic rules. When these exceptions arise, the Medicaid household for the applicant is constructed based on the relationships between the family members and is not based on tax filing relationships. The exceptions that trigger use of the relationship-based rules are:

- **Applicant is not planning to file taxes;**
- **Individual is claimed as a dependent by person who is not a parent or step-parent, for example, a grandparent or other caretaker relative;**
- Child lives with both parents, but only one parent will claim the child as a tax dependent; and
- Child lives with a custodial parent but will be claimed as a tax dependent by a noncustodial parent.

In this case, Aimee does not plan to file taxes and she has been claimed as a dependent by a person who is not her parent or step-parent, so the relationship-based rules will apply. For adults, under the relationship-based rules, a household consists of the:

- Adult applying for coverage;
- Applicant's spouse, if living with the applicant; and
- Applicant's natural, adopted and stepchildren, or any child for whom they act as a caretaker, up to age 21, if living with the applicant.

So what are the households in this situation?

- Aimee: Household of 1—Aimee (*Remember, Aimee and Ray aren't married.*)
- Ray: Household of 2—Ray + Aimee (*The basic rule applies.*)

With respect to dependents who are not children or spouses, their income is included in the household income of the person who is claiming them (i.e., Ray, the claiming tax filer) **only if** they are expected to file a tax return. However, the income of these dependents (i.e., Aimee) is included in the household created to evaluate the dependent's eligibility for coverage regardless of whether or not they are required to file taxes.

In this case, because Aimee is not planning to file a tax return, her income will not impact Ray's household income when it comes to considering his Medicaid eligibility. However, if Aimee earned any income (even if it's not enough to require her to file a tax return), it would be included as part of her household's income for her Medicaid application.

So what will the income be for the two households?

- Aimee: $0
- Ray: $75,000

That's it for now! Have a question? Send it my way, dhmh.medicaidmarge@maryland.gov.