COLORADO
Department of Health Care Policy & Financing

MODIFIED ADJUSTED GROSS INCOME BASED DEDUCTIONS

Frequently Asked Questions

What is a deduction?

A deduction is an amount that an applicant or client can subtract from their gross income to get their adjusted gross income. A deduction is based off of the U.S. Tax Code, and the adjusted gross income is used to help determine whether they qualify for Modified Adjusted Gross Income-based Medical Assistance (Medicaid and Child Health Plan *Plus* (CHP+)), tax credits, or other help purchasing health insurance.

What is gross income?

An applicant or client's total income before subtracting taxes or deductions.

What is Adjusted Gross income?

It is an applicant or client's gross income with certain deductions subtracted from it.

What is Modified Adjusted Gross Income (MAGI)?

It is an applicant or client's adjusted gross income with three things added back into it.

- Foreign earned income and housing expenses for citizens or residents of the United States living abroad;
- Tax exempt interest the tax filer receives or accrues; and
- Non-taxable Social Security benefits.

Are deductions connected to the 5% income disregard?

The 5% income disregard was introduced as part of the Affordable Care Act (ACA) in order to replace the traditional disregards used to help determine if applicants or clients qualify for Medicaid or CHP+ prior to the ACA.

The 5% income disregard is not a deduction. Deductions are used in order to determine what the applicants MAGI is. The 5% income disregard is only applied after the MAGI has been calculated. If you would like more information on the 5% income disregard you can look at the 5% disregard FAQ, found at:

Colorado.gov/hcpf/training-topics-reference-documents-and-guides

What deductions can be used to determine if someone qualifies for Medicaid, CHP+ or tax credits to help purchase private health insurance through Connect for Health Colorado?

The following tax deduction can be used to determine adjusted gross income. Some specific deductions allowed include:

- alimony paid;
- student loan interest;
- contributions to your traditional Individual Retirement Account (IRA);
- Health Savings Account (HSA) deduction;
- moving expenses;
- a deduction for a penalty on the early withdrawal of savings;
- certain reimbursement of expenses;
- domestic production activities deduction;
- certain business expenses of
    - reservists.
    - artists, and
    - fee based government officials

Also, for self-employed individuals most business expenses associated with their self-employment can be deducted from their adjusted gross income.

This list doesn't seem to reflect what is currently in the rule. Will the rule be updated to reflect this list of allowable deductions?

The rule will be updated to ensure that it is in compliance with the deductions that are allowable under federal law for determining eligibility for Medicaid and CHP+.

What deductions are not allowed to subtract from gross income?

The following tax deductions are not allowed to determine adjusted gross income; the standard deduction, the personal exemption, nor most itemized deductions. Itemized deductions include personal deductions such as home mortgage interest.

Can someone deduct their home mortgage interest from their income?

The general rule is that an applicant cannot subtract their home mortgage interest to determine if they qualify, because it is a personal deduction. There is one exception to the general rule and that is if they are self-employed and their place of business is their home, then they can deduct the portion of their home mortgage interest associated with the portion of their home that they use for their business. They are not allowed to deduct the portion of their home mortgage interest that is a personal expense

Why are itemized deductions not allowed?

Most itemized deductions are for personal expenses. Most personal expenses are not allowable deductions. For individuals that are self-employed a number of itemized deductions are business expenses. Those self-employment business expenses are allowable deductions.

Are child care expenses, flexible spending accounts, employer sponsored health insurance, and contributions to 401k deductible from an applicant's income?

These items are not allowed as deductions.

Are deductions different when determining if someone qualifies for tax credits to purchase private health insurance through Connect for Health Colorado?

No, the deductions that are used to determine if someone qualifies for Medicaid, CHP+ or tax credits to purchase private health insurance through Connect for Health Colorado are the same.

Is income counted differently for Medicaid, CHP+ and tax credits to purchase private health insurance through Connect for Health Colorado?

In general, most income is counted the same way. There are some differences.

- Medicaid and CHP+ look at your current or prior month's income;
- Medicaid and CHP+ count income you may have received as a lump sum only for the month it was received;
- Medicaid and CHP+ do not count certain American Indian/Alaska Native income; and
- Medicaid and CHP+ do not count money from scholarships, awards, or fellowships so long as they are used for educational expenses and not for living expense.

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