**Policy Clarification**

**Medicaid – All**

**PMA-19662-312**

|  |  |
| --- | --- |
| **Submitted:** 11/01/2019 | **Agency:** CAOs |
|  |  |

|  |
| --- |
| **Subject:** Self-Employment Tax Deduction for Modified Adjusted Gross Income (MAGI) Medical Assistance (MA)  **Question:** When should the CAO apply the self-employment tax deduction for MAGI MA eligibility determinations? |

|  |  |
| --- | --- |
| **Response by:** Division of Health Services | **Date:** |

If the self-employed individual files a tax return, the caseworker will use the deduction for the deductible part of self-employment tax listed on line 27 of IRS Form 1040, Schedule 1. The caseworker must request the entire tax return when reviewing self-employment income.

If the self-employed individual has not yet filed, but intends to file taxes for the current year, the caseworker will manually calculate 7.65 percent of the individual’s net profit and enter the result as the “deductible part of self-employment tax” deduction in eCIS on the Tax Deduction screen.

Example: A self-employed individual who has not yet filed but intends to file taxes for the current year verifies gross monthly income of $2,500 and allowable costs of self-employment of $800 a month. The caseworker will take the following steps to calculate “deductible part of self-employment tax” deduction:

1. Calculate the net profit to be $1,700 ($2,500-$800).
2. Multiply $1,700 by 0.0765 to get $130.05 per month.

Reminder: Tax deductions are not allowed for individuals whose eligibility is determined using non-filer rules.

This information will be updated in Chapter 312 of the Medical Assistance Handbook, which will obsolete this Policy Clarification.