



Policy Clarification 2023-05-01

Title: Pre-tax and Federal Deduction Clarifications

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Program(s) Impacted: All Medical Programs

The purpose of this document is to provide clarification of policies and processes surrounding pre-tax and federal deductions. The following topics are included:

- Pre-tax deductions when zero earnings are reported
- Pre-tax deductions at review
- Pre-tax deductions and prior medical budgeting

The direction provided here is effective upon release and retroactively as needed.

A. Pre-tax Deductions when Zero Earnings are Reported

Per [PM2021-07-01](#), when a consumer reports over \$300.00 in pre-tax income deductions (also called pre-tax withholdings) or federal deductions, staff are required to request hard copy verification prior to applying the deductions to the earned income. The memo also states that verification would be requested even if the amount reported would not make a difference in eligibility as the consumer must be afforded the opportunity to have their income withholdings applied to their countable income (with the exception of when they will exceed income guidelines for all programs with or without the deductions included).

- 1. Pre-tax Income Deductions** – Pre-tax income deductions/withholdings are only applicable to earnings from an employer. These are the amounts withheld by the employer from the taxable income, such as health insurance premiums, Health Savings Account (HSA) deposits, etc. In instances where a consumer reports no earned income, we would not expect there to be pre-tax income deductions/withholdings. If a consumer with no earnings does report a pre-tax deduction type that would only fall under the employer category, clarification will need to be requested due to conflicting information. The reasoning should be clearly noted in the case file.

If the consumer with no reported earnings answers ‘no’ to the question regarding pre-tax deductions and then reports an expense that could have potentially been a type of pre-tax withholding from earnings, it is acceptable to assume that the reported expense is *not* a pre-tax withholding. Further clarification should not be

requested from the consumer since they have already attested to zero earnings, and pre-tax withholdings only apply to earnings.

Example: Application is received reporting zero earnings and no pre-tax deductions. The consumer reports \$305.00 per month in healthcare premiums in the expense section of the application. There is no need to clarify or request verification of the premiums as it can be assumed that since there are no earnings, the premiums are not a pre-tax deduction.

NOTE: For Elderly & Disabled (E&D) or Long Term Care (LTC) applications that report this scenario, the healthcare premium(s) would be considered an expense and verification of the expense required prior to allowing the expense to reduce the spenddown/share of cost.

- 2. Federal Deductions** – Federal deductions are different from employer income deductions as they generally reduce the amount of overall income that is subject to tax at the end of the tax year. For this reason, it is possible for an applicant to have no income at the time of application but to claim a federal tax deduction based on how they have filed or intend to file taxes.

If the consumer reports federal deductions but has no countable earned or unearned income, the deduction should be entered on the Expense screen in KEES (with a category of MAGI deductions). If the amount exceeds \$300.00, verification will be needed in order to apply the expense. As there is no countable income, the deduction will have no impact on the income determination; however, it will populate on the passive or pre-populated review form at the next review and allow the consumer to report changes or provide verification as needed.

Example: Application is received reporting \$305.00 per month in IRA deductions. Zero countable income is verified for the household. Verification of the IRA federal deduction is requested from the consumer. If verification is received, the amount of \$305.00 is added to the Expense screen as a MAGI deduction. If not, processing is completed without the deduction.

B. Income/Federal Deductions at Review

At the time of implementation of pre-tax and federal deductions, fields were added to the passive and pre-populated review forms to include the reported amounts. When a household receives a review form (passive or pre-populated), the amount listed in KEES will populate on the form to allow the consumer the opportunity to make changes as needed.

For pre-populated reviews only, if the consumer reports or continues to report an amount over \$300.00, standard verification rules apply. The amount will need to go through the verification process, and if the consumer fails to verify the reported amount, it will not be used in the determination for ongoing coverage. Additionally, if the consumer leaves the response section blank for pre-tax and/or federal deductions (with the exception of healthcare premiums for E&D/LTC reviews), additional clarification from the consumer (and verification if the amount exceeds \$300.00) is required prior to allowing the deduction towards the review determination.

C. Prior Medical Pre-tax Deductions

Prior medical (PM) income budgeting method is contingent on whether significant income changes occurred in the three months prior to the application. When a consumer requesting PM reports changes in the three months prior to the application and we are unable to approve using the PM simplification (see [PC2021-11-01](#)), actual income is budgeted for each requested prior medical month. Actual income is the sum of all the countable income received in a specific month (vs. prospective income which is based on an average).

NOTE: The PM Simplification is only applicable to Family Medical Programs. Actual budgeting policies apply to E&D and LTC programs when changes are reported in any requested prior medical month per MKEESM 1322.4 (4)(b).

If actual income is being budgeted for PM months, actual income deductions are used for those months as well vs. the prospective amount. Actual income is typically verified through Tier 3 (case file/TALX) or Tier 4 (hard-copy request from the consumer) and in many cases those sources will include information regarding deductions.

If an applicant will be eligible using verified actual earnings/income during the PM months without the application of pre-tax deductions, and we are unable to verify actual pre-tax deductions for PM months alone, it is acceptable to complete the PM determination without including them. **This would be for the PM determination only.** They should still be included in the current/prospective determination for ongoing coverage, per PM2021-07-01.

Example: Application is received June 5th requesting PM coverage with an income change reported for the PM months. Pre-tax deductions are reported in the amount of \$200.00 per month. PM simplification cannot be used. Actual income is budgeted for the months of March, April, and May using Tier 3/TALX amounts. TALX does not provide pre-tax deduction amounts, but the applicant will qualify for Medicaid using the full income amounts for the PM months. PM may be approved based on the TALX amounts without applying the deductions. For the current determination, \$200.00 will be entered as withholdings and deducted from the gross income based on the consumer's attestation.

For questions or concerns related to this document, please contact the KDHE Medical Policy Staff at KDHE.MedicaidEligibilityPolicy@ks.gov.

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Questions regarding any KEES issues are directed to the KEES Help Desk at KEES.HelpDesk@ks.gov.