477-000-030-- Treatment of Life Estate Income Examples

Example 1

Client in a nursing home has a life estate interest in a farm and a house in town. The house in town is not being rented out, but a grandson is living there rent free. The farm is being rented out for an annual cash rent total of $8,000. There is a copy of this cash rent agreement in the case file. The real estate taxes on the farm are $1,500 per year. The insurance on the farm is $500 per year.

We do not allow any expenses on the house in town because it is not producing any income.

The farm net income is:

$8,000 cash rent - $2,000 (taxes and insurance) = $6,000 divided by 12 = $500 per month.

Total countable monthly unearned life estate income is $500 per month.

Example 2

Married couple on Medicaid as aged clients live together in a house in town. Six years ago they deeded their farm to the children and retained a life estate. Mr. drives out to the farm most weekdays and helps his son, who lives on the farm, with minor chores. The verbal agreement and actual income distribution with the son has been a 60/40 crop and expenses split. The couple files a self-employed tax return.

This is not a self-employed situation for Medicaid.

The self-employed tax return can be used to help verify the sale of product and the allowable related expenses.

Since your clients are to receive 40% of product (grain, hay, livestock) sale and have 40% of cost (fertilizer, seed, fuel, repairs) + full responsibility for taxes and insurance, you will need to confirm with the client that the product income and expenses on the tax form are reflective of that arrangement.

The result will be used as unearned income in the client's budget.

Example 3

Client in a nursing home that deeded the farm to the son many years ago and retained a life estate. The son, who farms the ground, has not been sharing any of the income produced with your client, but your client has been paying the taxes and insurance.

There is no income being produced for your client and the taxes and insurance cannot be allowed as an expense from other income.

Example 4

Client deeded the farm to the son several years ago and retained a life estate. The agreement with the son is a 60/40 crop and expense split. The son, who farms the land, drilled a new well and terraced the land. The son claims these expenses were charged against mom's share of the income and there is no remaining income to give her.

Capital improvements such as new terracing, updating a home, new wells and irrigation for prior dry land farming, are not allowed as an expense for the life estate holder. These are capital improvements to real property that is owned by the remainderman.