

477-000-051 – Partnership/S-Corporation Income

For MAGI:

S-Corporations and Partnership do not need to be reviewed by Central office as all business expenses are allowed per MAGI-based methodologies. If the Hub does not produce a match to verify the client's attested income, the income amount reported on the client's personal return (with all schedules and attachments) along with their schedule K-1 issued from the S-Corporation and/or Partnership should provide enough information to make a determination of the countable income.

For Non-MAGI:

S-Corporations and Partnership returns do need to be reviewed by Central Office.

Schedule E

- When a household's Federal Income Tax return (1040) shows income or a loss on Line 17, the amount shown will also be reflected on their Schedule E ("Supplemental Income and Loss").
- The Schedule E will indicate the type(s) of supplemental income or losses being reported. Part I of the Schedule E shows "Income or Loss from Rental Real Estate and Royalties," and most expenses shown on Side 1, except for depreciation & depletion, are allowable.
- Part II of the Schedule E, "Income or Loss from Partnerships and S Corporations," will indicate to the case manager if the household is involved in a Partnership or an "S" Corporation.
- If there is an entry in Part II of the Schedule E, the case manager must request tax documents in addition to the household's Federal Income Tax return (1040) based on the type of income or a loss reported:

Partnerships:

- If Part II of the Schedule E shows a "P" in the area designated "Enter "P" for partnership; "S" for S Corporation," the household is involved in a Partnership.
 - This means that the case manager will need to request certain IRS documents which are related to the status and income of the Partnership. The following IRS documents will be needed in order to determine the countable Partnership income:
 - *IRS Form 1065 ***U.S. Partnership Return of Income*** – usually four pages in length, however, the "balance sheet" may not be included if it is not used;
 - Schedule K-1 Form 1065 ***Partner's Share of Income, Credits, Deductions, etc.*** – two pages in length, but sometimes the second page is not completed;
 - (As Appropriate) – If the Partnership is involved in a farming operation, the Partnership must file a Schedule F.

*Each partner in the Partnership should either have or be able to obtain a copy of the Partnership return and appropriate schedules.

"S" Corporations

- If Part II of the Schedule E shows an "S" in the area designated "Enter "P" for partnership; "S" for S corporation," the household is involved in an "S" Corporation.

- An “S” Corporation is a pass-thru small business. All income and expenses pass thru to the individual shareholders by their percentage of ownership. The following IRS documents will be needed in order to determine the countable “S” Corporation income:
 - *IRS Form 1120S ***U.S. Income Tax Return for an S Corporation***—four pages in length;
 - Schedule K-1 (Form 1120S) – ***Shareholder’s Share of Income, Deductions, Credits, etc.*** – two pages in length;
 - (As Appropriate) – If the “S” Corporation is involved in a farming operation, the corporation must file a Schedule F.

*Each shareholder of an “S” Corporation should either have or be able to obtain a copy of the 1120S, their Schedule K-1, and other corporate schedules as appropriate.

Other information

Part II of the Schedule E will also show if the involvement in the Partnership or “S” Corporation is passive or nonpassive. If the involvement is passive, the income is treated as unearned income. If the involvement is nonpassive, the income is treated as earned.

If a household member is an employee of a regular, or “C” Corporation, s/he will receive a W-2; income from this source is reported on Line 7 of their 1040 and is treated as regular wages. A copy of the Corporate tax return, IRS Form 1120, is not required, only verification of the income received from the Corporation.

As a general rule, when more documentation is initially provided, a more prompt determination of countable income can be made. When submitting documents to Medicaid Long-Term Care Policy for a determination of countable income, please include the household’s 1040, any schedules (such as the Schedule A, Schedule E, Schedule F, etc.) accompanying the household’s tax return and the business return (as appropriate).