

	GEORGIA DIVISION OF FAMILY AND CHILDREN SERVICES		
	MEDICAID PROCEDURE MANUAL		
	Chapter:	2400	Effective Date:
Policy Title:	Rental Income		
Policy Number:	2410	Previous Policy Update:	MT 38

REQUIREMENTS

Any rental payment which an A/R receives for the use of real or personal property, such as land, housing or machinery is included as income to the A/R in the Medicaid financial eligibility and patient liability/cost share budget.

BASIC CONSIDERATIONS

Net rental income is gross rent less the ordinary and necessary expenses paid in the same federal/state income tax year.

Ordinary and necessary expenses are those necessary for the production or collection of rental income. These expenses include the following:

- interest on debts
- state and local taxes on real and personal property and on motor fuel
- general sales taxes
- expenses of managing or maintaining property.

Net rental income is unearned income unless it is earned income from the self-employment of someone who is in the business of renting properties.

PROCEDURES

Deductible Expenses

Deduct the following ordinary and necessary expenses as expenses for the month they are paid:

- the interest and escrow portions of a mortgage payment at the point the payment is made to the mortgage holder
- repairs such as minor corrections to an existing structure
- property taxes
- fire and hazard insurance
- lawn care
- snow removal

PROCEDURES (cont.)**Deductible Expenses (cont.)**

- advertising for tenants.

Nondeductible Expenses

Do not deduct the following expenses from rental income:

- the principal portion of a mortgage payment
- a capital expenditure, which is an expense for an addition to or increase in the value of the property
- the property depreciation amount claimed as a federal income tax deduction.

Determining Net Rental Income

Follow the steps below to determine net rental income to include in the eligibility and patient liability/cost share budgets.

- Step 1** Determine the gross rent received.
- Step 2** Obtain statements from two reliable sources, such as realtors, as to the Current Market Value (CMV) for the rental of a comparable property. Use the higher of the two amounts.
- Step 3** If the property is leased to an individual/business and is subsequently sub-leased for a higher amount, count the higher amount of the lease payment as income to the A/R.
- Step 4** Determine the deductible expenses paid each month.
- Step 5** Subtract the deductible expenses from the gross rent to determine the net rental income.

If the expenses exceed the gross rent for a month, deduct the excess expenses as follows:

- Subtract the excess expenses from the next month's gross rent.
- Continue to subtract the excess expenses from each month's gross rent through the end of the tax year.

If excess expenses remain after subtracting expenses through the end of the tax year, deduct the remaining excess expenses as follows:

- Subtract the excess expenses from the gross rent received in the month prior to the month the expenses were paid.
- Continue subtracting the excess expenses from each month's gross rent as necessary back to the beginning of the tax year until they are exhausted.

PROCEDURES (cont.)**VERIFICATION**

Use documents in the individual's possession such as bills, receipts, etc., to verify the gross rent and the dates received, and the expenses and the dates paid.

NOTE: The individual's most recent federal tax return including Schedule E is helpful in identifying past expenses and in estimating future rental income.

If documents are not available, obtain a signed statement from the A/R. Include an allegation of the gross rent and expenses paid for the period involved.

NOTE: Do not contact the tenants to verify the allegations.

Contact the local Internal Revenue Service (IRS) or refer to IRS Publication 527 if you are uncertain whether an expense is allowable, such as whether it is an incidental repair or a capital expenditure. Document the information obtained from the IRS.

SPECIAL CONSIDERATIONS

Apportion net rental income equally when there is more than one owner.

- Split the gross rent between two joint owners before expenses are paid.
- Deduct expenses paid by the A/R from his/her portion of the gross rent.
- Accept a signed statement from the A/R if it explains why apportionment should not be equal.

Use evidence from the retroactive period to estimate net rental income for the next 12 months. Deduct only predictable expenses, such as utilities, interest payments, taxes, etc.

Deduct an unpredictable expense if reported in the month paid. If the expense exceeds the rent for that month, recalculate the rest of the estimated period as necessary using the steps in *Determining Net Rental Income* under PROCEDURES in this section.

Use an individual's amortization schedule to determine the mortgage interest expense. If a schedule is not available, divide the yearly interest by twelve to determine monthly interest.