20. Income Deductions

20.1 Standard Deduction [63-502.31]

Exception:
Allow one per household, per month. “Deductions,” page 2-2 for chart.

20.2 Earned Income Deduction [63-502.32]

Allow 20% of gross earned income as an earned income deduction.

Exception:
Do NOT allow the earned income deduction when computing an overissuance for that portion of earned income which the household intentionally failed to report (i.e. IPV), as proven by:

• an administrative disqualification hearing, or
• a court of appropriate jurisdiction.

Exception:
Do not allow the 20% earned income deduction on any unreported portion of the earned income.

20.3 Excess Medical Costs [63-502.33]

20.3.1 Definition

Allow a deduction for unreimbursed medical expenses in excess of $35.00 per month incurred by any household member who is:

• Receiving disability benefits under the Social Security Act on their own account,
• Age 60 or older.

When a household member turns 60, allow a deduction for medical expenses in the month after the 60th birthday.

20.3.2 Allowable Expenses

Excess medical costs shall include expenses for:

• Medical and dental care, including psychotherapy and rehabilitation services provided by a licensed practitioner or other qualified health professional authorized by state law.

• Hospitalization or outpatient treatment, nursing care, and nursing home care, including payments by the household for an individual who was a household member immediately prior to entering a hospital or nursing home, provided by a facility authorized under state law.

• Prescription drugs and other over-the-counter medication (including insulin) when prescribed by a licensed practitioner or other qualified health professional. In addition, costs of medical supplies, sick-room equipment (including rental) or other prescribed equipment (e.g. teletypewriter for the deaf) are deductible.

• Postage and handling costs associated with the shipment of prescription drugs are considered a deductible expense.

• The cost of the postage for mail-order prescription medication is part of the cost of the prescription medication, therefore it is also a deductible expense.

• Health and hospitalization insurance policy premiums. Do not allow the cost of:

• Sickness and accident policies such as those payable in lump-sum settlements for death or dismemberment.

• Income maintenance policies such as those that continue mortgage or loan payments while the beneficiary is disabled.

• Medicare premiums.

• Medicare Prescription Drug Card Program:

• The $600 prescription drug credit will be budgeted at $50 per month for twelve months.
• The prescription drug credit will be allowed to any cardholder whose income is no more than 130% of the FPL.

• The $50 per month is allowed regardless of whether out-of-pocket expenses are incurred by the participant.

Example:
A client received the drug discount card and a $600 prescription drug credit in October 2004, the EW will budget $50 as a medical expense for the next 12 months, regardless of whether the client has a break in benefits.

• Prescription drug card discounts will be budgeted at $23 per month, regardless of whether the client is eligible for the $600 credit or they actually incur any drug costs.

Example:
If the client is entitled to the $600 credit, the household would receive a $50 and a $23 medical expense deduction (total $73), plus any out-of-pocket expenses. (If out-of-pocket expenses did not exceed $35, then no out-of-pocket expenses would be allowed.)

• The $30 enrollment fee will be budgeted as follows:
  • For change reporting households, average over the remaining months on the CalFresh certification period.
  • For reporting households, average over the current and remaining months of the current SAR payment period.

Note:
The $35 excess medical deduction is only applied to out-of-pocket expenses. The Medicare prescription drug credit, prescription drug card discount and enrollment fee are not considered out-of-pocket expenses.

• Any share of cost or spend down expenses for medical costs incurred by Medi-Cal recipients, including any allowable medical expense incurred, reported, and verified that is NOT covered by Medi-Cal.

• The cost of securing and maintaining any service animal such as, but not limited to a seeing eye, hearing or service dog (guard dog for the disabled), and the cost of dog food and veterinarian bills.

• Eye glasses or contact lenses prescribed by a physician skilled in eye disease or by an optometrist; dentures, hearing aids and prosthetics (including assistive devices).
Income Deductions

• The actual cost of transportation, provided that it does not exceed the actual cost of the least expensive mode of transportation (including public transportation) reasonably available to the recipient. When a more costly means of transportation, such as a taxi or private auto, is the only means available or is determined by the county to be reasonable and necessary given the individual's medical circumstances, the actual costs of such transportation shall be allowed. DO NOT use the CalWORKs standard medical mileage allowance.

• Lodging to obtain medical treatment or services.

• The cost of maintaining an attendant, homemaker, home health aide or child care services housekeeper necessary due to age, infirmity, or illness. In addition, an amount equal to the one person coupon allotment will be deducted if the household furnishes the majority of the attendant's meals. The allotment for this meal related deduction shall be that in effect at the time of the most recent certification. The EW shall update the allotment amount at the next scheduled recertification, the next recomputation, or the next reported change by the household, whichever is earlier. If a household incurs attendant care costs that could qualify under both the medical deduction and dependent care deduction, it will be treated as a medical expense.

• 20% of the total medical bills (other than for hospital expenses) will be used as the household's medical cost when the eligible household member is covered by Medi-Care or Blue Cross/Blue Shield or private insurance and the unreimbursed portion of actual costs is UNKNOWN.

20.3.3 Nonallowable Costs [63-503.251]

Do not allow a deduction for:

• Past-due medical bills.

• Medical bills paid before the month of initial application. (However, medical bills received during the month of application may be allowed, even if the medical service was provided before the month of application.)

20.3.4 Forms

• The household must complete the Medical Expenses Section of the CF 285 or SAWS 2 Plus at Intake and Recertification.

• CF 31-"CalFresh Supplemental Form for Special Medical Deductions" is a recommended form and is used when:
• Adding a person to an existing case and the person being added is elderly (60 or older) or disabled (disability approved by Social Security), or

• An existing CalFresh household member turns 60 or is determined disabled mid-period.

20.3.5 Verification

The household member must provide verification before any deduction can be applied to the CalFresh budget. If the applicant or recipient fails to provide required verification, the medical deductions should NOT be allowed.

Examples of various types of verifications are:

• Medical bills or receipts
• Medical transportation bills or receipts
• Health or dental insurance policies or premiums
• Medicare card (for Medi-Cal only)
• Doctor statement or disability finding by an agency (SSA/SDI/VA, etc.)
• Medical verification form (CW61)

20.4 Dependent Care

20.4.1 Definition [63-502.34]

Allow actual costs for the care of a child or other dependent (such as an aged or disabled person) in the home, when necessary for household member to:

• Seek employment.
• Accept employment.
• Continue employment.
• Pursue training/education which is preparatory to employment.

The person receiving care must live in the home, but does not have to be a household member, to allow a deduction for dependent care.

20.4.2 Limit

As of October 1, 2008, the dependent care deduction limit is eliminated.
20.4.3 Verification

With the implementation of Senate Bill (SB) 672, a self-certification statement from the household is acceptable as verification for dependent care expenses. The new recommended “Dependent Care Cost Affidavit” (CF 10) can also be used.

20.4.4 Excluded Persons and Nonhousehold Members

[Refer to “Excluded and Non-household Members,” page 10-1 for budget instructions on households with these persons.]

20.4.5 Reimbursements

Dependent care costs for which the household is reimbursed shall not be allowed as a deduction when the reimbursement income is exempt. For example, a child care expense that is paid for by the CalWORKs child care program is not allowed as a deduction. If the actual verified cost of child care exceeds the reimbursement, then the unreimbursed amount can be allowed as a deduction.

Subtract the CalWORKs child care program payment from the verified actual cost of child care and allow the remainder as a dependent care deduction.

Budgeting

If the household is REASONABLY CERTAIN to receive a CalWORKs child care program payment, then:

• Subtract the anticipated CalWORKs child care program payment from the child care cost,
• Count the remainder as a deduction, and
• Average over the period.

Retroactive Payments

If a CalWORKs child care program payment is issued retroactively, do not go back to revise the dependent care deduction for current or past issuance months.
20.5 Shelter Costs

20.5.1 Limit [63-502.35]

Excess shelter costs are limited to the chart values in “Charts, Tables, and Miscellaneous,” except that there is no limit to excess shelter costs for households which include a member: “Deductions,” page 2-2.

- Age 60 or over, or
- Receiving Social Security Disability.

20.5.2 Allowable Costs


20.6 Budgeting Expenses [63-503.251, 63-503.252]

Deductions for medical, dependent care, and shelter expenses are based on amounts the household expects to be billed rather than payments.

- Calculate expenses based on those for which the household expects to be billed during the certification period.
- Use the most recent month's bills, unless the household is reasonably certain a change will occur.

20.6.1 Dependent Care [63-509.131]

Dependent care deductions will be determined as follows:
Prospective Budgeting

A deduction should be allowed only in the month the expense is billed or otherwise becomes due, regardless of when the household intends to pay the expense. For example, a dependent care expense which is due each month should be a deduction even if the household has not yet paid the expense. Amounts carried forward from past billing periods are not deductible, even if included with the most recent billing and actually paid by the household. In any event, a particular expense may only be deducted once.

Anticipating Expenses

A household’s expenses should be calculated based on the expenses the household expects to be billed for during the certification period. Anticipation of the expense should be based on the most recent month’s out-of-pocket expenses, unless the household is reasonably certain a change will occur.

If the household just started with a provider and has not yet paid for dependent care, the household’s expenses based on the out-of-pocket payments the household expects to pay during the certification period should be calculated.

Fluctuating Expenses

Some recipients may have child care expenses that vary from month to month. Current CalFresh rules allow households to elect to have expenses which are billed less often than monthly averaged forward over the interval between scheduled billings. If there is no scheduled interval, households can elect to have expenses which are billed less often than monthly averaged forward over the period the expense is intended to cover or over the remaining months of the certification period.

- Expenses paid on a weekly or bi-weekly basis should be converted to a monthly deductible expense by multiplying the weekly or bi-weekly expense by 4.33 or 2.167 as appropriate if income is also multiplied by these conversion factors. Document the rationale of the determination of the anticipated expense deduction in the case file.

Verifying Questionable Information

To be considered questionable, the information on the application must be inconsistent with statements made by the applicant and/or inconsistent with other
information received by the county. When determining if information is questionable, the county must base the decision on the household’s individual circumstances.

• A household’s report of no income while still meeting its financial obligations could require additional verification. These circumstances may not, in and of themselves, be grounds for a denial. The EW must explore with the household how it is managing its finances, whether the household receives excluded income or has resources and how long the household has managed under these circumstances.

• Where verification is required to resolve questionable information, the EW must document why the information was considered questionable, or at a minimum indicate where in the case file the inconsistency exists, and what documentation was used to resolve the questionable information.

20.6.2 Medical Expenses

For change reporting households deductions for medical expenses are determined as follows:

<table>
<thead>
<tr>
<th>If. . .</th>
<th>And . .</th>
<th>Then. . .</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurring medical expense</td>
<td>is billed monthly,</td>
<td>Budget the medical expenses as billed.</td>
</tr>
<tr>
<td>Recurring medical expense</td>
<td>fluctuates from month to month and is declared and verified at certification or recertification or during the certification period,</td>
<td>The HH may choose to have the expenses allowed in the month billed, or in the month the bill becomes otherwise due, or averaged over the certification period.</td>
</tr>
<tr>
<td>Non-recurring medical expense ***(Is one time only)</td>
<td>The HH chooses to have the expense deducted in the month billed or in the month the bill becomes otherwise due,</td>
<td>Prospectively budget.</td>
</tr>
<tr>
<td>Non-recurring medical expense ***(Is one time only)</td>
<td>The HH chooses to have expense averaged over the remainder of the certification period,</td>
<td>Averaged medical expenses MUST be Prospectively budgeted.</td>
</tr>
</tbody>
</table>

***NOTE: Any medical expense which occurred, was reported and verified during the certification period but was not anticipated and deducted MUST be considered a one-time only (non-recurring) expense.
20.6.3 Shelter Cost

Shelter costs are determined at application and recertification and must remain fixed unless the household moves or reports a change.

20.6.4 Medical Expenses [63-509.131]

For SAR households medical expenses will be determined as follows:

- Determine the expense amount that is reasonably anticipated in the certification period.

- Medical expenses paid on a weekly basis shall be converted to a monthly deductible expense by multiplying the weekly expense by the 4.33 conversion factor if the income is also multiplied by the same conversion factor.

- Medical expenses paid on a bi-weekly basis shall be converted to a monthly deductible expense by multiplying the bi-weekly expense by the 2.167 conversion factor if the income is also multiplied by the same conversion factor.

- Document in the case file the determination of the anticipated expense deduction.

20.6.5 Shelter Cost & Utility Costs [63-509.132 & 63-509.133]

Shelter costs are determined at application and recertification and must remain fixed at the determined amount unless the household moves or reports a change on the SAR 7 or makes a voluntary mid-period report.

If a mid-period reported change in shelter costs results in an increase of benefits, the benefits must be increased mid-period. The change does not need to be reported on the next SAR 7.

If a mid-period reported change in shelter costs results in a decrease of benefits, the benefits must not be decreased mid-period. A “NO Change” NOA must be sent to the household with a reminder to report the new change on the next SAR 7.
20.7 Disallowed Expenses [63-503.254]

20.7.1 Paid by Some Types of Exempt Income

Expenses paid by the three types of exempt income listed below are not deductible:

- Reimbursement
- Vendor payment
- Income-in-Kind

Expenses paid by any other type of exempt income may be allowed as a deduction.

For example, the portion of rent covered by an exempt vendor payment cannot be counted as part of the household's shelter cost. However, that portion of an allowable medical expense which is not reimbursable shall be included as part of the household’s medical expenses. Rent paid by exempt student income is allowable as a deduction.

20.7.2 Service Provided by a HH Member

Expenses are only deductible if the service is provided by someone outside the household and the household makes a money payment for the service. For example, a dependent care deduction are not allowed if:

- Another household member or excluded member provides the care, or
- Compensation for the care is provided in the form of an in-kind benefit, such as food.

20.7.3 Repeat Bills

Amounts carried forward from a previous billing period are not allowable.

20.7.4 Federal Demo Project

An expense which is covered by an excluded vendor payment that has been converted to a direct cash payment under the approval of a federally authorized demonstration project.
20.8 Excluded and Nonhousehold Member Expenses

[Refer to “Excluded and Non-household Members,” page 10-1 for treatment of excluded member income and deductions.]

20.9 Expenses Exceed Income

If a household’s expenses exceed its income, the household must be given a chance to explain the discrepancy. The client correspondence “How Meeting Needs” (CSC 32) should be mailed to the client for clarification.

<table>
<thead>
<tr>
<th>Housing</th>
<th>Net earned</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ Utilities</td>
<td>+ Unearned income</td>
</tr>
<tr>
<td>+ Food (amount of Thrifty Food Plan for household)</td>
<td>+ CalFresh allotment</td>
</tr>
<tr>
<td>+ Car payment</td>
<td></td>
</tr>
<tr>
<td>+ Dependent care</td>
<td></td>
</tr>
<tr>
<td>+ Other</td>
<td></td>
</tr>
<tr>
<td>= Expenses</td>
<td>are greater than</td>
</tr>
<tr>
<td></td>
<td>Income</td>
</tr>
</tbody>
</table>

If the household is able to offer a reasonable explanation as to how it meets its monthly expenses, this information should be documented in the case record.

If the household will be able to meet its expenses for a limited time only, the EW may determine that further verification of the client’s statements, living situation, or household composition is needed.

- In and of itself, this is not a reason to deny or discontinue the household.
- It is the recipient’s responsibility to report a change in income or circumstances.
- If the household fails to provide a reasonable explanation as to how it manages, deny the application or recertification.
- Document in the Maintain Case Comments window in CalWIN the explanation provided by client, reason for disallowing expenses, or the reason for denying or discontinuing the case.
Obtain verification or make collateral contacts to support explanations.

**Note:**
Allow the client 30 days from the date of application or recertification to provide verification before denying the case.