



RICK SNYDER  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS  
MICHIGAN ADMINISTRATIVE HEARING SYSTEM  
Christopher Seppanen  
Executive Director

SHELLY EDGERTON  
DIRECTOR

[REDACTED]

Date Mailed: June 8, 2017  
MAHS Docket No.: 17-004094  
Agency No.: [REDACTED]  
Petitioner: [REDACTED]

**ADMINISTRATIVE LAW JUDGE:** Gary Heisler

### **HEARING DECISION**

Following Petitioner's request for a hearing, this matter is before the undersigned Administrative Law Judge pursuant to MCL 400.9 and 400.37; 7 CFR 273.15 to 273.18; 42 CFR 431.200 to 431.250; 45 CFR 99.1 to 99.33; and 45 CFR 205.10; and Mich Admin Code, R 792.11002. After due notice, a telephone hearing was held on May 4, 2017, from Lansing, Michigan. Petitioner was represented by her authorized hearing representative from [REDACTED]. The Department was represented by Hearing Facilitator [REDACTED].

### **ISSUE**

Did the Department properly deny Petitioner's September 30, 2016 Assistance Application (DHS-1171) for Medical Assistance (MA)?

### **FINDINGS OF FACT**

The Administrative Law Judge, based on the competent, material, and substantial evidence on the whole record, finds as material fact:

1. On September 30, 2016, [REDACTED] submitted a Medical Assistance (MA) application and a retroactive Medical Assistance (MA) application on Petitioner's behalf. In the application both Petitioner and her spouse listed self-employment as a business owner or operator.
2. Petitioner's 2015 income tax form 1040 was submitted to the Department. In the income section, negative amounts are listed on lines; 13, for capital gain or loss and requiring a Schedule D; 17, for rental real estate, royalties, partnerships, S corporations, trusts and etc requiring a Schedule E; and 21, other income which described see statement 1 and 2. There was no amount listed on line 12 for business income or loss requiring a Schedule C or C-EZ.

3. On October 19, 2016, Petitioner was sent a Verification Checklist (DHS-3503) requesting a Schedule C for the 2015 tax return. The requested verification was due by October 31, 2016.
4. On January 10, 2017, the Department issued a Benefit Notice (DHS-176) which stated the September 21, 2016 Medical Assistance (MA) application was denied for failure to provide a completed Schedule C.
5. On March 22, 2017, [REDACTED] submitted a hearing request.

### **CONCLUSIONS OF LAW**

Department policies are contained in the Department of Health and Human Services Bridges Administrative Manual (BAM), Department of Health and Human Services Bridges Eligibility Manual (BEM), Department of Health and Human Services Reference Tables Manual (RFT), and Department of Health and Human Services Emergency Relief Manual (ERM).

The Medical Assistance (MA) program is established by Title XIX of the Social Security Act, 42 USC 1396-1396w-5; 42 USC 1315; the Affordable Care Act of 2010, the collective term for the Patient Protection and Affordable Care Act, Pub. L. No. 111-148, as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152; and 42 CFR 430.10-.25. The Department (formerly known as the Department of Human Services) administers the MA program pursuant to 42 CFR 435, MCL 400.10, and MCL 400.105-.112k.

In this case, Petitioner's application is for Medical Assistance (MA) coverage under the Health Michigan Plan (HMP). HMP is a Modified Adjusted Gross Income (MAGI) related MA category. Petitioner's income is from a Limited Liability Corporation (LLC). The Department denied Petitioner's Medical Assistance (MA) application based on the failure to submit a completed Schedule C as part of the federal income tax documentation to verify annual income.

**Bridges Eligibility Manual (BEM) 500 Income Overview** provides:

#### **Modified Adjusted Gross Income (MAGI)**

MAGI for purposes of Medicaid eligibility is a methodology which state agencies and the federally facilitated marketplace (FFM) must use to determine financial eligibility. It is based on Internal Revenue Service (IRS) rules and relies on federal tax information to determine adjusted gross income. It eliminates asset tests and special deductions or disregards.

Every individual is evaluated for eligibility based on MAGI rules. The MAGI rules are aligned with the income rules that will be applied for determination of eligibility for premium tax credits and cost-sharing reductions through exchanges.

**Bridges Eligibility Manual (BEM) 502 Income from Self-Employment states:**

**SELF-EMPLOYMENT**

**All TOA**

Individuals who run their own businesses are self-employed. This includes but is not limited to selling goods, farming, providing direct services, and operating a facility that provides services such as adult foster care home or room and board.

**Note:** S-Corporations and Limited Liability Companies (LLCs) are not self-employment.

**Self-Employment Expenses**

**MEDICAID**

Allowable expenses include those allowed by the IRS on forms such as the Schedule C or F . Depreciation, insurance other than health insurance, utilities, legal fees and office expenses are examples of allowable expenses.

Part V, other expenses on Schedule C requires documentation from the individual.

**Bridges Eligibility Manual (BEM) 503 Income, Unearned states:**

**S-CORPORATION (S-CORP) AND LIMITED LIABILITY COMPANY (LLC)**

**All Types of Assistance**

Dividend or interest income received from an S-Corp or LLC as a shareholder or partner, is unearned income. See Interest and Dividends paid directly to client in this item.

Wages paid to an individual from an S-corp or LLC are earned income. See BEM 501, Income From Employment.

**INTEREST AND DIVIDENDS PAID DIRECTLY TO CLIENT**

**All Types Of Assistance**

Bridges counts interest and dividends paid directly to an individual as unearned income. Choose unearned income type of *Interest Paid Directly to Client* and budget over the period of time intended to cover. Interest and dividends that are reinvested or deposited back into the asset are excluded as income.

**Note:** An S-corporation and LLC may pay shareholders or partners dividends and/or interest. This is unearned income to the individual.

## **VERIFICATION REQUIREMENTS**

### **All Types of Assistance except Children Under 19 (U19)**

Verify non-excluded income at all of the following:

Application, including a program add, prior to authorizing benefits.

At member add, only the income of the member being added.

Redetermination.

When program policy requires a change be budgeted.

**Exception:** For MA, Bridges accepts client statement regarding changes in income for ongoing eligibility determination groups unless you are completing a redetermination.

Use available electronic methods (for example consolidated inquiry or SOLQ) to verify income. When electronic verification is not available or inconsistent with client statement, the client has primary responsibility for obtaining verification. Do not deny assistance based solely on an employer or other source refusing to verify income; see BAM 130, **Verification and Collateral Contacts** and BEM 702, **CDC Verifications**.

BEM 502 Income from Self-Employment specifically states that LLCs are not self-employment. Therefore, the section of BEM 502 which identifies Schedule C as the verification source for Medical Assistance (MA) self-employment expenses, is not applicable to income from an LLC.

BEM 503 requires verification of income from an LLC at application and redetermination. However, BEM 503 does not identify a specific or required verification source for income from an LLC.

The Administrative Law Judge, based on the above Findings of Fact and Conclusions of Law, and for the reasons stated on the record, if any, finds that the Department did not act in accordance with Department policy when it denied Petitioner's September 30, 2016 Assistance Application (DHS-1171) for Medical Assistance (MA).

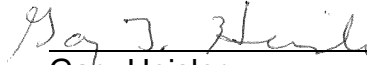
## **DECISION AND ORDER**

Accordingly, the Department's decision is **REVERSED**.

THE DEPARTMENT IS ORDERED TO BEGIN DOING THE FOLLOWING, IN ACCORDANCE WITH DEPARTMENT POLICY AND CONSISTENT WITH THIS HEARING DECISION, WITHIN 10 DAYS OF THE DATE OF MAILING OF THIS DECISION AND ORDER:

1. Re-register Petitioner's September 30, 2016 Medical Assistance (MA) application and process it in accordance with Department policy to include issuing a current eligibility determination.

GH/nr



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Gary Heisler  
Administrative Law Judge  
for Nick Lyon, Director  
Department of Health and Human Services

**NOTICE OF APPEAL:** A party may appeal this Order in circuit court within 30 days of the receipt date. A copy of the circuit court appeal must be filed with the Michigan Administrative Hearing System (MAHS).

A party may request a rehearing or reconsideration of this Order if the request is received by MAHS within 30 days of the date the Order was issued. The party requesting a rehearing or reconsideration must provide the specific reasons for the request. MAHS will not review any response to a request for rehearing/reconsideration.

A written request may be mailed or faxed to MAHS. If submitted by fax, the written request must be faxed to (517) 335-6088; Attention: MAHS Rehearing/Reconsideration Request.

If submitted by mail, the written request must be addressed as follows:

Michigan Administrative Hearings  
Reconsideration/Rehearing Request  
P.O. Box 30639  
Lansing, Michigan 48909-8139

**Counsel for Petitioner**

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**DHHS**

[REDACTED]

**Petitioner**

[REDACTED]