Ohio Administrative Code

Rule 5160:1-3-03.6 Medicaid: treatment of rental income.

Effective: December 14, 2020

(A) The purpose of this rule is to describe the calculation and treatment of rental income and expenses for medical assistance eligibility determinations.

(B) Definitions.

(1) "Net rental income" means gross rent less the ordinary and necessary expenses paid in the same taxable year. Net rental income is treated as unearned income unless the individual is in the business of renting properties, in which case the income is treated as earned income from self-employment.

(2) "Ordinary and necessary expenses" are those expenses necessary for the production or collection of rental income. In general, these expenses include interest on debts, state and local taxes on real and personal property, state and local taxes on motor fuel, general sales taxes, and expenses for managing or maintaining property.

(3) "Rent" means a payment which an individual receives for the use of real or personal property, such as land, housing, or machinery.

(C) To determine net rental income:

(1) Identify countable rental income.

(a) Rental deposits.

(i) Rental deposits are not income to the landlord while subject to return to the tenant.

(ii) Rental deposits used to pay rental expenses become income to the landlord at the point of use.

(b) Do not consider rents received in months prior to the individual's eligibility for medical assistance.

(2) Calculate allowable expenses.

(a) Deductible expenses include:

(i) Interest and escrow portions of a mortgage payment (at the point the payment is made to the mortgage holder).

(ii) Real estate insurance.

(iii) Repairs (i.e., minor correction to an existing structure).

(iv) Property taxes.

(v) Lawn care.

(vi) Snow removal.

(vii) Advertising for tenants.

(viii) Utilities.

(b) Nondeductible expenses include:

(i) Depreciation or depletion of property.

(ii) Principal portion of a mortgage payment.

(iii) Capital expenditures (i.e., an expense for an addition or increase in the value of property which is subject to depreciation for income tax purposes).

(c) Proration to determine allowable amount of expenses.

(i) In multiple family residences, if the units in the building are of approximately equal size, prorate allowable expenses based on the number of units designated for rent compared to the total number of units. If the units are not of approximately equal size, prorate allowable expenses based on the number of rooms in the rental units compared to the total number of rooms in the building. The rooms do not have to be occupied.

(ii) For rooms in a single residence, prorate allowable expenses based on the number of rooms designated for rent compared to the number of rooms in the house. Do not count bathrooms as rooms in the house. Basements and attics are counted only if they have been converted to living spaces (e.g., recreation rooms).

(iii) For rented land, prorate expenses based on the percentage of total acres that are for rent.

(d) Do not consider expenses paid in months prior to the individual's eligibility for medical assistance.

(e) Expenses are deducted when paid, not when incurred.

(3) Subtract the deductible expenses paid in a month from gross rent received in the same month.

(a) If deductible expenses exceed gross rent in a month, subtract the excess expenses from the next month's gross rent and continue doing this as necessary until the end of the tax year in which the expenses are paid.

(b) If there are still excess expenses, subtract them from the gross rent received in the month prior to the month the expenses were paid and continue doing this as necessary to the beginning of the tax year involved.

(c) Do not carry excess expenses over to other tax years or use them to offset other income.

(4) Use evidence from the previous months to estimate net rental income for the next twelve months; however, deduct only predictable expenses (e.g., utilities, interest payments, taxes, etc.).

(5) If an unpredictable expense is reported at a later date (e.g., a repair), deduct the expense in the month paid. If the expense exceeds the rent for that month, recalculate the rest of the estimated period in accordance with paragraph (C)(3) of this rule.

(6) Absent evidence to the contrary, apportion net rental income in proportion to the percentage of ownership. If the gross rent is split between the individual and another joint owner before expenses are paid, deduct expenses paid by the individual from the individual's portion of the gross rent.

(D) Verification of income and expenses. Use documents in the individual's possession (e.g., bills, receipts, etc.) to verify the gross rent and the dates received, and expenses and the dates paid. The individual's most recent federal income tax return including "Schedule E" may assist with identifying past expenses and estimating future rental income.

(1) The administrative agency will contact the individual to collect the information needed. If the individual declares the verifications cannot be accessed or submitted, the individual's statement is to be accepted.

(2) If the administrative agency is unable to make contact with the individual, a written (electronic or paper) request for the necessary information or verification documents is to be sent as set forth in rule 5160:1-2-01 of the Administrative Code.

(3) If a determination cannot be made regarding whether an expense is allowable (e.g., whether the expense is an incidental repair or a capital expenditure), the administrative agency may contact the internal revenue service (IRS) for assistance.