



OPERATIONAL MEMO

TITLE:	NET OPERATING LOSS DEDUCTION FOR MAGI – BASED PROGRAMS
SUPERSEDES NUMBER:	N/A
EFFECTIVE DATE:	FEBRUARY 13, 2021
DIVISION AND OFFICE:	MEDICAID OPERATIONS OFFICE
PROGRAM AREA:	ELIGIBILITY POLICY
KEY WORDS:	NET OPERATING LOSS (NOL), INCOME DEDUCTION, MAGI, ALLOWABLE DEDUCTION
OPERATIONAL MEMO NUMBER: HCPF OM 21-018	
ISSUE DATE: FEBRUARY 19, 2021	
APPROVED BY: MARIVEL KLUECKMAN	

HCPF Memo Series can be accessed online: <https://www.colorado.gov/hcpf/memo-series>

Purpose and Audience:

The purpose of this Operational Memo is to inform eligibility sites of operational instructions to meet Federal requirements to include Net Operating Loss (NOL) as an allowable deduction for MAGI-based programs.

Information:

Section 1902(e)(14) of the Act requires that state Medicaid and Child Health Plan (CHP+) programs use modified adjusted gross income (MAGI) based methodologies described in 42 CFR 435.603(e) regulations. State Medicaid and CHP+ programs must incorporate allowable deductions in the calculation of MAGI-based income. The Department of the Treasury Internal Revenue Services (IRS) Publication 536, describes a NOL as an allowable deduction which helps lower an individual's adjusted gross income (AGI); thus, State Medicaid programs must incorporate NOL as an allowable deduction in the calculation of MAGI-based income.

Net Operating Loss (NOL)

A NOL most commonly occurs from a loss operating a business. When a business or person has more allowable deductions than it has income, this results in a negative

income or NOL. A NOL can also be from other deductions such as, but not limited to, trade, casualty, theft losses resulting from a federally declared disaster, moving expenses, and or rental property (some of which are limited to be deducted in certain years only). An individual can also take a NOL and carry it over to a future tax year (or years). The Colorado Benefits Management System (CBMS) will allow a negative NOL amount reported from an individual to be deducted from their total countable income. When the individual is married and files jointly, the negative NOL amount reported may also be applied to the spouse of the individual. It is the responsibility of the applicant to report on their paper application or through their online [PEAK](#) account the households NOL based on their tax return and filing status during that year.

Entry and Calculation of NOL – The NOL will be entered as a Tax Deduction in CBMS under the Tax Deductions page as “Net Operating Loss.” The annual NOL reported will be divided by 12 to come up with a monthly NOL deduction. All NOL’s should be effective end dated at the end of the year of the RRR due month to ensure that the deduction doesn’t count past the year it is reported by the applicant. For example: If an application is received on 05/15/21 and the applicant provided their NOL for tax year 2020, enter the NOL effective 05/01/2021-04/30/2022. If the member later reports their 2021 NOL in February 2022 then the NOL for tax year 2020 will need to be end dated and create a new record for 2021 NOL effective 02/01/2022 to 4/30/2022. If there is a new carry forward NOL, the applicant is responsible for reporting the updated NOL amounts for the new year and a new record will be entered.

Verification of NOL – The NOL is required to be verified; however, the verification is accepted post-eligibility. This means that “Client Statement” is acceptable at Intake and RRR allowing applicants to receive a determination to avoid a delay in services due to income verifications. Acceptable verification sources are a statement of the individual’s most recent tax return or if needed, verbal verification received directly from the IRS (collateral contact). The standard Verification Check List (VCL) process requesting proof of acceptable forms of verification will be triggered if the applicant’s case is approved. If acceptable verification is not received, the applicant will be terminated for failure to provide verification.

Finding a NOL on Tax forms – Most NOL’s are reported on tax forms 1040, 1040-X, or 1045. When a loss is entered on a form, the amount of the loss will be in parenthesis, this indicates a negative amount. A NOL on a 1040 form for a current year loss can be found on line 8 or 21 usually identified as “other income” depending on the tax year. If a NOL is being applied from a deduction or credit for a prior period, then you will find the NOL amount on line 1a of the 1045 form. There are other ways a NOL may be applied to a tax form and it is important to identify that the forms are updated annually. If county workers need assistance in finding the NOL on tax forms, guidance can be found in the [IRS Publication 536](#).

Attachment(s):

None

Department Contact:

Hcpf_medicaid.eligibility@state.co.us