UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON – Admitting Services Department	Page 1 of 3
Income Tax Return Calculation Procedure **Formulated: 1/21/95**	**Reformatted:** **Revised: 7/30/01**

Purpose: For the financial screening of self-employed patients
For appropriate pay classification

Policy: Income tax return only to be used for self-employed patients

Affected Parties: Patients, Admitting Services Department

The patient must provide the entire copy of the most current year's income tax return. There are special requirements if the income tax return is **NOT** prepared by a professional preparer with a Tax ID number on the copy of the return. UTMB is requiring that the individual obtain an official transcript copy of the income tax submission. The transcript is obtained from the Internal Revenue Service (IRS) and is considered the *official copy* of your IRS return. This form may be requested by contacting the IRS at 1(800)829-1040 or see the IRS web site for details. The transcript can be ordered by completing a Form 4506-T (PDF) or calling 1(800)829-1040 and following the prompts in the recorded message. There is **no charge** for the transcript and it should be received approximately 10 business days after requesting it. Tax return transcripts are generally available for the current and past three years. If the Form 4506-T is used to request the transcript, please have the IRS transcript sent back to the patient and then have patient forward a copy to Financial Counseling via mail, fax,or drop it by our office.

When a patient/guarantor presents an Income Tax Return to be considered for reclassification or discounted service, you will follow the procedure listed below. There are some categories on the tax return the State of Texas does not recognize as deductions from income. These must be identified before reclassification can be determined. They are as follows:

TOTAL INCOME PORTION OF FORM 1040 (Line 22):

If line 12 (Business Income) is filled with an amount, it is required that Schedule C (Profit or Loss of Business Schedule) be attached. **Go to Schedule C:**

- Review Part II line 13 (Depreciation expense). Any amount listed in that category must be added back to line 22 (income total) of the 1040 front page.

- If Schedule C is not attached, patient must have a Schedule C-EZ attached. Tax payers will complete a C-EZ when they do not claim deductions. A Schedule C-EZ must be attached for proof of no depreciation.

If line 17 (Rental real estate, royalties, partnerships, trust) of the first page of the 1040 is filled in with an amount, it is required that Schedule E (Supplemental Income and Loss) be attached. **Go to Schedule E:**

- Review Part I line 20 (Depreciation expense or depletion). Any amount listed in this category must be added back to line 22 (income total) of the 1040 front page.

- If patient provides only page 2 of Schedule E, has any listed amount on line 41, patient must provide page 1 of Schedule E. However, if line 41 is left empty, page 1 is not required by IRS.

If line 18 (Farm income or loss) of the first page of the 1040 is filled in with an amount, if is required that Schedule f (Profit or loss from Farming) be attached. **Go to Schedule F:**

- Review Part II (Two) Line 16 (Depreciation expense). Any amount listed in this category must be added back to line 22 (income total) of the 1040 front page.

If line 20a (Social Security benefits) on the front page of 1040 is filled with an amount, you will add it back to line 22 (income total) of the 1040 front page.

If there is no amount listed you must ask the patient if they received and Social Security benefits during that year. If so, write the amount in and add it back to line 22 (income total).

In the event, there is a negative amount on line 22 (income total), still add back the appropriate lines listed above. If line 22 remains a negative amount, the financial class will be "I" (zero pay) and the pay scale will be "S".

If the new amount that you calculate is a positive amount, this is the figure that should be used to calculate a discount. You will then divide this figure by 12 to arrive at the monthly income amount.

The State of Texas does not acknowledge depreciation of property as a credit in considering a patient's income for discount. If the patient questions why you are altering the income listed on their return, feel free to state this policy.

The computerized tax return uses the same line numbers as indicated above, however, the computerized tax return is compact and the schedules are on one page.

****** Remember – The tax return can only be used for calculating income if the patient is **Self-employed** & you must add the depreciation back in to the total income before you divide the amount by 12. Accounts are updated from tax season to tax season (April 15th).*

Also, if line 22 is a negative number DO NOT change it! Start with the negative number then add the depreciation. If the final calculation is still a negative number, then the patient's Income is $0.00 and is considered an I/S.

IF THE PATIENT FILES A TAX EXTENSION

Request verification of the extension and previous year tax return and/or official IRS transcript copy (according to tax return procedure documented above), expire account to August 15th. If extension goes beyond August 15th, request additional extension to October 15th. If patient has not completed tax return by October 15th, then patient is not eligible for a discount until current year's tax return is completed.

IF THE PATIENT DOES NOT FILE A TAX RETURN

Request IRS verification of non-filing, can be obtained by contacting the IRS at 1(800)829-1040 or see the IRS web site for details. Or completing section 7 on Form 4506-T (PDF). Patient must complete HHCS form 1040, *Client's Statement of Self-Employment Income*, by documenting at least three months of income and expenses. To determine average gross monthly income, subtract self employment expenses from income and divide by number of months given. Update account for 6 months or end of tax season, which ever comes first.

See SAMPLE income tax forms.