

Medicaid Waiver

Taxpayers may have a tax form that qualifies as a difficulty of care Medicaid waiver payment. For trained and experienced AARP Foundation Tax-Aide Counselors, this issue is in scope.

Learning Objectives

- Determine what are qualified Medicaid waiver payments
- Determine how qualified Medicaid waiver payments can be reported by a state Home and Community-Based Services Waiver (Medicaid waiver) program
- Determine how to enter difficulty of care payments on the Form 1040 and excludable their impact from gross income

Getting Started:

Tax-Aide Learning Tip:

IRS.GOV: [Certain Medicaid Waiver Payments May Be Excludable From Income](#)

The post contains questions and answers to clarify the notice and provide guidance on the information reporting requirements, and the employment tax requirements for Medicaid waiver payments described in the notice.

Qualified Medicaid Waiver Payments

If the taxpayer is in the business of providing care services,

Qualified Medicaid waiver payments are treated as difficulty of care payments and are **excludable from gross income**. Do not exclude income if the care is for more than 10 children or 5 adults (19 or older). Taxpayers **not** in the business of providing care services may also receive qualified Medicaid waiver payments.

- Medicaid payments for in-home care are classified as Medicaid waiver payments when the care provider and the care recipient reside in the same home.
- **TIP:** Excluded Medicaid waiver payments are not earned income for the earned income credit, for the dependent care credit, nor the additional child tax credit.
- If the taxpayer received payments described in Notice 2014-7 on or after January 3, 2014, that are excludable from gross income as difficulty of care payments, then the taxpayer must exclude the income under section 131 as provided in Notice 2014-7 for 2014 and later years.
- When the care provider and the care recipient **do not live together** in the same home, the Medicaid payments are **fully taxable**.
- May be reported on a Form 1099-MISC, Box 3 or Box 7 or Form W-2.

Medicaid Waiver

The taxpayer may file a Form 1040X, Amended U.S. Individual Income Tax Return, if they received payments described in Notice 2014-7 in an earlier year if the time for claiming a credit or refund is still open. Generally, for a credit or refund, the taxpayer must file Form 1040X within three years (including extensions) after the date the taxpayer filed their original return or within two years after the date they paid the tax, whichever is later.

In Part III of Form 1040X, the taxpayer should explain that the payments are excludable under Notice 2014-7. Excluding payments described in the notice in an earlier year may affect deductions or credits that were claimed for the earlier year, as well as other tax items for the earlier year.

For more information, go to [irs.gov](https://www.irs.gov) and search for Certain Medicaid Waiver Payments May Be Excludable From Income.

Pub 4491 Chapter 10-3

Medicaid Waiver Payments may be included on a Form W-2, Box 1. Counselors must check the Medicaid Waiver box in TaxSlayer W-2 Input. This will automatically exclude from gross income on the 1040 other income line and enter "Notice 2014-7" on the dotted line. See the Volunteer Resource Guide, Income Tab D, for software entries.

Pub 4491 Chapter 9-4

How do you determine what are Qualified Medicaid Waiver Payments

IRS Notice 2014-7 addresses the income tax treatment of certain payments to an individual care provider under a state Home and Community-Based Services Waiver (Medicaid waiver) program.

- The notice provides that “qualified Medicaid waiver payments” as difficulty of care payments are excludable from gross income.
- Qualified Medicaid waiver payments are
 - payments by a state, a political subdivision of a state, or a certified Medicaid provider under a Medicaid waiver program
 - to an individual care provider for nonmedical support services
 - provided under a plan of care to an individual (whether related or unrelated)
 - living in the individual care provider’s home.
 - Payments to the care provider who did not live in the same home as the care recipient are fully taxable.

Tax-Aide note: Taxpayers may not understand the specifics of the program that provides them the income reported. Counselors need to ask probing questions to accurately determine and appropriately report the income in their return.

If taxpayers received payments described in Notice 2014-7, they may receive a Form 1099-MISC reporting these payments in box 3, Other income, or in box 6, Medical and health care payments. In most circumstances, an amount reported in box 3 or box 6 of Form 1099-MISC is included as income on the tax return. However, qualified Medicaid waiver payments must be excluded and should not be included as other income. If filing a paper return, enter “Notice 2014-7” on the dotted line next to the other income line of Form 1040, Schedule 1. Refer to the Volunteer Resource Guide Tab D-57 for specific software instructions.

Publication 4491, Chapter 16-2

Check out your individual state at <http://medicaidwaiver.org/>



Study the associated Pub 4491 VITA/TCE Training Guide Chapters 9 (Wages), 10 (Business Income), and 16 (Other Income)



Volunteer Resource Guide, Tab D-57 is your guidance on how to input a qualified Medicaid waiver payment.

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Practice Lab

Scenario 1:

Carl Evens, 8705 Somersby Way, YC, YS, YZip, DOB: 7/8/1945, SSN 015-00-7756, single:

- Resides in the same home as his roommate
- His roommate supports himself and will file his own tax return.
- Carl receives a W-2 from his state Health and Human Services Division for payments he received under his state Medicaid Home and Community-Based Services waiver program for personal care and supportive home care.
- Carl also receives social security.

a. Employee's social security number 015-00-7756			
b. Employer identification number (EIN) 89-5654321		1. Wages, tips, other compensation \$10,000.00	2. Federal income tax withheld
c. Employer's name, address, City, State and ZIP Code STATE HEALTH AND HUMAN SERVICES DIVISION STATE OFFICE BUILDING YC, YS, YZIP		3. Social security wages \$10,000.00	4. Social security tax withheld 620.00
		5. Medicare wages and tips \$10,000.00	6. Medicare tax withheld 145.00
		7. Social security tips	8. Allocated tips
d. Control number		9. Verification code	10. Dependant care benefits
e. Employee's first name and initial last name f. Employee's address and ZIP code CARL R EVANS 8705 SOMERSBY AVE YC, YS, YZIP		11. Nonqualified plans	12a. See instructions for box 12
		13. Statutory Retirement Third-party Employee Plan sickpay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	12b.
		14. Other	12c.
			12d.
15. State	Employer's state ID number	16. State wages, tips, etc.	17. State income tax
		18. Local wages, tips, etc.	19. Local income tax
			20. Locality name

Form **W-2** Wage and Tax Statement **2018**
Copy B - To Be Filed With Employee's FEDERAL Tax Return.
 This information is being furnished to the Internal Revenue Service.

Medicaid Waiver

FORM SSA-1099 - SOCIAL SECURITY BENEFIT STATEMENT

2018 <input type="radio"/> PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME. <input type="radio"/> SEE THE REVERSE FOR MORE INFORMATION.		
Box 1. Name CARL R EVANS		Box 2. Beneficiary's Social Security 015-00-7756
Box 3. Benefits Paid in 2018 \$13,682.00	Box 4. Benefits Repaid to SSA in 2018	Box 5. Net Benefits Paid for 2018 (Box 3 minus Box 4) \$13,682.00
DESCRIPTION OF AMOUNT IN BOX 3 Paid by check or direct deposit \$11,006.00 Medicare Part B premiums deducted from your benefits \$1,608.00 Medicare Prescription Drug premiums (Part D) deducted from your benefits \$.00 Total Additions \$13,682.00 Benefits for 2018 \$13,682.00 Benefits for 2017 Benefits for 2016 Benefits for 2015		DESCRIPTION OF AMOUNT IN BOX 4 Box 6. Voluntary Federal Income Tax Withheld \$1,068.00 Box 7. Address CARL R EVANS 8705 SOMERSBY AVE YC, YS, YZIP Box 8. Claim Number (use this number if you need to contact SSA) 015-00-7756A

Form SSA-1099-SM

Prepare his return:

Find answers in the file: *Answers to Practice Lab Self-Study Exercises* in the Self-Study 2018>H. Answers, etc. Module.

Scenario 2:

Carl Evans, 8705 Somersby Way, YC, YS, YZip, DOB: 7/8/1945, SSN 015-00-7757, single:

- Resides in the same home as his roommate and is not in the business of providing home care services.
- His roommate supports himself and will file his own tax return.
- Carl receives a Form 1099-MISC from his state Health and Human Services Division for payments he received under his state Medicaid Home and Community-Based Services waiver program for personal care and supportive home care.
- Carl also receives social security.

Medicaid Waiver

<input type="checkbox"/> CORRECTED (if checked)				
PAYER'S name, address, city, state, ZIP code STATE HEALTH AND HUMAN SERVICES DIVISION STATE OFFICE BUILDING YC, YS, YZIP		1 Rents	2018 Form 1099-MISC	Miscellaneous Income
		2 Royalties		
		3 Other Income		
PAYER'S Federal identification number 895654321	RECIPIENT'S identification number 015-00-7757	5 Fishing boat proceeds	4 Federal income tax withheld	Copy B For Recipient
		6 Medical and health care payments		
RECIPIENT'S name, address, city, state, ZIP code CARL R EVANS 8705 SOMERSBY AVE YC, YS, YZIP		7 Nonemployee Compensation \$10,000.00	8 Substitute payments in lieu of dividends or interest	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale > <input type="checkbox"/>	10 Crop Insurance proceeds	
		11	12	
Account number (see instructions)	FATCA filing requirement <input type="checkbox"/>	13 Excess golden parachute payments	14 Gross proceeds paid to an attorney	
15a Section 409A deferrals	15b Section 409A income	16 State tax withheld	17 State/Payer's state no.	
		18 State income		
Form 1099-MISC				

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Form **SSA-1099-SM**

Prepare his return:

Find answers in the file: *Answers to Practice Lab Self-Study Exercises* in the Self-Study 2018>H. Answers, etc. Module.

Medicaid Waiver

Scenario 3:

Carl Evens, 8705 Somersby Way, YC, YS, YZip, DOB: 7/8/1945, SSN 015-00-7756, single:

- Resides in the same home as his roommate and is in the business of providing home care services. His roommate supports himself and will file his own tax return.
- Carl receives a Form 1099-MISC from his state Health and Human Services Division for payments he received under his state Medicaid Home and Community-Based Services waiver program for personal care and supportive home care.
- Carl also receives social security.

<input type="checkbox"/> CORRECTED (if checked)					
PAYER'S name, address, city, state, ZIP code STATE HEALTH AND HUMAN SERVICES DIVISION STATE OFFICE BUILDING YC, YS, YZIP			1 Rents	2018 Form 1099-MISC	Miscellaneous Income
			2 Royalties		
			3 Other Income		
PAYER'S Federal identification number 895654321		RECIPIENT'S identification number 015-00-7758	4 Federal income tax withheld	Copy B For Recipient This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.	
RECIPIENT'S name, address, city, state, ZIP code CARL R EVANS 8705 SOMERSBY AVE YC, YS, YZIP		5 Fishing boat proceeds	6 Medical and health care payments		
7 Nonemployee Compensation \$10,000.00		8 Substitute payments in lieu of dividends or interest			
9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale > <input type="checkbox"/>		10 Crop Insurance proceeds			
11		12			
Account number (see instructions)	FATCA filing requirement <input type="checkbox"/>	13 Excess golden parachute payments	14 Gross proceeds paid to an attorney		
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Form 1099-MISC					

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FORM SSA-1099 - SOCIAL SECURITY BENEFIT STATEMENT

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Form **SSA-1099-SM**

Prepare his return:

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Learning Review

1. Jim moved into his elderly mother's home to care for her, and he does not have a separate home where he resides. He received payments under a state Medicaid Home and Community-Based Services waiver program for personal care and supportive home care. Can Jim be considered to be providing care in "the provider's home" for purposes of Notice 2014-7?	
2. Mary is an individual who cares for an unrelated elderly person five days a week in her home, and has a room in the care recipient's home where she sleeps four nights a week. She receives Medicaid waiver payments for this care. On weekends and holidays, Mary resides with her family in her separate home. May she exclude these payments from gross income?	
3. Jill is a sole proprietor in a business of providing home care services. In her business, Jill received payments that are excludable from gross income under Notice 2014-7. However, she received a Form 1099-MISC, Miscellaneous Income, reporting these payments as income. How should the tax return show the Service that these payments are excludable from gross income?	
4. Joann received payments described in Notice 2014-7 on or after January 3, 2014, that are excludable from gross income as difficulty of care payments under § 131. May Joann choose to include those payments in her gross income for 2014 and later years?	

Feedback:

Please email: selfstudy@aarpdfntaxaide.org. Appreciate suggestions and comments.

Answers to Learning Review

1. Yes. Under § 131, “the provider’s home” means the place where the provider resides and regularly performs the routines of the provider’s private life, such as shared meals and holidays with family. See *Stromme v. Commissioner*, 138 T.C. 213 (2012). In this situation, the mother’s home became the provider’s home because it is where the provider resides and regularly performs the routines of the provider’s private life.

IRS.GOV: Certain Medicaid Waiver Payments May Be Excludable From Income
(Q/A 2)

2. No. In this situation, the provider works in the care recipient’s home, but the provider has a separate home where the provider resides and regularly performs the routines of the provider’s private life, such as shared meals and holidays with family. Therefore, the provider does not provide care for the care recipient in the provider’s home, and the provider may not exclude the Medicaid waiver payments from gross income.

IRS.GOV: Certain Medicaid Waiver Payments May Be Excludable From Income
Q/A 3)

3. The tax return should include the full amount of the payments reported on Form 1099-MISC as income on line 1 of Form 1040 (Schedule C). Then follow the instruction in the Volunteer Resource Guide Pub 4012 page D-57 to report the excludable amount as an expense in Part V, and include “Notice 2014-7” next to that amount. Even though Jill is a sole proprietor, because the amounts are excludable from income, they are not self-employment income and are not subject to self-employment tax. For additional Q&As discussing the application of self-employment tax to family caregivers, follow this link: [/Businesses/Small-Businesses-&Self-Employed/Family-Caregivers-and-Self-Employment-Tax](#).

IRS.GOV: Certain Medicaid Waiver Payments May Be Excludable From Income
(Q/A 14)

4. No. A taxpayer may not choose to include in gross income difficulty of care payments that are excludable from gross income under § 131 as provided in Notice 2014-7.

IRS.GOV: Certain Medicaid Waiver Payments May Be Excludable From Income
(Q/A 9)