

**Accounting Aid Society
Medicaid Waiver Payments**

Background

On January 3, 2014, the Internal Revenue Service issued Notice 2014-7, 2014-4 I.R.B. 445. Notice 2014-7 provides guidance on the federal income tax treatment of certain payments to individual care providers for the care of eligible individuals under a state Medicaid Home and Community-Based Services waiver program described in section 1915(c) of the Social Security Act (Medicaid Waiver payments). Section 1915(c) enables individuals who otherwise would require care in a hospital, nursing facility, or intermediate care facility to receive care in the individual care provider’s home. The notice provides that these Medicaid waiver payments will be treated as difficulty of care payment excludable from gross income under § 131 of the Internal Revenue Code.

In 2019 there was a tax law change that allowed the taxpayer to choose to include qualified Medicaid waiver payments in the calculation of earned income for purposes of the earned income credit (EIC) and the additional child tax credit (ACTC).

Although the payments are exempt from federal tax, the provider may receive a Form W-2 or other information return that includes the income.

Accounting Aid Society Position

The key to properly dealing with this issue is to determine if the payments for care of an eligible individual in the provider’s home were in fact paid under a Medicaid Waiver Program. We are aware of certain Michigan programs that appear to specifically involve Medicaid waivers, but these are limited in number (see table below). We recognize that other programs might qualify for similar treatment, but we are not equipped to determine if payments received by providers under any other programs qualify for exclusion.

Accounting Aid Society Policy

If the taxpayer can provide evidence such as a written statement from the payer that the payments are under a Medicaid Waiver Program, we will exclude them. If not, we will include them and if the taxpayer does not agree they can certainly seek other assistance to file their tax return.

- You may assume that W-2s issued to home care providers by the Michigan employers/agencies listed in the table below are Medicaid waiver payments and are not taxable.

Medicaid Waiver Section 1915(c)	Agency	Home Based Services for:
Mi Choice	Area Agency on Aging	Elderly & Disabled
Mi Choice-MC (managed care)	Area Agency on Aging	Elderly & Disabled
MI HealthLink	Aetna Better Health of Michigan, Inc.	Elderly & Disabled
	AmeriHealth Caritas VIP Care Plus	Elderly & Disabled
	Michigan Complete Health	Elderly & Disabled
	HAP Midwest Health Link	Elderly & Disabled
	Meridian Complete	Elderly & Disabled
	Molina Healthcare, Inc.	Elderly & Disabled
	UP Health Plan MI HealthLink	Elderly & Disabled
Children's Waiver Program	Community Mental Health	Children under age 21
Children with Serious Emotional Disturbances	Community Mental Health	Children under age 21
Children's Home & Community Based Services	Community Mental Health	Children under age 18
Habilitation Supports Waiver	Community Mental Health	Beneficiaries with Dev. Disabilities

(The table above is from the Michigan Department of Treasury Update, published November 2019)

- If a taxpayer has a W-2 or income from an agency not listed in the table above, the taxpayer must provide written evidence from the payer that the payments are under a Medicaid Waiver Program before we will exclude the payments on the tax return.
- Please note that Michigan Department of Health and Human Services (MDHHS) is **not** listed in the table. We are not aware that the MDHHS Home Help Program is a qualified Medicaid Waiver Program. These are typically the payments reported on a W-2 where the person being cared for is listed as the employer. This is an example where the taxpayer would need to provide written proof that these payments are under a qualified Medicaid Waiver Program before we will exclude the payments.

TaxSlayer

If the taxpayer has qualified Medicaid waiver payments reported on Form W-2 that may be excluded from income, follow the instructions on page D-59 of Publication 4012 (2020 Returns). See page N-8 of Publication 4012 for other reporting scenarios.

For purposes of including the excluded income in the calculation of earned income for the EIC and ACTC, we suggest you try both scenarios – including and not including the income for the earned income calculation – to determine which one results in the higher earned income credit and/or additional child tax credit, if any.

(Note: For tax year 2020, remember the earned income look-back provision that allows taxpayers an election to use their 2019 earned income to figure their 2020 earned income credit and 2020 additional child tax credit if 2019 earned income is more than 2020 earned income.)

Michigan Tax Return

Exempt Medicaid waiver payments are also not taxable for Michigan; however, they must be included in total household resources for the Michigan Homestead Property Tax Credit Claim and Home Heating Credit Claim. No additional entry is needed in TaxSlayer if Medicaid waiver payments are reported on Form W-2. If Medicaid waiver payments are reported under a different scenario, please review the Michigan income tax return and credit claims carefully to ensure the payments are treated correctly on the forms.