

AARP Foundation Tax-Aide CyberTax

March 5, 2020

To: All AARP Foundation Tax-Aide Volunteers (with a valid email address in the Portal)
From: Lynnette Lee-Villanueva, VP and National Director, AARP Foundation Tax-Aide
Subject: CyberTax TY2019-08: VTA-2020-03 - Medicaid Waiver Payments and Refundable Credits

Please be aware that the IRS has published *Volunteer Tax Alert (VTA) 2020-03* on the topic of *Medicaid Waiver Payments and Refundable Credits*. [Use this link](#) to view the full alert and additional references and resources. Also please reference prior year instructions found on the Volunteer Portal.

This information is to alert volunteers about the choice to include Medicaid waiver payments described in Notice 2014-7 in earned income for the Earned Income Credit (EIC) and Additional Child Tax Credit (ACTC) for tax year 2019 and any open tax years.

Changes to the text of Publication 4491, VITA/TCE Training Guide, and Publication 4012, VITA/TCE Volunteer Resource Guide, regarding the tax treatment of certain Medicaid waiver payments were included in Publication 4491-X, VITA/TCE Training Supplement. This alert is being issued to clarify and expand on that information.

- Qualified Medicaid waiver payments, as defined in IRS Notice 2014-7, may be excluded from gross income. Qualified Medicaid waiver payments may be excluded from gross income only when the care provider and the care recipient reside in the same home. When the care provider and the care recipient do not live together in the same home, the Medicaid waiver payments may not be excluded from gross income.
- A taxpayer may choose to include qualified Medicaid waiver payments in the calculation of earned income for the EIC and the ACTC. The taxpayer may include qualified Medicaid waiver payments in earned income even if the taxpayer chooses to exclude those payments from gross income.
 - A taxpayer may not choose to include or exclude only a portion of qualified Medicaid waiver payments. Either include all or none of the qualified Medicaid waiver payments for the taxable year in earned income.
 - If the taxpayer chooses to include qualified Medicaid waiver payments in earned income, that amount will be included in the calculation for both the EIC and the ACTC.
- If a taxpayer receives a W-2 reporting these payments in box 1 or otherwise reports the payments on line 1, the taxpayer excludes the income as provided in Notice 2014-7 by subtracting the excludable amount on line 8 of Schedule 1, Form 1040 or Form 1040-SR. Enter "Notice 2014-7" and the nontaxable amount on the dotted line next to line 8.
 - Note that page 84 of the 2019 Instructions for Form 1040 and Form 1040-SR instructs taxpayers to subtract the excludable amount on "line 8," but the line reference should be "Schedule 1, Line 8."
- Completion of the tax return in the TaxSlayer software depends on how the taxpayer's qualified Medicaid waiver payments were reported:
 - Qualified Medicaid waiver payments that are wages not reported on Form W-2, box 1 – The payments are already excluded from gross income and earned income. The tax preparer should complete the tax return as usual if the taxpayer

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does not choose to include qualified Medicaid waiver payments in earned income. A taxpayer who chooses to include qualified Medicaid waiver payments in earned income must report the payments as wages on line 1.

- Qualified Medicaid waiver payments reported on Form W-2, box 1 – In the TaxSlayer software, complete the Form W-2 as provided. Enter the amount of qualified Medicaid waiver payments received in the Medicaid Waiver Payment box at the bottom of the screen. Check the box just above the payment box if the taxpayer chooses to include the amount in the calculation of earned income for the EIC and the ACTC.
- Qualified Medicaid waiver payments reported on Form 1099-MISC and the taxpayer is in the business of providing home health care services – Complete a Schedule C and enter the Form 1099-MISC as provided. Enter the amount of qualified Medicaid waiver payments received in the Medicaid Waiver Payment box at the bottom of the screen. Check the box just above the payment box if the taxpayer chooses to include the amount in the calculation of earned income for the EIC and the ACTC.
- Qualified Medicaid waiver payments reported on Form 1099-MISC and the taxpayer is not in the business of providing home health care services – These payments are considered “other income” and are not reported on a Schedule C. Complete the Form 1099-MISC as provided. Enter the amount of qualified Medicaid waiver payments received in the Medicaid Waiver Payment box at the bottom of the screen. These payments are not subject to employment taxes and are not earned income, because they are not employee compensation or earnings from self-employment.
- State tax law may not permit the payments to count as earned income for state tax credits even if the taxpayer includes them as earned income for the EIC and the ACTC.
- Taxpayers who excluded qualified Medicaid waiver payments from gross income in prior tax years may amend a return for any open tax years to include Medicaid waiver payments in earned income for the Earned Income Credit (EIC) and Additional Child Tax Credit (ACTC).
- Whether the payments are subject to Social Security and Medicare taxes depends on whether the taxpayer, who is the care provider, is an employee of the agency, an employee of the individual care recipient, or an independent contractor.
 - If the agency is the taxpayer’s employer, the payments are subject to Social Security and Medicare taxes.
 - If the care recipient is the taxpayer’s employer and these payments are wages for that employment, the payments are subject to Social Security and Medicare taxes unless one of the exceptions for a household worker applies. See Publication 926, Household Employer’s Tax Guide, for more information on these exceptions.
 - If the taxpayer is an independent contractor, the payments are not subject to Social Security and Medicare taxes, but are subject to self-employment tax.