

## IRS Notice 2014-7

### Are You A Caregiver Who Lives With The Client You Are Caring For?

On January 3, 2014, the IRS issued [Notice 2014-7](#) addressing the federal income tax (FIT) treatment of certain wages paid to employees providing care under a state Home and Community-Based Services (HCBS) Waiver program. The notice provides that the IRS will treat these “qualified Medicaid waiver payments” as difficulty of care payments that are **excludable from gross income** under § 131 of the Internal Revenue Code.

This applies to any and all caregivers who **LIVE** with the client they are caring for. It covers BOTH related live-in caregivers and non-related live-in caregivers.

In summary, if you live with the client you are getting paid to care for under a qualifying program, you will not be subject to Federal Income Tax (FIT) and State Income Tax (SIT) on qualifying wages.

### What Does This Mean For Me?

**YOU CAN APPLY THIS NOTICE ON YOUR ANNUAL TAX RETURN TO REDUCE YOUR ADJUSTED GROSS INCOME AND FEDERAL AND STATE TAX LIABILITY**

At the end of the year, you will receive your W-2, Wage and Tax Statement, with the amount of your wages reported in box 1, Wages, tips, other compensation.

### To apply the notice on your tax return or Form 1040 follow these simple steps:

1. The amount reported to you in box 1 of Form W-2 is reported on line 7, Wages, salaries, tips, etc., of Form 1040. To apply the notice to your caregiving wages received on your W-2, you should include the full amount of those payments on line 7.
2. On line 21, enter the excludable caregiving wages as a negative amount. This reduces your adjusted gross income. If you file a paper return, enter “Notice 2014-7” on the dotted line next to line 21 of Form 1040. No additional entry is needed if you are filing electronically.
3. Upon filing your return, the IRS may send you notice requesting verification that you live with the client you are caring for and a supporting letter from Best Care. Just contact Best Care if you are contacted by the IRS.

We are not required to issue you a corrected W-2; so please follow the above instructions to apply the notice to your qualifying wages.

This should also reduce your income levels for income-based programs or public assistance that uses the adjusted gross income on your tax return for eligibility. Some examples may include: TEFRA, Energy Assistance Programs, Food Support, Housing, Child Care Assistance, Medical Assistance/MNSure, etc. As this is a newer IRS Notice, please consult with the programs that apply to you for applicability and feel free to contact us if you are in need of any supporting documentation.