



IRS NOTICE 2014-7

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

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 gross wages earned for 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.

This notice does NOT apply to employees providing care to an individual not on MA Waivered Services.

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 if you choose to apply this notice on your personal tax return.

What Does This Mean For Me?

If you choose to claim exempt on your W-4 Forms, FIT and SIT will not be taken out of your paychecks.

At the end of the year, you will receive your W-2 with the amount of your wages reported in Box 1.

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 1, 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 1.
2. On line 8 Z of Schedule 1, 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 8 of Form 1040. No additional entry is needed if you are filing electronically.

***PTO wages are NOT excludable from gross income and cannot be deducted on line 8. This can be found in Box 14 (Other) on your W-2.**

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 Consumer Directions. Just contact Human Resources 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 MAY have an effect on income-based programs or public assistance that use the adjusted gross income line from 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 directly with the programs that apply to you.