



Difficulty of Care Income Exclusion

Internal Revenue Service Notice 2014-7

**For Employees Living
With the Individual's they
Serve**

PCG *Public
Partnerships*
Supporting Choice. Managing Costs.™

IRS Difficulty of Care Income Exclusion

Payments to an individual care provider for services to a Medicaid Waiver eligible individual **living in the provider's home are excluded from federal income tax.**

Specifically, IRS Notice 2014-7 provides that "...payments under a Medicaid waiver program to an individual care provider for nonmedical support services provided under a plan of care to an eligible individual (whether related or unrelated) living in the individual care provider's home" are considered "...difficulty of care payments excludable under § 131 of the Internal Revenue Code."



Difficulty of Care Income Exclusion

About the Exclusion

- When a direct care worker lives with the participant that they provide services to, their income **may be** excluded from Federal Income Tax.
- **In order to qualify for the exclusion you must be able to answer YES to all the statements below:**
 1. I provide services to the individual participant in my home. (It doesn't matter who owns or rents the home.)
 2. I do not have a separate home where I reside.
 3. This is the home where I reside and regularly perform the routines of private life, including shared meals and holidays with family.

Are there any limits on which live-in providers may claim the income exclusion?

Yes ...

- A provider may not exclude payments for the care of **> 10 eligible individuals under age 19**
- A provider may not exclude payments for the care of **> 5 eligible individuals who are > age 19 or older**
- For more information regarding DOC limitations refer to the IRS Notice 2014-7 on the PPL Website for your program.

Does it matter who owns the home?

No ...


The notice applies to individual providers who provide care in their home **regardless of who owns the home**. The providers do not have to be related to the participant.

- ✓ Example – John moved into his mother’s home to provide care for her through a Home & Community-Based Waiver. John has no other residence than his mother’s home.
- ✓ Example – Both parents of a child with a development disability provide care to the child through a Home and Community-Based Waiver. (There is no restriction to the number of providers as long as they reside in the same home with the participant.)
- ✓ Example – A participant hires her roommate to provide support services to her through a Home & Community-Based Waiver. (And the roommate has no other home.)

Are Difficulty of Care payments excluded or exempt from other federal taxes?

- The rule, at this time, applies only to Federal Income Withholding Tax.
- Some providers are already FICA/FUTA exempt and this does not prevent them from also qualifying for the DOC income exclusion.

How will DOC be reflected on pay remittance advices?

Payments	This Check
Total Earnings	1,393.08
Federal Income Tax	
Medicare-Employee	-20.20
Social Security-Employee	-86.37
State Tax	-60.00
Net Pay	1,226.51

Sample Only