

What are Difficulty of Care (DOC) Payments?



Effective January 3, 2014, 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.

How is Residency (Home) Determined?

- Residency is a "place where the provider resides and regularly performs the routines of the provider's private life, such as shared meals and holidays with family."
- The employee and individual must live together and cannot have a separate home where they reside, even if only part-time.

The Employee May Be Eligible If:

- Individuals and employees who live together, regardless of who owns or rents the property.
- Multiple employees living in the same house as the individual may each be eligible, for example, parents providing care for a child.

Note:

- » *The employee's family relationship to the individual is not a determining factor as to whether payments qualify as DOC payments.*
- » *Time spent transporting, shopping, attending doctor appointments, and attending community events are allowable.*

How are Difficulty of Care Payments Treated?

The Individual Should:

- Continue to withhold and remit FICA (Social Security and Medicare) and FUTA (Federal Unemployment Tax), unless the employee is exempt due to family relationship or other reason
- Remember DOC payments are excluded from federal income
- Remember that DOC is not a tax exemption

The Individual Should Not :

- Withhold and remit Federal Income Tax (FIT) from DOC payments
- Report DOC payments as federal taxable income
- Choose to classify DOC payments as federal income
- Consider DOC payments as income for purposes of determining employee's Medicaid/ACA tax credit eligibility

What proof is required for the employer (Individual) to exclude DOC payments?

The employer may rely on a written statement by the payee, signed under penalties of perjury, unless employer knows that the statement is not true.

- The statement should affirm the facts needed to determine that Notice 2014-7 applies to the payee.

Example:

Under penalties of perjury, I declare that I am an individual care provider receiving payments under a state Medicaid Home and Community-Based Services waiver program for care I provide to _____ who lives in my home under the care recipient's plan of care.

Signed:

Date:

Are Self-Directed Employees eligible for income tax refunds?

- Employees may apply for federal income tax refund(s) for prior periods.
- Employees may apply for state income tax refund(s) for prior periods and for future periods.
- Employees do not need to request, and individuals do not need to issue corrected IRS Form W-2 to request refunds.

For More Information Visit:

- » <https://www.irs.gov/pub/irs-drop/n-14-07.pdf>
- » <https://www.irs.gov/individuals/certain-medicaid-waiver-payments-may-be-excludable-from-income>

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