

P+P TAX TIP: MEDICAID WAIVER PAYMENTS

Overview

Taxpayers with qualified Medicaid Waiver payments have several options when filing their taxes.

- Treat the payments as ordinary income.
- Exclude payments from gross income and from earned income.
- *Exclude* payments from gross income but *include* payments as earned income.

Tax preparers will identify the payments and determine what option provides the best tax outcome for the taxpayer.

Identifying payments and choosing how to exclude

Most Medicaid Waiver payments are reported on Form W-2, and a taxpayer will often have a letter from the payer explaining the payments may qualify the taxpayer for a Medicaid Waiver exclusion under IRS Notice 2014-7. Both statements below must be true for the taxpayer to exclude payments from income.

- Payments must have been made by a certified Medicaid provider.
- Payments were made for non-medical support services provided to an individual living in the taxpayer's home (often the individual is a dependent with a disability).

The taxpayer must make the same choice for the full amount of qualified payments (e.g., they cannot choose to exclude half the income and include the other half). During tax preparation, assist the taxpayer with determining the best option for their tax return.

Benefit from including in earned income	Benefit from excluding from earned income
People with low (or no) earned income outside of the Medicaid Waiver payments will benefit from including the payments in the calculation of earned income. Usually this increases Earned Income Credit and Additional Child Tax Credit.	People with a fair amount of earned income outside of their Medicaid Waiver payments usually get the best tax benefit from leaving payments out of the calculation of earned income. Earned Income Credit will probably decrease when including it.

TaxSlayer data entry

When entering details on Form W-2 into TaxSlayer, enter the exclusion amount and compare options to give the taxpayer the best benefit.

- On the W-2 screen, enter the amount the taxpayer can exclude from gross income in the Medicaid Waiver Payment box under box 14.
- Check the box to include the amount in earned income, and then save. Note the federal and state refund amounts.
- Return to the W-2 screen and uncheck the box to remove the amount from earned income, save, and compare the taxpayer's refund.

Medicaid Waiver Payment

\$15000

Select if you want to include Medicaid Waiver payments in the calculation of earned income.

Medicaid Waiver payments are included in household income to calculate the Minnesota renter's and homeowner's regardless of how they are treated otherwise. TaxSlayer does this automatically based on entries on the W-2 screen.