



STATE OF WASHINGTON
DEPARTMENT OF SOCIAL AND HEALTH SERVICES
Aging and Long-Term Support Administration
PO Box 45600, Olympia, WA 98504-5600

April 25, 2016

ALTSA: AFH #2016-008
PROVIDER TAX EXEMPTION

Dear Adult Family Home Provider:

Residential Care Services is providing this courtesy notice regarding a recent change in federal tax requirements that may benefit Medicaid-contracted adult family home providers. Some adult family home providers may now be eligible to exclude income earned for providing these services from your federal income taxes.

On January 1, 2014, the IRS issued Notice 2014-7. The Notice explained that the IRS had decided to treat certain payments for personal care services as “difficulty of care payments”, which are excluded from federal income taxes. The exclusion covers most income earned through the provision of waiver personal care services, for Medicaid funded residents, in specific situations. The IRS Notice only applied the exclusion to those payments for personal care service when the clients were being served through a Home and Community Based Services (HCBS) waiver. The exclusion did not apply to payments made through the Community First Choice program (CFC) or the Medicaid State Plan personal care program (MPC).

DSHS submitted a Private Letter Ruling to the IRS requesting that Washington State be allowed to apply the same tax exclusion to payments for the personal care service paid through both the CFC and the MPC programs. On March 18, 2016, the IRS ruled that the tax exclusion can be extended to Washington State providers who provide personal care services to clients under the CFC and MPC, in addition to HCBS waiver programs.

Adult Family Home Providers may be eligible for the tax exclusion if, the Provider:

- Lives in the home with the residents; and
- Operates the home as a sole proprietor or as an LLC, which is owned by the provider or the provider and spouse’s name, and the LLC has been claimed as a “disregarded entity” on the W-9 tax form.

The exclusion cannot be applied to income received for personal care services provided to more than 5 residents.

It is your responsibility to determine if you are eligible. Please contact your tax advisor or the IRS with questions about your eligibility. If you are eligible, you may apply the tax exclusion to personal care payments made under CFC, MPC, HCBS waiver programs and Roads to Community Living (RCL). The exclusion does not apply to other payments made by DSHS, including payments made for respite care, skills acquisition training. The exclusion does not apply to room and board payments.

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The exclusion applies to all open tax years, including 2015, when criteria for this exclusion are met. Please contact your tax advisor or the IRS with questions about which tax years are open and how to claim this exclusion or amend a prior return.

ProviderOne will continue to report all payments issued to you, and it is up to you to claim the exclusion on your tax return if you are eligible.

If you have tax questions, you may contact the DSHS tax desk at:
(866) 563-8155 - Toll free
(360) 664-5830 - Lacey/Olympia
taxinfo@dshs.wa.gov

Please see additional information about difficulty of care payments at the following link:
<https://www.dshs.wa.gov/altsa/irs-notice-2014-7-difficulty-care-payments-excludable-income>

Sincerely,



Candace Goehring, Director
Residential Care Services

"Transforming Lives"