

Residential Care Services is providing this courtesy notice regarding a 2014 change in federal tax requirements that may benefit Medicaid-contracted adult family home providers.

Some adult family home providers may be eligible to exclude income earned for providing certain services from their federal income taxes.

On January 1, 2014, the IRS issued Notice 2014-7. The Notice explained that the IRS treats certain payments for personal care services as “Difficulty of Care payments”, which are excluded from federal income taxes. The exclusion covered income earned through the provision of personal care services to Medicaid funded residents under specific circumstances.

As it was written, the IRS Notice only applied to services provided under HCBS “waiver” programs, such as COPEs. DSHS submitted a request for a Private Letter Ruling to the IRS, asking if the same tax exclusion would apply to payments made for personal care services that are provided under the Community First Choice (CFC) and the Medicaid Personal Care (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 CFC and MPC, in addition to HCBS waiver programs, and who are eligible as described below.

Adult Family Home Providers may be eligible for the tax exclusion if the Provider (or the Provider and his or her spouse):

- Lives in the adult family home with the residents; and
- Operates the AFH as a sole proprietor, an LLC, or a corporation; and
- If the AFH licensee is an LLC or corporation, to be eligible for the exclusion the entity must be claimed as a “disregarded entity” on the W-9 tax form.

The IRS has limited the tax exclusion to income from services provided up to a maximum of five Medicaid funded residents. For example, if an adult family home provided personal care services to six Medicaid funded residents, and if the home met the other requirements for the tax exclusion, the provider would only be able to exclude the income earned for five of the six 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 or Private Duty Nursing. The exclusion does not apply to room and board and client participation payments.

The exclusion applies to all open tax years where 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 and want to apply the exclusion.

If you have tax questions, you may contact the DSHS tax desk at:

(360) 664-5830 - Lacey/Olympia

(866) 563-8155 - Toll free

taxinfo@dshs.wa.gov