



January 1, 2022

RE: IRS Notice 2014-7

With the turn of the year, and tax season quickly approaching MRCI wants to make sure employees have all they need to file accordingly. This notice can be used during your filing process with the federal government and the State of Minnesota.

The IRS released Notice 2014-7 states that non-medical Medicaid waiver difficulty of care payments paid to a caregiver are not subject to federal income tax if the caregiver and care recipient ***live in the same home full time.***

- According to the IRS, it does not matter if the caregiver and care recipient (the participant) are related for the 2014-7 Notice to apply.
- The payments made MUST be paid under a Medicaid waiver program: CDSC, Personal Support, Respite, and some PCA may be included.
 - Waivers are: CAC, CADI, DD, EW and BI
- The notice does not impact Social Security and Medicare taxes (FICA).
- Minnesota Revenue **does** follow the IRS guidelines with regard to these payments if caregivers apply for the exclusion.

MRCI asks that employees please view the IRS Notice yourself and consult a qualified tax professional with any questions. MRCI cannot verify the employee resides with the participant full time.

The IRS has a Q&A available regarding the 2014-7 Notice. Eligible employees who want to claim the exemption are informed in section A-4:

"Generally, an amount reported to you in box 1 of Form W-2 is reported on line 7, Wages, salaries, tips, etc., of Form 1040. If you choose to apply the notice to payments received in 2020, you should include the full amount of those payments on line 7. On line 8 of Schedule 1, enter the excludable portion of the payments as a negative amount that will reduce your adjusted gross income. If you file a paper return, enter "IRS Notice 2014-7 Difficulty of Care Exemption" on the dotted line next to line 8 as the description. No additional entry is needed on the Form 1040 if you file electronically." (See <http://www.irs.gov/Individuals/Certain-Medicaid-Waiver-Payments-May-Be-Excludable-From-Income>)

Employees who think they qualify for a refund or credit for past tax years should apply using Form 1040-X, Amended U.S. Individual Income Tax Return.

We cannot advise employees on their taxes but want to provide you with this publicly available tax information.