

Medicaid Waiver Tax Exemption

A plain-language virtual presentation for caregivers

For people who receive Medicaid payments to care for a disabled person living in their home.



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Free Eligibility Review

The big idea

Some payments for in-home care may not be taxable income.

Normally, money you receive can be taxable.

This rule is different for certain Medicaid waiver payments.



Plain-language meaning

The IRS may let qualifying caregivers leave certain Medicaid waiver payments out of taxable income.



Not automatic

The facts matter. You must look at the payment, the care arrangement, and the home situation.



Tax effect

If the income is excluded, income tax can go down and a refund may be possible.



Review needed

A qualified tax preparer should review records before filing or amending.

Could you qualify?

A simple three-part checklist.

1

You receive Medicaid waiver payments

2

You provide care to a disabled person

3

That person lives with you in your home

Key point

The caregiver does not have to be the parent or a family member. The most important question is whether the payment is for care provided to a qualifying person who lives in the same home as the caregiver.

Examples can vary. Review before assuming.

Records to gather

Good records make the review faster and safer.



Payment records

Medicaid waiver pay statements, payroll records, W-2s, or 1099s if issued.



Prior tax returns

Returns for any year you want reviewed or amended.



Living arrangement proof

Documents showing the person receiving care lived in your home.



Program paperwork

Medicaid waiver, plan of care, employer or fiscal-agent letters.

Tip: Do not throw away old tax papers. Older returns may be needed to calculate amended refunds.

How amended returns may help

If the payments were taxed before, a refund may be possible.



Refund deadlines matter. The oldest year available for a refund is limited by IRS and state rules.

Federal and New Mexico tax effect

The federal change often affects the New Mexico return too.



Federal income tax

Qualifying Medicaid waiver payments may be excluded from federal gross income. That can reduce taxable income and may increase a refund.



New Mexico income tax

New Mexico personal income tax starts with federal adjusted gross income, so a federal income change can affect the New Mexico return.

Simple client message:

“If these payments were taxed on your federal return, we should also check your New Mexico return.”

Note: This presentation discusses income tax, not every possible payroll, benefit, or program issue.

Credits can be tricky

Excluding income and claiming credits are separate questions.

A payment can be excluded from taxable income, but still require careful handling for credits.



Earned Income Credit

IRS guidance allows some Notice 2014-7 payments to be treated as earned income for EIC purposes in certain cases.



Additional Child Tax Credit

These payments may also matter when calculating the ACTC in certain cases.



Software entry matters

How the payment is entered can affect the final refund. This is a reason to get a professional review.

Bottom line: the review should check both taxability and credits.

Common cautions

Helpful reminders before filing or amending.



Not everyone qualifies

The living arrangement and payment type matter.



Do not ignore forms

A W-2 or 1099 can still require correct reporting.



Deadlines matter

Refund claims are limited by time.



Documentation matters

Keep records in case a tax agency asks questions.



Other income still counts

The exemption does not make all income tax-free.



Benefit impact varies

Tax refunds and income changes can affect other planning questions.

What happens when you contact me?

A simple, low-pressure process.

1 Free eligibility review

You tell me the basic facts and what payments you received.

2 Document checklist

I tell you what records are needed for a complete review.

3 Tax calculation

I compare the original return to the possible corrected return.

4 Filing options

If it makes sense, we discuss filing or amending federal and New Mexico returns.

No pressure. Start by asking whether your payments should be reviewed.

Not sure if you qualify?
Start with a free eligibility review.

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Ask for a review before filing or amending a return.