

# Treating Qualified Medicaid Waiver Payments as Earned Income for EITC and ACTC Purposes

Taxpayers can receive payments for acting as a caregiver in their home to eligible individuals under a state Home and Community-Based Services Waiver (Medicaid waiver) program. These are called Qualified Medicaid Waiver Payments.

These payments may be excluded from gross income only when the care provider and the care recipient reside in the same home. When the care provider and the care recipient do not live together in the same home, the Medicaid waiver payments must be included in gross income.

A taxpayer may choose to **include** qualified Medicaid waiver payments in the calculation of **earned income** for the Earned Income Credit (EIC) and Additional Child Tax Credit (ACTC). The payments may be included in earned income even if the taxpayer chooses to exclude those payments from gross income.

Note the following:

- A taxpayer may not choose to include or exclude only a portion of qualified Medicaid waiver payments. Either include all or none of the qualified Medicaid waiver payments for the taxable year in earned income.
- If the taxpayer chooses to include qualified Medicaid waiver payments in earned income, that amount will be included in the calculation for both the EIC and the ACTC.

## How to Assist the Taxpayer

Completion of the tax return in the TaxSlayer software depends on how the taxpayer's qualified Medicaid waiver payments were reported.

For specific instructions on entering Qualified Medicaid Waiver payments in TaxSlayer, please see [VITA/TCE Volunteer Tax Alert VTA-2020-03](#).

## Entering Medicaid Waiver Payments

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*Income>W-2; or Keyword: W*

A taxpayer may choose to include qualified Medicaid waiver payments in the calculation of earned income for the EIC and the ACTC. The taxpayer may include qualified Medicaid waiver payments in earned income even if the taxpayer chooses to exclude those payments from gross income.

- A taxpayer may not choose to include or exclude only a portion of qualified Medicaid waiver payments. Either include all or none of the qualified Medicaid waiver payments for the taxable year in earned income.
- If the taxpayer chooses to include qualified Medicaid waiver payments in earned income, that amount will be included in the calculation for both the EIC and the ACTC.

### Qualified Medicaid waiver payments reported on Form W-2, Box 1

In the TaxSlayer software, complete the Form W-2 as provided. Enter the amount of qualified Medicaid waiver payments received in the Medicaid Waiver Payment box at the bottom of the screen. Check the box just above the payment box if the taxpayer chooses to include the amount in the calculation of earned income for the EIC and the ACTC.

### Qualified Medicaid waiver payments that are wages not reported on Form W-2, Box 1

The payments are already excluded from gross income and earned income. The tax preparer should complete the tax return as usual if the taxpayer does not choose to include qualified Medicaid waiver payments in earned income. A taxpayer who chooses to include qualified Medicaid waiver payments in earned income must report the payments as wages on Line 1. In TaxSlayer, complete the Form W-2, and include the Medicaid Waiver payment amount in Box 1. (In some cases, this amount can be found in Box 14). Then delete the entries that will auto-fill in Boxes 3, 4, 5 and 6.

Include the same amount in the Medicaid Waiver Payment box that appears below Box 14 in the software. If beneficial to the TP, check the box just above the Medicaid Waiver Payment box that will include the amount in Earned Income for the purposes of figuring the EIC.

This process will enter the amount on Line 1 of Form 1040, and subtract it back out on Line 8 so there will be no tax effect. If the amount is included in earned income, an EIC will be calculated if the TP is otherwise eligible.

### Qualified Medicaid waiver payments reported on Form 1099-NEC or 1099-MISC and the taxpayer is in the business of providing home health care services

Complete a Schedule C and enter the Form 1099-MISC as provided. Enter the amount of qualified Medicaid waiver payments received in the Medicaid Waiver Payment box at the bottom of the screen. Check the box just above the payment box if the taxpayer chooses to include the amount in the calculation of earned income for the EIC and the ACTC.

## Qualified Medicaid waiver payments reported on Form 1099-MISC and the taxpayer is not in the business of providing home health care services

These payments are considered “other income” and are not reported on a Schedule C. Complete the Form 1099-MISC as provided. Enter the amount of qualified Medicaid waiver payments received in the Medicaid Waiver Payment box at the bottom of the screen. These payments are not subject to employment taxes and are not earned income, because they are not employee compensation or earnings from self-employment.

 *Qualified Medicaid waiver payments may be excluded from gross income only when the care provider and the care recipient reside in the same home. When the care provider and the care recipient do not live together in the same home, the Medicaid waiver payments may not be excluded from gross income. See [Volunteer Tax Alert VTA 2020-03 \(March 3, 2020\)](#).*

 *Refer to the previous page and the Form 1099-MISC page, later in this tab for screenshots of where to enter Medicaid Waiver payment and optionally include in earned income.*