

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



Income>W-2; or Keyword: W

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Software entries for Medicaid waiver payments.

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

Enter the Form W-2 in the software as provided. Test to see if checking the box to include Medicaid waiver payments in earned income is advantageous for the taxpayer after completing all other parts of the return. See the Form W-2 Instructions page earlier in this section.

This process will include the Medicaid waiver payment on Form 1040, Line 1a, and subtract it back out on Schedule 1, Line 8s so there will be no change to AGI. If the box is checked to include the payment in earned income, an EIC will be calculated if the taxpayer is otherwise eligible.

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


Enter Medicaid waiver payments not reported W-2 box 1 in *Income>Other Income>Other Compensation>Medicaid waiver payments (not reported on W-2)*. Taxpayer may need provide this amount from final paycheck stub of the year.


If you want to include Medicaid Waiver payments in the calculation of earned income, go to the W-2 and select the **Select if you want to include Medicaid Waiver payments in the calculation of earned income** check box. If this box is checked, an EIC will be calculated if the taxpayer is otherwise eligible.

Entering Medicaid Waiver Payments (continued)

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. This process will include the Medicaid waiver payment on Form 1040, Line 1d, and subtract it back out on Schedule 1, Line 8s so there will be no change to AGI. If the amount is included in earned income, an EIC will be calculated if the TP is otherwise eligible.

 *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. For more information, see www.irs.gov/medicaidwaiverpayments.*

 *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.*