

# Difficulty of Care Income

## What is income tax?

Income tax is a tax imposed on individuals on income and profits earned by them. The income taxed is from a variety of sources including salaries, wages, interest, dividend, and other forms of revenue. If you are an employee, your employer withholds income tax payments from your paycheck.

## What is difficulty of Care income?

It is often referred to as caregiver income. Certain individual care providers, who provide care to those eligible individuals under a state Medicaid Home and Community-Based Services waiver program qualify as difficulty of care income. The care giver must share a legal full-time residence with the participant to whom they provide services under the state Medicaid Home and Community Based Services Waiver Program.

## What is the Difficulty of Care Federal Income Exclusion

You may be eligible for a Difficulty of Care Federal Income Tax Exclusion if you meet certain criteria. The person you care for must have a qualifying disability or health condition that requires substantial care and attention. You need to provide the services in your home. You may not have a separate home where you live. "Under § 131, "the provider's home" means the place where the provider resides and regularly performs the routines of the provider's private life, such as shared meals and holidays with family. See *Stromme v. Commissioner*, 138 T.C. 213 (2012)."

## Do you have to be a family member to qualify for difficulty of care income?

No, you do not have to be a family member to qualify for difficulty of care income.

## Background information from the IRS:

On January 3, 2014, the Internal Revenue Service issued Notice 2014-7, 2014-4 I.R.B. 445. Notice 2014-7 provides guidance on the federal income tax treatment of certain payments to individual care providers for the care of eligible individuals under a state Medicaid Home and Community-Based Services waiver program described in section 1915(c) of the Social Security Act (Medicaid Waiver payments).

Section 1915(c) enables individuals who otherwise would require care in a hospital, nursing facility, or intermediate care facility to receive care in the individual care provider's home. The notice provides that the Service will treat these Medicaid waiver payments as difficulty of care payments excludable from gross income under § 131 of the Internal Revenue Code.

- The IRS Notice 2014-7 is a resource that provides more information regarding applicable income tax exemptions.



- IRS Individual Care Provider Questions.



# Difficulty of Care Income Continued

## Resources:



 TURBOTAX



 TAXACT



 BERRYDUNE

## Does Difficulty of Care Income Count As Income for AHCCCS?

Some individuals receive income because they provide personal care or attendant care to an ALTCS (Arizona Long Term Care Services) member who resides in their home. The monies (income) received for providing personal care or attendant care services are NOT counted toward AHCCCS eligibility in some instances.

Income is usually included when determining Medicaid eligibility, however, income earned for providing attendant care or personal care services to an ALTCS member living in the same home is considered a Difficulty of Care payment. Income that meets the conditions of a Difficulty of Care payment is not counted against eligibility for some AHCCCS programs.

AHCCCS uses electronic sources to obtain income information. These sources do not identify income from providing attendant or personal care to an ALTCS member living with the caregiver as difficulty of care payments. Therefore, these payments may not have been excluded in the income calculation.

If you receive Difficulty of Care payments and have been denied or discontinued for being over the income limit, please contact AHCCCS at 602-417-5010 to report this income as Difficulty of Care income.

## Background:

In 2022 I wrote a letter to AHCCCS requesting that AHCCCS change their policy and not include "difficulty of care" income when assessing if someone qualifies for Medicaid. With the help of Arizona Center for Law in the Public Inters, the Morris Institute for Justice and Community Legal Services of Arizona and the willingness of AHCCCS to list to the community the payments are no longer counted as income when applying for Medicaid.

**The information provided is for general knowledge purposes only. I am not a tax professional. I am not a lawyer. It is always recommended to consult with a qualified tax advisor or government agency to get personalized advice and current accurate information.**