



LEONARD CONSULTING, LLC

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May 25, 2016

Dear Client,

The purpose of this communication is to inform you of changes in how the IRS classifies certain payments made to your live-in employees using your Medicaid Home and Community-Based Services Waiver (Medicaid waiver) Program Funds. The changes are included in IRS Notice 2014-7. This notice describes difficulty of care payments excludible under Section 131 of the Internal Revenue Code. The changes affect wages paid in all open tax years. This notice does not address whether qualified Medicaid waiver payments excluded from income under this notice may be subject to tax under the Federal Insurance Contribution Act or Federal Unemployment Act.

The income (wages) paid to an employee that lives full-time with a Client for whom they are paid to provide in home services is exempt from federal withholding taxes. This includes income paid to family members as well as non-family members. The living arrangement makes this a difficulty of care payment.

Please inform your affected employees of this change. Leonard Consulting LLC will continue to provide these employees with W-2s. The Federal Wages reported on the W-2s should be excluded from income for Federal Income Tax calculations in 2015. The employees will be permitted (by the IRS) to file an amended return for all open tax years. We recommend that employees file amended returns as soon as possible.

It is clear in the notice that it is important for all of your employees to understand that Leonard Consulting LLC is not their employer. They are employed by you and as a result may be eligible for other tax benefits. Each employee should take this into consideration when filing their tax returns.

Yours Truly,

Frank Leonard
President
Leonard Consulting LLC