



STATE OF MICHIGAN  
DEPARTMENT OF COMMUNITY HEALTH  
LANSING

RICK SNYDER  
GOVERNOR

OLGA DAZZO  
DIRECTOR

March 17, 2011

Dear Parent/Home Help Provider:

**Subject:** Taxability of Adult Home Help/Adult Foster Care Payments

Effective with the first payroll in 2010, responsibility for the Adult Home Help (AHH) Program payments transferred from the Michigan Department of Human Services (DHS) to the Michigan Department of Community Health (DCH) with the implementation of the Adult Services Authorized Payments (ASAP) System.

During the implementation of ASAP, DCH reviewed IRS rules and regulations to ensure proper tax reporting of AHH individual providers and AHH agency provider payments. The research conducted during the implementation of ASAP revealed that AHH payments for individual providers and AHH agencies are indeed required to be reported as taxable income by the United States Department of Treasury, Internal Revenue Service (IRS). The IRS considers all payments in Independent Living Services (ILS) Programs as reportable for tax purposes. ILS Programs includes AHH and other similar programs formerly considered as "chore" programs. DCH programmed ASAP to generate IRS Forms 1099 for AHH agencies and W-2s for individual AHH providers, including parents, who are AHH providers for their children. W-2s for non-parent providers have been issued since 1994 when the State of Michigan began acting as the filing agent.

The IRS recognizes the State of Michigan is serving as the reporting agent for the benefit recipients to address their household employer/employee W-2 reporting requirements. In that capacity, the State of Michigan sends payment as a dual check to both the beneficiary and the provider. The relationship between the beneficiary and the provider is generally considered an employment relationship. IRS Publication 926 provides definitions for household employees/employers. These payments are generally considered by the IRS payments for domestic services and, as such, are treated as wages to the provider (not the client but the helper). In the case of parent/child relationships within the AHH program, the payment is not taxable to the child. However, the payments may be taxable to the parent, as they are distributed to them just like they are to unrelated home help providers which are taxable.

Payments made to a parent employed by his or her child are not subject to FUTA tax, regardless of the type of services provided.

We regret any inconvenience to you in issuing the W-2s for the first time to a parent without notification. DCH, however, will continue to report AHH payments to the IRS in accordance with IRS guidance.

Sincerely,

  
Stephen Fitton, Director  
Medical Services Administration