Federal Income Taxes on In-Home Supportive Services (IHSS) Wages

SACRAMENTO- The Internal Revenue Service (IRS) has informed the California Department of Social Services (CDSS) (read IRS letter) that the IHSS wages received by IHSS providers who live with the recipient of those services are not considered part of “gross income” for purposes of federal income taxes. Approximately 53 percent of California’s 400,000 IHSS providers live with at least one of the recipients they serve. The wages of these providers are considered to be "difficulty of care" payments, and thus are exempt similarly as are foster care payments for the care and supervision of a child. These wages remain subject to withholding for social security and unemployment.

As a result of the timing of the IRS letter, the W-2 forms mailed to IHSS providers for the 2015 calendar year do NOT reflect this IRS guidance, and therefore DO reflect federal income tax withholding. The Department will be working with its payroll system vendor to adjust federal income tax withholding for certain providers, and may require providers and recipients to identify when they live together in order to appropriately withhold federal income tax from applicable IHSS wages. This effort also will be coordinated with labor organizations representing providers, to ensure providers are informed of this IRS opinion.

The Department makes this announcement solely as a service to IHSS providers. The Department does not provide tax advice, and the full IRS letter therefore is being made available only to inform and assist taxpayers. IHSS providers with questions about this IRS opinion are encouraged to consult with a tax advisor.

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