



EMERALD HEIGHTS™

REDMOND

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Entry Fee Tax Deductions Explained

Residents of entry-fee retirement communities may be eligible to deduct a portion of the entry fee, and possibly monthly fees, depending on the type of contract offered by the community.

Here are a few key details to understand:

- Some portion of the entry fee must be accounted for by the community as a pre-paid health-care expense. This is always the case with lifecare contracts (Type A) and, to a lesser degree, modified fee-for-service contracts (Type B). Very rarely will such deductions be available for a fee-for-service contract (Type C).
- Only non-refundable portions of the entry fee can be used for tax-deduction purposes. Any refundable portion of the entry fee should not be counted in the formula to determine the deductible amount. If a resident deducts any portion of the entry fee that is eventually refunded via a return of capital contract, then the refundable portion could be taxable as income.
- Most often a CCRC's auditor or chief financial officer will recommend an appropriate formula to determine the allowable deduction amount, often providing a written explanation each year for residents. A deduction equivalent to 30 to 40 percent of the entry fee is not uncommon for lifecare contracts.
- Some portion of the monthly service fee may also be deductible. The percentage of each month's payment that is deductible is often the same percentage as that which applies to the entry fee.
- Under the current tax law, individuals may deduct medical expenses exceeding 7.5 percent of adjusted gross income (AGI). The actual deductible amount will depend on your taxable income and any other qualifying medical expenses.
- If adult children pay the entry fee, or some portion of it, they may be entitled to take a tax deduction. However, other factors must also be considered, including the total amount of financial support they provide for their parents.

Note: For specific details see IRS Pub. 502- Medical and Dental Expenses, "Lifetime Care- Advance Payments." Also see "CCRC Fees – A Primer on the Tax Treatment of Entrance and Monthly Fees" by McDermott, Will, and Emory. (Written in 2012 so verify information with an experienced tax advisor.)

The above information should not be construed as tax or financial advice. Consult with your own professional tax and financial advisors before making any decisions.

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