



## Deductibility of a Portion of the Entry and Monthly Fees (2018 Tax Year)

LifeCare is a financial plan whereby residents prepay healthcare through a portion of their Entrance and Monthly Fees, allowing the monthly fees to remain stable when they move from their independent living apartment home to the assisted living or skilled nursing neighborhoods at Duncaster.

Below are important facts that more fully reveal the value of living at Duncaster. These items might be useful to you in your evaluation of options:

1. Internal Revenue Service Revenue Rulings 75-302, 76-481 and 93-72 summarize the position of the IRS on the deductibility of a portion of the initial lump sum LifeCare fee paid by residents of a LifeCare community. A portion of the initial lump sum entry fee represents an expense for medical services to be rendered at a later date.
  - a. There is a one-time deduction as a factor of the entrance fee.
  - b. For entry fees the deduction as an expense for medical care is 26.62% of the entrance fee under the LifeCare plan.

Example:           Entrance Fee Deduction  
                          Entrance Fee = \$241,000  
                          Deduction amount up to \$64,154

2. The deductibility of medical expenses is allowed by section 213 of the Internal Revenue Code. Revenue Ruling 76-481, as well as other rulings, approve the deductibility of a portion of the LifeCare plan monthly service fees paid for the provision of medical care.
  - a. This is an annual deduction, prorated in partial years, as a factor of the monthly fee.
  - b. For monthly fees paid, the deduction is 26.44% of the monthly fees paid *per month of occupancy* during the calendar year.

Example:           Monthly Fee = \$4,981  
                          Deduction amount up to \$1,317 *per month* (\$15,804 for 12 months)  
                          (For a couple, this amount would increase to \$1,737 per month or  
                          \$20,844 for 12 months)

Deductions are subject to limitations prescribed in Section 213 of IRS code and regulations and subject to your or your tax advisor's review of the guidance in Finzer v. U.S.A. and Delbert L. and Margaret J. Baker v. Commissioner (122T.C. No. 8).

It is your right as a tax payer to deduct the amount you or your tax advisor feel is justified. Duncaster will make a reasonable attempt to provide Duncaster residents with additional information upon request to support a different deduction if you, or your tax advisor, request such information.

