

# CCRCs: Entry Fee Tax Deductions Explained



New residents in 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:

- Tax deductions are available only to residents of communities that contractually offer a “continuum of care.” Therefore, retirement communities that do not contractually promise health care services do not qualify.
- 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 Type-A contracts (lifecare) and, to a lesser degree, Type-B contracts (modified fee-for-service).
- Only non-refundable portions of the entry fee can be used for tax-deduction purposes. Any refundable portion of the entry fee will not be counted in the formula to determine the deductible amount.
- 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 and monthly service fee is not uncommon but it can vary from one community to another.
- Under the current tax law, if you are age 65 and older and itemize your tax deductions, you can deduct medical expenses exceeding 7.5 percent of your adjusted gross income (AGI). The actual deductible amount will depend on your taxable income and any other qualifying medical expenses. (Note: Through 2016 the threshold remains at 7.5 percent of AGI for those age 65 and older, but it is 10 percent for those younger than age 65.)
- If adult children pay some or all of the entry fee, 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 refer to IRS Revenue Rulings 76-185, 75-302, 76-106, 76-481.*