



January 19, 2015

Dear Residents,

Annually, Friendsview provides a computation of the resident's health center portion of occupancy. As we provided last year, we will give you two methods to consider with your tax advisor for your personal medical expense deduction.

The first method is referred to as the Tax Court Method. In the 2004 case of *Baker v. Commissioner of the Internal Revenue*, the Tax Court provided some guidance on the acceptable calculation of medical expenses by using a weighted-average method.

The second method is referred to as the Percentage Method. In this method, the percentage of deductible medical expenses is calculated by dividing Friendsview's annual Health Services expenses by the total annual operating expenses. Revenue Rulings 67-185, 75-302, 93-72 and 76-481 may provide further information about this method.

There is considerable amount of guidance for both methods presented here. We will provide the information for both calculations; so that you and your tax advisors can determine which method to use for your particular situation.

### **Independent Living Health Center Portion of Occupancy**

1) Tax Court Method – \$4,796 per resident, \$9,592 per couple for the medical portion of fees paid to Friendsview in 2014 (\$400 per person/\$800 per couple, per month for residents that did not live at Friendsview for the entire calendar year).

2) Percentage Method – 24.8% of total fees paid in 2014 may be deductible by the resident. This amount should not include amounts paid for ancillary charges, such as, telephone charges, maintenance, laundry, etc.



## **Residential Care, Special Care, and Health Center Fees**

If a resident lives in an “assisted” care unit of Friendsview, and meets the criteria below, then 100% of the resident’s fees would be deductible as a medical expense. According to Internal Revenue Service Publication 502 (2014) pg. 11:

*An individual is chronically ill if, within the previous 12 months, a licensed health care practitioner has certified that the individual meets either of the following descriptions:*

- 1. He or she is unable to perform at least two activities of daily living without substantial assistance from another individual for at least 90 days, due to a loss of functional capacity. Activities of daily living are eating, toileting, transferring, bathing, dressing and continence.*
- 2. He or she requires substantial supervision to be protected from threats to health and safety due to severe cognitive impairment.*
- 3. The services are provided pursuant to a plan of care prescribed by a licensed health care practitioner.*

A newsletter from our auditors Hansen, Hunter & Company is available in the office for further information on this topic.

The calculation of 24.8% is based on the operating experience of Friendsview Retirement Community for fiscal year ended July 31, 2014. The information provided was not audited or verified.

***The tax laws referenced above include various complex rules and definitions; therefore, each person should consult their tax advisor regarding the proper application of these laws to their individual tax situation.***

Respectfully,

A handwritten signature in black ink that reads "Dave Hampton".

Dave Hampton  
Chief Financial Officer