

# Tax Breaks When You Care For a Loved One



The cost of long-term care is going through the roof. The average cost of a stay in a nursing home now exceeds \$74,000 a year. Even in-home care can be very expensive.

Income tax write-offs can defray some of these costs.

**Example:** Eligible medical expenses can be claimed as an itemized deduction to the extent that they exceed 7.5% of your adjusted gross income (AGI).

But the rules can be tricky. Here's what you need to know to get all the tax breaks you're entitled to...

## IN-HOME AND ADULT DAY CARE

Some of the elderly and infirm can get adequate medical care and personal assistance at home. *Some of these costs are considered deductible medical expenses...*

### • Nurses and home attendants

Wages paid to a nurse to administer medications, change bandages or provide other medical assistance are deductible. So are wages paid to a home attendant for personal assistance, such as bathing and feeding. But any portion of wages for housekeeping services is *not* deductible.

**Caution:** If you hire a home attendant who becomes your employee, you are responsible for employment taxes. You must pay Social Security and Medicare taxes (FICA), unemployment tax (FUTA) and state unemployment insurance, for wages over set amounts.

The federal employment taxes can be included as part of your personal income tax bill. Complete Schedule H, *Household Employment Taxes*, to include them on your form 1040. These taxes are also deductible medical expenses.

As a practical matter, a home attendant may prefer to be paid "off the books" but then wages cannot be deducted—and it's also illegal.

### • Home improvements

Cost for construction or installation of special equipment or facilities are deductible, but only to the extent that they do not increase the value of a home. This limitation, however, does not apply to changes made to accommodate a disabling condition. For example, the cost of installing ramps to accommodate your spouse's wheelchair is a deductible medical expense, regardless of whether the home's value increases.

### • Adult Day Care

The cost of attending a day program with a medical component (such as for dementia or Alzheimer's disease), including transportation to and from home, is deductible.

## CONTINUING-CARE RETIREMENT COMMUNITY AND ASSISTED LIVING

Part of the cost of residential living arrangements that provide a housing unit, meals and some medical services or personal assistance is deductible.

# Tax Breaks When You Care For a Loved One

## • Up-front entry fee

A portion of an entrance fee charged by some continuing-care facilities can be deducted. The facility should provide you with an allocation showing what part of the fee relates to future medical care, which you can deduct.

**Caution:** if the upfront fee is fully or partially refundable when the resident leaves the facility, it is treated as a tax-free loan to the facility. This means you are treated as receiving taxable "phantom interest" - what you would have received if you had charged the applicable federal interest rate (AFR) fixed by the IRS. The rate was 3.89% in October 2005 (it changes monthly). However, if you or your spouse is at least age 65 by the end of the year, up to a set amount of such a tax-free loan is exempt from the phantom interest rules (\$158,100 in 2005). It's best to discuss this with your accountant or other tax advisors.

## • Monthly Costs

A portion of the monthly payments to a continuing-care or assisted-living facility is deductible. The deductible amount is the percentage of the payments related to medical services. This figure is often provided by the facility. Or you can ask to examine the facility's budget and/or make a reasonable estimate. The cost of housing and meals is not deductible.

## NURSING HOMES

Don't expect Medicare to pay for nursing home stay—the cost is *not* a covered expense. Either you or your private long-term-care insurer must pay—or, if you become impoverished, Medicaid will. *How tax write-offs come into play...*

## • Long-term-care insurance

Premiums for special nursing home insurance, called long-term-care insurance, that pays a fixed dollar amount (for instance, \$200 per day) for confinement to a nursing home can be *partially* deductible as a medical expense. As

with life insurance, premiums are set depending on your age when you take out the policy—the younger you start to pay for coverage, the lower your premiums. However, depending on the amount of benefit you select the other features in the policy, annual costs can run several thousand dollars and up.

For federal tax purposes, the deductible portion of premiums is modest and depends on your age by the end of the year. *For 2005 the deductible portion for those...*

- 40 and younger is \$270.00
- Over 40 but not over 50, \$510.00
- Over 50 but not over 60, \$1,020.00
- Over 60 but not over 70, \$2,720.00
- Older than 70, up to \$3,400.00

State law may provide additional benefits. For example, in New York, up to 20% of premiums for long-term-care insurance can be treated as a tax credit against state income tax. For more on long-term-care insurance, visit [www.bottomlinesecrets.com/ltc](http://www.bottomlinesecrets.com/ltc) or write to "long-term-care," *Bottom Line / Tomorrow*, box 10704 Stamford, Connecticut 06913-2062.

## • Nursing home costs

If you pay for a stay in a nursing home, you can treat the entire payment as a medical expense, including the portion for meals and lodging—no allocation is required.



*Source: Bottom Line Tomorrow November 2005  
By: Robert M. Freedman, Esq. Freedman and Fish, LLP*