



DEDUCTING THE COST OF ASSISTED LIVING

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Statistics show that about 42% of long-term care costs are paid from personal resources. The cost of a nursing home, assisted living facility, or in-home care for a chronically ill person is a significant drain on family resources. The only bright spot in this dismal scenario is that payments are classified as a medical expense, and can be claimed as an itemized deduction. The medical expense deduction reduces the taxable income of the payer, resulting in a lower tax bill and an increase in after-tax disposable income.

Internal Revenue Service (IRS) Publication 502 defines the situations when the cost of a nursing home, assisted living facility, or in-home care is a medical expense. First, the publication states that you can deduct the cost of the nursing home or assisted living facility as long as the principal reason for being there is to receive medical care. The costs – including meals and lodging – are then fully deductible. If the principal reason for being in a nursing home or assisted living facility is not to receive medical care, only those expenses attributable to medical services are deductible.

The IRS publication further states that “qualified long-term care” expenses are deductible when required by a chronically ill individual and prescribed by a licensed health care practitioner. These expenses are deductible whether they are provided in your home or in another facility.

Qualified services are “necessary diagnostic, preventative, therapeutic, curing, treating, mitigating, and rehabilitative services, and maintenance or personal care services.” A chronically ill individual is one who has been certified by a physician, registered professional nurse, or licensed social worker within the last twelve months as meeting one of two tests.

The first test is that the individual is unable to perform without substantial assistance from another individual at least two activities of daily living for a period of at least 90 days. These activities of daily living are eating, toileting,

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transferring, bathing, dressing, and continence. The 90-day period is not a waiting period, but can take into account future days when the individual is expected to remain chronically ill.

Or, the individual may require “substantial supervision to be protected from threats to health and safety due to severe cognitive impairment.” Severe cognitive impairment means a loss or deterioration in intellectual ability that is comparable to and includes Alzheimer’s disease and similar forms of irreversible dementia. Substantial supervision ranges from physically assisting with activities, such as eating, to merely being ready to prevent someone from falling, wandering off, or choking on food.

While you may already be aware that services provided by health-care professionals are deductible, you may not be aware of the scope of maintenance and personal care services that are deductible. These services include meal preparation, household cleaning, and other similar services the chronically ill individual is unable to perform. Meals for an attendant for a chronically ill person and additional amounts paid for household upkeep because of the need for the attendant’s services are also deductible as a medical expense.

In addition, nursing services need not be performed by a nurse as long as they are of the kind generally performed by a nurse and are connected with caring for the patient’s condition, such as giving medication, changing dressings, and bathing and grooming a patient. Wages, payroll taxes, and other amounts paid for nursing and personal care services are deductible.

Medical expenses are only deductible to the extent that they exceed 7.5% of your adjusted gross income, have not been reimbursed by insurance, and are paid for you, your spouse, or a dependent. When we financially assist a parent, grandparent, or other relative requiring long-term care, tax deductions are available to the payer as opposed to the recipient of the services. Generally, if you are providing more than 50% of his or her support, you can claim a relative as a dependent and deduct the long-term care expenses. If you are unsure about your situation, consulting a tax professional about the deductibility of your expenses may save you a lot of money.

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