Don't forget the tax benefits of living in a CCRC

Our Independent Living residents qualify for hefty tax breaks as part of the lifecare agreement, as the IRS views the non-refundable entrance fee as a pre-payment expense for care services. In addition to entrance fees, a portion of your monthly service fee (MSF) is also tax deductible. The logic behind both deductions is that payments entitle residents to lifetime long-term care as part of their residential agreement, so a portion of their expenses really represents the cost of future care benefits. On our campus, the tax deduction ranges between 45–50% each year. Many financial advisers and attorneys are not familiar with the medical tax deductions linked to Life Plan Community/CCRC fees, although accountants may be. We encourage you to have your advisors contact us for more information.

Here is an example of how the tax benefit would work based on a couple paying a $250,000 entrance fee and monthly fees of $3,500; they are in a 20% federal income tax bracket:

Of the $250,000 entrance fee, $112,500 (45% of $250,000) would be considered a qualifying medical expense. Only medical expenses above 7.5 percent of adjusted gross income may be deducted from income taxes, so the amount of the deduction will depend on the couple's taxable income and whether they have any other qualifying medical expenses. (Note: The threshold for medical expenses has been raised to 10.5 percent, but taxpayers older than 65 will be able to use the 7.5 percent cut-off for a few more years.) For a couple reporting $125,000 of taxable income (from Social Security, pensions and investment earnings, for example), only medical expenses above $7,500 could be deducted. If the couple had no medical expenses other than their Life Plan Community/CCRC entrance fee, they could deduct $105,000 ($112,500 minus $7,500) from their taxable income. If they were in the 20% tax bracket, this would save them $21,000 in the tax year during which they paid the entrance fee. On an ongoing basis, tax deductions for the monthly fees work the same way. In practice, most people have additional medical expenses, so the Life Plan Community/CCRC tax benefit would yield larger tax savings.

We are in good hands

Royal Oaks is governed by an all-volunteer Board of Trustees. This diverse group includes current and former physicians, nurses, clergy, architects, businesspeople, and lawyers. The Board has responsibility for strategic planning, financial oversight, establishing policy, and fiduciary and legal compliance. The work of the Board is handled through committees and many residents are committee members, helping guide their community home to an even higher standard. Royal Oaks is a non-profit and residents are assured their fees will come back to them during their life stay. These promises are also backed by the People of Faith Foundation, Inc., a tax-exempt organization whose purpose is to support the residents of Royal Oaks. The Foundation is governed by a volunteer Board of Directors, separate from Royal Oaks' Board of Trustees. The Foundation holds over $15 million in investment assets. The reserves are set aside to ensure that no resident, who through no fault of their own becomes unable to make their monthly service fee payment, would be asked to leave. This is an astounding promise, and it has been kept for thousands of Royal Oaks' residents for more than three decades.

ROYAL OAKS

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