



February 09, 2022

Re: Butterfield Trail Village 2021 Medical Deduction Letter

Dear Resident:

At your request, we have performed calculations for the amounts that may be attributable to the provision of healthcare to the residents of Butterfield Trail Village. The deductibility of medical expenses is provided for in Section 213 of the Internal Revenue Code. In conformance with the Tax Court opinion (Delbert L. Baker, (2004) 122 TC No. 8), we use the “percentage method” to determine the ratio of costs which qualify as deductible medical expenses. The ratio is then applied to an average, weighted entrance fee and an average, weighted monthly service fee.

No private letter ruling has been requested from the Internal Revenue Service regarding the deductibility of or the amount of allowable deductions. However, Revenue Ruling 76-481, clarified by Revenue Ruling 93-72, approves the deductibility in the year paid, under Section 213 of the Internal Revenue Code, of a portion of the entrance fee and monthly fees paid by individuals in connection with obtaining lifetime care at a retirement facility that is properly allocable to medical care, to the extent not compensated for by insurance or otherwise. These rulings contemplate the computation and communication of the amounts attributable to medical expense to residents by the administration of the Facility.

We’ve calculated that a portion of an entrance fee and/or monthly service fees **paid in 2021** may be deductible by residents of Butterfield Trail Village as medical expenses on their 2021 federal income tax returns. Residents should consult their tax advisors to discuss the deductibility of these expenses on their individual tax returns.

Entrance Fees (This is a one-time deduction and only applies to Entrance Fees paid in 2021)

Medical Cost portion of the Entrance Fee for single occupancy:	\$68,826
Medical Cost portion of the Entrance Fee for double occupancy:	\$68,826 plus lesser of:
	a) Second person Entrance Fee paid or, b) \$50,000

Independent Living

Medical Cost portion of the Monthly Service Fee per resident:	\$825/month (or \$9,900 per year)
Medical Cost portion of the Monthly Service Fee for double occupancy:	\$1,650/month (or \$19,800 per year)

Health Care Center (HCC)

The deductible amount for HCC residents is equal to 100% of the actual monthly service fees paid while admitted to the Health Care Center.

Assisted Living

The deductible amount for Assisted Living residents is equal to 75.90% of the actual monthly service fees paid while admitted to Assisted Living.

Other Information

To arrive at these calculations, we utilized certain allocation methods common to the retirement community industry, such as square footage, healthcare days and meals, and other types of allocation methods.

The deduction determined to be allowable must be itemized and carefully described as “Medical expense portion of life-care entrance fee and monthly service fee” on an attachment to the residents’ tax return. Such attachment should reference line 1 of Schedule A, Form 1040. This is required in order to provide full disclosure under the Internal Revenue Service rules relative to the substantial understatement provisions.

The deductible portions of these fees may not exceed the amount actually paid by the resident. Also, any amount compensated by insurance or otherwise may not be deducted. Furthermore, to the extent a resident takes a deduction for an entrance fee that is later refunded, the resident may have to include a portion of that amount in income in the year of the refund. Deductions under Section 213 of the Internal Revenue Code are subject to limitations, including the provisions that such expenses are only deductible to the extent that total medical expenses exceed the IRS published % of the resident’s adjusted gross income for the year. Should any resident receive a refund of a portion of the entrance fee, the pro rata portion of amounts deducted as medical expenses in the previous tax years must be reported as gross income in the year of receipt to the extent a tax benefit was obtained. To the extent a resident incurs additional medical expenses not covered by the entrance fee or monthly service fees, the resident would need to take those additional expenses into account when determining their medical expense deduction.

It should be noted that no methodology for determining the deductible amount has been sanctioned or set forth by the Internal Revenue Service. The Internal Revenue Service has repeatedly stated that this is a question of fact subject to review by the District Director of Internal Revenue. The amounts set forth above, and any updated amounts calculated, may be challenged by the Internal Revenue Service. **Therefore, residents should consult their tax advisors to discuss the deductibility of these expenses on their individual tax returns.**



Kim Moore, CFO
Butterfield Trail Village, Inc.