



## Tax Time Tips for Caregivers of Alzheimer's Patients

Families with loved ones living in Autumn Leaves Assisted Living and Memory Care communities often ask: *Can we deduct the cost of dementia care on our tax returns?*

The answer: yes, in some cases, according to Randy Brown, Vice President of Accounting for The LaSalle Group, Inc., Autumn Leaves' parent company. "The cost of dementia care may qualify as a deductible medical expense, but only in cases where IRS criteria are met," Brown said.

### Tips for Tax Time

Brown offers these tips for caregivers for loved ones with Alzheimer's or dementia:

1. *Claim your loved one as a dependent:* You may do this if you provide more than half of the support for your family member.
2. *Deduct fees for help:* Medical expenses incurred for a relative in a nursing home or rehab – including a residential memory care facility -- can be deducted, as long as the relative is your dependent. Also, if applicable, keep track of fees paid for in-home help such as nurses, therapists, and adult day care.
3. *Itemize medical expenses:* The cost of doctor visits, surgeries, lab work, and supplies such as false teeth or wheelchairs (if not paid for completely by Medicare) may be deductible. If your loved one can't travel alone, you can also deduct transportation expenses like mileage, parking, tolls, and even meals and lodging (if the travel is specifically to obtain medical care.)
4. *Keep receipts.* You can only deduct medical expenses if they exceed 7.5% of your adjusted gross income and you itemize. To do that, you'll need to retain all receipts and/or documentation in order to establish that you meet the deduction requirement.
5. *Use Flexible Spending Accounts:* If your employer provides one, a flexible spending account (FSAs) allows you to put aside pre-tax dollars for medical expenses. Once you pay for eyeglasses, hearing aids, prescriptions, or other medical expense, you can reimburse yourself out of your FSA.
6. Brown offers these tips along with a caveat.
7. "Tax law is very complex," he said. "If you're considering taking a deduction, you must consult a tax professional to ensure compliance with the IRS rules and to fully understand all the deductions to which you are entitled."

### What is Deductible?

According to IRS rules, a taxpayer may count "the cost of medical care in a nursing home, home for the aged, or similar institution" as a medical expense for himself or herself or for a spouse or other dependent. This can include the cost of meals and lodging in the home if a principal reason for being there is to get medical care.



The IRS does not allow the cost of meals and lodging to be deducted “if the reason for being in the home is personal,” according to IRS guidelines. However, the portion of the cost of residential care related to medical or nursing care may be counted as a medical expense.

“The key distinction is the purpose of living there,” said Brown. “If the family chooses residential care for personal or family reasons, then only the portion of the cost attributable to medical or nursing cost is deductible.”

If the individual is chronically ill, as defined under the section entitled Qualified long-term care services, all costs associated with the care and supervision of the individual may be tax deductible subject to the 7.5 percent limitation. A chronically ill individual is one who has been certified by a licensed health care practitioner within the previous 12 months as: 1) Being unable for at least 90 days, to perform at least two activities of daily living without substantial assistance from another individual, due to the loss of functional capacity. (activities of daily living are eating, toileting, transferring, bathing, dressing, and continence) or 2) Requiring substantial supervision to be protected from threats to health and safety due to severe cognitive impairment.

### **Entrance and Maintenance Fees**

Many of today's assisted living communities charge an entrance or maintenance fee. This fee is intended to cover administrative processing and maintenance of the property, rendering it a non-tax deductible expense. However, homes, which are dedicated to caring for people with Alzheimer's disease and related dementia rendering substantial supervision to protect residents from threats to health and safety due to severe cognitive impairment, may qualify. In homes specifically designed for the care of those with Alzheimer's disease and related dementia, the care, meals and lodging is an integral part of the complete service plan which constitutes medical care. An entrance fee that is intended to cover the cost of the initial assessment and development of the plan of care for the resident relates to medical care and therefore qualifies it as tax deductible under the definition.

These rules qualify for the resident or caregiver depending on who is incurring the expenses. However, in order for a caregiver to qualify for the deductions, the resident must meet all the requirements as a dependent under the IRS dependency exemption rules.

### **Deductible caregiving costs may include:**

- Medical care, including nursing care
- Transportation essential to medical care
- In-home care, such as physical therapy
- Personal care items, such as disposable briefs and special foods
- Nursing home care
- Assisted living or other residential care
- Home modifications such as grab bars or wheel chair ramps



## Tax Credits

If you paid someone to care for a dependent so you could work or look for work, you may be able to reduce your tax by claiming the “Child and Dependent Care Credit” on your federal income tax return.

The credit is a percentage of the amount of work-related dependent care expenses you paid to a care provider. The credit can be up to 35 percent of your qualifying expenses, depending on your income. There are eligibility requirements to receive this credit. See IRS Publication 503 for further information.

Also, certain states have additional tax deductions or tax credits to provide financial relief to caregivers. These tax programs build on the federal tax credit, which reduces the amount of income taxes a family owes. Each state program differs by name and eligibility requirements.

Bottom line: the cost of your loved one’s care at a memory care facility, such as Autumn Leaves, may be deductible, or partially deductible, if the family member is your dependent and meets the IRS requirements, and proper records are kept.

“However, the determination of how tax laws affect a taxpayer really depends on each taxpayer’s situation,” Brown said. “A taxpayer may be affected by exceptions to the general rules, so it’s very important to consult a competent tax professional.”

**Note: This information is not intended as tax or legal advice. Consult with a tax professional to ensure that you comply with the IRS rules and fully understand all the deductions to which you are entitled.**