

## FOR INCOME TAX PURPOSES

**TO:** All Contract Residents

**FROM:** Marianne Pessognelli  
Chief Financial Officer

**DATE:** February 3, 2017

**SUBJECT:** 2016 Medical Expense Percentages

The Internal Revenue Service (IRS) allows residents of continuing care retirement communities, such as The Highlands at Wyomissing, to treat a portion of their Monthly Service Fees as a medical expense (subject to the 7.5% limitation found in Internal Revenue Service (IRC) Section 213). A similar allowance is extended to the Entrance Fee as a **one-time deduction in the year of payment**.

This year, Rice CPA, Independent Certified Public Accountant, reviewed The Highlands at Wyomissing's revenues, expenses, and operations to determine what portion of the Monthly Service Fees and Entrance Fee **paid in 2016** can be treated as a deductible medical expense.

According to the IRS, the deductible amount of monthly fees per resident will be the same figure, not a percentage of monthly fees. This determination was affirmed in a court case listed here for your reference: Delbert L. and Margaret J. Baker v. Commissioner of Internal Revenue, 122 T.C. 143 (2004). Accordingly, Rice CPA has calculated the deductible amount to be:

- **Type A Contract: \$11,767** per resident for a full year.
- **Type B Contract: \$4,519** per resident for a full year.

For residents residing at The Highlands for part of the year, the deductible amount shown above is prorated based on the number of days of residency for the calendar year 2016.

In order to determine the appropriate medical expense portion attributable to Entrance Fees paid, the applicable percentage should be multiplied against the Entrance Fees paid in 2016. This information will be provided directly to those residents who made Entrance Fee payments during 2016.

**THE METHODOLOGY PRESCRIBED BY LAW TO ASCERTAIN THESE MEDICAL EXPENSE DEDUCTIONS IS NOT CLEAR OR SETTLED. THUS, THESE DEDUCTIONS ARE SUBJECT TO AUDIT, REVIEW, AND DISALLOWANCE BY THE INTERNAL REVENUE SERVICE.**