

January 29, 2021

Dear Resident:

RE: Deductibility of a Portion of Entry Fees

Internal Revenue Service Revenue Rulings 75-302, 76-481 and 93-72 summarize the position of the IRS on the deductibility of a portion of the initial lump sum life-care fee paid by residents of a life-care facility. These rulings and the resulting deduction recognize that a portion of the initial lump sum entry fee in a life care community represents an expense for medical services to be rendered at a later date.

During 2007 there was a United States District Court Case, John O. Finzer, Jr. and Elizabeth M. Finzer v. United States of America (Case No. 06 C 2176) that provides some guidance as to the portion of the entry fee that is to be used to determine the medical expense deduction related to entry fees. Some of the guidance in Finzer v. U.S.A. case states that under a similar factual situation any portion of an entrance fee paid that is in excess of a standard small unit relates solely to the quality of the housing unit selected and has no relation to medical costs. Included with this correspondence, as an attachment, is the 2020 entry fee for the standard one bedroom unit under different contract types.

Edgewood Retirement Community, Inc., is of the opinion that sufficient data exists to establish that a part of the initial non-refundable lump sum life-care fee can, if paid in 2020, be claimed by the resident as a medical expense deduction for the year. The IRS has not given clear guidance in this area and we have followed the minimal guidance, which has been provided. There are varying interpretations of the existing regulations.

We recommend that you seek advice from your tax consultant/preparer to determine if you are entitled to the deduction for your 2020 tax return and what the appropriate amount of that deduction should be.

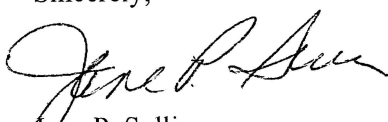
For entry fees paid in 2020 your deduction as an expense for medical care may be the lesser of **27.23%** of all non-refundable fees paid for entrance **OR** **27.23%** of the non-refundable entrance fee of a standard one bedroom unit, subject to the limitations prescribed in Section 213 of the IRS code and regulations and subject to you or your tax advisor's review of the guidance in Finzer v. U.S.A. described above.

If you claim a medical expense deduction for a portion of the initial lump sum life-care fee and later receive a partial or full return of the fee, any such return may be taxable in the year the refund is received.

If you have questions on this matter, please contact your tax advisor as soon as possible so that the advisor will have sufficient time to review your individual situation and give you an opinion on the appropriate course of action that should be followed. The final decision on whether or not you should make any claim for a deduction must, of course, rest with you and your tax advisor.

Should you have any questions for me you may reach me at 978-725-4106 or Bryan Deveau at 978-725-4129.

Sincerely,


Jane P. Sullivan
Chief Financial Officer



2020 Entry Fee for the Standard One Bedroom Unit under Different Contract Types

90% Return of Capital Contract	\$278,000.00
50% Return of Capital Contract	\$208,500.00

During 2007 there was a United States District Court Case, John O. Finzer, Jr. and Elizabeth M. Finzer v. United States of America (Case No. 06 C 2176) that provides some guidance as to the portion of the entry fee that is to be used to determine the medical expense deduction related to entry fees. Some of the guidance in Finzer v. U.S.A. case states that under a similar factual situation any portion of an entrance fee paid that is in excess of a standard small unit relates solely to the quality of the housing unit selected and has no relation to medical costs. The prices shown above are the 2020 entry fee for the standard one bedroom unit under different contract types.

We recommend that you seek advice from your tax consultant/preparer to determine if you are entitled to the deduction for your entry fee paid in 2020 on your 2020 tax return and what the appropriate amount of that deduction should be.