Tax Return Deductions for Long-Term Care Expenses

by Donald E. Keith, CPA

There are currently more than one million individuals living in assisted living communities in the United States of America and that number is growing. Long-term care can be an expensive proposition. According to the U.S. Department of Health and Human Services, more than 25% of Americans 65 and older will incur long-term care costs that will exceed $ 100,000 in their lifetime including approximately 15% that will require long-term care costing more than $250,000.

However, the Health Insurance Portability and Accountability Act of 1996 (HIPAA) enacted certain provisions relating to these costs that can help offset these costs through certain tax deductions which result in tax savings that help offset the overall costs related to long-term care.

Under these provisions, qualified unreimbursed long-term care expenses are included as medical expenses if certain requirements are met when taxpayers are figuring whether it is advantageous to itemize deductions on their tax returns. These expenses include eligible expenses for in-home, assisted living or nursing home services.

In order to be eligible, the long-term care must be medically necessary. Medically necessary long-term care is generally defined as care for a chronically ill individual which is provided under a care plan prescribed by a licensed health care practitioner.

An individual is considered chronically ill if he or she can't perform at least two activities of daily living including eating, toileting, transferring, bathing, dressing, and continence, without substantial assistance, for at least 90 days. This condition must be certified in writing by a licensed health care practitioner within the last year. In addition, an individual with a severe cognitive impairment, such as Alzheimer's disease, dementia or other form of irreversible loss of mental capacity, that requires substantial supervision to be protected from threats to their health and safety is also treated as being chronically ill.

Medically necessary long-term care expenses include diagnostic, preventative, therapeutic, curing, treating, mitigating and rehabilitative services. The HIPAA act also resolved that qualified long-term care expenses include maintenance and personal care services. **The IRS Publication 502 Medical and Dental Expenses** includes a full list of qualifying services. The cost of meals and lodging at an assisted living facility or nursing home is also included provided the main reason for being there is to receive qualified medical care.

For individuals who are not considered chronically ill, expenses paid for long-term care are deductible as medical expenses only to the extent that they are attributable to medical care. The long-term care facility generally determines the amounts paid to the facility that are considered attributable to medical care.

An individual figures whether it is advantageous to itemize deductions on their tax return by comparing the total of their itemized deductions to the standard deduction allowed by tax law in the year they are making the decision. The maximum tax benefit is achieved by taking the higher amount of the two (itemized or standard) on their tax return.

For 2021, the standard deduction is $ 12,550 for a single individual and $ 25,100 for married individuals filing jointly. For 2022, these amounts increase to $ 12,950 and $ 25,900, respectively. In addition, the standard deduction is increased by $ 1,700 for each unmarried person and $ 1,350 for each married person filing a joint tax return who is aged 65 or older.

The itemized deduction total is arrived at by combining the qualified unreimbursed medical expenses which exceed 7.5% of the adjusted gross income of the individual(s) filing the tax return with other deductible expenses included as itemized deductions. These expenses include certain state and local income, real estate and property taxes (subject to a maximum of $ 10,000). These expenses also include certain interest paid including mortgage interest, mortgage insurance premiums and investment interest. Gifts to charity and other itemized deductions are also included when arriving at the itemized deduction total. A full list of these expenses is included in the **IRS Instructions for Schedule A** which is published on an annual basis.

In order to receive the tax benefits of long-term care expenses, an individual must itemize their deductions on Schedule A of their tax return. However, due to the high cost of long-term care, those individuals who use long-term care often find that by choosing to itemize deductions on their tax return, they obtain the maximum tax savings which helps in offsetting the overall costs related to long-term care.

This article is meant to give general insight into tax information that might apply to individuals and their families considering long-term care. The information in this article is accurate at the time it was written. However, anyone considering long-term care should consult with a qualified income tax advisor for updated tax laws and further specifics on how this information might apply to their specific individual tax situation.

If you have any questions or comments, please contact your tax advisor.

Donald E. Keith, CPA is a CPA firm in Massachusetts offering all aspects of accounting and tax services including tax planning, tax preparation, bookkeeping, financial statements, business consulting, small business startups, and management advisory services.