

FORVIS

500 Ridgefield Court / Asheville, NC 28806

P 828.254.2254 / F 828.254.6859

forvis.com

April 18, 2024

To The Residents of Sterling Estates of West Cobb
Sterling Estates of West Cobb
3165 Dallas Hwy
Marietta, GA 30064

Re: Resident Medical Deduction

Dear Residents:

We have been engaged by the management of Sterling Estates of West Cobb to prepare the resident medical expense deduction calculation and related letter outlining our analysis of the monthly service fees and entrance fees paid for the 2023 tax year. We have provided the results of our analysis below.

In accordance with the Internal Revenue Code of 1954, Section 213 and Revenue Rulings 67-185, 68-525, 75-302, 76-481, PLR 8213102, and Federal Tax Case *Baker v. Commissioner*, residents with continuing care contracts may be able to deduct as a medical expense a portion of the monthly fees and/or entrance fees which represent medical care in the year paid.

The Internal Revenue Code does not provide detailed guidance on a formal method for computing the deductible portion of monthly fees and/or entrance fees. Utilizing the information provided by management and the applicable Internal Revenue Service's Rulings and Regulations, we have provided information to allow residents and their tax advisors to determine deductibility of amounts paid, if any. Residents should consult with their tax advisor as to the ultimate deduction and disclosure decisions.

Each resident's situation can vary and is unique, therefore each resident should consult their tax advisor to determine the amount of their deduction. In the event that a resident paid less than the amount listed below, the resident and their tax advisor should make a reasonable determination of the deductible amounts. If a resident moves between levels of care during the tax year or did not reside at the facility for all of 2023, the resident and their tax advisor should make a reasonable determination of the deductible amounts. If at any time a resident receives a refund attributable to an amount deducted as a medical expense, the resident should consult with their tax advisor as to any potential tax implications.

Assisted Living & Memory Care – Monthly fees paid for assisted living and Memory Care may be deducted as medical expenses except those charges for non-medical items such as beauty shop charges or guest meals. This treatment is allowed provided that the residents require the services because they are chronically ill and the services are provided under a plan of care prescribed by a licensed health care practitioner (IRC Section 7702B(c)).

A resident must meet the following two criteria to be eligible for a 100% medical deduction for daily fees paid. 1) The resident must be unable to perform, without substantial assistance from another individual, at least two activities of daily living for a period of at least 90 days, or the resident requires substantial supervision to protect their health and safety due to severe cognitive impairment. Activities of daily living include eating, toileting, transferring, bathing, dressing, and continence. 2) The services must be provided pursuant to a plan of care prescribed by a licensed health care practitioner.

Independent Living Monthly Fee - A portion of amounts paid by independent living residents for monthly fees may be deducted as a medical expense. The medical expense portion outlined below has been calculated to comply with *Baker v. Commissioner* and other aforementioned IRS guidance. Therefore, calculated amounts are based on the number of residents and average monthly fees. Due to the variance in average fees paid by couples versus single residents, the medical expense portion has been calculated for both single residents and couples. The 2023 calculated portion of medical expenses per our current year analysis associated with monthly fees for independent living residents is:

- \$2,286* per month for single residents
- \$2,643* per month for couples paying the second person fee

** This does **not** include amounts paid for extra meals, telephone charges, maintenance, laundry, etc. These amounts are stated on a per month basis. Therefore, they should be prorated by the total number of months a resident resided at the facility in 2023.*

Independent Living Entrance Fee – A portion of amounts paid by independent living residents for entrance fees may be eligible to receive a one-time deduction for the non-refundable portion of entrance fees paid in 2023. The medical expense portion outlined below has been calculated to comply with *Baker v. Commissioner* and other aforementioned IRS guidance.

0% Refundable Contract:

The 2023 calculated portion of medical expenses per our current year analysis associated with entrance fees for 0% refundable contracts for independent living residents is:

- \$7,830 per unit

50% Refundable Contract:

The 2023 calculated portion of medical expenses per our current year analysis associated with entrance fees for 50% refundable contracts for independent living residents is:

- \$74,999 per unit

65% Refundable Contract:

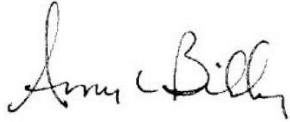
The 2023 calculated portion of medical expenses per our current year analysis associated with entrance fees for 65% refundable contracts for independent living residents is:

- \$43,571 per unit

The medical expense portion as stated above has been calculated based on information provided to us by the management of Sterling Estates of West Cobb. The information in this letter is intended to be used strictly by the residents of Sterling Estates of West Cobb. It is not to be distributed to or used by anyone other than the residents of Sterling Estates of West Cobb. To determine what portion, if any, of your monthly fees and/or entrance fees may be deductible as a medical expense as well as any additional disclosure requirements, please consult your tax advisor.

Sincerely,

FORVIS, LLP

A handwritten signature in cursive script that reads "Amy Bibby".

Amy Bibby, CPA
Partner