

CCRC: How to Claim Medical Deductions

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Today's Presenter

- Lawrence Pon is a certified public accountant, personal financial specialist, certified financial planner, enrolled agent, United States Tax Court practitioner and accredited estate planner in Redwood Shores, CA
- Mr. Pon has been in practice since 1986 and a national professional tax speaker to tax professionals and financial planners
- Mr. Pon teaches Income Tax at College of San Mateo
- Mr. Pon received his BS in Business Administration from UC Berkeley and MS in Taxation from Golden Gate University in San Francisco

SCHEDULE A
(Form 1040)

Department of the Treasury
Internal Revenue Service

Itemized Deductions

Attach to Form 1040 or 1040-SR.

Go to www.irs.gov/ScheduleA for instructions and the latest information.

Caution: If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 17.

OMB No. 1545-0074

2026

Attachment
Sequence No. 07

Name(s) shown on Form 1040 or 1040-SR

Your social security number

Medical
and
Dental
Expenses

Caution: Do not include expenses reimbursed or paid by others.

1 Medical and dental expenses (see instructions)

1

2 Enter amount from Form 1040 or 1040-SR,
line 11b

2

3 Multiply line 2 by 7.5% (0.075)

3

4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-

4

Medical and Dental Expenses

- §213 – Amounts paid for the diagnosis, mitigation, treatment, prevention of disease or for the purpose of affecting the body's structure or function and the costs of nursing services
 - Cost of medical professional services, diagnostic tests, nursing services, certain non-traditional medical therapies, drugs prescribed by a medical practitioner, medical insurance, hospital care, and certain educational expenses
 - Expenses for services that are merely beneficial to the individual's general health are generally not deductible

Medical and Dental Expenses

- Publication 502 – Medical and Dental Expenses (27 pages)
 - <https://www.irs.gov/pub/irs-pdf/p502.pdf>
- Claims for deductions must be substantiated
 - Statement
 - Itemized invoice
 - Nature of service rendered
 - To whom it was rendered
 - Nature of expenses
 - Date of payment

Medicine & Drugs

- Deductible
 - Prescribed drug or insulin
 - Drug or biological that requires a physician's prescription for its use by an individual
 - Insulin does not require a prescription
 - Prescription birth-control pills
 - Prescription drugs used to alleviate nicotine withdrawal
 - Prescription weight-loss drugs if used to treat a diagnosed disease
 - Including obesity
 - Prescription drugs purchased abroad if legally imported
 - Or if purchased and consumed in another country and legal in both that country and the US

Medicine & Drugs

- Not deductible
 - Over-the-counter drugs
 - Aspirin
 - Even if recommend by a physician – because does not require a prescription
 - Nonprescription nicotine gum and nonprescription nicotine patches
 - Vitamins, supplements, and general health items
 - Unless prescribed to treat a specific diagnosed medical condition
 - Marijuana and other federally illegal controlled substances
 - Even if permitted under state law and prescribed by a physician because they are not legally procured under the federal Controlled Substances Act
 - Laetrile
 - Because FDA prohibits it in interstate commerce
 - Imported drugs that are not legally imported
 - Weight-loss products or programs used only for appearance or general health

Medicine & Drugs

- Health Savings Accounts (HSA) and Flexible Spending Accounts (FSA) distinction
 - Over-the-counter drugs and menstrual care products may be reimbursable through an HSA, FSA, HRA, or similar health arrangement
 - Over-the-counter contraception
 - COVID-19 PPE and home tests
 - But that does not make them deductible as itemized medical expenses under §213
 - Reimbursement rules for health accounts are broader than Schedule A itemized deductions rules for medicine and drugs
 - Qualified-long-care services are fully reimbursable from HSAs
 - No double benefit allowed

Capital Expenditures

- Medically related property improvement
 - Elevator
 - Car specially designed to be used by a taxpayer in a wheelchair
 - Hot tub
 - Swimming pool
 - HVAC
- Medical expenses is the excess of the cost of the improvement over the increase in the property's FMV
- Do not add to home basis

Transportation, Meals, Lodging & Other Travel Costs

- Cost of getting to and from the location where care is provided
 - Auto
 - Actual expenses or standard mileage rate
 - Jan – June, 2026 = 20.5 cents/mile
 - July – Dec, 2026 = 23.5 cents/mile
 - Actual cost
 - Unreimbursed out-of-pocket expenses
 - Gasoline or oil
 - Parking and tolls
 - Not general repairs or maintenance, insurance, or depreciation
 - Paying to rent a car to travel to and from medical treatment are deductible
 - Cost of meals and lodging while away from home to get medical care is not deductible unless it is part of the cost of in-patient care at a hospital or other medical facility
 - Lodging costs are limited to \$50/person per night

Qualified Long-Term Care Expenses

- Premiums paid for qualified long-term care insurance contracts
- Qualified long-term care services are:
 - Necessary diagnostic, preventative, therapeutic, curing, treating, mitigating, rehabilitative services, and maintenance and personal care services that are required by a chronically ill individual, and provided under a plan of care prescribed by a licensed health care practitioner
 - Maintenance and personal care services
 - Care which has as its primary purpose the providing of a chronically ill individual with needed assistance with his or her disabilities
 - Including protection from threats to health and safety due to severe cognitive impairment

Continuing Care Retirement Community (CCRC)

- Deductible amount is not the entire payment
 - Portion of the entrance fee or monthly fee that is allocable to medical care under the life-care contract
 - The contract must require the resident to pay a specified fee in exchange for the facility's promise to provide lifetime care that includes medical care
 - Medical portion may be determined using a reasonable percentage method
 - Such as the facility's direct medical expenses divided by total expenses
 - Portion of fees historically used to provide medical care divided by total fees
 - In Delbert **Baker**, (2004) 122 TC 143
 - Tax Court approved the percentage method of CCRC monthly fees
 - Rejected the IRS position that an actuarial analysis was required

Continuing Care Retirement Community (CCRC)

- Entrance fees
 - The medical portion of a CCRC entrance fee is generally deductible in the year paid if the entrance fee is paid for the facility's promise to provide lifetime care including medical care
 - This is a special exception to the general rule that advance payments for future medical care are not currently deductible when the care extends substantially beyond the close of the tax year
- If entrance fee is structured as a loan
 - Such as where at least 90% is unconditionally refundable
 - The fee is treated as a loan and is not deductible
- If the facts show that medical services are paid solely from monthly fees and none of the entrance fee is used to provide services to residents
 - No part of the entrance fee is deductible

Continuing Care Retirement Community (CCRC)

- Monthly fees
 - Monthly CCRC fees may also be deductible to the extent allocable to medical care under the life-care arrangement
 - Apply the CCRC's documented medical-cost percentage to the monthly service fees paid during the year
- How to claim deduction
 - Obtain CCRC's annual statement or allocation letter showing the % of fees allocable to medical care
 - Apply the % to the entrance fee paid during the year and to the monthly fees paid during the year
 - Unless CCRC provides separate dollar amounts for each category
 - Add the deductible CCRC medical portion to unreimbursed medical and dental expenses

Continuing Care Retirement Community (CCRC)

- Not deductible
 - The nonmedical portion of the CCRC charges
 - Ordinary housing, meals, social activities, amenities, and personal or family living costs
 - If the resident is in the CCRC for personal or family reasons and the availability of medical care is not a principal reason for being there
 - Meals and lodging are not deductible
 - Only the portion attributable to medical care or nursing attention qualifies
 - An entrance fee structured as a loan is not deductible if at least 90% of the fee is refundable regardless of when or why the agreement terminates
 - No portion of an entrance fee is deductible if the evidence shows medical services are paid solely from monthly fees and none of the entrance fees are used to provide medical services

Continuing Care Retirement Community (CCRC)

- Planning considerations
 - Very large deduction?
 - Roth conversions
 - Realize LTCG
 - Hold back on other itemized deductions
 - Charitable contributions
 - SALT
 - No carryover
- Example
 - Donald pays a \$150,000 entrance fee and \$18,000 of monthly fees
 - CCRC provides documentation that 35% of its expenses relate to medical care
 - Deduct \$52,500 of the entrance fee and \$6,300 of the monthly fees as medical expenses

Exclusions From Medical Expenses

- Cosmetic surgery is not medical care unless it is necessary to correct a:
 - Deformity arising from a congenital abnormality, accident or trauma, or disfiguring disease
- 2026 DOJ order moving FDA-approved cannabis products and state-licensed medical cannabis from Schedule I to Schedule III of the Controlled Substances Act
 - Under DC Court challenge
 - No IRS guidance changing the individual medical-expense deduction
 - IRS guidance focused on cannabis business expense treatment under §280E
 - A federally lawful, FDA-approved, prescription-only cannabis-derived drug may be analyzed differently
 - Not from an ordinary dispensary-purchased medical marijuana
 - Not currently claimed as a medical expense

Planning Considerations

- Health Savings Accounts (HSAs)
 - Save for retirement medical expenses
 - Triple tax advantage
 - Once-in-a-lifetime IRA rollover
 - 2026 limits
 - \$4,400 self-only
 - \$8,750 family coverage
 - Plus \$1,000 > 55
- Flexible Spending Accounts
 - 2026 limit = \$3,400 with \$680 carryover
- Self-employed Health Insurance Deduction
 - 100% deduction not subject to 7.5% AGI limitation
 - Includes Medicare premiums

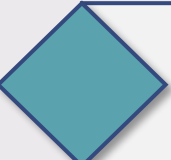
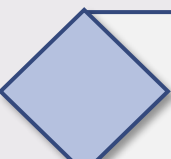
Resources

- **Schedule A – Itemized Deductions**
 - <https://www.irs.gov/pub/irs-pdf/f1040sa.pdf>
 - <https://www.irs.gov/pub/irs-pdf/i1040sca.pdf>
- **Publication 502 – Medical and Dental Expenses (27 pages)**
 - <https://www.irs.gov/forms-pubs/about-publication-502>
- **Topic 502 – Medical & Dental Expenses**
 - <https://www.irs.gov/taxtopics/tc502>
 - Updated 9/24/26
- **Frequently asked questions about medical expenses related to nutrition, wellness and general health**
 - <https://www.irs.gov/individuals/frequently-asked-questions-about-medical-expenses-related-to-nutrition-wellness-and-general-health>
 - Updated 9/23/26

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Distinguishing Features of a CCRC/Life Plan Community

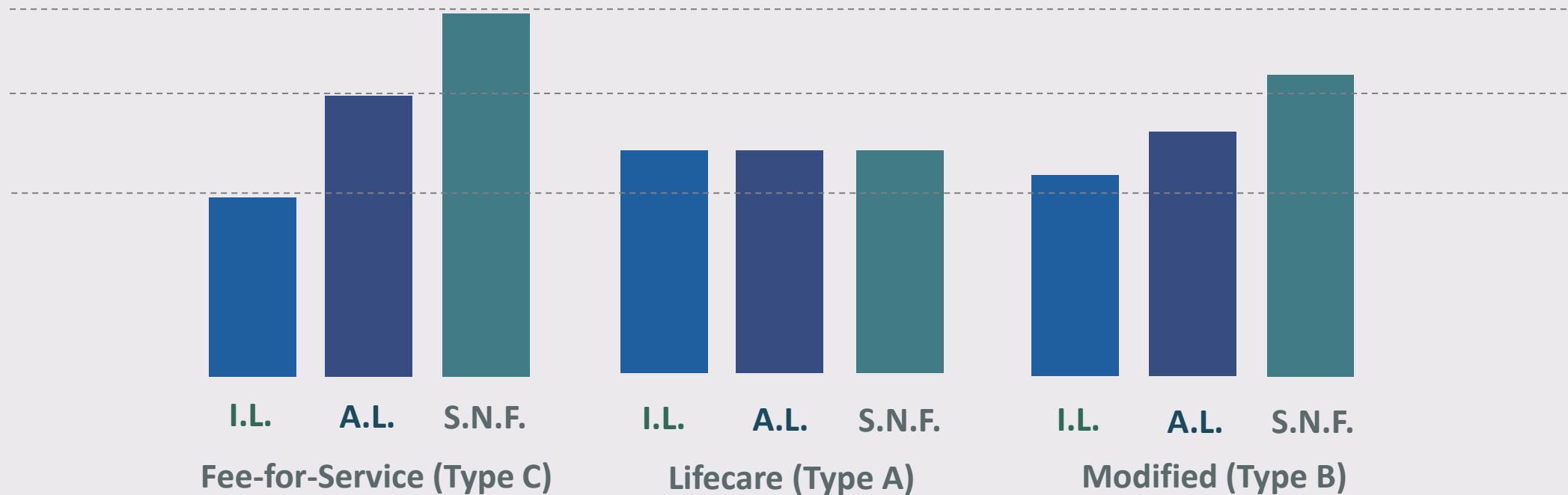
-  Housing, hospitality services, amenities, and care provided under a continuing care agreement
-  Continuum of care *usually* available on-site
-  Various types of contract models
-  Financial assistance often available

Examples of Entry Fee Structures at CCRCs/Life Plan Communities



These are only illustrative examples and are not specific to any particular community. Be sure to read the residency contract for all stipulations and requirements related to the entry fee refund.

Examples of Common Contract Structures at CCRCs/Life Plan Communities



The above is only for illustrative purposes. The cost differences between categories will be based on different variables.
Be sure to read the residency contract to learn what is included in your monthly fee and what costs extra.

MoneyGaugeNEXT

Cash Flow and Asset Analysis

for: Williams and Mary 09/29/2026

ANNUAL INCOME AND EXPENSES ?						ASSETS ?				ENTRY FEE REFUND*
	Age Williams	Age Mary	After-tax Income	Expenses	Net Income (Shortfall)	Beginning Balance	Investment Growth	Additions (Withdrawals)	Ending Balance	Estimated Refund*
1	78	76	\$ 81,024	\$ -198,000	\$ -116,976	\$ 3,260,000	\$ 158,900	\$ -160,928	\$ 3,257,972	\$ 620,000
2	79	77	\$ 83,455	\$ -205,500	\$ -122,045	\$ 3,257,972	\$ 159,227	\$ -157,088	\$ 3,260,111	\$ 620,000
3	80	78	\$ 85,958	\$ -213,287	\$ -127,329	\$ 3,260,111	\$ 159,260	\$ -163,499	\$ 3,255,872	\$ 620,000
4	81	79	\$ 88,537	\$ -221,373	\$ -132,836	\$ 3,255,872	\$ 158,973	\$ -170,150	\$ 3,244,695	\$ 620,000
5	82	80	\$ 91,193	\$ -229,769	\$ -138,576	\$ 3,244,695	\$ 158,338	\$ -177,060	\$ 3,225,973	\$ 620,000
6	83	81	\$ 93,929	\$ -238,487	\$ -144,558	\$ 3,225,973	\$ 157,324	\$ -184,239	\$ 3,199,059	\$ 620,000
7	84	82	\$ 96,747	\$ -247,540	\$ -150,793	\$ 3,199,059	\$ 155,899	\$ -191,694	\$ 3,163,265	\$ 620,000
8	85	83	\$ 99,649	\$ -256,940	\$ -157,291	\$ 3,163,265	\$ 154,028	\$ -199,386	\$ 3,117,908	\$ 620,000
9	86	84	\$ 102,639	\$ -266,701	\$ -164,062	\$ 3,117,908	\$ 151,677	\$ -207,364	\$ 3,062,222	\$ 620,000
10	87	85	\$ 105,718	\$ -276,837	\$ -171,119	\$ 3,062,222	\$ 148,809	\$ -215,618	\$ 2,995,413	\$ 620,000
11	88	86	\$ 108,889	\$ -287,363	\$ -178,473	\$ 2,995,413	\$ 145,382	\$ -224,170	\$ 2,916,625	\$ 620,000
12	89	87	\$ 112,156	\$ -298,293	\$ -186,136	\$ 2,916,625	\$ 141,355	\$ -233,030	\$ 2,824,949	\$ 620,000
13	90	88	\$ 115,521	\$ -309,643	\$ -194,122	\$ 2,824,949	\$ 136,682	\$ -242,131	\$ 2,719,501	\$ 620,000
14	91	89	\$ 118,986	\$ -321,430	\$ -202,443	\$ 2,719,501	\$ 131,318	\$ -251,542	\$ 2,599,277	\$ 620,000
15	92	90	\$ 122,556	\$ -343,021	\$ -220,465	\$ 2,599,277	\$ 125,214	\$ -271,994	\$ 2,452,498	\$ 620,000
16	93	91	\$ 126,233	\$ -356,107	\$ -229,874	\$ 2,452,498	\$ 117,780	\$ -282,359	\$ 2,287,920	\$ 620,000
17	94	92	\$ 130,020	\$ -379,811	\$ -249,791	\$ 2,287,920	\$ 109,454	\$ -304,592	\$ 2,092,782	\$ 620,000
18		93	\$ 68,606	\$ -250,927	\$ -182,320	\$ 2,092,782	\$ 99,598	\$ -235,211	\$ 1,957,169	\$ 620,000
19		94	\$ 70,665	\$ -260,617	\$ -189,952	\$ 1,957,169	\$ 92,717	\$ -240,834	\$ 1,809,051	\$ 620,000

* The **highlighted lines** above shows when the prospect(s) will transition to a different level of care.

MoneyGaugeNEXT

Cash Flow and Asset Analysis

for: Williams and Mary 09/29/2026

With 30% tax deduction and 20% effective tax rate.

ANNUAL INCOME AND EXPENSES ?						ASSETS ?				ENTRY FEE REFUND*
	Age Williams	Age Mary	After-tax Income	Expenses	Net Income (Shortfall)	Beginning Balance	Investment Growth	Additions (Withdrawals)	Ending Balance	Estimated Refund*
1	78	76	\$ 81,024	\$ -188,640	\$ -107,616	\$ 3,260,000	\$ 159,560	\$ -137,063	\$ 3,282,497	\$ 612,560
2	79	77	\$ 83,455	\$ -195,766	\$ -112,311	\$ 3,282,497	\$ 160,453	\$ -146,077	\$ 3,296,873	\$ 612,560
3	80	78	\$ 85,958	\$ -203,164	\$ -117,205	\$ 3,296,873	\$ 161,098	\$ -152,132	\$ 3,305,839	\$ 612,560
4	81	79	\$ 88,537	\$ -210,845	\$ -122,307	\$ 3,305,839	\$ 161,472	\$ -158,417	\$ 3,308,894	\$ 612,560
5	82	80	\$ 91,193	\$ -218,819	\$ -127,626	\$ 3,308,894	\$ 161,548	\$ -164,950	\$ 3,305,493	\$ 612,560
6	83	81	\$ 93,929	\$ -227,099	\$ -133,170	\$ 3,305,493	\$ 161,300	\$ -171,739	\$ 3,295,055	\$ 612,560
7	84	82	\$ 96,747	\$ -235,697	\$ -138,950	\$ 3,295,055	\$ 160,699	\$ -178,794	\$ 3,276,960	\$ 612,560
8	85	83	\$ 99,649	\$ -244,623	\$ -144,974	\$ 3,276,960	\$ 159,713	\$ -186,074	\$ 3,250,599	\$ 612,560
9	86	84	\$ 102,639	\$ -253,891	\$ -151,253	\$ 3,250,599	\$ 158,312	\$ -193,628	\$ 3,215,283	\$ 612,560
10	87	85	\$ 105,718	\$ -263,515	\$ -157,797	\$ 3,215,283	\$ 156,462	\$ -201,445	\$ 3,170,299	\$ 612,560
11	88	86	\$ 108,889	\$ -273,508	\$ -164,618	\$ 3,170,299	\$ 154,127	\$ -209,549	\$ 3,114,877	\$ 612,560
12	89	87	\$ 112,156	\$ -283,883	\$ -171,727	\$ 3,114,877	\$ 151,268	\$ -217,946	\$ 3,048,198	\$ 612,560
13	90	88	\$ 115,521	\$ -294,657	\$ -179,136	\$ 3,048,198	\$ 147,844	\$ -226,572	\$ 2,969,471	\$ 612,560
14	91	89	\$ 118,986	\$ -305,845	\$ -186,858	\$ 2,969,471	\$ 143,817	\$ -235,494	\$ 2,877,794	\$ 612,560
15	92	90	\$ 122,556	\$ -326,813	\$ -204,257	\$ 2,877,794	\$ 139,140	\$ -255,443	\$ 2,761,491	\$ 612,560
16	93	91	\$ 126,233	\$ -339,250	\$ -213,017	\$ 2,761,491	\$ 133,229	\$ -265,291	\$ 2,629,430	\$ 612,560
17	94	92	\$ 130,020	\$ -362,280	\$ -232,260	\$ 2,629,430	\$ 126,529	\$ -286,993	\$ 2,468,967	\$ 612,560
18		93	\$ 68,606	\$ -238,585	\$ -169,978	\$ 2,468,967	\$ 118,407	\$ -225,691	\$ 2,361,684	\$ 612,560
19		94	\$ 70,665	\$ -247,781	\$ -177,117	\$ 2,361,684	\$ 112,942	\$ -229,107	\$ 2,245,519	\$ 612,560

* The **highlighted lines** above shows when the prospect(s) will transition to a different level of care.

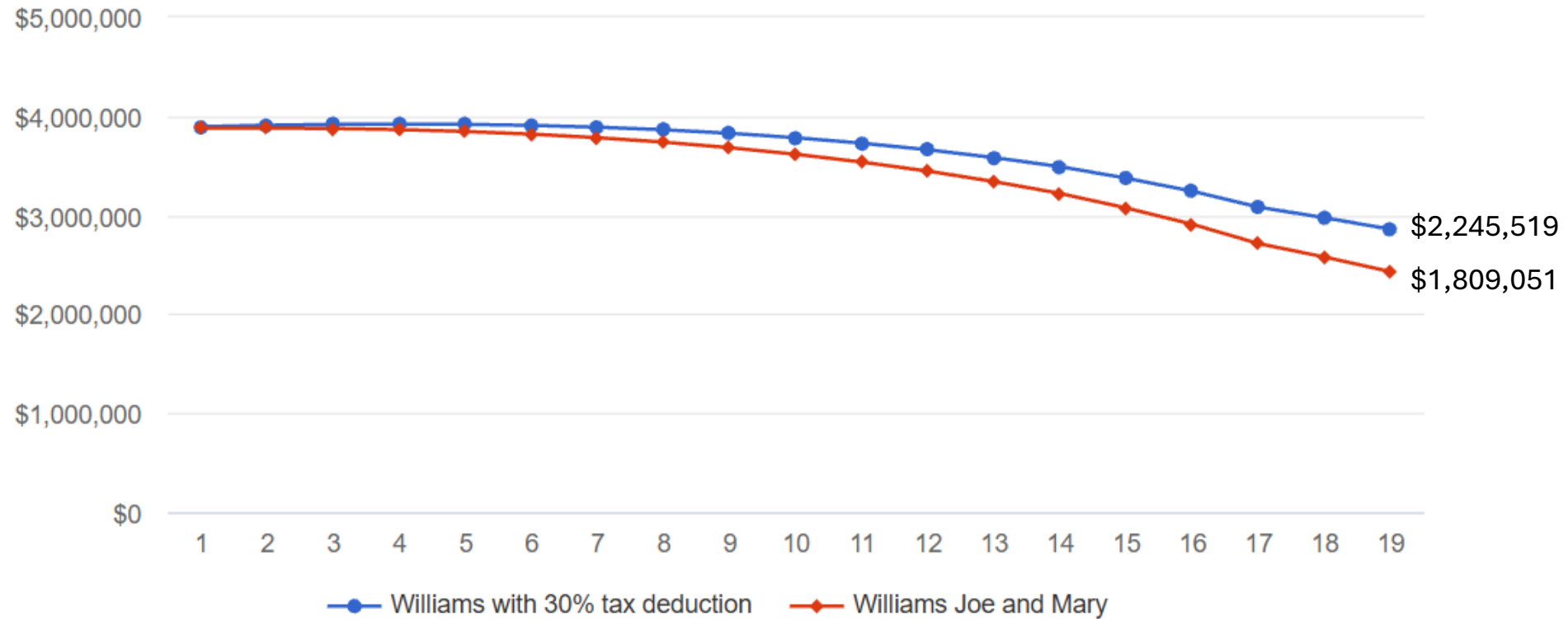
Scenario Comparison

Scenario 1: Williams with 30% tax deduction

Scenario 2: Williams Joe and Mary

09/29/2026

Assets + Estimated Entry Fee Refund



Disclaimer:

The previous three slides compare two scenarios where a couple moves into a CCRC/life plan community. In both instances, the community offers a lifecare contract with an 80% entry fee refund. The only difference between the two slides is that the second one includes a hypothetical tax deduction on the entry fee and the monthly services fees. The tax deduction is 30% and that effective tax rate used for the resident is 20%. As it relates to the entry fee, the deduction is only applied to the non-refundable portion. The resident would need to itemize on their taxes to receive a deduction, among other requirements. This is only a conceptual example and is not intended to be financial or tax advice.