



FOR INCOME TAX PURPOSES

TO: All Contract Residents

FROM: Kevin P. DeAcosta
Chief Financial Officer

DATE: February 1, 2010

SUBJECT: 2009 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, Alan Ross & Company, PC, Independent Certified Public Accountants, reviewed The Highlands at Wyomissing's revenues, expenses, and operations to determine what portion of the Monthly Service Fees and Entrance Fee **paid in 2009** 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 as was the case in prior years. This determination was affirmed in a recent court case listed here for your reference: Delbert L. and Margaret J. Baker v. Commissioner of Internal Revenue, 122 T.C. 143 (2004). Accordingly, Alan Ross & Company has calculated the deductible amount to be **\$10,340** per resident for a full year. For residents residing at The Highlands for part of the year, the deductible amount above is prorated based on the number of days of residency for the calendar year 2009.

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 2009. **(See attached pages for percentages and example calculations.)**¹

¹ A copy of these percentages and example calculations may be viewed on our Web site at www.thehighlands.org/news.

THE METHODOLOGY PRESCRIBED BY LAW TO ASCERTAIN THIS MEDICAL EXPENSE DEDUCTION IS NOT CLEAR OR SETTLED. THUS, THE PERCENTAGES NOTED ON THE ATTACHED PAGES ARE SUBJECT TO AUDIT, REVIEW, AND DISALLOWANCE BY THE INTERNAL REVENUE SERVICE.

**The Highlands at Wyomissing
Medical Expense Deduction Information
For Entrance Fees and Monthly Service Fees Paid in 2009**

<u>Residence Type</u>	<u>Occupancy</u>	<u>Entrance Fee</u>	<u>Entrance Fee Percentage</u>	<u>Monthly Service Fee Deduction (Full-Year)*</u>
<u>Apartments:</u>				
Studio	Single	\$98,900	54.49%	\$10,340
One Bedroom	Single	\$127,900	42.14%	\$10,340
	Double	\$169,900	42.14%	\$20,680
One Bedroom w/Den	Single	\$169,900	31.72%	\$10,340
	Double	\$211,900	33.78%	\$20,680
One Bedroom Grand	Single	\$171,900	31.35%	\$10,340
	Double	\$213,900	33.47%	\$20,680
One Bedroom w/Den Grand	Single	\$176,900	30.46%	\$10,340
	Double	\$218,900	32.70%	\$20,680
Two Bedroom, Two Bath	Single	\$181,900	29.63%	\$10,340
	Double	\$223,900	31.97%	\$20,680
Plus	Single	\$198,900	27.09%	\$10,340
	Double	\$240,900	29.72%	\$20,680
Two Bedroom Extended and Special	Single	\$231,900	23.24%	\$10,340
	Double	\$273,900	26.14%	\$20,680
Two Bedroom w/Den Consolidated	Single	\$241,900	22.28%	\$10,340
	Double	\$283,900	25.22%	\$20,680
Two Bedroom w/Den	Single	\$261,900	20.58%	\$10,340
	Double	\$303,900	23.56%	\$20,680
Two Bedroom Deluxe	Single	\$285,900	18.85%	\$10,340
	Double	\$327,900	21.83%	\$20,680
<u>Cottages:</u>				
Two Bedroom Cottage	Single	\$285,900	18.85%	\$10,340
	Double	\$327,900	21.83%	\$20,680
Three Bedroom Cottage	Single	\$326,900	16.49%	\$10,340
	Double	\$368,900	19.41%	\$20,680
Farmstead	Single	\$449,900	11.80%	\$10,340
	Double	\$491,900	14.35%	\$20,680
Gaelsong Cottage	Single	\$485,900	11.09%	\$10,340
	Double	\$485,000	14.73%	\$20,680

* For residents residing at The Highlands for only part of the year, the deductible amount above is prorated based on the number of days of residency during calendar year 2009.

**The Highlands at Wyomissing
Sample 2009 Medical Expense Deductions**

**Example #1:
One Bedroom Apartment – Single Occupancy**

Monthly Service Fee Deduction Per Resident Per Year	\$10,340.00			
Number of Residents	x	1		
Monthly Service Fee Medical Expense Deduction		\$10,340.00	*	(A)
Entrance Fee		\$127,900.00		
Entrance Fee Percentage (42.14%)	x	0.4214		
Entrance Fee Medical Expense Deduction		\$53,897.06		(B)
Total Medical Expense Deduction for Monthly Service Fees and Entrance Fee Paid to The Highlands at Wyomissing in 2009		\$64,237.06		(A + B)

**Example #2:
Two Bedroom, Two Bath Apartment – Double Occupancy**

Monthly Service Fee Deduction Per Resident Per Year	\$10,340.00			
Number of Residents	x	2		
Monthly Service Fee Medical Expense Deduction		\$20,680.00	*	(A)
Entrance Fee		\$223,900.00		
Entrance Fee Percentage (31.97%)	x	0.3197		
Entrance Fee Medical Expense Deduction		\$71,580.83		(B)
Total Medical Expense Deduction for Monthly Service Fees and Entrance Fee Paid to The Highlands at Wyomissing in 2009		\$92,260.83		(A + B)

* For residents residing at The Highlands for only part of the year, the deductible amount above is prorated based on the number of days of residency during calendar year 2009.