

ELDERCARE CAN BE A MEDICAL DEDUCTION

With people living longer, many find themselves becoming the care provider for elderly parents, spouses, and others who can no longer live independently. When this happens, questions always come up regarding the tax ramifications associated with the cost of nursing home or in-home care.

Generally, the entire cost of nursing homes, homes for the aged, and assisted living facilities are deductible as a medical expense, if the primary reason for the individual being there is for medical care, or the individual is incapable of self-care. This would include the entire cost of meals and lodging at the facility. On the other hand, if the individual is in the facility primarily for personal reasons, then only the expenses directly related to medical care would be deductible and the meals and lodging would not be a deductible medical expense.

Nursing Services -- As an alternative to nursing homes, many care providers are hiring day help or live-in employees to provide the needed care at home. When this is the case, the services provided by the employees must be allocated between household chores and deductible nursing services. To be deductible, the nursing services need not be provided by a nurse, as long as the services are the same services that would normally be provided by a nurse such as administering medication, bathing, feeding, dressing, etc. If the employee also provides general housekeeping services, then the portion of employee's pay attributable to household chores would not be a deductible medical expense.

Additionally, certain expenses for household services or for the care of a qualifying individual incurred to allow the taxpayer to work may qualify for the child and dependent care credit. Part of the amounts paid for that attendant's meals are also included in medical expenses. Divide the food expense among the household members to find the cost of the attendant's food. If additional amounts for household upkeep were paid because of the attendant, include the extra amounts with medical costs. This includes extra rent or utilities paid because a larger apartment was needed to provide space for the attendant.

Household Employees – Like other employees, household workers are subject to Social Security and Medicare taxes. It is the responsibility of the employer to withhold the employee's share of these taxes and pay the employer's share of Social Security and Medicare taxes. Special rules for household employees greatly simplify the Federal payroll withholding and reporting requirements by allowing the Federal payroll taxes to be paid annually on the employer's individual income tax return, Form 1040. Federal income tax withholding is not required unless both the employer and the employee agree to withhold income tax. However, the employer is still required to issue a W-2 to the employee. Both a Federal ID number and a state ID number must be obtained for reporting purposes.

**If you need assistance in setting up a household payroll,
please contact the office for additional details and filing requirements.**