



## 2019 Tax Information

Package Includes:

- Medical Expense Deduction Letter – Monthly Fees
- Medical Expense Deduction Letter – Entry Fee
- Property Tax Letter
- Clergy Housing Memo

Feel free to contact Justin G. Reaves, CFO, if you have any questions. Please note, if your tax advisor calls, we will discuss any question or concern in general terms. We will not release any information specific to your circumstances without your approval.

February 14, 2020

**RE: Deductibility of a Portion of Monthly Service Fees**

Dear Resident:

The deductibility of medical expenses is allowed under section 213 of the Internal Revenue Code. Revenue Ruling 76-481, as well as several other rulings, approves the deductibility of a portion of service fees paid to retirement facilities for the provision of medical care. The most recent guidance we are aware of regarding the methodology required to compute a resident's medical expense is contained in the U.S. tax Court, Delbert L. and Margaret J. Baker V. Commissioner (122 T.C. No. 8). The method used to determine the medical expense deduction shown below is in accordance with the guidance provided in Baker v. Commissioner.

**Type A Contract**

*If you have a Life Care "Type A" contract with Collington, we have determined that **25.96%** of the monthly service fees paid, or **\$949 per person per month** (\$1,898 for double occupancy) during the calendar year ending December 31, 2019 may be deducted as an expense for medical care subject to the limitations prescribed in Section 213 of the Internal Revenue Code and related regulations.*

**Type C Contract**

*If you have a Fee for Service "Type C" contract with Collington, we have determined that **\$39 per person per month** (\$78 for double occupancy) during the calendar year ending December 31, 2019 may be deducted as an expense for medical care subject to the limitations prescribed in Section 213 of the Internal Revenue Code and related regulations. This contract does not include services in the health center; accordingly, the medical expense component of your monthly fee includes only the services of the wellness center and limited nursing oversight.*

**We recommend you seek advice from your tax consultant to determine what you are eligible to deduct as a medical expense on your 2019 individual tax return.**

For those residents residing in the Health Center, we recommend you seek advice from your tax consultant to determine what you are eligible to deduct as a medical expense on your 2019 individual tax return.

The Internal Revenue Services has not approved the methodology used to compute the deductible amounts of fees paid by you. Accordingly, the Internal Revenue Service may challenge the amounts set forth. However, based upon historical precedent and current industry practice, we believe that the methodology employed is reasonable and appropriate.

There may be more aggressive approaches that could yield a higher deduction for you. We feel our methodology is defensible and supported by our calculations. It is your right as a taxpayer to deduct the amount you and your tax advisor feel is justified.

Please note, if your tax advisor calls, we will discuss general terms of the issue. We will not release any information specific to your circumstances without your approval.

Sincerely,



Justin G. Reaves  
Chief Financial Officer

February 14, 2020

**RE: Deductibility of a Portion of Entry Fees**

Dear Resident:

Internal Revenue Service Revenue Rulings 75-302, 76-481 and 93-72 summarize the position of the IRS on the deductibility of a portion of the initial lump sum life-care fee paid by residents of a life-care facility. These rulings and the resulting deduction recognize that a portion of the initial lump sum entry fee in a life care community represents an expense for medical services to be rendered at a later date.

During 2007 there was a United States District Court Case, John O. Finzer, Jr. and Elizabeth M. Finzer v. United States of America (Case No. 06 C 2176) that provided some guidance as to the portion of the entry fee that is to be used to determine the medical expense deduction related to entry fees. Some of the guidance in Finzer v. U.S.A. case states that under a similar factual situation any portion of an entrance fee paid that is in excess of a standard small unit relates solely to the quality of the housing unit selected and has no relation to medical costs. On the last page of this correspondence is the 2019 entry fee for a standard one-bedroom unit under different contract options.

Collington is of the opinion that sufficient data exists to establish that a part of the initial non-refundable lump sum life-care fee can, if paid in 2019, be claimed by the resident as a medical expense deduction for the year. The IRS has not given clear guidance in this area and our consultant has followed the minimal guidance, which has been provided. There are varying interpretations of the existing regulations.

**We recommend that you seek advice from your tax consultant/preparer to determine if you are entitled to the deduction for your 2019 tax return and what the appropriate amount of that deduction should be.**

If you have a Life Care “Type A” contract with Collington, for entry fees paid in 2019 your deduction as an expense for medical care may be the lesser of **25.96%** of all non-refundable fees paid for entrance or **25.96%** of the entrance fee of a standard one bedroom unit, subject to the limitations prescribed in Section 213 of the IRS code and regulations and subject to you or your tax advisor’s review of the guidance in Finzer v. U.S.A. described above.

If you have a Fee for Service “Type C” contract with Collington, it is our opinion that you are not entitled to a deduction for your entry fee, however; we encourage you to consult with your tax advisor on this issue.

If you claim a medical expense deduction for a portion of the initial lump sum life-care entry fee and later receive a partial or full refund of the entry fee, any such refund may be taxable in the year the refund is received.

For those residents residing in the Health Center, we recommend you seek advice from your tax consultant to determine what you are eligible to deduct as a medical expense on your 2019 individual tax return.

If you have questions on this matter, please contact your tax advisor to review your individual situation and give you an opinion on the appropriate course of action. The final decision on whether or not you should make any claim for a deduction rests with you and your tax advisor.

Sincerely,



Justin G. Reaves  
Chief Financial Officer

**Entry Fee for a Standard One Bedroom Unit**

*Based on Price Sheet Effective January 1, 2019*

		Traditional Plan Entry Fee Fully Declining	50% Refund Plan Entry Fee Partially Declining	90% Refund Plan Entry Fee
One resident	Baden - 1 Bedroom	\$106,379	\$143,612	\$202,120
Each additional resident		+\$20,000	+\$20,000	+\$20,000

February 14, 2020

**RE: Property Tax Credit**

Dear Resident:

As you may be aware, Maryland law allows residents of Continuing Care Retirement Communities (CCRC) who qualify to claim a credit with respect to their allocable share of property taxes paid by the CCRC.

The amount of the credit, if any, is equal to the amount by which the allocable share of property taxes (not in excess of the tax on a \$300,000 assessment) exceeds the "tax limit". The "tax limit" varies according to the combined household income. In order to qualify, the residents cannot have a combined income **greater than \$60,000 or assets greater than \$200,000**.

In order to obtain the credit, an application must be submitted to the State Department of Assessments & Taxation, together with a copy of the Residence and Care Agreement and this statement. *This statement is being provided solely for purposes of allowing those residents who qualify to claim the credit.* Collington does not provide tax advice to residents.

We note, however, that Collington's legal counsel has confirmed to us that in its view, **property taxes paid by Collington are not deductible as an itemized deduction of the resident for Federal income tax purposes.**

You will find a schedule of independent living units on the reverse of this letter showing the amount of property tax allocated to each type of unit.

**We recommend you consult with your tax advisor to determine the appropriate deduction, if any, on your federal or state income tax return for real property tax paid by Collington.**

Please note, if your tax advisor calls, we will discuss general terms of the issue. We will not release any information specific to your circumstances without your express prior approval.

Sincerely,



Justin G. Reaves  
Chief Financial Officer

<i>Floor Plan</i>	<i>Description</i>	<i>Size*</i>	<i>Allocable Property Tax</i>
<b>Apartment Homes</b>			
Accokeek	Studio A	487	\$ 517
Ardmore	Studio B	521	\$ 553
Baden	1 Bedroom	690	\$ 733
Calvert	1 Bedroom Den	805	\$ 855
Brinkley	1 Bedroom A3	810	\$ 860
Billingsley	1 Bedroom A1	840	\$ 892
Becket	1 Bedroom R1	920	\$ 977
Belair	1 Bedroom R2	920	\$ 977
Caledon	1 Bedroom Den A5	940	\$ 998
Carrolton	1 Bedroom Den A	940	\$ 998
Charles	1 Bedroom Den A2	940	\$ 998
Lakeland	2 Bedroom 2 Bath	957	\$ 1,016
Berwyn	1 Bedroom R3	1030	\$ 1,094
Landover	2 Bedroom 2 Bath B	1060	\$ 1,125
Lanham	2 Bedroom Ext B1 no balcony	1060	\$ 1,125
Marietta	2 Bedroom Den	1115	\$ 1,184
Laurel	2 Bedroom 2 Bath C	1140	\$ 1,210
Lincoln	2 Bedroom 2 Bath C2	1140	\$ 1,210
Lockwood	2 Bedroom 2 Bath C1	1140	\$ 1,210
Montpelier	2 Bedroom Den E	1240	\$ 1,317
Upsher	1BR Den Deluxe	1260	\$ 1,338
Morningside	2 Bedroom Den E1	1310	\$ 1,391
Marlborough	2 Bedroom Den D	1320	\$ 1,401
Muirkirk	2 Bedroom Den E3	1340	\$ 1,423
Butler	2 Bedroom Ren	1372	\$ 1,457
Largo	2 Bedroom 2 Bath Special C	1400	\$ 1,486
Mt. Pleasant	2 Bedroom Den E2	1410	\$ 1,497
James	2 Bedroom Den Combo	1586	\$ 1,684
Melford	2 Bedroom Den D1	1600	\$ 1,699
<b>Villas</b>			
Seabrook	2 Bedroom Den 1-car garage B	1710	\$ 1,816
Seat Pleasant	2 Bedroom Den 1-car garage C	1755	\$ 1,863
Snowden	2 Bedroom 1-car garage D	1755	\$ 1,863
Washington	3 Bedroom 2-car garage E	1775	\$ 1,885
Woodmore	3 Bedroom 2-car garage A	2110	\$ 2,240

<i>Floor Plan</i>	<i>Description</i>	<i>Size*</i>	<i>Allocable Property Tax</i>
<b>Cottage Homes</b>			
Arlington	Studio A	487	\$ 517
Adams	Studio with Den 2BA	532	\$ 565
Baltimore	1 Bedroom	660	\$ 701
Baltimore Sun	1 Bedroom with Sunroom	660	\$ 701
Columbia	1 Bedroom Den	805	\$ 855
Camden	1 Bedroom Den A	851	\$ 904
Canterbury	1 Bedroom Den B	911	\$ 967
Dougherty	1 BR Open Kitchen, 1.5 Bath,Sunroom	946	\$ 1,004
Lexington	2 Bedroom 2 Bath	1004	\$ 1,066
Marlton	2 Bedroom Den	1115	\$ 1,184
Deller	2BR 2BA with Den	1150	\$ 1,221
Aldrich	2BR Den 2Ba OpenKit	1190	\$ 1,263
Mitchellville	2 Bedroom Den Special	1190	\$ 1,263
Clow	1 BR Den,Open Kit w/Island,1 Ba, Sunroom	1195	\$ 1,269
Nottingham	2 bedroom 2 BA Combo	1200	\$ 1,274
Nelms	2BR 2Ba Open Kitchen	1297	\$ 1,377
Kettering	2 Bedroom 1.5 Bath	1430	\$ 1,518
Coughlin	2 Bedroom Den with Open Kitchen 2Ba	1435	\$ 1,524
Norcross	2 BR 2 BA Den Comb	1444	\$ 1,533
McHenry	2 Bedroom Den Combo	1465	\$ 1,555
Schnaubelt	2 BR-Open Island Kitchen,Sunroom, 2.5 Bath	1538	\$ 1,633
Turner	2BR Combination	1633	\$ 1,734
Wallace	2 BR Den-Open Kitchen,Library, 2.5 Bath	1634	\$ 1,735
Langley	2 Bedroom Den Combo	1702	\$ 1,807
Jackson	2 BR Den-Open Kitchen, 2 Bath-2 Patios	1870	\$ 1,985
Wall	2 BR Den-Open Kitchen, Library, 2.5 Bath	1937	\$ 2,057
Amman	2 BR Den & Open Island Kit, 2.5 Bath,Sunroom-2 Patios	2068	\$ 2,196
	<i>* Sizes may be approximate; some floor plans may differ</i>		

February 14, 2020

**RE: Housing Allowance for Qualifying Clergy**

Dear Resident:

Under Internal Revenue Code section 107, certain qualifying clergy may be entitled to exclude the cost of their housing from taxable income. We have determined that for the year ending December 31, 2019:

If you have a Type A Lifecare Agreement:

- 25.32% of your monthly service fee was for medical expenses
- 41.63% of your monthly service fee was for housing (rental) costs
- 33.05% of your monthly service fee was for other costs, including housekeeping, dining, and certain administrative costs.

If you have a Type C Fee-For-Service Agreement:

- 00.24% of your monthly service fee was for medical expenses
- 55.61% of your monthly service fee was for housing (rental) costs
- 44.15% of your monthly service fee was for other costs, including housekeeping, dining, and certain administrative costs.

We have not requested a private letter ruling with regard to these calculations or regarding the deductibility or the amount of the allowable deduction. This information provided for your use and is not and should not be construed as tax advice.

Please let me know if we can provide any additional information and thank you for the opportunity to be of service.

Sincerely,



Justin G. Reaves  
Chief Financial Officer