

TAXES

ISSUES:

Congress is about to consider major tax legislation that could include changes to tax provisions particularly important to older adults. These essential tax issues include: medical and long-term care expense deductions, the low income housing tax credit, and the charitable contribution deduction.

Medical and Long-term Care Expense Deduction

- Section 213 of the IRS Code allows filers to deduct medical expenses that exceed 10% of their adjusted gross income. In addition, some “chronically ill persons” can deduct “qualified long-term care services” as medical expenses.
- The medical expense deduction has enjoyed broad bipartisan support for over 75 years. The deduction is vitally important to seniors with high out-of-pocket medical costs. The average Medicare beneficiary spends over \$6,000 for out-of-pocket health care costs and many seniors pay for additional long-term services and supports that are not covered under Medicare.
- According to recent IRS data from 2013 filings approximately 9 million Americans claim this deduction – with 7 million of those having a household member over age 50 and 5 million having a household member over age 65. Half of those utilizing the deduction had incomes below \$50,000.
- Reduction or elimination of the medical and long-term care expense deduction could force seniors to deplete their assets more quickly and qualify for Medicaid coverage sooner than expected. Such a situation could cost the federal government more in Medicaid spending than would be gained by the increased revenue from eliminating the tax deduction.
- Many seniors who are residents of life plan communities are allowed to deduct a share of their fees as medical expenses. Elimination of the medical and long-term care deduction would be a penalty for those who plan for their medical and long term care needs.

Low Income Housing Tax Credit

- Section 42 of the IRS Code allows investors to receive a dollar-for-dollar reduction in their federal tax liability in exchange for providing financing to develop affordable rental housing.

- Since it was created in 1986, the low-income housing tax credit has financed 3 million affordable apartments. Today, more than 800,000 homes developed through the housing tax credit are headed by older adults.
- The tax credit takes two forms, both critical to expanding and preserving badly needed affordable housing. The 4% tax credit, along with private activity bonds, is used more and more to produce and preserve affordable housing; the 9% credit supports new affordable housing construction without any additional federal subsidies.
- The low-income housing tax credit and private activity bonds are essential to meeting the nation's affordable housing needs and must be retained in the tax code. Bi-partisan legislation in the Senate, S. 548, would expand the low-income housing tax credit by 50% and make it work even better to meet the affordable housing needs of the lowest income seniors.

Charitable Contributions

The income tax deduction for charitable contributions generates resources that are indispensable for LeadingAge members to carry out their mission of service to seniors. The deduction:

- Is cost effective: The Charitable Giving Coalition documents that, “For every \$1 subject to the charitable deduction, communities reap up to \$3 in benefits.” As their report says, “It’s unlikely government could find a more effective way to leverage private investment in vital community services.”
- Builds a bridge between public and private resources: As government limits spending on public programs, a trend we foresee for the next several years, private giving will be essential to fill gaps that ordinary families cannot cover themselves.
- Improves quantity and quality of aging services: Private philanthropy enables LeadingAge members to build housing for low-income seniors, to replace old and outdated nursing homes with new buildings and to make capital improvements that benefit residents. Fundraising also supports benevolent funds that enable LeadingAge members to continue serving seniors whose own financial resources have been exhausted.
- Benefits entire communities: Because they are nonprofits, LeadingAge members reach beyond their doors to serve individuals in the larger community. Many provide meals, health and supportive services to non-resident seniors. Others provide services to other population groups like students and low-income families.

SOLUTIONS

LeadingAge urges Congress to:

- Preserve deductions for medical expenses and long-term-care expenses at all income levels.

- Retain the low-income housing tax credit and private activity bonds, which are critical for production and preservation of affordable housing for seniors.
- Preserve tax incentives for charitable giving for taxpayers at all income levels.

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