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### **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 homes 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.

As an alternative to nursing homes, many elderly individuals or their care providers are hiring day help or live-in employees to provide the needed care at home. When this is the case, the cost of services provided by the employees must be allocated between non-deductible household chores and deductible nursing services. To be deductible, the nursing services need not be provided by a nurse so 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 the employee's pay attributable to household chores would not be a deductible medical expense.

Household employees, like other employees, are subject to Social Security and Medicare taxes, and it is the responsibility of the employer to withhold the employee's share of these taxes and to pay the employer's payroll taxes. Special rules for household employees greatly simplify these payroll withholding and reporting requirements and allow the Federal payroll taxes to be paid annually in conjunction with the employer's individual 1040 tax return. 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 and file the form with the Federal government. A Federal Employer ID Number and a state ID number must be obtained for reporting purposes. Most states have special provisions for reporting and paying state payroll taxes on an annual basis that are similar to the Federal reporting requirements.

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