

Home Renovations to Accommodate People with Disabilities

How the Cost Can Be Less Taxing

Many parents or caregivers of individuals with disabilities and other special needs may be aware that the cost of home renovations involving the construction of a railing, ramp, lift and elevator—even a pool or spa that's also used for recreational purposes—may qualify as a partial or fully tax-deductible medical expense as long as the cost is deemed to be medically necessary. But if parents aren't careful, the devil could be lurking in the details.

Tax treatment of renovation costs

To be deductible, any expense related to the diagnosis, prevention, treatment, mitigation or cure of disease must not only be itemized, but the amount of total medical and dental expenses for the tax year must also exceed 7.5% of Adjusted Gross Income (AGI).

The entire cost of renovations and home improvements, if made for bona fide medical purposes, can be deducted as long as they don't actually increase the property value based on a real-estate appraisal (see the list of commonly submitted items below). Otherwise, a partial deduction is allowed for the amount by which the expense exceeds the increase in value; the cost of the improvement is reduced by the increase in the value of the property. For example, if a swimming pool that costs \$30,000 to build increases the value of a home only \$5,000, then \$25,000 of the expense is deductible, subject to the 7.5% threshold.

There also are hidden costs to consider, such as those associated with operating or maintaining a pool or spa heater or air filter in terms of the required water, electricity, cleaning, repairs, maintenance and chemicals – all of which can be expensed even if only a portion or none of the capital asset was deemed deductible. The key is twofold: once again, the chief capital expense must be prescribed for a medical reason and not increase the value of one's home.

Another issue beneath the radar is that home improvements, made to accommodate individuals with special needs, could serve to complicate the sale of a home, according to Bernard A. Krooks, a CPA, tax attorney and founding partner of Littman Krooks LLP, with offices in New York City and White Plains, N.Y. Krooks's expertise is special needs strategies.

"The only way you'll come close to getting your money back on the sale of a home is if the buyer is in the same situation as you are," he says. In fact, he believes that most prospective home buyers

without individuals with special-needs probably would want to undo renovations that are irrelevant to them. One possible exception is an elevator, which also might appeal to senior citizens and, according to the IRS, generally adds value to a home.

In the case of elective expenses for the cost of medically necessary home improvements, it may be beneficial to postpone a deduction for the items and expense them in one fell swoop for the year in which they were incurred.

"It's hard enough to meet the 7.5% eligibility test from one year to the next," Krooks explains. "If it's December and it looks like someone isn't going to meet this test even with the new expenses, they would be better off waiting until January to incur the expense and try meeting [that threshold] the following year."

Expert assistance

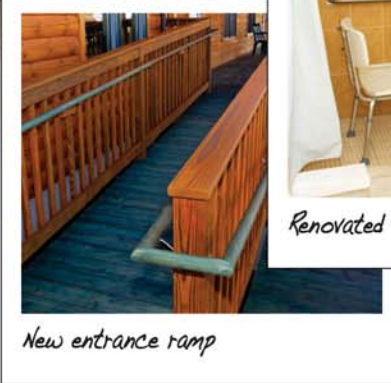
Sean Godwin, a Special Care Planner with *The Piedmont Carolinas Group, Inc* in Cary, NC, an affiliate of *The Greensboro Agency a General Agency of Massachusetts Mutual Life Insurance Company* (MassMutual) and a partner with the Piedmont Carolinas Group, LLC in Cary, N.C., suggests that the families of members who have special needs submit three critical documents when seeking a tax deduction for medical expenses tied to home improvements: a receipt, appraisal and doctor's note prescribing the medical necessity of the improvements.

His clients are encouraged to meet with a CPA, attorney and realtor as part of a larger collaborative process involving skilled professionals who will help steer them in the right direction.

"When we sit down with our clients we tell them that this is a team effort," Godwin says. "These families are overwhelmed, and because of that, they need assistance on claiming these deductions." He advises the families that a CPA and lawyer will be able to address the appropriateness of certain deductions by researching case law and key



Renovated Bathroom



New entrance ramp



More than recreation?

The deductibility of expenses related to swimming and other water exercise can appear murky on the surface. Parents of children with special needs may claim a partial deduction related to the cost of a home swimming pool, swim spa or hot tub prescribed as medical treatment or physical therapy. But since each of these items may also be used for pleasure, taxpayers must show they're specially equipped to alleviate a certain condition or disability, and not generally suited for recreation, in order to ensure that the deduction will be allowed.

For example, the IRS determined that an indoor lap pool with specially designed stairs and a hydrotherapy device was built to provide medical treatment for an individual with osteoarthritis whose physician had prescribed swimming several times a day as treatment for this chronic condition.

While a doctor's note can help sway the IRS, it's not necessarily a guarantee that the home improvement in question will be approved as a deductible medical expense. If the expense is denied, the family can always dispute that decision in court. Krooks says adequate disclosure of their position could help these families avoid IRS penalties.

A likely scenario for denial of a home-improvement expense—that's claimed as a medical expense deduction—would be the purchase of a hydrotherapy swim spa that combines the benefits of a lap pool with those of a Jacuzzi. Krooks says the IRS might question a chiropractor prescribing this treatment for a 42-year-old whose bad back is attributed to nothing more than an old sports injury or the aging process. In contrast, someone with cerebral palsy, or the victim of a serious automobile crash, would stand a much better chance if spa treatment is prescribed to help with their muscle tone.

"It's easier for children to move their limbs in the water because they're not affected by gravity and their weight is much

IRS publication codes, while a realtor can arrange for an appraisal to determine whether any renovations will increase the value of their home.

Legal expertise is particularly helpful in explaining regulatory changes or challenging an IRS denial of a deduction. Larry Jones, a tax lawyer and director, estate and business planning for MassMutual in Springfield, Mass., recalls how case law can change. He points to how a doctor's suggestion from 13 years ago became outdated with regard to removing bedroom carpeting, installing hardwood floors and repainting for the purported purpose of alleviating the patient's allergies. The IRS no longer allows for this particular medical-expense deduction. In another instance, he says a tax court ruled in favor of a family that sought to deduct a hydrotherapy spa their young child's doctor prescribed to help alleviate pain from multiple-joint arthritis.

Without professional assistance, taxpayers run the risk of missing out on valuable tax deductions. Bret Hortin, a *Special Care Planner with Bret Horton Financial Services in Salt Lake City, UT, an affiliate of*

Intermountain Financial Group, LLC a General Agency of Massachusetts Mutual Life Insurance Company (MassMutual) a Salt Lake City-based Special Care Planner with MassMutual, cited the case of a special needs family in Utah that would have benefited from professional help:

The father had built a special porch onto the front of their home with a wheelchair ramp in order to more easily transport his son, who suffered from a mobility disability, from the car into the house. The family was unaware that they could have deducted the cost of the improvements and used the deduction to at least partially offset an amount that they received from the State as reimbursement for the cost they incurred in installing the porch and ramp. Instead, the family wound up paying tax on the full reimbursement. Use of a deduction, says Hortin, "could have resulted in a tax neutral-situation for the reimbursement. The caveat is to seek professional tax assistance."

less," he says. "A hot tub has significant therapeutic value between the jet propulsion and warm water, even though it may not be as obvious as with swimming. But I think the IRS has accepted the fact that with the right medical diagnosis, a hot tub is a deductible medical expense."

Another murky area with regard to water exercise involves mental illness. Godwin's business partner once had a client whose daughter suffered from schizophrenia. She found swimming to be so therapeutic that it actually made the voices that she heard in her head disappear for weeks or months at a time.

"So what did they do? They put in a heated pool," Godwin says, recalling that it happened about eight years ago. In this case, "someone who had a medical need for this pool in a doctor's opinion maybe would have raised an eyebrow or two" at the IRS because of potential ambiguities and gray areas in the law associated with mental versus physical illness.

For additional information on allowable medical expenses related to home improvements necessitated by a person's disability, as well as suggestions for getting help from the Revenue Service, consult IRS Publication 502 (<http://www.irs.gov/publications/p502/index.html>).

Common deductions

Some of the most common home improvements that parents or caregivers can deduct as medical expenses on their tax return include, but are not limited to:

- Entrance or exit ramps
- Handrails or grab bars
- Railings, support bars, or other modifications to bathrooms
- Lowered or modified kitchen cabinets and equipment
- Moved or modified electrical outlets and fixtures
- Porch lifts and other lifts
- Elevators
- Widened doorways at entrances or exits
- Widened or modified hallways and interior doorways
- Modified stairways
- Modified fire alarms, smoke detectors and other warning systems
- Modified hardware on doors
- Modified areas in front of entrance and exit doorways
- Ground grading to provide access to the residence

According to the IRS, these improvements do not usually increase the value of a home and the cost can be included in full as medical expenses [Source: IRS Publication 502].

The Special Care Planner receives advanced training and information in estate and tax planning concepts, special needs trusts, government programs, and the emotional dynamics of working with people with disabilities and other special needs and their families. The certificate program is offered by The American College in Bryn Mawr, PA, exclusively for MassMutual financial professionals. State insurance departments recognize that the Special Care Planner certificate program provides essential information on the profession of special care by granting continuing education (CE) credits (varies by state).

A Special Care Planner through MassMutual's SpecialCareSM program can assist parents in drafting Letters of Intent and can help make a difference in the quality of life for an individual with special needs, their caregiver and other family members. Through SpecialCare you will learn valuable financial strategies, identify financial strategy solutions, access vital information, and meet certified specialists who will work with you and your professional advisors – your banker, accountant or financial planner, lawyer, social workers and health care providers – to review your financial picture and offer options to fit the needs of each situation. For more details, visit MassMutual's website at <http://www.MassMutual.com/specialcare>, or call 1-(800)-272-2216.

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