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Mr. Xan Smith
Chief Financial Officer
Goodwin Living
4800 Fillmore Avenue
Alexandria, Virginia 22311

Dear Xan

At your request, we have reviewed Goodwin House Bailey's Crossroads (the Facility) calculations of the amounts you believe reasonable for residents of the Facility to deduct on their 2023 federal income tax return as a result of the medical expense associated with the payment of entrance fees and monthly service fees. The deductibility of medical expense is provided for in Section 213 of the Internal Revenue Code. In reviewing the Facility's calculations, we requested business and financial information, and received certain representations of management of the Facility. In our review, we are relying, without independent verification, upon the accuracy and completeness of the facts, representations and other information provided to us by the Facility.

No private letter ruling has been requested from the Internal Revenue Service regarding the deductibility of or the amount of allowable deductions. However, Revenue Ruling 76-481, clarified by Revenue Ruling 93-72, approves the deductibility in the year paid, under Section 213 of the Internal Revenue Code, of a portion of the entrance fee and monthly fees paid by individuals in connection with obtaining lifetime care at a retirement facility that is properly allocable to medical care, to the extent not compensated for by insurance or otherwise. These rulings contemplate the computation and communication of the amounts attributable to medical expense to residents by the administration of the Facility. However, no methodology for determining the deductible amount has been sanctioned or set forth by the Internal Revenue Service. Also, the Internal Revenue Service has repeatedly stated that this is a question of fact subject to review by the District Director of Internal Revenue. Therefore, the amounts set forth below, and any updated amounts calculated, may be challenged by the Internal Revenue Service.

The "Percentage Method" utilized by the Facility in determining the anticipated amount of the entrance fee and monthly service fee expended for medical care by residents during 2023 is calculated by the resident applying to the actual entrance fee and monthly service fees paid during 2023, a ratio, the numerator of which is all expenses allocable to medical care for residents of the Facility during the year ending September 30, 2023. The denominator utilized in determining the ratio is the total expenses allocable to residents of the Facility during the year ending September 30, 2023. Medical expenses include, among other items, real estate taxes, insurance, interest and depreciation allocable to medical care facilities, but do not include amounts attributable to debt service or construction of health care facilities.

Recent trends in IRS Revenue Rulings have been for the Tax Courts to specify that the appropriate application of the Percentage Method is to allocate to each resident the same amount for purposes of determining the medical expense deduction related to the payment of entrance and monthly fees based upon the weighted average monthly and entrance fee for each contract type. This method of calculating the medical expense deduction is referred to as the "Weighted Average Method".

The entrance fee and monthly fee calculations under the Weighted Average Method use the same allocation percentage calculated under the Percentage Method, however, this percentage is applied to the weighted-average entrance fee and monthly fee for each plan type contract (Standard, Modified, 50% Refund, and Long-Term Care Insurance) in fiscal year 2023. The theory behind this concept is that the life care contract is the same for every person in the community. Every resident receives the same level of medical care, regardless of the type of unit occupied. As with any tax deduction, the deduction may not exceed the amount that was actually paid during the calendar year 2023.

Based on the two methodologies described above, the deductions we believe to be reasonable for residents of the Facility are described below. Residents are encouraged to consult their tax advisor to help determine which methodology, or other methodologies, they deem appropriate.

I. **The Standard Plan – Select one methodology**
   A. Percentage Method
      i. 27% of the entrance fee for residents who paid an entrance fee under the Standard Plan during 2023.
      ii. 27% of the monthly service fees paid for each month that occupant(s) paid such fees during 2023 under the Standard Plan.

   B. Weighted Average Method
      i. $123,293 for residents who paid an entrance fee under the Standard Plan during 2023.
      ii. $1,399 per month for the first occupant who paid such fees during 2023 under the Standard Plan.
      iii. If there is a second occupant in the residence, $607 per month for the second occupant who paid such fees during 2023 under the Standard Plan.

II. **The Modified Plan - Select one methodology**
   A. Percentage Method
      i. 27% of the entrance fee for residents who paid an entrance fee under the Modified Plan during 2023.
      ii. 27% of the monthly service fees paid for each month that occupant(s) paid such fees during 2023 under the Modified Plan.

   B. Weighted Average Method
      i. $61,471 for residents who paid an entrance fee under the Modified Plan during 2023.

ii. $2,105 per month for the first occupant who paid such fees during 2023 under the Modified Plan.
iii. If there is a second occupant in the residence, $607 per month for the second occupant who paid such fees during 2023 under the Modified Plan.

III. **The 50% Refundable Entrance Fee Plan - Select one methodology**
A. Percentage Method
i. 27% of 50% of the entrance fee for residents who paid an entrance fee under the 50% Refundable Plan during 2023.
ii. 27% of the monthly service fees paid for each month that occupant(s) paid such fees during 2023 under the 50% Refundable Plan.

B. Weighted Average Method
i. $84,626 for residents who paid an entrance fee under the 50% Refundable Plan during 2023.
ii. $1,399 per month for the first occupant who paid such fees during 2023 under the 50% Refundable Plan.
iii. If there is a second occupant in the residence, $607 per month for the second occupant who paid such fees during 2023 under the 50% Refundable Plan.

IV. **The Long-Term Care Insurance Plan - Select one methodology**
A. Percentage Method
i. Deduction would be the same as the Standard and Modified Plans.

B. Weighted Average Method
i. $86,007 for residents who paid an entrance fee under the Long-Term Care Insurance Plan during 2023.
ii. $1,399 per month for the first occupant who paid such fees during 2023 under the Long-Term Care Insurance Plan.
iii. If there is a second occupant in the residence, $607 per month for the second occupant who paid such fees during 2023 under the Long-Term Care Insurance Plan.

The deduction determined to be allowable must be itemized and carefully described as "Medical expense portion of life-care entrance fee and monthly service fee" on an attachment to the resident's return. Such attachment should reference line 1 of Schedule A, Form 1040. This is required in order to provide full disclosure under the Internal Revenue Service rules relative to the substantial understatement provisions. The Internal Revenue Service has not approved the Percentage Method or the Weighted Average Method.

In *Delbert L Baker, et ux. v. Commissioner* (122 TC 143) the court held that the percentage used to determine the medically deductible amount was to be based on a weighted average calculation. However, we believe there is a reasonable basis for taking the position that either methodology applied by the facility is appropriate based on current guidance.

Again, it is important to note that the deductible portions of these fees may not exceed the amount actually paid by the resident. Further, any amount compensated by insurance or otherwise may not be deducted. Deductions under Section 213 of the Internal Revenue Code are subject to thresholds for deducting medical expenses. For 2023, the thresholds for deducting medical expenses is 7.5% of Adjusted Gross Income for residents for both regular tax and alternative minimum tax. Should any resident receive a refund of part or all of an entrance fee, any amounts deducted as medical expenses in the previous tax years must be reported as gross income in the year of receipt to the extent of which a tax benefit was obtained.

The information in this letter is not to be communicated to anyone other than management of the Facility and persons who were residents during 2023. Any such communication to a person who was a resident during 2023 should include a complete copy of our letter. Further, this letter is being delivered to you with your understanding and agreement that you will communicate to each resident receiving this letter any change or correction which we conclude should be made known to them.

We have performed this engagement at the request of Goodwin Living and, therefore, our sole obligation is to Goodwin Living. The decision to rely on this letter is the responsibility of each resident and is not the responsibility of CliftonLarsonAllen. Residents are not bound by our letter. They are entitled to consult with their own tax advisors and are free to file their income tax returns in accordance with any methodology they deem appropriate so long as such methodology is supportable in the event of a challenge by the Internal Revenue Service.

We appreciate this opportunity to be of service. If you have any questions, please contact us.

Very truly yours,

CliftonLarsonAllen LLP

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U.S. Treasury Circular 230 Disclosure: If any tax advice is contained in the communication or attachments, it is not intended or written to be used, and cannot be used, for the purpose of avoiding tax related penalties under federal, state, or local law.