



Planable Wealth

Plan. Preserve. Provide.



Funding Care, Preserving Assets & Minimizing Taxes:

Your Home at The Crossroads

A Highly Detailed Tax Planning Case Study for Families Looking to Fund Long-Term Care

Cameron Valadez, Benjamin Guizlo and Blake Smith are registered representatives with, and offer securities and advisory services through LPL Financial, a Registered Investment Advisor, Member FINRA/SIPC. Tax and accounting related services offered through Plan-It Business Services DBA Planable Wealth. Plan-It Business Services is a separate legal entity and not affiliated with LPL Financial. LPL Financial does not offer tax advice or tax and accounting related services.

When your aging parents' health declines and care becomes necessary, one of the biggest questions you'll face together is: *What do we do with the house?*

In this case study, we'll walk through Thomas Anderson's situation—a scenario that plays out in families every day, and a situation Planable Wealth guides families through quite frequently.

Background

Tom is in his early 80s with Parkinson's disease. His daughter Lisa and granddaughter Jessica are supporting him, but the reality is setting in: Tom's care needs are increasing. The family home - fully paid for and Tom's largest asset - sits at the center of critical decisions that need to be made now, not later.

- Should they sell the house to fund his care?
- Should he keep the property and rent it out?
- Can Tom stay at home with the right support systems in place?

These aren't hypothetical questions—they're urgent decisions with significant tax and estate implications that will affect both Tom's quality of life and his children's financial future.

Tom is supported by his only child, Lisa, and granddaughter, Jessica, who have a multiple support agreement in place to receive tax benefits from supporting him.

Lisa is currently very busy in her career and is in her peak earning years nearing retirement. She and her family are financially stable but are beginning to struggle taking adequate care of Tom.

Tom has a modest income from Social Security benefits, a small pension from a former employer, and an IRA to withdraw from to supplement his other fixed income. He lives alone in his own house, which is fully paid for. Lisa pays for his long-term care insurance, and Jessica helps with other expenses such as groceries, utilities and transportation.

Tom's Parkinson's disease causes concern, and he is currently undergoing treatment. Tom feels as if he should plan for both possibilities with his health – first, that with treatment, improvements will allow him to get out and about more, and second, that the treatment will not prevent the disease's advance.

He will have to either move in with Lisa (not preferred by Lisa), hire an in-home caregiver, or move into a nursing home. Tom and Lisa are open to him either staying or going, but realize he needs to get advice on all his choices.

Cameron Valadez, Benjamin Guizlo and Blake Smith are registered representatives with, and offer securities and advisory services through LPL Financial, a Registered Investment Advisor, Member FINRA/SIPC. Tax and accounting related services offered through Plan-It Business Services DBA Planable Wealth. Plan-It Business Services is a separate legal entity and not affiliated with LPL Financial. LPL Financial does not offer tax advice or tax and accounting related services.

To that end, we'll examine some of the potential tax consequences of Tom's options, considering his personal and financial health, and how his primary asset - his house - aligns with his upcoming care needs.

He feels like his choices with his house are to:

- Sell & transition to a nursing home (or Lisa's home)
- Rent the home & transition to a nursing home (or Lisa's home)
- Stay and hire an in-home caregiver

These choices affect individuals of Tom's age differently, depending on their overall financial wealth and liquidity, and the availability of assistance from nearby family members. Since Tom has relatively modest means, we will cover his situation with an eye toward general principles that maximize tax savings for him and his heirs.

*****This case study will not cover major estate and Medicaid trust planning.*****

Additional Information

In our case, Tom has very little liquid funds to tap other than his Traditional IRA (which is fully taxable upon distribution). Currently, he does not owe any tax on his Social Security benefits due to the way Social Security is taxed at the federal level. However, the more he withdraws from his IRA in a given year, the more of his Social Security potentially *becomes taxable* – a “shadow tax” that becomes a major planning issue for many in retirement.

In Tom's case, taking large lump sums, or increasing withdrawals beyond his **required minimum distribution (RMD)** from his IRA can cause major tax issues that might otherwise be avoided.

For the past several years, Tom has used the **standard deduction** on his tax returns due to a lack of **itemized deductions** (medical expenses, mortgage interest, state income or sales taxes paid, property taxes paid, charitable contributions, etc.).

However, the more he spends on specialized medical care in the near future, he may see a larger benefit to itemizing deductions since he will have much larger **qualified medical expenses**. This may help offset some of the additional taxes owed if he were to increase taxable IRA withdrawals.

It's important to note that not all expenses will be considered qualified medical expenses when it comes to shelling out funds for care. This will ultimately depend on the type of care that's given by a particular caregiver or facility and whether or not it's **medically necessary**.

Additionally, in order to maximize tax benefits when paying for qualified medical expenses, you also need to control your **adjusted gross income (AGI)**. This is where careful financial and tax planning comes into play to optimize tax savings.

Cameron Valadez, Benjamin Guizlo and Blake Smith are registered representatives with, and offer securities and advisory services through LPL Financial, a Registered Investment Advisor, Member FINRA/SIPC. Tax and accounting related services offered through Plan-It Business Services DBA Planable Wealth. Plan-It Business Services is a separate legal entity and not affiliated with LPL Financial. LPL Financial does not offer tax advice or tax and accounting related services.

OPTION 1

Tom Decides to Sell & Transition to a Nursing Home

Tom may want to sell his home if the upkeep is too much for him and his family, or more importantly, if he lacks sufficient assets and insurance to cover the expected cost of his care, especially if they expect his Parkinson's disease to progress further. And if you aren't aware yet, long-term care is punitively expensive!

What Needs to Be Known for Tax Purposes?

Cost Basis/Adjusted Basis

Cost basis or adjusted basis (what you paid for an asset plus other adjustments and improvements) is important to know because it is subtracted from the selling price of an asset to calculate your taxable gain (or loss). The higher the basis, generally the lower the potential taxes owed.

Establishing a house's adjusted cost basis is a very important initial step when planning to sell it. Although other ways to acquire a home exist, such as inheritance or gift, this case study focuses on Tom's home, which he purchased in 1965.

Aside from the selling price, many, but not all of the costs associated with purchasing a home should be included in the cost basis. To establish the cost basis, Tom needs to start with the cost of the house and add the costs of closing the original purchase.

While you are likely not a trained tax professional and probably don't wish to be, it is still important that you have a general understanding of some of the tax law when making decisions, especially if you don't have a trained tax professional by your side, such as an experienced **Enrolled Agent (EA)**.

Some example settlement fees and closing costs that can be included in basis include:

- ✓ Abstract fees
- ✓ Charges for installing utility services
- ✓ Legal fees, including fees for the title search and preparing the sales contract
- ✓ Recording fees
- ✓ Survey fees
- ✓ Transfer or stamp taxes
- ✓ Owner's title insurance

Settlement costs don't include **amounts placed in escrow** for future payments of items like taxes and insurance.

Some settlement fees and closing costs not included in basis are:

- Fire and casualty insurance premiums
- Rent for occupancy of the home before closing
- Charges for utilities or other services related to the occupancy of the house prior to closing
- Charges connected with a loan, such as obtaining or refinancing a mortgage

The purchase costs are listed on the document, commonly called the "HUD-1" or Settlement/Disclosure Statement, provided by the real estate lawyer/agent or settlement company to the purchaser and buyer.

Example: Establish Initial Cost Basis

Below is the hypothetical information for the initial purchase of Tom's home in 1965.

| Item | Amount |
|---|------------------|
| Purchase price of home | \$50,000 |
| Abstract fees | \$75 |
| Legal fees | \$350 |
| Recording fees | \$25 |
| Survey fees | \$200 |
| Transfer taxes | \$50 |
| Title insurance | \$300 |
| Original cost basis w/ adjustments | \$51,000* |

*Note: The costs in your specific situation may be much larger and therefore have a much greater impact than those shown in this example from 1965.

Improvements

Next, Tom increases the cost basis of his home by considering **substantial improvements** made over the years that are still in place today. Improvements often add significant value to a home, prolong its useful life or adapt it to a new use.

Because of this definition, **repairs** are generally not considered additions to the cost basis. Even painting does not “improve” a home by itself: it is typically classified as a repair.

Improvements that can't be included in basis:

- Costs of repairs or maintenance necessary to keep the home in good condition, but don't add to its value or prolong its life
- Costs of any improvements that are no longer part of the home (for example, wall-to-wall carpeting that the taxpayer installed but later replaced)
- Costs of any improvements with a life expectancy of *less than* one year when installed

As an exception to the rule, repairs that are part of a job considered to be an extensive remodel are considered substantial improvements.

The costs of any energy-related improvements are included in basis, but any tax credits or subsidies received related to those improvements are subtracted from basis.



Helpful Tax Tip from Cameron Valadez, CFP®, EA: *Always keep your invoices and receipts when doing any major improvements to your home such as installing solar panels, HVAC units, patio covers, pools, fences, roof, etc. Try and keep the physical copies in a folder and scan digital copies to a hard drive or cloud storage. This small tactic can potentially end up saving you thousands of dollars upon an eventual sale of your home!*

Some examples of improvements that are and are not additions added to basis:

| Improvements | Not Improvements |
|---|--|
| Bedroom, bathroom, garage, or deck addition | Painting the house (not part of remodel) |
| New roof, wiring, plumbing, or flooring | Fixing a leak or broken window |
| Installed heating/cooling system | Replacing worn doorknobs |
| Built-in appliances | Minor repairs before sale |
| New driveway or walkway and fences | Routine maintenance |
| Landscaping, pool (permanent structures) | Seasonal lawn care |

Example: Establish Adjusted Cost Basis (Initial Cost Basis + Improvements)

Tom's adjusted cost basis in the home is calculated as follows:

| Item | Amount |
|--|-----------------|
| Original cost basis | \$51,000 |
| New roof (1985) | \$8,000 |
| Bathroom remodel (1995) | \$12,000 |
| Furnace (2024, net of energy credit) | \$6,000 |
| Stair lift (Cost \$15,000. Put in by Lisa in 2024, net of medical expense deduction taken by Lisa) | \$4,000 |
| Adjusted cost basis | \$81,000 |

The improvements Lisa made to his staircase increased Tom's basis in the home only to the extent that they were not used as a qualified medical expense deduction allowable to Lisa for her father, who was treated as her medical dependent. This is why his basis only increased by \$4,000 even though the stair lift actually cost \$15,000 in this example.

Wait, Lisa Can Get a Tax Deduction When Paying for Medical Expenses for Her Father?

Under the right circumstances, yes. Because Tom was Lisa's dependent under a **multiple support agreement** as mentioned earlier, Lisa was able to claim part of the \$15,000 cost of the stair lift as a medical expense deduction *on her own tax return* (subject to limitations)!

However, you can't get a double tax benefit. Therefore, the amount that Lisa deducted as qualified medical expenses (\$11,000) cannot also be added to Tom's basis in the home.

Only the \$4,000 that Lisa couldn't claim (due to income and deduction limitations on her personal tax return) as a medical deduction can be added to Tom's cost basis in his home.

However, even if Tom paid for the home modification himself, he wouldn't have been able to deduct it as qualified medical expense in 2024 since he hasn't been itemizing deductions on his tax return given his modest income and lack of other itemized deductions. In other words, if he paid for it, no one would have received any initial tax benefit! Please note that this situation will be different for everyone.

If he paid for the modification and could not deduct it as a medical expense, the full \$15,000 would be added to his basis in the home which would reduce the potential taxable gain if he chose to sell - but he'd still be out \$15,000 in cash.

And as you'll see later, if he decides to keep the home, the addition to basis will do nothing for him anyways - another piece to this hypothetical that can be different for everyone.

The way it worked out: Lisa paying for the lift and taking the medical deduction was actually tax efficient. Lisa got an \$11,000 tax deduction (worth roughly ~\$2,000 - \$4,000 in tax savings depending on her income tax bracket), and Tom still gets \$4,000 added to his cost basis in the home, which will reduce his taxable gain (if any) if he eventually sells.

If Tom were to have paid for it, he would have had to withdraw an additional \$15,000 *net of tax* from his IRA which would have caused his Social Security to become partially taxable, thereby making it a much more expensive purchase than it needed to be!

In this case, Lisa paid for it but got a large tax deduction that can be looked at as a discount on the total price of the lift. Tom didn't have to recognize any more income and cause more of his social security to become taxable. He was also able to increase his basis which will reduce his potential gain if he sells the property.

You may be thinking: "All sounds great, but Lisa had to pay for it, I don't want to have to pay for something like that if I don't have to!"

This is definitely something that is circumstantial but makes sense in this hypothetical situation since Lisa is the primary beneficiary of Tom's estate plan and retirement assets.

Depending upon the amount of assets the parent has, their estate plan, the cost of care, and how long they live, the sandwich generation that is helping them with caregiving (Lisa) may also "recoup" any out-of-pocket costs (or more) later via a potential inheritance.

Utilizing some of these tax planning strategies can provide the supporting generation with tax benefits today which can have significant value. It can also preserve or even enhance the value of the estate they will inherit later, which is typically a win-win for both the parent and the supporting generation.

To summarize, there are a few things going on in this example:

- Although Lisa is out of pocket, she is getting an \$11,000 tax deduction.
- Tom would get to reduce any gain on his home by \$4,000 if he chose to eventually sell.
- Tom is preserving more of his assets because he is not having to take a large IRA distribution and pay the tax on it - which could potentially put him in another tax bracket or cause him to lose other deductions. These funds are continuing to grow tax-deferred.
- Tom would have paid \$15,000 with no tax benefit to offset the cost.
- Tom is keeping more money in the bank because he is not paying a surprise tax bill on his social security due to the large IRA distribution.

What is a Multiple Support Agreement?

Today's Baby Boomer and Gen X caregivers are navigating elder care during rising healthcare costs and longer life expectancies. Whether they offer hands-on assistance or coordinate long-distance care, these responsibilities require more than just time and compassion; they also require planning. Fortunately, the tax code offers some relief for those supporting elderly parents.

Caregivers may be able to:

- ✓ Claim a qualifying relative as a dependent, even if they don't live in the same household, as long as support and income requirements are met
- ✓ Deduct medical expenses, including out-of-pocket costs for a parent, once certain thresholds are met
- ✓ Take advantage of the child and dependent care credit when paying for adult day care or in-home services for a dependent parent who lives with the taxpayer
- ✓ Deduct qualified long-term care insurance premiums, subject to IRS limits based on income for the premium payor (Lisa in our case) and the insured's age (Tom in our case)
- ✓ Include medically necessary home modifications, such as ramps, lifts, or grab bars in your deductible medical expenses when itemizing

The key here is that generally, a taxpayer must pay **over half** of a person's support to claim a person as a **qualifying relative**. However, even if they didn't meet this support test, they may be able to claim that person as a dependent if all of the following apply (assuming all the other requirements are met):

- No one person contributed over half of that support.
- More than half of the individual's support came from two or more people, and each of those people would have been able to claim the individual as a dependent for that tax year, except that none of them, by themselves, provided over half of the total support.
- The taxpayer paid over 10% of the support.
- Every other contributor who paid more than 10% of the individual's support must sign a written statement agreeing not to claim that person as a dependent for any tax year beginning in the same calendar year.

To satisfy this requirement, you use a special tax form called a **Multiple Support Declaration** each year. It is advised you work with a tax professional if this is your situation.

This form is crucial for claiming the "**other dependent credit**" (if eligible), valuable **head of household** filing status (if applicable), and including a dependent's medical expenses on your Schedule A. All of which can help save you – the ever so helpful and loving child - real money!

In our example, Lisa meets all of the requirements to claim Tom as a qualifying relative. This allows her to deduct medical expenses she pays for him and claim other valuable tax credits.

Determining The Gain on The Sale of Home

After the adjusted cost basis has been determined, the potential gain on the sale must be calculated.

Figure 1 below shows a sample closing statement, such as one that would be used for the sale of Tom's house.



Helpful Tax Tip from Cameron Valadez, CFP®, EA: *You should always hold onto the closing statement in order to properly determine your basis by including any selling expenses that would reduce the gain on the eventual sale of a property – Even if it's decades later!*

Assuming Tom's house is sold for \$300,000 on January 31, 2026, and his selling expenses are \$21,000, the total potential gain is \$198,000.

| Item | Amount |
|------------------------|------------------|
| Selling price | \$300,000 |
| Less: Selling expenses | (\$21,000) |
| Amount realized | \$279,000 |
| Less: Adjusted basis | (\$81,000) |
| Potential gain | \$198,000 |

We aren't done yet. While the taxable gain is potentially \$198,000, he may be eligible for a **special exclusion** since it is the sale of his personal residence.

The Section 121 Gain Exclusion

Tax law permits a sizable tax break if Tom decides to sell his personal residence and meets the eligibility requirements for gain exclusion. Under the current tax law, if taxpayers qualify, the maximum capital gain that can be excluded is **\$250,000 if single or \$500,000 if married filing jointly and otherwise qualified**.

Surviving spouses that otherwise qualify may claim the full \$500,000 exclusion if they sell the home within two years of their spouse's death, haven't remarried and didn't claim the exclusion on another home less than two years prior to the sale.

Cameron Valadez, Benjamin Guizlo and Blake Smith are registered representatives with, and offer securities and advisory services through LPL Financial, a Registered Investment Advisor, Member FINRA/SIPC. Tax and accounting related services offered through Plan-It Business Services DBA Planable Wealth. Plan-It Business Services is a separate legal entity and not affiliated with LPL Financial. LPL Financial does not offer tax advice or tax and accounting related services.

To qualify for the exclusion, a taxpayer must satisfy the IRS's eligibility tests. In certain situations, a taxpayer may also qualify for a partial exclusion of less than the full amount.

Eligibility

The Section 121 gain exclusion may only be claimed on the sale of a main home or principal residence. However, the exclusion can apply to many different types of housing facilities, including single-family homes, condominiums, cooperatives, mobile homes and houseboats.

A taxpayer has only one main home at a time. If a taxpayer lives in one or more homes, they must apply the facts and circumstances test to determine which property is their primary residence. The most important factor is where the taxpayer spends the most time; however, other factors are also relevant.

Eligibility Tests

The taxpayer is eligible for the exclusion if they satisfy *each of the following tests*:

- ✓ **Ownership** – If a taxpayer owned their home for at least 24 months (two years) out of the five years leading up to the date the sale closed, they meet the ownership requirement. For married couples filing jointly, only one spouse must meet the ownership requirement.
- ✓ **Residence** – If a taxpayer did not reside in the home for a single block of 24 months during the previous five years, they can still claim the exclusion if they resided in the home for a total of 24 months (730 days) during the five-year period. Unlike the ownership requirement, both spouses must individually satisfy the residency requirement. Vacations or other short absences don't count as time away from the home and time spent in a licensed nursing facility also doesn't count as time away.
- ✓ **One sale in two years** – The taxpayer must not have used the \$250,000 (or \$500,000) exclusion for any residence sold or exchanged during the two-year period ending on the date of the current sale or exchange. The date of sale is generally the earlier of the date the deed passes (is conveyed) or the time possession and the burdens and benefits of ownership are (from a practical standpoint) transferred to the buyer. This will usually be the date of the closing statement.

Exceptions to the Eligibility Test

There are exceptions to the eligibility test. Some examples are:

- ✓ Death of a spouse and/or divorce during ownership of the home
- ✓ The home was destroyed or condemned
- ✓ The taxpayer was a service member while owning the home
- ✓ And more!

Please consult a tax professional to see if any exceptions apply to your specific situation.

Eligibility Tests Met

Tom meets the eligibility criteria for the gain exclusion and is eager to start the sale process. His home is comfortable and well-kept, thanks mostly to Jessica and Lisa's help. When real estate agents viewed the house, they found some elements had been updated, while others would need updating and even repairing.

Tom easily met the two basic eligibility criteria (ownership and 2-out-of-5 years residence tests) so his potential gain and exclusion can be calculated as follows:

| Item | Amount |
|---------------------------------------|-------------|
| Potential gain | \$198,000 |
| Section 121 exclusion (filing single) | (\$250,000) |
| Taxable gain | \$0 |

If Tom chooses to sell his home, he will incur no taxable gain and be able to prudently invest the proceeds (net of selling costs) to help pay for his care moving forward.

Tom's new goal is to work closely with a financial advisor and tax professional to create an investment and distribution plan to pay for his care while still aiming to leave behind an inheritance for Lisa to thank her for her time and energy helping him as he ages.



Helpful Tax Tip from Cameron Valadez, CFP®, EA: *If Tom had been in a licensed care facility, such as a nursing home, while the house was being sold, his time in the facility and absence from his residence would not affect his Section 121 exclusion eligibility. However, for this to apply, Tom would have had to reside in his home for a total period of **at least one year** during the five-year period preceding the sale of the house.*

What If You Surpass The Section 121 Gain Exclusion on Your Personal Residence?

Tom's situation is a hypothetical example. Your situation will vary. Many individuals will have a very large amount of appreciation in their home such as longtime residents of highly appreciating areas like California, New York, etc.

If they decide to sell their home in order to help pay for care, they will likely surpass the available gain exclusion - especially if they are filing single - and may have substantial capital gains taxes that may be avoided if they instead hold onto the property and properly pass it at death to their beneficiaries who can get a **step-up in cost basis**.

If you're in a situation where there are capital gains well over and above the available exclusion on a personal residence, renting may be one of the better options so that the property can pass at death to the individual beneficiary(ies) who will receive a step up in cost basis.

This will be highly dependent on each person's unique situation. For instance, if there were other assets held by the homeowner - such as stocks bonds in a brokerage or trust account - that had **unrealized losses**, those assets could be sold and the losses harvested to offset any potential gains realized from the sale of the home.

This can be an extremely powerful opportunity because if the taxpayer passes away with significant unrealized losses in a brokerage account, the beneficiary will likely get a **step-down in cost basis**, which is not ideal!

This is, unless of course, the homeowner does some good planning and recognizes these losses themselves before passing away! It's best to reach out to a qualified financial and tax professional in these situations.

OPTION 2

Tom Decides to Rent

Renting the property to help pay for care is a fairly straightforward concept, but for an individual stepping into the final quadrant of life, it may not be that *simple*.

Of course, Tom would need to be in a facility before his home is rented. The house would need to be cleaned out, prepped for rent, and potentially a storage facility secured (additional \$\$\$).

Then an ideal tenant would need to be found and the right contract put in place. This all takes time – which could take longer than expected - which could mean that Tom may initially get put in a predicament paying for his care – This needs to be planned for.

Once the tenant is secured and the cash flow is coming in, everyone's happy and things seem to be on autopilot. However, things can and will happen as a landlord, therefore somebody needs to be available to manage the property.

Hiring a property management company can be a potential solution, however it will eat into the monthly cash flow on the property, and just because you have a property manager doesn't mean you can be hands off with a completely passive investment. It is in fact the opposite of "passive" and can cause a lot of headaches, especially when the landlord is at the point in life where they are receiving specialized medical care and the child may be in their peak earning years with little time to commit to a rental property.

The other option is to have a family member (like Lisa) help manage the property, which may or may not be feasible, especially if family members are not located near the property or again lack the time to commit.

Renting the property will surely change Tom's tax situation. He will likely have positive cash flow and net taxable income from the property since he does not have a mortgage, and his property taxes are low due to the home being purchased in 1965. The net effect of more income but the introduction of taxation on his Social Security benefits needs to be carefully analyzed.

Renting will also change Tom's itemized deductions. Before, he was living in the home and therefore included the property taxes he paid - which added to his medical expenses paid - when determining his itemized deductions. Note that others may have more potential itemized deductions such as mortgage interest or charitable contributions, etc.

When *renting the property out*, the property taxes paid will be deducted from the rental income on a separate part of Tom's tax return and therefore will not be a part of his itemized deductions.

This may cause his itemized deductions to fall back below the standard deduction, and therefore he may not get as much or any tax benefit from his new medical expenses for care.

If he's capped at the standard deduction while recognizing additional taxable income from his rental property, he may begin owing taxes either from the net rental income itself and/or taxation of a portion of his social security benefits.

If Tom chose to rent the property to help pay for his care until he passed away, Lisa would then inherit the property and receive a full step up in cost basis. This can essentially put her in a position to owe little to no taxes (or maybe even a loss) if she were to sell the property.

You'll remember earlier when we mentioned that if Tom were to have paid the \$15,000 for the lift, that he would have been able to add the full \$15,000 to the basis of his home although he may receive no tax benefit for that whatsoever.

That would be true in this situation. If he were to rent the home until his passing, the additional \$15,000 of basis wouldn't have mattered in the end since Lisa would generally receive a **full step-up** in basis to the fair market value of the property on the date of his death anyways. Therefore, there would be no tax benefit realized in the end.

These unique nuances are what makes these situations entirely dependent upon each individual's circumstances and goals.

Tom Initially Rents His Home Out & Sells Later

Suppose Tom moved in with Lisa, for reasons other than health, and the family decided to rent his former main residence instead of selling it immediately.

To qualify for the gain exclusion upon a sale at a later date, Tom would satisfy the **ownership rules**.

However, he would still have to pass the 2-out-of-5-year **residency test**, meaning he cannot hold it indefinitely as a rental and still qualify for the full gain exclusion upon sale, but may be able to get a **partial exclusion**.

In addition, if Tom chose to rent the property, he would have taken an annual deduction for **depreciation**. If he were to eventually sell the property, he will not be able to exclude any depreciation taken previously from his gain and will owe what is called **depreciation recapture tax** – apologies, we may have gone a little too far with that one, but just something to be aware of!

OPTION 3

Tom Decides to Stay

If Tom had not sold his home or moved into Lisa's home, he would want to set up medical and household care to help in areas where his Parkinson's disease leaves him unable to function alone in daily life.

Fortunately, Lisa has been paying for his long-term care insurance, which would supplement his income and allow him to afford in-home care without the sale of his home. His major choice now is to hire help from an outside agency or to find family members qualified to provide his care.

Let's sidestep for a moment to go over some of the basics of long-term care insurance.

Long-Term Care (LTC)

Hiring an Outside Agency or Family-Related Care?

Since Tom is not totally incapacitated, his care may include some medical and some daily living elements. Depending on the policy Lisa purchased for him, reimbursements from the insurance agency will cover either all or part of the helper's costs.

Note: The exact language of a particular long-term care policy is extremely important and cannot be overlooked. There are many forms of long-term care policies, such as:

- Standalone LTC policies
- Asset-based LTC policies
- Hybrid life insurance and LTC policies
- Annuity-based LTC contracts
- And more

When it comes to deducting "qualified" long-term care premiums paid, as well as getting reimbursed from the insurance company for the cost of care, each policy works differently and may even work differently depending on the company issuing it.

Some may reimburse actual costs and pay providers directly, while others may provide you with a cash benefit to pay providers. Please work closely with your financial advisor to determine the right policy for your situation.

But how does it work when an agency provides a helper for Tom, Lisa pays the agency and the long-term care insurance policy provides reimbursement? Would it be feasible to have non-licensed family members come in to help Tom and compensate them for their time and care? Can you do that? Let's see.

Qualifying for Care

“Qualified” long-term care services include necessary diagnostic, preventive, therapeutic, curative, treating, mitigating and rehabilitative services, as well as maintenance or personal care services that a chronically ill individual requires.

These services **must be provided under a plan of care prescribed by a licensed health care practitioner**. Maintenance or personal care services provide a chronically ill individual with the necessary assistance to manage their disabilities.

A chronically ill individual is one who has been certified within the previous 12 months by a licensed health care practitioner as:

- ✓ Being unable to perform, without substantial assistance, at least two of the **activities of daily living (ADLs)**: eating, toileting, transferring, bathing, dressing, and continence, for at least 90 days due to a loss of functional capacity (the ADL trigger);
- ✓ Having a similar level of disability as determined by the IRS in conjunction with the Department of Health and Human Services, to the level described in (bullet #1); or
- ✓ Requiring substantial supervision to protect himself/herself from threats to health and safety due to severe cognitive impairment (cognitive impairment trigger).

The IRS has provided several safe harbor definitions that can be used when applying the above tests. For purposes of the **ADL trigger**, taxpayers may rely on all or any of the following safe-harbor definitions:

- Substantial assistance means hands-on assistance and standby assistance
- Hands-on assistance means the physical assistance of another person, without which the individual would be unable to perform the ADL
- Standby assistance means the presence of another person within arm’s reach of the individual, which is necessary to prevent, by physical intervention, injury to the individual while the individual is performing the ADL
- Some examples of standby assistance include being ready to catch the individual if they fall while getting into or out of the bathtub or shower while bathing or being ready to remove food from the choking individual’s throat.

For purposes of the **cognitive impairment trigger**, taxpayers may rely on either or both of the following safe-harbor definitions:

- Severe cognitive impairment means a loss or deterioration in intellectual capacity that is comparable to and including Alzheimer’s disease and similar forms of irreversible dementia. It is measured by clinical evidence and standardized tests that reliably assess impairment in the individual’s short-term or long-term memory, orientation as to people, places or time, and deductive or abstract reasoning.
- Substantial supervision means continual supervision, which may include cueing by verbal prompting, gestures or other demonstrations, by another person that is necessary to protect the severely cognitively impaired individual from threats to their health or safety, such as may result from wandering.

Cameron Valadez, Benjamin Guizlo and Blake Smith are registered representatives with, and offer securities and advisory services through LPL Financial, a Registered Investment Advisor, Member FINRA/SIPC. Tax and accounting related services offered through Plan-It Business Services DBA Planable Wealth. Plan-It Business Services is a separate legal entity and not affiliated with LPL Financial. LPL Financial does not offer tax advice or tax and accounting related services.

Tax Free LTC Benefits

Generally, amounts paid as reimbursements under a **qualified LTC insurance contract** are excluded from income (tax free). However, the excludable amount is limited when **per diem payments** (fixed payments made on a periodic basis without regard to actual expenses incurred) are used as the reimbursable base.

Caveats to Paying a Family Member

Certain payments to relatives or related entities for long-term care are not treated as paid for medical care.

Amounts paid for a qualified long-term care service provided to an individual is not for medical care if the service is provided:

- By the spouse of the individual or by a relative unless a licensed professional provides the service, with respect to such service
- By a corporation or partnership that is related to the individual

Inadequate Long-Term Care Insurance

Let's imagine for a moment that Tom's long-term care insurance benefits will not be large enough to pay for all of his in-home care. His benefits cover the majority of his care costs. However, because of the Parkinson's specifically, there is a large additional monthly fee of \$1,500/mo for specialized care (100% medical related).

Lisa does not have any more discretionary income to assist with these payments, so their only available sources to supplement his care needs will be increasing his IRA withdrawals beyond just his RMDs or tapping into his home equity.

While previously we noted that increasing his IRA withdrawals may cause more of his social security to be taxed, if his unreimbursed qualified medical expenses are large enough, he may now be able to drum up enough itemized deductions to offset the tax impact of the IRA withdrawals and the additional social security taxation. Note that we can't double count the medical expenses that are covered or reimbursed by the long-term care insurance.

Let's take a look at a hypothetical example:

As we mentioned before, Tom had a small pension and most of his income came from his social security benefits. He also had a small required minimum distribution from his IRA. Because most of his income came from Social Security benefits, none of those benefits were actually taxable and therefore he owed no federal income taxes.

However now that there is a new expense of \$1,500 per month, he needs to figure out a way to supplement his income to cover this new expense. His care needs, of course, total more than \$1,500 a month but the rest of it is covered by reimbursements from his long-term care policy that Lisa paid the premiums on.

One might assume that taking \$1,500 per month or \$18,000 per year from his IRA would cause more of his Social Security to become taxable, which is in fact correct in this hypothetical situation.

However, the additional \$18,000 annual expense is a qualified medical expense and therefore would be combined with any other out-of-pocket medical expenses Tom pays, as well as his Part B premiums that come out of his Social Security benefits check.

When you combine his total medical expenses along with his sales taxes, property taxes and personal property taxes, his itemized deductions greatly exceed the standard deduction he's used to taking.

In addition, even though he's recognizing an additional roughly \$18,000 in income, his income is still below the threshold to fully qualify for the new **enhanced senior deduction** brought by the One Big Beautiful Bill – another new planning opportunity to keep an eye on when making financial decisions in retirement.

All said and done, Tom will still not owe any federal income taxes!

Note: Depending on the state in which you live, you still may owe state income tax. And by the way, we ran Tom's hypothetical for the state of California and Tom would not owe any state income taxes to California either!

More Powerful Estate & Tax Planning Effects

- ✓ Without knowing these tax nuances, Tom might have tapped into his home equity before his IRA because he was scared of the potential additional taxation of his Social Security benefits.
 - In addition, if Tom were to die prematurely, Lisa would have inherited whatever equity was left in the home (reduced by what he had spent) as well as a *fully taxable Traditional IRA* that would have to be distributed within 10 years at her higher income tax brackets.
- ✓ In Tom's unique situation, he is able to spend down the completely pre-tax Traditional IRA while incurring the additional medical expenses to get otherwise fully taxable dollars out of his IRA completely tax-free!
 - If Tom were to die prematurely in this case, Lisa would inherit more equity in the home (since it was never tapped) which would go to her completely tax-free, and little to no pre-tax IRA money that would be taxed at her higher tax rates since he spent from that instead!

Please consult a qualified tax professional for your particular situation.

Making The Decision: Sell, Stay or Rent?

Tom's decisions about his house intersect with his health and capacity to manage daily life alone. In this hypothetical situation, Tom has a few options. Keep in mind, however, that you or your aging parents may only have one or two.

When you have more than one viable option, that would mean that funding care works out in either case. Therefore, **the decision may come down to the legacy/estate planning outcome you desire, or simply personal preference.**

Here are Tom's most viable options:

| SELL | RENT | STAY |
|---|---|---|
| <p>Using the Section 121 gain exclusion, after establishing the basis of the house, including its cost and improvements, we saw that Tom would be able to sell without incurring any taxable gains and unlock liquidity to reinvest and help him pay for his care and potentially leave an inheritance behind for Lisa.</p> | <p>Renting the house can definitely provide Tom with additional income to pay for his care; however, there are small nuances based on his ultimate goals with his estate plan and the potential for introducing taxation. A careful after-tax analysis would need to be done when compared to selling the home without recognizing any gains, reinvesting the proceeds, and paying for his care by utilizing a tax-smart distribution strategy from his various investments. The family would also have to consider the time and effort in managing a rental property. Tom also has the option of renting initially and selling the home later although there are small tax traps and timing issues to be aware of.</p> | <p>In the event that Tom's health declined, he could arrange for in-home care, especially since Lisa pays for his long-term care insurance and made medical improvements to his home to help him age in place. Paying for a caregiver in the home may save them some money in licensed care expenses when compared to a full-fledged nursing home. Tom can also get with his professional advisors to see how he might be able to pay for some of his care using his traditional IRA while at the same time paying very little to nothing in taxes on the distributions, preserving more tax-efficient home equity for Lisa when he passes.</p> |



Tom's situation is one that plays out in families across the country every single day, yet the tax planning involved is anything but ordinary. What seems like a simple question — “what do we do with the house?” — quickly becomes a layered conversation involving complex planning topics including cost basis, gain exclusions, IRA distribution strategy, Social Security taxation, qualified medical deductions, and estate planning outcomes for the next generation. The right answer for Tom wasn't obvious from the outside, and it won't be obvious for your family either. That's exactly why having the right team in your corner — before decisions are made, not after — is what separates a good outcome from a great one.

Looking For a Firm Who Can Take Your Plan to The Next Level?

Just as a pediatrician specializes in helping a different type of patient than a radiologist or an orthopedic surgeon, not all tax and financial advisors will specialize in this area of tax and financial planning.

When looking for a partner to build out a financial plan for yourself and loved ones, be sure to find an advisor or firm that fits your unique needs.

This case study demonstrates the complex tax planning considerations seniors and retirees face when deciding what to do with their primary residence. Each option—selling, renting, or staying—comes with unique tax implications that require careful analysis and professional guidance.

Planable Wealth specializes in investment and tax planning for pre-retirees and retirees.

Contact us today to see if you're a good fit for our FREE

[**Tax-Optimized Retirement Playbook™**](#)

 Retirement Planning Podcast: [Retired-ish](#) |  [YouTube Channel](#) |  [Instagram](#)

Cameron Valadez, Benjamin Guizlo and Blake Smith are registered representatives with, and offer securities and advisory services through LPL Financial, a Registered Investment Advisor, Member FINRA/SIPC. Tax and accounting related services offered through Plan-It Business Services DBA Planable Wealth. Plan-It Business Services is a separate legal entity and not affiliated with LPL Financial. LPL Financial does not offer tax advice or tax and accounting related services.

This material contains only general descriptions and is not a solicitation to sell any insurance product or security, nor is it intended as any financial or tax advice. For information about specific insurance needs or situations, contact your insurance agent. This article is intended to assist in educating you about insurance generally and not to provide personal service. They may not take into account your personal characteristics such as budget, assets, risk tolerance, family situation or activities which may affect the type of insurance that would be right for you. In addition, state insurance laws and insurance underwriting rules may affect available coverage and its costs. Guarantees are based on the claims paying ability of the issuing company. If you need more information or would like personal advice you should consult an insurance professional. You may also visit your state's insurance department for more information.

Cameron Valadez, Benjamin Guizlo and Blake Smith are registered representatives with, and offer securities and advisory services through LPL Financial, a Registered Investment Advisor, Member FINRA/SIPC. Tax and accounting related services offered through Plan-It Business Services DBA Planable Wealth. Plan-It Business Services is a separate legal entity and not affiliated with LPL Financial. LPL Financial does not offer tax advice or tax and accounting related services.