

You may deduct the un-reimbursed medical expenses and those of your spouse and dependents to the extent that the expenses exceed 7.5% of your adjusted gross income (AGI). The 7.5% of AGI floor substantially reduces the tax savings that the medical expenses would otherwise produce.

Example—7.5% Floor

Tom has gross income of \$85,000 and adjusted gross income of \$80,000. He pays \$9,000 of medical expenses and receives insurance reimbursements of \$2,000. His un-reimbursed expenses of \$7,000 are deductible only to the extent that they exceed \$6,000 (7.5% x AGI of \$80,000). Therefore, the un-reimbursed expenses of \$7,000 yield a deduction of only \$1,000.

The deduction for medical expenses is an itemized deduction. Therefore, the benefit of it is lost entirely in years in which you take the standard deduction.

Example—Itemized Deductions Less Than Standard Deduction

In the preceding example, Tom had \$1,000 of deductible medical expenses, net of the 7.5% of AGI floor. If he is a single individual and the taxable year is 2001, then his standard deduction is \$4,550. If he has only \$3,500 of other itemized deductions, then he will not itemize at all, because the total itemized deductions of \$4,500 are less than his standard deduction. In this case, his medical expenses save him no tax at all.

To the extent possible, you should schedule the payments of medical expenses so that they occur in years in which they will exceed 7.5% of AGI floor. You can do this either by delaying elective medical procedures or delaying the payment of expenses.

Your deduction for medical expenses may be based on your payment of your own expenses, and/or those of your spouse and dependents. This is one of the few areas of the tax law in which a taxpayer may claim a deduction for the payment of another individual's expense.

Example—Dependent's Medical Expenses

During the year, Tom provided more than half of the support of his adult son, who was forced to leave his job due to illness. The son qualifies as Tom's dependent. Tom paid medical expenses for his son in the amount of \$3,000. Tom may deduct the \$3,000 of medical expenses, subject to his 7.5% of AGI limitation.

What types of medical costs are deductible?

Expenditures incurred on a typical visit to a doctor, including amounts paid for operations or treatments affecting any portion of the body, including obstetrical expenses and expenses of therapy or X-ray treatments, as well as the expenses of hospital services, nursing services, medical, laboratory, surgical, dental and other diagnostic and healing services, X-rays, medicine and drugs, artificial teeth or limbs,

ambulance hire, qualified long-term care services and insurance covering medical care. Acupuncture also qualifies. The cost of illegal operations or treatments is specifically nondeductible.

If a capital expenditure for medical care also constitutes a permanent improvement or betterment of your property, then the expenditure is deductible only to the extent that it exceeds the increase in the property's value.

Example—Deduction Limited to Excess of Increase in Value

Acting on the advice of his physician, Tom installs an elevator in his house so that his wife, who is afflicted with a heart disease, will not be required to climb stairs. The elevator costs \$1,000 to install, and the value of the house is increased by \$700. The medical expense deduction is \$300.

One of the most often-litigated questions in the area of medical expenses is whether an expenditure benefits a particular ailment of the taxpayer, or is merely beneficial to his or her general health, or, worse yet, is simply a personal expense unrelated to health. Expenditures in the first category are deductible; those in the latter two are not.

Example—Expenditures for Medical Care

Tom paid \$200 to enroll in a karate class to help him lose weight and improve his general health. While sparring one night in the class, however, Tom suffered a cracked rib, which he paid his doctor \$200 to treat. The \$200 paid to the doctor is an expense of medical care; the \$200 paid for the karate class is not.

To qualify an expenditure for the medical expense deduction, it is necessary to show the "present existence" or "imminent probability" of an illness as well as to demonstrate that the expense was incurred "primarily" for the treatment of the illness. A personal expense is not deductible merely because some indirect medical benefit results from it. The expense must be one which would not have been incurred but for the medical condition to which it relates. There must be a "direct or proximate relationship" between the expense and the diagnosis, cure, mitigation, treatment, or prevention of disease, or the expense must have been incurred for the purpose of affecting some structure or function of the body.