



Tax Tips You Can Use May 2005
Medical Expense Deductions
By Kathleen Crawford, EA

In past articles, I have written about charitable contributions. Another deduction on the Schedule A or itemized deductions is medical expenses.

Medical expenses are the expenses that you pay yourself, including the premiums that you pay for your medical, dental, optical, and long term care insurance, whether directly or through a payroll deduction. Examples of deductible medical expenses include the expenses you pay for doctor visits (co-pays), hospitalization, prescriptions, dental work, medical aids, and laboratory tests. Medical expenses also include laser eye surgery, hearing aids, weight loss programs when prescribed by a physician, smoking cessation programs and prescriptions drugs for nicotine withdrawal and guide dogs for use by a disabled person.

In addition to the regular medical expenses, there are some expenses that can be deductible under special circumstances. These expenses include: exercise programs prescribed for specific ailments, ramps and improvements to your home to allow for wheelchair access or medical conditions, in-home nursing care, and Braille books and magazines in excess of the cost of the regular editions. See your tax preparer to evaluate the deductibility of the your particular medical expenditures.

Some medical expenses are not deductible. Examples include dancing lessons even if recommended by a doctor, well baby diaper service, diet food that replaces regular food, health club dues, meals while out of town for medical treatment, and maternity clothes. Over the counter drugs are not deductible except for bandages, blood sugar kits and saline solution and enzyme cleaner for contact lenses.

There is a twist that the Congress added to the tax code. That is, you cannot deduct all of your medical expenses on Schedule A. You can only deduct those expenses that exceed 7.5% of your income. I cannot explain why except to say that it is the law of our land. The way that you figure this is to take 7.5% of your Adjusted Gross Income [AGI] (the last line on page 1 of your 1040 tax form) and subtract that from your medical deductions. The excess is your actual deduction to be entered on the form. As an example, if you have an AGI of \$10,000.00, then your exclusion will be \$750.00. So only the expenses that exceed \$750.00 will be included on your schedule A.

I advise clients to keep their receipts for medical expenses throughout the year even if they are healthy. There are several reasons for this. The first is that if one were to have an accident or injury late in the year, it would be good to have the additional deductions for the expenses incurred early in the year. Also, medical expenses in excess of the 7.5% exclusion are one of the few exceptions to the 10% penalty for early withdrawal of retirement savings, even if you don't end up itemizing your deductions. Although not discussed in this article, this can save certain taxpayers from a big tax bill.

The last reason to save all of your receipts is that the State of Oregon allows those who are 62 or older to deduct the 7.5% that the federal government excluded. This means that, if she itemizes her deductions, the person above, with \$10000.00 of AGI and \$1000.00 of medical expenses, would deduct \$250.00 on Federal Schedule A. If that person were at least 62 years old, she could deduct an additional \$750.00 on her Oregon return. If she had only \$500.00 in medical expenses, her federal deduction would be zero. Her Oregon deduction would be the entire \$500.00 added to her other itemized deductions. Older Oregonians should be sure to save all medical receipts to take advantage of this deduction.

The fine print is that this article is for information only. Please call Kathy or a tax professional for questions about your individual tax situation. The Jacksonville Tax Lady can be reached at 541-899-7926 or at 610 North Fifth Street.

