

## Tax Savings on Your Medical Expenses

**O**ne of the most crucial issues facing society today is the escalating cost of health care. In an effort to hold the line on rising costs of policies, costs are being shared or benefits are being decreased. As a result, you may have to shoulder a greater portion of the premium or pay for some or all your medical services. You may have choices that can affect your tax situation. These choices may be in the form of pre-tax options or itemized deductions.

Here's a look at some issues that could help you make your income go further by paying less tax. The answers to some of the following questions may help you make those decisions.

### Whose medical expenses can I claim?

Medical expenses paid for yourself, your spouse, and your dependents are deductible. If you can't pay a medical bill for your dependent in the year the medical service is provided, you can still deduct the expense in the year paid even if the individual who received the medical service is no longer your dependent.

The question of who is your dependent seems pretty simple. It's the extra name(s) that appear on your tax return in addition to yours and your spouse's. But what about those other people that you pay the bill for? How about medical expenses paid for your child who lives at home because he/she hasn't found a job that will provide enough income to afford to live away from home? Or, what about your retired parent who lives on a very limited income?

The good news is you may be able to claim those expenses as well. If your child or your parent would qualify as a dependent—except that their income exceeds \$5,150—their expenses will be allowed. Even a divorced parent who pays medical expenses for a child who is claimed by the other parent is allowed to claim medical expenses of that child.

### What expense can be claimed?

Almost any expense you pay to the doctor, dentist, hospital, or other health care provider is a deductible expense. Prescription drugs and medical equipment such as crutches, wheel chairs, braces, contact solution, and hearing aid batteries are qualified medical expenses.

Nursing home care, when it is medically necessary to be in the home, is a big medical deduction. This includes living expenses as well as the medical care itself. Living in an assisted care facility may require a little more consideration. The facts and circumstances would need to be examined. If the stay in assisted living or a nursing home is for convenience—such as the family is not nearby to help out with things—only the medical care portion of the expense will be deductible. The facilities are able to provide that number for you when you ask.

Medical care can be provided in your own home. To be deductible, the care need not be provided by a licensed professional, as long as the care is prescribed by a physician and the taxpayer, spouse, or dependent is chronically ill. This often includes Alzheimer's. As long as the caregiver performs tasks similar to those provided by nursing professionals, such as administering medication, the cost of the caregiver including any payroll taxes would be deductible. Any expense relating

to light housekeeping and cooking must be deducted from the total to arrive at the nursing care deduction amount.

Laser or other types of surgery for the restoration of sight, fertility counseling and procedures, birth control devices, diet programs, and addiction-related programs are among the less common yet deductible medical expenses. The diet programs do not include the special foods you may have to purchase under the plan.

Don't forget to include transportation related to medical treatment. Whether your doctor, dentist, hospital, or pharmacy is located in your neighborhood or out of town, the cost of getting there and back is deductible. Hotel expenses are deductible when you travel outside your area. The daily rate for a hotel stay is capped at \$50 for you and for the person who may need to accompany you. Meals may also be deductible in connection with the travel.

Certain types of medical procedures, such as cosmetic surgery, are not deductible unless they are required to alleviate a specific medical problem. Generally, non-prescription drugs including vitamins are not deductible. Programs that promote good health, such as a membership in a health club, are generally not deductible. Other non-prescription activities, such as vacations to alleviate stress, are not deductible.

Certain capital expenditure may, on the other hand, be deductible expenses. Installing a swimming pool for therapeutic reasons prescribed by a doctor is deductible to the extent the cost exceeds the increased value it adds to your home. Purchasing a specially equipped vehicle for the use of a handicapped individual can result in a medical expense.

Medical insurance is another important deduction that may be available to you. The cost of hospitalization, Medicare, cancer, dental, eye, nursing home, or prescription drug insurance is deductible. Life insurance or income-replacing disability insurance is not deductible.

Just because a medical expense is not allowed by an insurance company does not mean it is not a deductible medical expense. Facts and circumstances should be examined.

### **If I don't itemize, do I lose?**

The answer to this questions is yes and no. If you are self-employed or work for someone who makes available medical reimbursement plans or cafeteria plans, you may be able to benefit without the need to itemize. You just have to participate.

If you are not eligible for these plans, you will need to itemize to benefit from medical expenses. When you itemize, your allowable expenses must exceed 7.5% of your adjusted gross income.

### **How can I deduct a medical expense without itemizing?**

There are a variety of programs you could participate in that provide a reduction of income as a result of the medical expense. Health savings accounts (HSAs) and medical savings accounts (MSAs) allow you to put aside a specific amount of money to be used for future medical expenses. The amount put aside either reduces wages before tax or is allowed as an adjustment to income on the tax return. Cafeteria plans (\$125 plans) allow you to pay for health insurance with pre-taxed dollars, thus, reducing income and FICA taxes. The HSA and MSA plans require you to have a high deductible medical insurance plan in order to qualify.

Self-employed individuals who set up a medical plan for their company may deduct their own premiums—limited to business income—as an adjustment to income to the extent they are not eligible for any subsidized medical insurance, i.e., spousal coverage.

The changing environment of medical coverage and tax law make it essential that each year you review your medical expense situation with your tax professional. We can no longer take for granted medical expenses can only be claimed by the critically ill or aged taxpayer. Don't miss out on a deduction just because you weren't prepared.



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