



Department of the Treasury  
Internal Revenue Service

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# Medical and Dental Expenses

For use in preparing  
**2002** Returns



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## Important Changes

**Standard mileage rate.** The standard mileage rate allowed for out-of-pocket expenses for your car when you use your car for medical reasons is now 13 cents a mile. See *Transportation* under *What Medical Expenses Are Deductible*.

**Self-employed health insurance deduction rate increase.** For 2002, the rate increased from 60% to 70%.

**Obesity as a disease.** The cost of participation in a weight-loss program as a treatment for the disease of obesity is an amount paid for medical care. However, the cost of purchasing reduced-calorie diet foods is not a medical expense if these foods substitute for food you would normally consume to satisfy your nutritional requirements. For more information, see *Weight-Loss Program* under *What Medical Expenses are Deductible* and under *What Expenses Are Not Deductible*.

**New health insurance credit.** There is a new credit for health insurance premiums paid by certain workers who are displaced by foreign trade or who are receiving a pension from the Pension Benefit Guarantee Corporation. For more information, see *Health Insurance Credit* near the end of this publication.

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## Important Reminder

**Photographs of missing children.** The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling **1-800-THE-LOST (1-800-843-5678)** if you recognize a child.

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## Introduction

This publication defines medical and dental care expenses. It contains an alphabetical list of items that you can or cannot include in figuring your deduction. It explains how to treat insurance reimbursements and other reimbursements you may receive for medical care. It also explains how to claim your medical and dental expense deduction.

See *How To Get Tax Help* near the end of this publication for information about getting publications and forms.

**Comments and suggestions.** We welcome your comments about this publication and your suggestions for future editions.

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## What Is the Definition of Medical Care?

Medical care means amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, and for treatments affecting any part or function of the body. The medical care expenses must be primarily to alleviate or prevent a physical or mental defect or illness.

Medical care expenses include the premiums you pay for insurance that covers the expenses of medical care, and the amounts you pay for transportation to get medical care. Medical care expenses also include limited amounts paid for any qualified long-term care insurance contract.

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## What Expenses Can You Include This Year?

You can include only the medical and dental expenses you paid this year, regardless of when the services were pro-

vided. (But see *Decedent* under *Whose Medical Expenses Can You Include*, later, for an exception.) If you pay medical expenses by check, the day you mail or deliver the check generally is the date of payment. If you use a “pay-by-phone” or “on-line” account to pay your medical expenses, the date reported on the statement of the financial institution showing when payment was made is the date of payment. You can include medical expenses you charge to your credit card in the year the charge is made. It does not matter when you actually pay the amount charged.

If you did not claim a medical or dental expense that would have been deductible in an earlier year, you can file Form 1040X, *Amended U.S. Individual Income Tax Return*, for the year in which you overlooked the expense. Do not claim the expense on this year’s return. Generally, an amended return must be filed within 3 years from the date the original return was filed or within 2 years from the time the tax was paid, whichever is later.

You cannot include medical expenses that were paid by an insurance company or other sources. This is true whether the payments were made directly to you, to the patient, or to the provider of the medical services.

### When do you include a decedent’s medical expenses?

Medical expenses for a decedent that are paid from his or her estate are treated as paid at the time the medical services were provided if they are paid within the one-year period beginning with the day after the date of death. See *Decedent* under *Whose Medical Expenses Can You Include*, later.

Medical expenses paid before death by the decedent are included in figuring any deduction for medical and dental expenses on the decedent’s final income tax return. This includes expenses for the decedent’s spouse and dependents as well as for the decedent.



*Qualified medical expenses paid before death by the decedent are not deductible if paid with a tax-free distribution from any Archer MSA or Medicare+Choice MSA.*

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## How Much of the Expense Can You Deduct?

You can deduct only the amount of your medical and dental expenses that is **more than 7.5%** of your adjusted gross income (line 36, Form 1040).

In this publication, the term “7.5% limit” is used to refer to 7.5% of your adjusted gross income. The phrase “subject to the 7.5% limit” is also used. This phrase means that you must subtract 7.5% (.075) of your adjusted gross income from your medical expenses to figure your medical expense deduction.

**Example.** Your adjusted gross income is \$20,000, 7.5% of which is \$1,500. You paid medical expenses of \$800. You cannot deduct any of your medical expenses because they are not more than 7.5% of your adjusted gross income.

**Separate returns.** If you and your spouse live in a non-community property state and file separate returns, each of you can include only the medical expenses each actually paid. Any medical expenses paid out of a joint checking account in which you and your spouse have the same interest are considered to have been paid equally by each of you, unless you can show otherwise.

**Community property states.** If you and your spouse live in a community property state and file separate returns, any medical expenses paid out of community funds are divided equally. Each of you should include half the expenses. If medical expenses are paid out of the separate funds of one spouse, only the spouse who paid the medical expenses can include them. If you live in a community property state, are married, and file a separate return, see Publication 555, *Community Property*.

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## Whose Medical Expenses Can You Include?

You can include medical expenses you pay for yourself and for the individuals discussed in this section.

**Spouse.** You can include medical expenses you paid for your spouse. To claim these expenses, you must have been married either at the time your spouse received the medical services or at the time you paid the medical expenses.

**Example 1.** Mary received medical treatment before she married Bill. Bill paid for the treatment after they married. Bill can include these expenses in figuring his medical expense deduction even if Bill and Mary file separate returns.

If Mary had paid the expenses before she and Bill married, Bill could not include Mary's expenses in his separate return. Mary would include the amounts she paid during the year in her separate return. If they filed a joint return, the medical expenses both paid during the year would be used to figure their medical expense deduction.

**Example 2.** This year, John paid medical expenses for his wife Louise, who died last year. John married Belle this year and they file a joint return. Because John was married to Louise when she incurred the medical expenses, he can include those expenses in figuring his medical deduction for this year.

**Dependent.** You can include medical expenses you paid for your dependent. To claim these expenses, the person must have been your dependent either at the time the medical services were provided or at the time you paid the expenses. A person generally qualifies as your dependent for purposes of the medical expense deduction if:

- 1) That person lived with you for the entire year as a member of your household or is related to you,
- 2) That person was a U.S. citizen or resident, or a resident of Canada or Mexico for some part of the calendar year in which your tax year began, and
- 3) You provided over half of that person's total support for the calendar year.

You can include the medical expenses of any person who is your dependent even if you cannot claim an exemption for him or her on your return.

**Example.** In 2001 your son was your dependent. In 2002 he no longer qualified as your dependent. However, you paid \$800 in 2002 for medical expenses your son incurred in 2001, when he was your dependent. You can include the \$800 in figuring your medical expense deduction for 2002. You cannot include this amount on your 2001 tax return.

**Adopted child.** You can include medical expenses that you paid for a child before adoption, if the child qualified as your dependent when the medical services were provided or when the expenses were paid. If you pay back an adoption agency or other persons for medical expenses they paid under an agreement with you, you are treated as having paid those expenses provided you clearly substantiate that the payment is directly attributable to the medical care of the child. But if you pay back medical expenses incurred and paid before adoption negotiations began, you cannot include them as medical expenses.



*You may be able to take a credit or exclusion for other expenses related to adoption. See Publication 968, Tax Benefits for Adoption, for more information.*

**Child of divorced or separated parents.** If either parent can claim a child as a dependent under the rules for divorced or separated parents, each parent can include the medical expenses he or she pays for the child even if an exemption for the child is claimed by the other parent.

**Support claimed under a multiple support agreement.** A multiple support agreement is used when two or more people provide more than half of a person's support, but no one alone provides more than half. If you are considered to have provided more than half of a person's support under such an agreement, you can include medical expenses you pay for that person, even if you cannot claim the person as a dependent.

Any medical expenses paid by others who joined you in the agreement cannot be included as medical expenses by anyone. However, you can include the entire unreimbursed amount you paid for medical expenses.

**Example.** You and your three brothers each provide one-fourth of your mother's total support. Under a multiple support agreement, you claim your mother as a dependent. You paid all of her medical expenses. Your brothers repaid you for three-fourths of these expenses. In figuring your medical expense deduction, you can include only one-fourth of your mother's medical expenses. Your brothers cannot include any part of the expenses. However, if you and your brothers share the nonmedical support items and you separately pay all of your mother's medical expenses, you can include the amount you paid for her medical expenses in your medical expenses.

**Decedent.** The survivor or personal representative of a decedent can choose to treat certain expenses paid by the decedent's estate for the decedent's medical care as paid by the decedent at the time the medical services were provided. The expenses must be paid within the one-year

period beginning with the day after the date of death. If you are the survivor or personal representative making this choice, you must attach a statement to the decedent's Form 1040 (or the decedent's amended return, Form 1040X) saying that the expenses have not been and will not be claimed on the estate tax return.



*Qualified medical expenses paid before death by the decedent are not deductible if paid with a tax-free distribution from any Archer MSA or Medicare+Choice MSA.*

**What if the decedent's return had been filed and the medical expenses were not included?** Form 1040X can be filed for the year or years the expenses are treated as paid, unless the period for filing an amended return for that year has passed. Generally, an amended return must be filed within 3 years of the date the original return was filed, or within 2 years from the time the tax was paid, whichever date is later.

**Example.** John properly filed his 2001 income tax return. He died in 2002 with unpaid medical expenses of \$1,500 from 2001 and \$1,800 in 2002. His survivor or personal representative can file an amended return for 2001 claiming the \$1,500 medical expenses. The \$1,800 of medical expenses from 2002 can be included on the decedent's final return for 2002.

**What if you pay medical expenses of a deceased spouse or dependent?** If you paid medical expenses for your deceased spouse or dependent, include them as medical expenses on your Form 1040 in the year paid, whether they are paid before or after the decedent's death. The expenses can be included if the person was your spouse or dependent either at the time the medical services were provided or at the time you paid the expenses.

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## What Medical Expenses Are Deductible?

Following is a list of items that you **can** include in figuring your medical expense deduction. The items are listed in alphabetical order.

### Abortion

You can include in medical expenses the amount you pay for a legal abortion.

### Acupuncture

You can include in medical expenses the amount you pay for acupuncture.

### Alcoholism

You can include in medical expenses amounts you pay for an inpatient's treatment at a therapeutic center for alcohol addiction. This includes meals and lodging provided by the center during treatment.

You can also include in medical expenses transportation costs you pay to attend meetings of an Alcoholics Anonymous Club in your community if your attendance is pursuant to medical advice that membership in the Alcoholics Anonymous Club is necessary for the treatment of a disease involving the excessive use of alcoholic liquors.

### Ambulance

You can include in medical expenses amounts you pay for ambulance service.

### Artificial Limb

You can include in medical expenses the amount you pay for an artificial limb.

### Artificial Teeth

You can include in medical expenses the amount you pay for artificial teeth.

### Autoette

See *Wheelchair*, later.

### Birth Control Pills

You can include in medical expenses the amount you pay for birth control pills prescribed by a doctor.

### Braille Books and Magazines

You can include in medical expenses the part of the cost of Braille books and magazines for use by a visually-impaired person that is more than the cost of regular printed editions.

### Capital Expenses

You can include in medical expenses amounts you pay for special equipment installed in your home, or for improvements, if their main purpose is medical care for you, your spouse, or a dependent. The cost of permanent improvements that increase the value of the property may be partly included as a medical expense. The cost of the improvement is reduced by the increase in the value of the property. The difference is a medical expense. If the value of the property is not increased by the improvement, the entire cost is included as a medical expense.

Certain improvements made to accommodate your home to your disabled condition, or that of your spouse or your dependents who live with you, do not usually increase the value of the home and the cost can be included in full as medical expenses. These improvements include, but are not limited to, the following items.

- Constructing entrance or exit ramps for your home.
- Widening doorways at entrances or exits to your home.
- Widening or otherwise modifying hallways and interior doorways.

## Worksheet 1. Capital Expense Worksheet

Use this worksheet to figure the amount, if any, of your medical expenses due to a home improvement.

1.	Enter the amount you paid for the home improvement . . . . .	<u>1.</u> _____
2.	Enter the value of your home immediately after the improvement . . .	<u>2.</u> _____
3.	Enter the value of your home immediately before the improvement	<u>3.</u> _____
4.	Subtract line 3 from line 2. This is the increase in the value of your home due to the improvement. . . . .	<u>4.</u> _____
	<ul style="list-style-type: none"> <li>• If line 4 is more than or equal to line 1, you have no deduction; stop here.</li> <li>• If line 4 is less than line 1, go to line 5.</li> </ul>	
5.	Subtract line 4 from line 1. These are your medical expenses due to the home improvement . . . . .	<u>5.</u> _____

- Installing railings, support bars, or other modifications to bathrooms.
- Lowering or modifying kitchen cabinets and equipment.
- Moving or modifying electrical outlets and fixtures.
- Installing porch lifts and other forms of lifts but generally not elevators.
- Modifying fire alarms, smoke detectors, and other warning systems.
- Modifying stairways.

- Adding handrails or grab bars anywhere (whether or not in bathrooms).
- Modifying hardware on doors.
- Modifying areas in front of entrance and exit doorways.
- Grading the ground to provide access to the residence.

Only reasonable costs to accommodate a home to a disabled condition are considered medical care. Additional costs for personal motives, such as for architectural or aesthetic reasons, are not medical expenses.

### Worksheet 1. Capital Expense Worksheet— Illustrated Example

1.	Enter the amount you paid for the home improvement . . . . .	<u>1.</u> <u>\$8,000</u>
2.	Enter the value of your home immediately after the improvement . . . . .	<u>2.</u> <u>\$124,400</u>
3.	Enter the value of your home immediately before the improvement . . . . .	<u>3.</u> <u>120,000</u>
4.	Subtract line 3 from line 2. This is the increase in the value of your home due to the improvement. . . . .	<u>4.</u> <u>4,400</u>
	<ul style="list-style-type: none"> <li>• If line 4 is more than or equal to line 1, you have no deduction; stop here.</li> <li>• If line 4 is less than line 1, go to line 5.</li> </ul>	
5.	Subtract line 4 from line 1. These are your medical expenses due to the home improvement . . . . .	<u>5.</u> <u>\$3,600</u>

**Capital expense worksheet.** Use *Worksheet 1* to figure the amount of your capital expense to include in your medical expenses.

**Example.** You have a heart ailment. On your doctor's advice, you install an elevator in your home so that you will not have to climb stairs. The elevator costs \$8,000. An appraisal shows that the elevator increases the value of your home by \$4,400. You figure your medical expense as shown in the illustrated example of *Worksheet 1*.

**Operation and upkeep.** Amounts you pay for operation and upkeep of a capital asset qualify as medical expenses, as long as the main reason for them is medical care. This is so even if none or only part of the original cost of the capital asset qualified as a medical care expense.

**Example.** If, in the previous example, the elevator increased the value of your home by \$8,000, you would have no medical expense for the cost of the elevator. However, the cost of electricity to operate the elevator and any costs to maintain it are medical expenses as long as the medical reason for the elevator exists.

**Improvements to property rented by a person with a disability.** Amounts paid by a person with a disability to buy and install special plumbing fixtures, mainly for medical reasons, in a rented house are medical expenses.

**Example.** John has arthritis and a heart condition. He cannot climb stairs or get into a bathtub. On his doctor's advice, he installs a bathroom with a shower stall on the first floor of his two-story rented house. The landlord did not pay any of the cost of buying and installing the special plumbing and did not lower the rent. John can include in medical expenses the entire amount he paid.

## Car

You can include in medical expenses the cost of special hand controls and other special equipment installed in a car for the use of a person with a disability.

**Special design.** You can include in medical expenses the difference between the cost of a regular car and a car specially designed to hold a wheelchair.

**Cost of operation.** You cannot deduct the cost of operating a specially equipped car, except as discussed under *Transportation*, later.

## Chiropractor

You can include in medical expenses fees you pay to a chiropractor for medical care.

## Christian Science Practitioner

You can include in medical expenses fees you pay to Christian Science practitioners for medical care.

## Contact Lenses

You can include in medical expenses amounts you pay for contact lenses needed for medical reasons. You can also include the cost of equipment and materials required for using contact lenses, such as saline solution and enzyme cleaner. See *Eyeglasses* and *Eye Surgery*, later.

## Crutches

You can include in medical expenses the amount you pay to buy or rent crutches.

## Dental Treatment

You can include in medical expenses the amounts you pay for dental treatment. This includes fees paid to dentists for X-rays, fillings, braces, extractions, dentures, etc.

## Disabled Dependent Care Expenses

Some disabled dependent care expenses may qualify as medical expenses or as work-related expenses for purposes of taking a credit for dependent care. You can choose to apply them either way as long as you do not use the same expenses to claim both a credit and a medical expense deduction.

## Drug Addiction

You can include in medical expenses amounts you pay for an inpatient's treatment at a therapeutic center for drug

addiction. This includes meals and lodging at the center during treatment.

## Drugs

See *Medicines*, later.

## Eyeglasses

You can include in medical expenses amounts you pay for eyeglasses and contact lenses needed for medical reasons. You can also include fees paid for eye examinations.

## Eye Surgery

You can include in medical expenses the amount you pay for eye surgery to treat defective vision, such as laser eye surgery or radial keratotomy.

## Fertility Enhancement

You can include in medical expenses the cost of the following procedures to overcome your inability to have children.

- Procedures such as *in vitro* fertilization (including temporary storage of eggs or sperm).
- Surgery, including an operation to reverse prior surgery that prevents you from having children.

## Founder's Fee

See *Lifetime Care—Advance Payments*, later.

## Guide Dog or Other Animal

You can include in medical expenses the cost of a guide dog or other animal to be used by a visually-impaired or hearing-impaired person. You can also include the cost of a dog or other animal trained to assist persons with other physical disabilities. Amounts you pay for the care of these specially trained animals are also medical expenses.

## Health Institute

You can include in medical expenses fees you pay for treatment at a health institute only if the treatment is prescribed by a physician and the physician issues a statement that the treatment is necessary to alleviate a physical or mental defect or illness of the individual receiving the treatment.

## Health Maintenance Organization (HMO)

You can include in medical expenses amounts you pay to entitle you, or your spouse (if filing a joint return), or a dependent to receive medical care from a health maintenance organization. These amounts are treated as medical insurance premiums. See *Insurance Premiums*, later.

## Health Reimbursement Arrangement (HRA)

A health reimbursement arrangement is an employer-funded plan that reimburses employees for medical care expenses and allows unused amounts to be carried forward. Because these reimbursements are not included in your income, you cannot include them in your medical and dental expenses on Schedule A (Form 1040).

## Hearing Aids

You can include in medical expenses the cost of a hearing aid and the batteries you buy to operate it.

## Home Care

See *Nursing Services*, later.

## Hospital Services

You can include in medical expenses amounts you pay for the cost of inpatient care at a hospital or similar institution if the main reason for being there is to receive medical care. This includes amounts paid for meals and lodging. Also see *Lodging*, later.

## Insurance Premiums

You can include in medical expenses insurance premiums you pay for policies that cover medical care. Policies can provide payment for:

- Hospitalization, surgical fees, X-rays, etc.,
- Prescription drugs,
- Replacement of lost or damaged contact lenses,
- Membership in an association that gives cooperative or so-called “free-choice” medical service, or group hospitalization and clinical care, or
- Qualified long-term care insurance contracts (subject to additional limitations). See *Qualified Long-Term Care Insurance Contracts* under *Long-Term Care*, later.

If you have a policy that provides more than one kind of payment, you can include the premiums for the medical care part of the policy if the charge for the medical part is reasonable. The cost of the medical part must be separately stated in the insurance contract or given to you in a separate statement.

**Employer-sponsored health insurance plan.** Do not include in your medical and dental expenses on Schedule A (Form 1040) any insurance premiums paid by an employer-sponsored health insurance plan unless the premiums are included in box 1 of your Form W-2. Also, do not include on Schedule A (Form 1040) any other medical and dental expenses paid by the plan unless the amount paid is included in box 1 of your Form W-2.

**Example.** You are a federal employee participating in the Federal Employee Health Benefits (FEHB) program. Your share of the FEHB premium is paid with pre-tax

dollars. Because you are an employee whose insurance premiums are paid with money that is never included in your gross income, you cannot deduct the premiums paid with that money.

**Flexible spending arrangement.** Contributions made by your employer to provide coverage for qualified long-term care services under a flexible spending or similar arrangement must be included in your income. This amount will be reported as wages in box 1 of your Form W-2.

**Medicare A.** If you are covered under social security (or if you are a government employee who paid Medicare tax), you are enrolled in Medicare A. The payroll tax paid for Medicare A is not a medical expense. If you are not covered under social security (or were not a government employee who paid Medicare tax), you can voluntarily enroll in Medicare A. In this situation the premiums you paid for Medicare A can be included as a medical expense on your tax return.

**Medicare B.** Medicare B is a supplemental medical insurance. Premiums you pay for Medicare B are a medical expense. If you applied for it at age 65 or after you became disabled, you can deduct the monthly premiums you paid. If you were over age 65 or disabled when you first enrolled, check the information you received from the Social Security Administration to find out your premium.

**Prepaid insurance premiums.** Premiums you pay before you are age 65 for insurance for medical care for yourself, your spouse, or your dependents after you reach age 65 are medical care expenses in the year paid if they are:

- 1) Payable in equal yearly installments or more often, and
- 2) Payable for at least 10 years, or until you reach age 65 (but not for less than 5 years).

**Unused sick leave used to pay premiums.** You must include in gross income cash payments you receive at the time of retirement for unused sick leave. You must also include in gross income the value of unused sick leave that, at your option, your employer applies to the cost of your continuing participation in your employer’s health plan after you retire. You can include this cost of continuing participation in the health plan as a medical expense.

If you participate in a health plan where your employer automatically applies the value of unused sick leave to the cost of your continuing participation in the health plan (and you do not have the option to receive cash), do not include the value of the unused sick leave in gross income. You cannot include this cost of continuing participation in that health plan as a medical expense.

**You cannot include premiums you pay for:**

- Life insurance policies,
- Policies providing payment for loss of earnings,
- Policies for loss of life, limb, sight, etc.,
- Policies that pay you a guaranteed amount each week for a stated number of weeks if you are hospitalized for sickness or injury, or

- The part of your car insurance premiums that provides medical insurance coverage for all persons injured in or by your car because the part of the premium for you, your spouse, and your dependents is not stated separately from the part of the premium for medical care for others.

**Health insurance costs for self-employed persons.** If you were self-employed and had a net profit for the year, were a general partner (or a limited partner receiving guaranteed payments), or received wages from an S corporation in which you were a more than 2% shareholder (who is treated as a partner), you may be able to deduct, as an adjustment to income, up to 70% of the amount paid for health insurance on behalf of yourself, your spouse, and dependents. You take this deduction on Form 1040. If you itemize your deductions, include the remaining premiums with all other medical care expenses on Schedule A (Form 1040), subject to the 7.5% limit.

You may not take this deduction for any month in which you were eligible to participate in any subsidized health plan maintained by your employer or your spouse's employer.

If you qualify to take the deduction, use the *Self-Employed Health Insurance Deduction Worksheet* in the Form 1040 instructions to figure the amount you can deduct. But, if any of the following applies, do not use the worksheet.

- You had more than one source of income subject to self-employment tax.
- You file Form 2555, *Foreign Earned Income*, or Form 2555-EZ, *Foreign Earned Income Exclusion*.
- You are using amounts paid for qualified long-term care insurance to figure the deduction.

If you cannot use the worksheet in the Form 1040 instructions, use the worksheet in Publication 535, *Business Expenses*, to figure your deduction.

## Laboratory Fees

You can include in medical expenses the amounts you pay for laboratory fees that are part of your medical care.

## Lead-Based Paint Removal

You can include in medical expenses the cost of removing lead-based paints from surfaces in your home to prevent a child who has or has had lead poisoning from eating the paint. These surfaces must be in poor repair (peeling or cracking) or within the child's reach. The cost of repainting the scraped area is not a medical expense.

If, instead of removing the paint, you cover the area with wallboard or paneling, treat these items as capital expenses. See *Capital Expenses*, earlier. Do not include the cost of painting the wallboard as a medical expense.

## Learning Disability

You can include in medical expenses tuition fees you pay to a special school for a child who has severe learning disabilities caused by mental or physical impairments, including nervous system disorders. Your doctor must rec-

ommend that the child attend the school. See *Schools and Education, Special*, later.

You can also include tutoring fees you pay on your doctor's recommendation for the child's tutoring by a teacher who is specially trained and qualified to work with children who have severe learning disabilities.

## Legal Fees

You can include in medical expenses legal fees you paid that are necessary to authorize treatment for mental illness. However, you cannot include in medical expenses fees for the management of a guardianship estate, fees for conducting the affairs of the person being treated, or other fees that are not necessary for medical care.

## Lifetime Care—Advance Payments

You can include in medical expenses a part of a life-care fee or "founder's fee" you pay either monthly or as a lump sum under an agreement with a retirement home. The part of the payment you include is the amount properly allocable to medical care. The agreement must require that you pay a specific fee as a condition for the home's promise to provide lifetime care that includes medical care.

**Dependents with disabilities.** You can include in medical expenses advance payments to a private institution for lifetime care, treatment, and training of your physically or mentally impaired child upon your death or when you become unable to provide care. The payments must be a condition for the institution's future acceptance of your child and must not be refundable.

**Payments for future medical care.** Generally, you are not allowed to include in medical expenses current payments for medical care (including medical insurance) to be provided substantially beyond the end of the year. This rule does not apply in situations where the future care is purchased in connection with obtaining lifetime care of the type described earlier.

## Lodging

You can include in medical expenses the cost of meals and lodging at a hospital or similar institution if your main reason for being there is to receive medical care. See *Nursing Home*, later.

You may be able to include in medical expenses the cost of lodging not provided in a hospital or similar institution. You can include the cost of such lodging while away from home if you meet all of the following requirements.

- 1) The lodging is primarily for and essential to medical care.
- 2) The medical care is provided by a doctor in a licensed hospital or in a medical care facility related to, or the equivalent of, a licensed hospital.
- 3) The lodging is not lavish or extravagant under the circumstances.
- 4) There is no significant element of personal pleasure, recreation, or vacation in the travel away from home.

The amount you include in medical expenses for lodging cannot be more than \$50 for each night for each person. You can include lodging for a person traveling with the person receiving the medical care. For example, if a parent is traveling with a sick child, up to \$100 per night can be included as a medical expense for lodging. Meals are not included.

**Do not include** the cost of your lodging while you are away from home for medical treatment if you do not receive that treatment from a doctor in a licensed hospital or in a medical care facility related to, or the equivalent of, a licensed hospital or if that lodging is not primarily for or essential to the medical care you are receiving.

## Long-Term Care

You can include the following as medical expenses on Schedule A (Form 1040).

- 1) Qualified long-term care premiums up to the amounts shown below.
  - a) Age 40 or under – \$240.
  - b) Age 41 to 50 – \$450.
  - c) Age 51 to 60 – \$900.
  - d) Age 61 to 70 – \$2,390.
  - e) Age 71 or over – \$2,990.
- 2) Unreimbursed expenses for qualified long-term care services.

**Note.** The limit on premiums is for each person.

## Qualified Long-Term Care Insurance Contracts

Long-term care insurance contracts are generally treated as accident and health insurance contracts. Amounts you receive from them (other than policyholder dividends or premium refunds) generally are excludable from income as amounts received for personal injury or sickness. See *Periodic Payments Not Taxed*, later.

A qualified long-term care insurance contract is an insurance contract that provides only coverage of qualified long-term care services. The contract must:

- 1) Be guaranteed renewable,
- 2) Not provide for a cash surrender value or other money that can be paid, assigned, pledged, or borrowed,
- 3) Provide that refunds, other than refunds on the death of the insured or complete surrender or cancellation of the contract, and dividends under the contract must be used only to reduce future premiums or increase future benefits, and
- 4) Generally not pay or reimburse expenses incurred for services or items that would be reimbursed under Medicare, except where Medicare is a secondary payer, or the contract makes per diem or other periodic payments without regard to expenses.

## Qualified Long-Term Care Services

Qualified long-term care services are:

- 1) Necessary diagnostic, preventative, therapeutic, curing, treating, mitigating, rehabilitative services, and maintenance and personal care services, and
- 2) Required by a chronically ill individual and provided pursuant to a plan of care prescribed by a licensed health care practitioner.

**Chronically ill individual.** You are chronically ill if you have been certified by a licensed health care practitioner within the previous 12 months as one of the following.

- 1) You are unable for at least 90 days, to perform at least two activities of daily living without substantial assistance from another individual, due to loss of functional capacity. Activities of daily living are eating, toileting, transferring, bathing, dressing, and continence.
- 2) You require substantial supervision to be protected from threats to health and safety due to severe cognitive impairment.

## Periodic Payments Not Taxed

You can generally exclude from gross income benefits you receive under a per diem type qualified long-term care insurance contract, subject to a limit of \$210 a day (\$76,650 a year) for 2002. The \$210 is indexed for inflation. To claim an exclusion for payments made on a per diem or other periodic basis under a long-term care insurance contract, you must file Form 8853, *Archer MSAs and Long-Term Care Insurance Contracts*, with your return.

## Meals

You can include in medical expenses the cost of meals at a hospital or similar institution if the main purpose for being there is to get medical care.

You cannot include in medical expenses the cost of meals that are not part of inpatient care.

## Medical Conferences

You can include in medical expenses amounts paid for admission and transportation to a medical conference if the medical conference concerns the chronic illness of yourself, your spouse, or your dependent. The costs of the medical conference must be primarily for and necessary to the medical care of you, your spouse, or your dependent. You must spend the majority of your time at the conference attending sessions on medical information.



*The cost of meals and lodging while attending the conference is not deductible as a medical expense.*

## Medical Information Plan

You can include in medical expenses amounts paid to a plan that keeps your medical information so that it can be retrieved from a computer data bank for your medical care.

## Medical Services

You can include in medical expenses amounts you pay for legal medical services provided by:

- Physicians,
- Surgeons,
- Specialists, or
- Other medical practitioners.

## Medicines

You can include in medical expenses amounts you pay for prescribed medicines and drugs. A prescribed drug is one that requires a prescription by a doctor for its use by an individual. You can also include amounts you pay for insulin. Except for insulin, you cannot include in medical expenses amounts you pay for a drug that is not prescribed.

**Controlled substances.** You cannot include in medical expenses amounts you pay for controlled substances (such as marijuana, laetrile, etc.) in violation of federal law.

## Mentally Retarded, Special Home for

You can include in medical expenses the cost of keeping a mentally retarded person in a special home, not the home of a relative, on the recommendation of a psychiatrist to help the person adjust from life in a mental hospital to community living.

## Nursing Home

You can include in medical expenses the cost of medical care in a nursing home or home for the aged for yourself, your spouse, or your dependents. This includes the cost of meals and lodging in the home if the main reason for being there is to get medical care.

Do not include the cost of meals and lodging if the reason for being in the home is personal. You can, however, include in medical expenses the part of the cost that is for medical or nursing care.

## Nursing Services

You can include in medical expenses wages and other amounts you pay for nursing services. Services need not be performed by a nurse as long as the services are of a kind generally performed by a nurse. This includes services connected with caring for the patient's condition, such as giving medication or changing dressings, as well as bathing and grooming the patient. These services can be provided in your home or another care facility.

Generally, only the amount spent for nursing services is a medical expense. If the attendant also provides personal and household services, these amounts must be divided between the time spent performing household and personal services and the time spent for nursing services. However, certain maintenance or personal care services provided for qualified long-term care can be included in medical expenses. See *Qualified Long-Term Care Insurance Contracts*, earlier. Additionally, certain expenses for household services or for the care of a qualifying individual incurred to allow you to work may qualify for the child and dependent care credit. See Publication 503, *Child and Dependent Care Expenses*.

You can also include in medical expenses part of the amount you pay for that attendant's meals. Divide the food expense among the household members to find the cost of the attendant's food. Then apportion that cost in the same manner as in the preceding paragraph. If you had to pay additional amounts for household upkeep because of the attendant, you can include the extra amounts with your medical expenses. This includes extra rent or utilities you pay because you moved to a larger apartment to provide space for the attendant.

**Employment taxes.** You can include as a medical expense social security tax, FUTA, Medicare tax, and state employment taxes you pay for a nurse, attendant, or other person who provides medical care. For information on employment tax responsibilities of household employers, see Publication 926, *Household Employer's Tax Guide*.

**Healthy baby.** You cannot include the cost of nursing services for a normal, healthy baby. But you may be able to take a credit for child care expenses. See Publication 503 for more information. You also may be able to take the child tax credit. See the instructions in your tax package.

## Operations

You can include in medical expenses amounts you pay for legal operations that are not for unnecessary cosmetic surgery. See *Cosmetic Surgery* under *What Expenses Are Not Deductible*, later.

## Optometrist

See *Eyeglasses*, earlier.

## Organ Donors

See *Transplants*, later.

## Osteopath

You can include in medical expenses amounts you pay to an osteopath for medical care.

## Oxygen

You can include in medical expenses amounts you pay for oxygen and oxygen equipment to relieve breathing problems caused by a medical condition.

## Prosthesis

See *Artificial Limb*, earlier.

## Psychiatric Care

You can include in medical expenses amounts you pay for psychiatric care. This includes the cost of supporting a mentally ill dependent at a specially equipped medical center where the dependent receives medical care. See *Psychoanalysis*, next, and *Transportation*, later.

## Psychoanalysis

You can include in medical expenses payments for psychoanalysis. However, you cannot include payments for psychoanalysis that you must get as a part of your training to be a psychoanalyst.

## Psychologist

You can include in medical expenses amounts you pay to a psychologist for medical care.

## Schools and Education, Special

You can include in medical expenses payments to a special school for a mentally impaired or physically disabled person if the main reason for using the school is its resources for relieving the disability. You can include, for example, the cost of:

- Teaching Braille to a visually impaired child,
- Teaching lip reading to a hearing impaired child, or
- Giving remedial language training to correct a condition caused by a birth defect.

The cost of meals, lodging, and ordinary education supplied by a special school can be included in medical expenses only if the main reason for the child's being there is the resources the school has for relieving the mental or physical disability.

You cannot include in medical expenses the cost of sending a problem child to a special school for benefits the child may get from the course of study and the disciplinary methods.

## Sterilization

You can include in medical expenses the cost of a legal sterilization (a legally performed operation to make a person unable to have children).

## Stop-Smoking Programs

You can include in medical expenses amounts you pay for a program to stop smoking. However, you cannot include in medical expenses amounts you pay for drugs that do not require a prescription, such as nicotine gum or patches, that are designed to help stop smoking.

## Surgery

See *Operations*, earlier.

## Telephone

You can include in medical expenses the cost and repair of special telephone equipment that lets a hearing-impaired person communicate over a regular telephone.

## Television

You can include in medical expenses the cost of equipment that displays the audio part of television programs as subtitles for hearing-impaired persons. This may be the cost of an adapter that attaches to a regular set. It also may be the cost of a specially equipped television that exceeds the cost of the same model regular television set.

## Therapy

You can include in medical expenses amounts you pay for therapy you receive as medical treatment.

**“Patterning” exercises.** You can include in medical expenses amounts you pay to an individual for giving “patterning” exercises to a mentally retarded child. These exercises consist mainly of coordinated physical manipulation of the child's arms and legs to imitate crawling and other normal movements.

## Transplants

You can include in medical expenses payments you make for surgical, hospital, laboratory, and transportation expenses for a donor or a possible donor of a kidney or other organ. You cannot include expenses if you did not pay for them.

A donor or possible donor can include surgical, hospital, laboratory, and transportation expenses in medical expenses only if he or she pays for them.

## Transportation

You can include in medical expenses amounts paid for transportation primarily for, and essential to, medical care.

### You can include:

- Bus, taxi, train, or plane fares or ambulance service,
- Transportation expenses of a parent who must go with a child who needs medical care,
- Transportation expenses of a nurse or other person who can give injections, medications, or other treatment required by a patient who is traveling to get medical care and is unable to travel alone, and
- Transportation expenses for regular visits to see a mentally ill dependent, if these visits are recommended as a part of treatment.

### You cannot include:

- Transportation expenses to and from work, even if your condition requires an unusual means of transportation, or
- Transportation expenses if, for nonmedical reasons only, you choose to travel to another city, such as a resort area, for an operation or other medical care prescribed by your doctor.

**Car expenses.** You can include out-of-pocket expenses for your car, such as gas and oil, when you use your car for medical reasons. You cannot include depreciation, insurance, general repair, or maintenance expenses.

If you do not want to use your actual expenses, you can use a standard rate of **13 cents a mile** for use of your car for medical reasons.

You can also include the cost of parking fees and tolls. You can add these fees and tolls to your medical expenses whether you use actual expenses or use the standard mileage rate.

**Example.** Bill Jones drove 2,800 miles for medical reasons during the year. He spent \$200 for gas, \$5 for oil, and \$50 for tolls and parking. He wants to figure the amount he can include in medical expenses both ways to see which gives him the greater deduction.

He figures the actual expenses first. He adds the \$200 for gas, the \$5 for oil, and the \$50 for tolls and parking for a total of \$255.

He then figures the standard mileage amount. He multiplies the 2,800 miles by 13 cents a mile for a total of \$364. He then adds the \$50 tolls and parking for a total of \$414.

Bill includes the \$414 of car expenses with his other medical expenses for the year because the \$414 is more than the \$255 he figured using actual expenses.

## Trips

You can include in medical expenses amounts you pay for transportation to another city if the trip is primarily for, and essential to, receiving medical services. You may be able to include up to \$50 per night for lodging. See *Lodging*, earlier.

You cannot include in medical expenses a trip or vacation taken merely for a change in environment, improvement of morale, or general improvement of health, even if you make the trip on the advice of a doctor. However, see *Medical Conferences*, earlier.

## Tuition

You can include in medical expenses charges for medical care included in the tuition of a college or private school, if the charges are separately stated in the bill or given to you by the school. See *Learning Disability*, earlier, and *Schools and Education, Special*, earlier.

## Vasectomy

You can include in medical expenses the amount you pay for a vasectomy.

## Weight-Loss Program

You can include in medical expenses amounts you pay to lose weight if it is a treatment for a specific disease diagnosed by a physician (such as obesity, hypertension, or heart disease). This includes fees you pay to join a weight reduction group and attend periodic meetings. But you cannot include membership dues in a gym, health club, or spa.

You cannot include the cost of diet food or beverages in medical expenses because that substitutes for what you normally consume to satisfy your nutritional needs. (You can include the cost of special food in medical expenses only if:

- 1) The food does not satisfy your normal nutritional needs,
- 2) The food alleviates or treats an illness, and
- 3) The need for the food is substantiated by a physician.

The amount you can include in medical expenses is limited to the amount by which the cost of the special food exceeds the cost of a normal diet.) See also *Weight-Loss Program* under *What Expenses Are Not Deductible*, later.

## Wheelchair

You can include in medical expenses amounts you pay for an autoette or a wheelchair used mainly for the relief of sickness or disability, and not just to provide transportation to and from work. The cost of operating and keeping up the autoette or wheelchair is also a medical expense.

## Wig

You can include in medical expenses the cost of a wig purchased upon the advice of a physician for the mental health of a patient who has lost all of his or her hair from disease.

## X-ray

You can include in medical expenses amounts you pay for X-rays that you get for medical reasons.

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## What Expenses Are Not Deductible?

Following is a list of some items that you **cannot** include in figuring your medical expense deduction. The items are listed in alphabetical order.

### Baby Sitting, Child Care, and Nursing Services for a Normal, Healthy Baby

You cannot include in medical expenses amounts you pay for the care of your children even if the expenses enable you to get medical or dental treatment. Also, any expense allowed as a child care credit cannot be treated as an

expense paid for medical care. See also *Healthy baby* under *Nursing Services*, earlier.

## Controlled Substances

You cannot include in medical expenses amounts you pay for controlled substances (such as marijuana, laetrile, etc.), in violation of federal law.

## Cosmetic Surgery

Generally, you cannot include in medical expenses the amount you pay for unnecessary cosmetic surgery. This applies to any procedure that is directed at improving the patient's appearance and does not meaningfully promote the proper function of the body or prevent or treat illness or disease. Procedures such as face lifts, hair transplants, hair removal (electrolysis), and liposuction generally are not deductible.

You can include in medical expenses the amount you pay for cosmetic surgery if it is necessary to improve a deformity arising from, or directly related to, a congenital abnormality, a personal injury resulting from an accident or trauma, or a disfiguring disease.

## Dancing Lessons

You cannot include the cost of dancing lessons, swimming lessons, etc., even if they are recommended by a doctor, if they are only for the improvement of general health.

## Diaper Service

You cannot include in medical expenses the amount you pay for diapers or diaper services, unless they are needed to relieve the effects of a particular disease.

## Electrolysis or Hair Removal

See *Cosmetic Surgery*, earlier.

## Funeral Expenses

You cannot include in medical expenses amounts you pay for funerals. However, funeral expenses may be deductible on the decedent's federal estate tax return.

## Hair Transplant

See *Cosmetic Surgery*, earlier.

## Health Club Dues

You cannot include in medical expenses health club dues, YMCA dues, or amounts paid for steam baths for your general health or to relieve physical or mental discomfort not related to a particular medical condition.

You cannot include in medical expenses the cost of membership in any club organized for business, pleasure, recreation, or other social purpose.

## Health Insurance Credit

You cannot include in medical expenses amounts you pay for health insurance that you use in figuring your health insurance credit. For more information, see *Health Insurance Credit*, later.

## Household Help

You cannot include in medical expenses the cost of household help, even if such help is recommended by a doctor. This is a personal expense that is not deductible. However, you may be able to include certain expenses paid to a person providing nursing-type services. Also, certain maintenance or personal care services provided for qualified long-term care can be included in medical expenses.

## Illegal Operations and Treatments

You cannot include in medical expenses amounts you pay for illegal operations, treatments, or controlled substances whether rendered or prescribed by licensed or unlicensed practitioners.

## Insurance Premiums for Certain Types of Policies

See *Insurance Premiums* under *What Medical Expenses Are Deductible*, earlier.

## Maternity Clothes

You cannot include in medical expenses amounts you pay for maternity clothes.

## Medical Savings Account (MSA)

You cannot deduct as a qualified medical expense amounts you contribute to an Archer MSA. You cannot deduct qualified medical expenses as an itemized deduction if you pay for them with a tax-free distribution from your Archer MSA. You also cannot use other funds equal to the amount of the distribution and claim a deduction. For more information on Archer MSAs, see Publication 969, *Medical Savings Accounts (MSAs)*.

## Nonprescription Drugs and Medicines

Except for insulin, you cannot include in medical expenses amounts you pay for a drug that is not prescribed.

## Nutritional Supplements

You cannot include in medical expenses the cost of nutritional supplements, vitamins, herbal supplements, "natural medicines," etc., unless you can only obtain them legally with a physician's prescription.

## Personal Use Items

You cannot include in medical expenses an item ordinarily used for personal, living, or family purposes unless it is used primarily to prevent or alleviate a physical or mental

defect or illness. For example, the cost of a toothbrush and toothpaste is a nondeductible personal expense.

Where an item purchased in a special form primarily to alleviate a physical defect is one that in normal form is ordinarily used for personal, living, or family purposes, the excess of the cost of the special form over the cost of the normal form is a medical expense (see *Braille Books and Magazines* under *What Medical Expenses Are Deductible*, earlier).

## Swimming Lessons

See *Dancing Lessons*, earlier.

## Weight-Loss Program

You cannot include the cost of a weight-loss program in medical expenses if the purpose of the weight control is not treatment of a specific ailment or disease diagnosed by a physician, but rather to improve your appearance, your general health, or your sense of well-being. Also, you cannot include the cost of diet food items in medical expenses if the food is a substitute for the food you normally consume to satisfy your nutritional needs. See also, *Weight-Loss Program* under *What Medical Expenses Are Deductible*, earlier.

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## How Do You Deduct Impairment-Related Work Expenses?

If you are disabled and have expenses which are necessary for you to be able to work (impairment-related work expenses), take a business deduction for these expenses, rather than a medical deduction. You are disabled if you have:

- A physical or mental disability (for example, blindness or deafness) that functionally limits your being employed, or
- A physical or mental impairment (for example, a sight or hearing impairment) that substantially limits one or more of your major life activities, such as performing manual tasks, walking, speaking, breathing, learning, or working.

Deduct impairment-related expenses as business expenses if they are:

- Necessary for you to do your work satisfactorily,
- For goods and services not required or used, other than incidentally, in your personal activities, and
- Not specifically covered under other income tax laws.

If you are self-employed, deduct the business expenses on the appropriate form (Schedule C, C–EZ, E, or F) used to report your business income and expenses. If you are an employee with impairment-related work expenses, complete Form 2106, *Employee Business Expenses*, or Form 2106–EZ, *Unreimbursed Employee Business Expenses*. Your impairment-related work expenses are not subject to the 2%-of-adjusted-gross-income limit that applies to other employee business expenses.

**Example.** You are blind. You must use a reader to do your work. You use the reader both during your regular working hours at your place of work and outside your regular working hours away from your place of work. The reader's services are only for your work. You can deduct your expenses for the reader as business expenses.

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## How Do You Treat Reimbursements?

You can deduct as medical expenses only those amounts paid during the taxable year for which you received no insurance or other reimbursement.

## Insurance Reimbursement

You must reduce your total medical expenses for the year by all reimbursements for medical expenses that you receive from insurance or other sources during the year. This includes payments from Medicare.

Generally, you do not reduce medical expenses by payments you receive for:

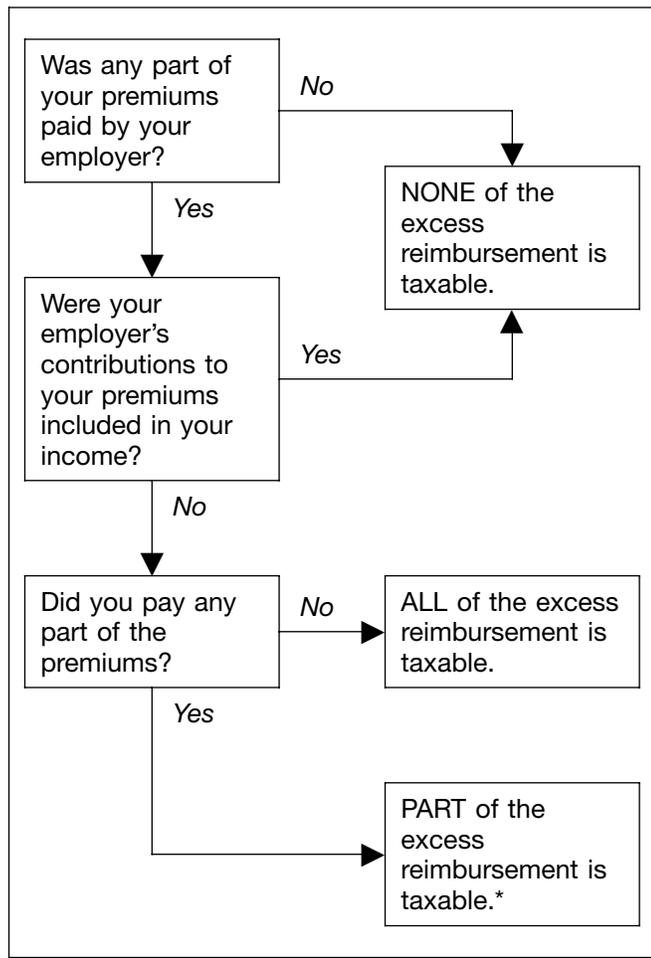
- Permanent loss or loss of use of a member or function of the body (loss of limb, sight, hearing, etc.) or disfigurement that is based on the nature of the injury without regard to the amount of time lost from work,
- Loss of earnings, or
- Damages for personal injury or sickness.

You must, however, reduce your medical expenses by any part of these payments that is designated for medical costs. See *How Do You Figure Your Deduction*, later.

## What If Your Insurance Reimbursement Is More Than Your Medical Expenses?

If you are reimbursed more than your medical expenses, you may have to include the excess in income. You may want to use *Figure 1* to help you decide if any of your reimbursement will be taxable income.

**Figure 1. Is Your Excess Medical Reimbursement Taxable?**



\*See *Premiums paid by you and your employer* in this publication.

**Premiums paid by you.** If you pay the entire premium for your medical insurance or all the costs of a plan similar to medical insurance, and your insurance payments or other reimbursements are more than your total medical expenses for the year, you have **excess reimbursement**. Generally, you do not include the excess reimbursement in your gross income. However, gross income does include total payments in excess of the per diem limit for qualified long-term care insurance. See *Periodic Payments Not Taxed*, under *Long-Term Care*, earlier, for the per diem amounts.

**Premiums paid by you and your employer.** If both you and your employer contribute to your medical insurance plan and your employer's contributions are not included in your gross income, you must include in your gross income the part of your excess reimbursement that is from your employer's contribution.

You can figure the percentage of the excess reimbursement you must include in gross income using the following formula.

$$\frac{\text{Annual amount paid by employer}}{\text{Total annual cost of policy}} = \text{Percent of excess reimbursement that is taxable}$$

**Example.** You are covered by your employer's medical insurance policy. The annual premium is \$2,000. Your employer pays \$600 of that amount and the balance of \$1,400 is taken out of your wages. The part of any excess reimbursement you receive under the policy that is from your employer's contributions is figured as follows.

$$\frac{\$600}{\$2,000} = 30\%$$

Therefore, you must include in your gross income 30% (.30) of any excess reimbursement you received for medical expenses under the policy.

**Premiums paid by your employer.** If your employer or your former employer pays the total cost of your medical insurance plan and your employer's contributions are not included in your income, you must report all of your excess reimbursement as other income.

**More than one policy.** If you are covered under more than one policy, the costs of which are paid by both you and your employer, you must first divide the medical expenses among the policies to figure the excess reimbursement from each policy. Then divide the policy costs to figure the part of any excess reimbursement that is from your employer's contribution.

**Example.** You are covered by your employer's health insurance policy. The annual premium is \$1,200. Your employer pays \$300, and the balance of \$900 is deducted from your wages. You also paid the entire premium (\$250) for a personal health insurance policy.

During the year, you paid medical expenses of \$3,600. In the same year, you were reimbursed \$2,400 under your employer's policy and \$1,600 under your own personal policy.

You can figure the part of the excess reimbursement that is from your employer's contribution by using *Worksheet 2*.

### What If You Receive Insurance Reimbursement in a Later Year?

If you are reimbursed in a later year for medical expenses you deducted in an earlier year, you generally must report the reimbursement as income up to the amount you previously deducted as medical expenses.

However, you do not report as income the amount of reimbursement you received up to the amount of your medical deductions that did not reduce your tax for the earlier year.

For more information about the recovery of an amount that you claimed as an itemized deduction in an earlier year, see *Recoveries* in Publication 525, *Taxable and Nontaxable Income*.

### What If You Are Reimbursed for Medical Expenses You Did Not Deduct?

If you did not deduct a medical expense in the year you paid it because your medical expenses were not more than

## Worksheet 2. Taxable Excess Medical Reimbursement If You Have More Than One Health Insurance Policy

1. Enter the reimbursement from your employer's policy . . . . .	1.	_____
2. Enter the reimbursement from your own policy . . . . .	2.	_____
3. Add lines 1 and 2 . . . . .	3.	_____
4. Divide line 1 by line 3 . . . . .	4.	_____
5. Enter the total medical expenses you paid during the year . . . . .	5.	_____
6. Multiply line 4 by line 5 . . . . .	6.	_____
7. Subtract line 6 from line 1 . . . . .	7.	_____
8. Enter employer's contribution to the annual cost of the employer's policy . . . . .	8.	_____
9. Enter total premium of employer's policy . . . . .	9.	_____
10. Divide line 8 by line 9. This is the percentage of your total excess reimbursement you must report as other income . . . . .	10.	_____
11. Multiply line 7 by line 10. This is the amount you must report on line 21, Form 1040 . . . . .	11.	_____

7.5% of your adjusted gross income, or because you did not itemize deductions, do not include in income the reimbursement for this expense that you receive in a later year. However, if the reimbursement is more than the expense, see *What If Your Insurance Reimbursement Is More Than Your Medical Expenses*, earlier.

**Example.** Last year, you had \$500 of medical expenses. You cannot deduct the \$500 because it is less than 7.5% of your adjusted gross income. If, in a later year, you are reimbursed for any of the \$500 of medical expenses, you do not include that amount in your gross income.

## Worksheet 2. Example of Taxable Excess Medical Reimbursement If You Have More Than One Health Insurance Policy — Illustrated

1. Enter the reimbursement from your employer's policy . . . . .	1.	<u>\$2,400</u>
2. Enter the reimbursement from your own policy . . . . .	2.	<u>1,600</u>
3. Add lines 1 and 2 . . . . .	3.	<u>\$4,000</u>
4. Divide line 1 by line 3 . . . . .	4.	<u>.60</u>
5. Enter the total medical expenses you paid during the year . . . . .	5.	<u>3,600</u>
6. Multiply line 4 by line 5 . . . . .	6.	<u>2,160</u>
7. Subtract line 6 from line 1 . . . . .	7.	<u>240</u>
8. Enter employer's contribution to the annual cost of the employer's policy . . . . .	8.	<u>300</u>
9. Enter total premium of employer's policy . . . . .	9.	<u>1,200</u>
10. Divide line 8 by line 9. This is the percentage of your total excess reimbursement you must report as other income . . . . .	10.	<u>.25</u>
11. Multiply line 7 by line 10. This is the amount you must report on line 21, Form 1040 . . . . .	11.	<u>\$60</u>

Department of the Treasury  
Internal Revenue Service

(Schedule B is on back)

**2002**  
Attachment  
Sequence No. **07**

▶ **Attach to Form 1040.** ▶ **See Instructions for Schedules A and B (Form 1040).**

Name(s) shown on Form 1040

Bill and Helen Jones

Your social security number

000 : 00 : 0000

Medical and Dental Expenses	Caution. Do not include expenses reimbursed or paid by others.				
<b>1</b>	Medical and dental expenses (see page A-2) . . . . .	1	3,434		
<b>2</b>	Enter amount from Form 1040, line 36   <b>2</b>   33,004				
<b>3</b>	Multiply line 2 by 7.5% (.075) . . . . .	3	2,475		
<b>4</b>	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-. . . . .	4			959

## How Do You Report the Deduction on Your Tax Return?

Once you have determined which medical care expenses you can include when figuring your deduction, you must report the deduction on your tax return.

## What Tax Form Do You Use?

You report your medical expense deduction on **Schedule A**, Form 1040. You cannot claim medical expenses on Form 1040A or Form 1040EZ. An example of a filled-in medical and dental expense part of Schedule A is shown.

## How Do You Figure Your Deduction?

To figure your medical and dental expense deduction, complete lines 1–4 of Schedule A, Form 1040, as follows:

**Line 1.** Enter the amount you paid for medical expenses after reducing the amount by payments you received from insurance and other sources.

**Line 2.** Enter your adjusted gross income from Form 1040, line 36.

**Line 3.** Multiply the amount on line 2 (adjusted gross income) by 7.5% (.075) and enter the result.

**Line 4.** If line 3 is more than line 1, enter zero. Otherwise, subtract the amount on line 3 from the amount on line 1. This is your deduction for medical and dental expenses.

**Example.** Bill and Helen Jones belong to a group medical plan and part of their insurance is paid by Bill's employer. They file a joint return, and their adjusted gross income is \$33,004. The following medical expenses Bill and Helen paid this year have been reduced by payments they received from the insurance company.

- 1) For themselves, Bill and Helen paid \$375 for prescription medicines and drugs, \$337 for hospital bills, \$439 for doctor bills, \$295 for hospitalization insurance, \$380 for medical and surgical insurance, and \$33 for transportation for medical treatment, which totals \$1,859.

- 2) For Grace Taylor (Helen's dependent mother), they paid \$300 for doctors, \$300 for insulin, and \$175 for eyeglasses, which totals \$775.
- 3) For Betty Jones (Bill's dependent sister), they paid \$450 for doctors and \$350 for prescription medicines and drugs, which totals \$800.

Bill and Helen add all their medical and dental expenses together (\$1,859 + \$775 + \$800 = \$3,434). They figure their deduction on the medical and dental expenses part of Schedule A, Form 1040, as shown.



**Recordkeeping.** For each medical expense, you must keep a record of the name and address of each person you paid, and the amount and date of the payment.

When requested by the IRS, you must be able to substantiate your medical deduction with a statement or itemized invoice from the person or entity you paid showing the nature of the expense, for whom it was incurred, the amount paid, the date of payment, and any other information the IRS may deem necessary. Do not send these records with your return.

## Sale of Medical Property

You may have a taxable gain if you sell medical equipment or property, the cost of which you deducted as a medical expense on your tax return for a previous year. The taxable gain is the amount of the selling price that is more than the equipment's adjusted basis. The adjusted basis is the portion of the equipment's cost that was not deductible because of the 7.5% limit used to compute the medical deduction. Use the formula below to figure the adjusted basis.

$$7.5\% \text{ of Adjusted Gross Income} \times \frac{\text{Cost of Equipment}}{\text{Total Medical Expenses}} = \text{Adjusted Basis}$$

If your allowable itemized deductions were more than your adjusted gross income for the year the cost of the equipment was deducted, the adjusted basis of the equipment is increased by a portion of the surplus itemized

deductions. Use the following formula to figure the increase.

$$\text{Surplus Itemized Deductions} \times \frac{\text{Cost of Equipment} - \text{Adjusted Basis}}{\text{Total Itemized Deductions}} = \text{Increase}$$

Add the increase to the adjusted basis. The result is the new adjusted basis for purposes of computing the taxable gain. See chapter 3 in Publication 544, *Sales and Other Dispositions of Assets*, for information on the tax treatment of the gain.

**Example of sale of medical property.** You have a heart condition and difficulty breathing. Your doctor prescribed oxygen equipment to help you breathe. Last year, you bought the oxygen equipment for \$3,000. You itemized deductions and included it in your medical expense deduction.

Last year you also paid \$750 for deductible medical services and \$6,400 for other itemized deductions. Your adjusted gross income (AGI) was \$5,000.

Taking into account the 7.5% limit on medical expenses, your allowable itemized deductions totaled \$9,775, figured as follows:

Oxygen equipment . . . . .	\$3,000
Medical services . . . . .	750
Total medical expenses . . . . .	<u>\$3,750</u>
7.5% of AGI (.075 × \$5,000) . . . . .	<u>-375</u>
Allowable medical expense deduction . . . . .	\$3,375
Other itemized deductions . . . . .	<u>6,400</u>
Allowable itemized deductions . . . . .	<u><u>\$9,775</u></u>

This year you sold the oxygen equipment for \$2,000. You must report on this year's tax return part of the \$2,000 as ordinary income. To compute the part of the sales price that is taxable, you must do the following:

- Figure the part of the 7.5% of adjusted gross income limit (the nondeductible limit) that is allocable to the oxygen equipment as the equipment's adjusted basis.
- Figure the part of the surplus itemized deductions that is allocable to the oxygen equipment as an addition to the adjusted basis.
- Determine the gain by subtracting the total adjusted basis from the selling price.

**Allocating the nondeductible limit.** As stated above, some of the \$375 you were not allowed to deduct as a medical expense on last year's return becomes the adjusted basis of the equipment and can be used to reduce the amount you must now report as income. To determine the part of the 7.5% limit that is allocable to the oxygen equipment (see the first formula shown earlier), multiply the overall nondeductible limit, \$375, by the ratio of cost of the equipment, \$3,000, to the total medical expenses, \$3,750 [ $\$375 \times (\$3,000 \div \$3,750) = \$300$ ]. Your adjusted basis in the equipment is this \$300 portion of the cost of the equipment that last year was nondeductible because of the 7.5% limit.

**Allocating surplus deductions.** To determine the part of the surplus itemized deductions that is allocable to the oxygen equipment (see the second formula shown earlier), figure the total available surplus deductions, \$4,775 (\$9775 allowable itemized deductions minus \$5,000 AGI). Then multiply \$4775 by the ratio of the deductible portion of the amount paid for the oxygen equipment, \$2,700 (\$3,000 cost of equipment minus \$300 attributable to the 7.5% limit) to the total available deductions, \$9,775. In this example the result is \$1,319.

Your total adjusted basis in the equipment is \$1,619 (\$300 + \$1,319).

**Determining gain.** You realized a gain of \$381 (\$2,000 – \$1,619). This amount represents the recovery of an amount previously deducted for federal income tax purposes and is taxable as ordinary income.

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## Settlement of Damage Suit

If you receive an amount in settlement of a personal injury suit, the part that is for medical expenses deducted in an earlier year is included in income in the later year if your medical deduction in the earlier year reduced your income tax in that year. See *What If You Receive Insurance Reimbursement in a Later Year*, discussed earlier.

**Future medical expenses.** If you receive an amount in settlement of a damage suit for personal injuries that is properly allocable or determined to be for future medical expenses, you must reduce any medical expenses for these injuries until the amount you received has been completely used.

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## Health Insurance Credit

Beginning December 2002, there is a new health insurance credit available to certain individuals who receive a pension benefit from the Pension Benefit Guaranty Corporation (PBGC) or who are eligible to receive a trade adjustment allowance (TAA). You only qualify for this credit if you:

- 1) Are an **eligible individual**,
- 2) Pay for **qualifying health insurance** covering an **eligible coverage month** for yourself or for yourself and **qualifying family members**,
- 3) Do not have **other specified coverage**, and
- 4) Are not in prison.

If you qualify, you can claim a credit equal to 65% of the premiums you pay.

### Eligible Individual

You are an eligible individual for any month you:

- 1) Receive a TAA for individuals under the Trade Act of 1974 for at least one day in the month, or would receive a TAA but do not because you have not yet exhausted your unemployment benefits, and are covered under a TAA certification, or

- 2) Are a worker receiving a supplemental wage allowance under section 246 of the Trade Act of 1974 for such month, or
- 3) Are at least 55 years old and are receiving pension benefits from the PBGC.

Once you qualify under (1) or (2), you continue to be eligible during the first month that you would otherwise cease to be eligible.



*You are not an eligible individual if you can be claimed as a dependent on another person's tax return.*

## Qualifying Family Member

You can include the premiums you pay for qualifying health insurance for qualifying family members in figuring your credit. Qualifying family members are:

- Your spouse, and
- Your dependents for whom you can claim an exemption on your tax return.

However, if any otherwise qualifying family member has other specified coverage (defined later), then that person is not a qualifying family member. Also, your spouse is not your qualifying family member if:

- Your spouse is also an eligible individual, and
- You file separate returns.

**Dependents of divorced parents.** A dependent of divorced parents is treated as the dependent of the custodial parent and not of the noncustodial parent for purposes of this credit even if:

- 1) The custodial parent cannot claim a dependent's exemption because he or she released his or her claim to the exemption for the year, or
- 2) There is a pre-1985 decree or agreement that entitles the noncustodial parent to the exemption.

## Qualifying Health Insurance

The following health insurance qualifies for the credit.

- COBRA continuation coverage. (This is optional coverage that certain employer-sponsored group health plans must offer to certain employees or former employees and their beneficiaries who have lost coverage because of certain events.)
- Coverage under a group health plan that is available through the employment of your spouse.
- Coverage under individual health insurance if you were covered during the entire 30-day period that ends on the date you separated from the employment which qualified you for the allowance or benefit as an eligible individual (defined earlier). Individual health insurance here means any medical care in-

surance offered to individuals other than in a group health plan, but it does not include federal or state health insurance coverage.

The following state-sponsored health insurance qualifies for the credit to the extent the sponsoring state elects to have it apply.

- State-based continuation coverage provided by the state under a state law that requires such coverage.
- Coverage offered through a qualified state high-risk pool.
- Coverage under a health insurance program offered to state employees or a similar state-based health insurance program.
- Coverage through an arrangement entered into by the state and a group health plan, an issuer of health insurance coverage, an administrator, or an employer.
- Coverage offered through a state arrangement with a private sector health care coverage purchasing pool.
- Coverage under a state-operated health plan that does not receive any federal financial participation.

## Nonqualifying Health Insurance

The following health insurance does **not** qualify for the credit.

- 1) Coverage under a flexible spending or similar arrangement, or
- 2) Any insurance if substantially all of the coverage is:
  - a) Accident or disability income insurance (or a combination of the two),
  - b) Liability insurance,
  - c) A supplement to liability insurance,
  - d) Workers' compensation or similar insurance,
  - e) Automobile medical payment insurance,
  - f) Credit-only insurance,
  - g) Coverage for on-site medical clinics,
  - h) Limited scope dental or vision benefits,
  - i) Benefits for long-term care, nursing home care, home health care, community-based care (or any combination),
  - j) Coverage only for a specified disease or illness,
  - k) Hospital indemnity or other fixed indemnity insurance, or
  - l) Medicare supplemental insurance, Tricare supplemental insurance, or other similar supplemental insurance to an employer-sponsored group health plan.

## Eligible Coverage Month

Eligibility for the credit is determined on a monthly basis. December 2002 is the first month that can be an eligible coverage month. You are eligible for a month if, as of the first day of the month, you:

- 1) Are an eligible individual (defined earlier),
- 2) Are covered by qualifying health insurance (defined earlier) that you pay for,
- 3) Do not have other specified coverage (defined later), and
- 4) Are not imprisoned under federal, state, or local authority.

If you file a joint return, only one spouse has to satisfy the requirements.

## Other Specified Coverage

Even if you are otherwise eligible, you are not eligible for the credit for a month if, as of the first day of the month, you have other specified coverage. Other specified coverage is coverage under the following.

- 1) Any insurance which constitutes medical care (unless substantially all of that insurance is for benefits listed earlier under (2) under *Nonqualifying Health Insurance*) if at least 50% of the cost of the coverage is paid by an employer (or former employer) of you or your spouse.
- 2) Any of the following government health programs:
  - a) Medicare Part A, Medicare Part B, Medicaid, or the State Children's Health Insurance Program (SCHIP),
  - b) The Federal Employees Health Benefit Plan (FEHBP), or
  - c) Tricare, the medical and dental care program for members and certain former members of the uniformed services and their dependents.

## How To Report

To claim the credit, file Form 8885, *Health Insurance Credit for Eligible Recipients*, and report the credit on Form 1040, line 68, or Form 1040NR, line 63, and check box c. You cannot claim the credit on Form 1040A or Form 1040EZ.

If you claim this credit, you cannot take the same expenses into account in determining your:

- Medical and dental expenses on Schedule A (Form 1040),
- Self-employed health insurance deduction, or
- Archer Medical Savings Account (MSA) distributions.

## Refundable and Advanceable

You can claim this credit and get a refund even if you do not owe any taxes.

Once the program is set up sometime in 2003, you will be able to present a certificate to your health insurance company showing you are eligible for this credit. The Treasury Department will then pay your insurer 65% of your health insurance premiums and you will pay the remaining 35%. The amount of the credit you can claim on your tax return will be reduced by the amount of the credit you receive in advance.

## How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

**Contacting your Taxpayer Advocate.** If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate at **1-877-777-4778**.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call **1-800-829-4059** if you are a TTY/TDD user.

For more information, see Publication 1546, *The Taxpayer Advocate Service of the IRS*.

**Free tax services.** To find out what services are available, get Publication 910, *Guide to Free Tax Services*. It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.



**Personal computer.** With your personal computer and modem, you can access the IRS on the Internet at **www.irs.gov**. While visiting our web site, you can:

- See answers to frequently asked tax questions or request help by e-mail.
- Download forms and publications or search for forms and publications by topic or keyword.
- Order IRS products on-line.
- View forms that may be filled in electronically, print the completed form, and then save the form for recordkeeping.
- View Internal Revenue Bulletins published in the last few years.

- Search regulations and the Internal Revenue Code.
- Receive our electronic newsletters on hot tax issues and news.
- Learn about the benefits of filing electronically (IRS e-file).
- Get information on starting and operating a small business.

You can also reach us with your computer using File Transfer Protocol at [ftp.irs.gov](http://ftp.irs.gov).



**TaxFax Service.** Using the phone attached to your fax machine, you can receive forms and instructions by calling **703-368-9694**. Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.

For help with transmission problems, call the FedWorld Help Desk at **703-487-4608**.



**Phone.** Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call **1-800-829-3676** to order current and prior year forms, instructions, and publications.
- *Asking tax questions.* Call the IRS with your tax questions at **1-800-829-1040**.
- *Solving problems.* Take advantage of Everyday Tax Solutions service by calling your local IRS office to set up an in-person appointment at your convenience. Check your local directory assistance or [www.irs.gov](http://www.irs.gov) for the numbers.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call **1-800-829-4059** to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call **1-800-829-4477** to listen to pre-recorded messages covering various tax topics.

**Evaluating the quality of our telephone services.** To ensure that IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.



**Walk-in.** Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county governments, credit unions, and office supply stores have an extensive collection of products available to

print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.

- *Services.* You can walk in to your local IRS office to ask tax questions or get help with a tax problem. Now you can set up an appointment by calling your local IRS office number and, at the prompt, leaving a message requesting Everyday Tax Solutions help. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience.



**Mail.** You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 workdays after your request is received. Find the address that applies to your part of the country.

- **Western part of U.S.:**  
Western Area Distribution Center  
Rancho Cordova, CA 95743-0001
- **Central part of U.S.:**  
Central Area Distribution Center  
P.O. Box 8903  
Bloomington, IL 61702-8903
- **Eastern part of U.S. and foreign addresses:**  
Eastern Area Distribution Center  
P.O. Box 85074  
Richmond, VA 23261-5074



**CD-ROM for tax products.** You can order IRS Publication 1796, *Federal Tax Products on CD-ROM*, and obtain:

- Current tax forms, instructions, and publications.
- Prior-year tax forms and instructions.
- Popular tax forms that may be filled in electronically, printed out for submission, and saved for record-keeping.
- Internal Revenue Bulletins.

The CD-ROM can be purchased from National Technical Information Service (NTIS) by calling **1-877-233-6767** or on the Internet at <http://www.irs.gov/cdorders>. The first release is available in early January and the final release is available in late February.



**CD-ROM for small businesses.** IRS Publication 3207, *Small Business Resource Guide*, is a must for every small business owner or any taxpayer about to start a business. This handy, interactive CD contains all the business tax forms, instructions and publications needed to successfully manage a business. In addition, the CD provides an abundance of other helpful information, such as how to prepare a business plan, finding financing for your business, and much more. The design of the CD makes finding information easy and quick

and incorporates file formats and browsers that can be run on virtually any desktop or laptop computer.

It is available in March. You can get a free copy by calling **1-800-829-3676** or by visiting the website at **[www.irs.gov/smallbiz](http://www.irs.gov/smallbiz)**.



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