

Pro@ctive CPA
Interact With Your Accountant
Memorandum

To: Clients, Friends, Family & Associates of Pro@ctive CPA
From: Cindy Freking, CPA, Tax Manager
Date: November 20, 2013
Re: Medical Expense Update

In 2013, medical expense itemized deductions are once again subject to the 10% limit of Adjusted Gross Income versus the 7.5% limit that we have grown accustomed to over the last several years.

A recap of eligible medical expenses as they pertain to itemized deductions is worth re-visiting in this year of healthcare reform and in general, the rising costs of healthcare and the increase in elder care costs. In addition, who qualifies as a dependent for healthcare deductions is also worth re-visiting.

Eligible Medical Expenses

Medical expenses include the costs of diagnosis, cure, mitigation, treatment or prevention of disease, and the costs for treatments affecting any part of or function of the body.

While 10% of Adjusted Gross Income is often an unattainable itemized deduction expense benefit, taxpayers with large insurance deductibles could potentially meet the threshold in any given year when medical expenses are high. Medical expenses are deductible when they are incurred and not reimbursed. For instance, if you incur \$6,000 in medical expenses, but a pre-tax plan (Health Savings Account or Section 125 Cafeteria Plan) reimburses you \$6,000 you do not have a deduction.

Here are just a few examples of some medical expenses that may be overlooked:

Acupuncture, Addiction center treatment programs, Fertility treatments including in vitro fertilization procedures, In-Home Health Care (with some limitations), Lead based paint removal (in certain circumstances), Lasik eye surgery, Nursing Home Care (with some limitations), Rehabilitation Care (with some limitations), Service animals and their care, Tuition for a child with learning disabilities. These are just some of many expenses which are not routine in nature but do qualify for deduction.

The cost of long term care premiums (subject to limits) and health insurance premiums are also deductible. (If your employer does not pay for group health insurance premiums and if you are not in a medical reimbursement plan at work)

Medical Expenses Paid on Behalf of Others

Medical expenses paid on behalf of your dependents are deductible. Determining whether or not a person meets the IRS's definition of a dependent is the starting point for determining whether you can deduct someone else's medical expenses. There are dependency tests to determine whether you are entitled to a dependency exemption and there are dependency tests to determine that while you may not be entitled to claim a qualifying relative for exemption you may be entitled to deduct medical expenses you pay directly to medical facilities, physicians, etc. on their behalf.

There are various rules with regard to who qualifies as a dependent based upon who they are in relation to you, the type and amount of support which you need to provide to them during the year and the amount of income that they can earn in order to qualify as your dependent for the medical expense deduction. There are numerous situations which could pertain to you and your family. The relation tests are far reaching and do not end when there is a death or a divorce. We are available to provide assistance if needed.

Capital Expenditures

The cost of special equipment and improvements to the taxpayer's home, made primarily for medical reasons are included in medical expenses. If the improvement increases the value of the home (i.e. an elevator) the increase in value would reduce the medical expense deduction. If the expense does not increase the home value (i.e. a chair lift) it would be a current medical expense deduction.

Conclusion

Please contact your Pro@ctive CPA team should you have any questions. My direct line is (770) 664-8583, extension 561.

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