1 July 01

Steve,

I brought this back from the OOA conference for you.

Joe

Pharmacy Compounding

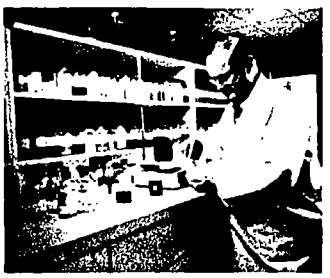
Meeting unique physician and patient needs

Central Ohio Compounding Pharmacy
7870 Olentangy River Rd., Suite 206
Columbus, OH 43235
(614) 847-0109

What is Compounding?

- Compounding is an innovative method of preparing customized medications to help meet unique physician and patient needs.

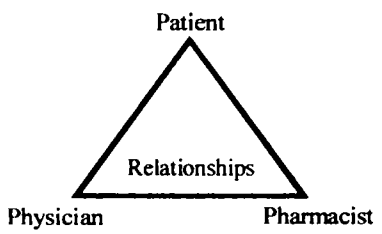
Compounding pharmacists focus on providing innovative patient care. This may involve compounding an eye drop in a sterile compounding lab, an injection for impotency, preparing medications for veterinarians, or providing natural hormone replacement therapy.



Also known as a problem solver, a compounding pharmacist's ultimate goal in preparing customized medications is to help the physician and patient achieve a more positive therapeutic outcome.

The Triad

The foundation of the profession



.....the *key* to compounding

Meeting unique needs in:

- Hospice
- Pain Management
- Natural Hormone Replacement Therapy
- Veterinary applications
  - Household pets
  - Equine
  - Zoos
  - Exotics
- Dental
- Dermatology

Meeting unique needs in:

- Podiatry
- Oncology
- Ophthalmology
- Pediatrics
- Neurology
- Nutritional
- Sports medicine
- And many more.....

Chronic Diaper Rash

- Cholestyramine 5-10% ointment
  - Binds bile enzymes
- Burrows 1-2-3 paste (with Nystatin)
- Butt Pastes
- Dermatological Specialty Creams
- Biotin deficiency

Otic Infections

- Xylitol Syrup or Gum
  - Prevents chronic middle ear infections
- Anhydrous vehicles for outer ear infections
  - Propylene Glycol, Glycerin, Base C, Sweet Oil
  - Combination of antibiotic, anti-inflammatory, anesthetic, and antifungals

➢Sheehy-house insufflator or powder puffer

- CSF or CSFH
- Boric Acid
- Iodine

Acne Vulgaris

- Niacinamide 4% Gel provides a potent anti-inflammatory activity
  - no risk of inducing bacterial resistance
  - appears to work best on active lesions
- Azelaic Acid
- Progesterone 4%
- Spironolactone 5%
- Beta-1,3-Glucan Lotion 3%
- Lipoic Acid 0.5%

Warts

- 2-Deoxy-D-Glucose PLO
- Cimetidine PLO
- Cantharidin
- Trichloracetic Acid
- Podophyllin
- 5-Fluorouracil
- Salicylic Acid up to 80%

Scar and Keloids

- Keloid and hypertrophic scars have lack of effective treatments
- Tamoxifen citrate 0.1% cream
- Estriol phonopheresis gel
- Tranilast cream
- Caffeine
- Lipoic acid 3%
- MSM cream as a base

Wound Therapy

- Misoprostol and/or phenytoin to increase healing rate
- Aloe Vera, Allantoin, Vitamin D3, Panthenol
- Metronidazole, Gentamicin if infection present
- Anesthetic - lidocaine
- Immune system modulator - Beta-1,3-Glucan
- Nifedipine or pentoxifyline to increase circulation
- Nutritional support important

Inhalation Therapy

- Asthma
  - preservative-free and combination solutions
  - Beta-agonists, steroids,anticholnergics, mast cell inhibitors, lidocaine
- Cystic Fibrosis
  - Antibiotics
- COPD and Emphysema
  - Retinoic acid
  - Glutathione
  - Carnitine

Ophthamlic Preparation

- Diagnostic Solutions for children
- Antibiotic Eye Drops
  - Culture and Sensitivity
- Hyalronidase injectable
- Anesthetic Solution
- Preservative Free Solution

Canker Sores / Mouth Ulcers

- Polyox-301 oral mucous bandage
  - superior "staying power" ..... *it won't rub off*
  - Misoprostol 0.0024%, Phenytoin 3-5%
  - 2-DDG 0.2%, Acyclovir, Lidocaine, Beta-1,3-Glucan 0.1%, Steroids, Amphotericin, ect.
- Polyphenol Sulfonic Acid Complex
- Compounded Magic Mouthwash
- Glutamine, 4gm Swish and swallow bid to prevent chemo-induced stomatitis

Transdermal for Neuropathies

- NMDA-Ca++ channel blocker: Ketamine, Orphenadrine, amantidine,DM, Magnesium
- AMPA-Na+ channel blocker: Gabapentin, Carmbamazepine, Lidocaine, Mexilitine, Valproic Acid, Phenytoin
- Glutamate Antagonist: Gabapentin
- Alpha-2 agonist: Clonidine
- Gaba-b antagonist: Baclofen, (clonazepam is a non-specific gaba agonist)

Transdermals for Neuropathies

- Mu agonists / Substance P Blockers - Capsacian, Morphine, Loperamide
- NE reuptake inhibitor - Tricyclic antidepressants(amitriptyline, desipramine)
- Alpha-1 antagonists - prazosin, phentolamine
- Non-NMDA Ca++ antagonists – nifedipine

Migraine Head Aches

- Prophylactic: Riboflavin high dose: fewerfew
- Lidocaine HCL nasal spray or drops
- DHE nasal spray, RDT
- Sumatriptan troche, RDT
- Metoclopramide & ASA
- Histamine low dose sub-Q
- Nausea; Metoclopramide, Ginger Root powder

Hemorrhoids

- The Rectal Rocket
  - Designed to get the drugs to the site of action and hold them there longer
  - Hydrocortisone, lidocaine, sucralfate
  - Faster and less exspensive problem solution
- Anal fissures
  - Sucralfate, misoprostol, NTG, Pentoxifyline, Nifedipine

Exercise and Sports Injuries

- Transdermls Gels
  - NSAIDs
  - Guaifenesin, cyclobenzaprine
  - Neuropathic agents
  - Speed gels
- Iontophoresis Solutions
- Phonophoresis Gels
- Hanks's Balance Salt Solution
- Anesthetic sprays and gels

Arthritis

- NSAIDs in PLOs
- Glucosamine Sulfate
- Mangesium, Zinc, Copper, Vitamin C
- Boron, Niacinamide
- Cetyl Myristoleate (CMO)
- Dimetyl Sulfone (MSM)
- Chicken collagen
- Tumeric, Ginger, Flaxseed oil, Vitamin E

Nausea, Vomiting & Motion Sickness

- Promethazine HCL PLO gel and suppositories
- ABH / ABHR / ABHRD PLO and suppositories
- Scopolamine PLO gel
- Ginger root

ABHR =
Ativan, Benadryl,
Haldol, & Reglan

Hospice

- Pain Management
  - Individualized control
  - Multiple sources of pain
    - General and localized pain
    - Radation burns
    - Metastatic bone pain
    - Neuropathic pain syndromes
    - Pressure ulcers

Hospice

- Alternative route of administration
- Nausea & vomiting PLOs and suppositories
- Morphine inhalations for anxiety
- Lidocaine inhalation for cough
- Mouth ulcer
- Saliva stimulants
- Adjunctive therapies

Questions???

- Thank you for this opportunity to share with you today.

Groft, Stephen (NCCAM)

From: Miller, Maureen (NCCAM)
Sent: Wednesday, November 14, 2001 5:24 PM
To: Groft, Stephen (NCCAM)
Subject: RE: Treasury mtg

I reached George on his cell and he is very willing to present the overview of the tax issues. M

-----Original Message-----
From: Groft, Stephen (NCCAM)
Sent: Wednesday, November 14, 2001 5:00 PM
To: Miller, Maureen (NCCAM)
Subject: RE: Treasury mtg

Thank you Maureen.

Steve

-----Original Message-----
From: Miller, Maureen (NCCAM)
Sent: Wednesday, November 14, 2001 4:58 PM
To: Groft, Stephen (NCCAM); Axelrod, Corinne (NCCAM)
Subject: Treasury mtg

Steve and Corinne --

George DeVries will participate by phone in this meeting. We are to call him on his cell phone (I have it with me) just before the meeting starts to get a "real" and secure phone # to use for conferencing him in.

The meeting is in Room 1000 of the Main Treasury Building -- we enter from the 15th Street side. So let's meet about 3:15 to 3:20 on 15th street, outside the entrance. You will need a picture ID to get into the building. I forwarded your names, date of birth and social security numbers to our contact at Treasury. Just in case, our contact there is:

Bill (William F.) Sweetnam, Jr.,
Benefits Tax Counsel
Office of Tax Policy
Treasury Department
1500 Pennsylvania Avenue NW
Washington DC 20220
202 622-0170

M

Groft, Stephen (NCCAM)

From: Maureen M. Miller [maureen.miller@starpower.net]
Sent: Thursday, November 15, 2001 1:56 PM
To: Groft, Stephen (NCCAM); axelrod@mail.nih.gov
Subject: background for Treasury mtg?

Last week and this week, I have searched the Internet for background information related to deductions for employer-sponsored health plans. Even my husband, who is an expert at net-searches, could not find anything of real use. Here is what I know so far:

- in 1954, the IRS law was changed to allow employers to deduct expenses for health benefits (e.g., payment of insurance premiums). (And, thus, insurance premiums were not deductible for employees).
- the IRS tax code does not contain any medical care incentives in the form of tax credits
- the Oregon plan does involve some innovative tax provisions, including tax credits for such things as employer-sponsored long term care insurance and bone marrow transplant expenses. But we need to get more info from Treasury on this -- I do not understand the state taxes vs federal taxes separation here.
- Treasury is always concerned about "revenue impact" -- the amount that will not go into the US treasury from some new provision.

- See ya soon, Maureen

97-4469

Credits for Research

Bill Hunter
Bill Batty
Kristen

11/19/01 Treasury Dept

Termination/Exclusion
not favorable
105, 106, 125

Deductions
213

Nutritional Counseling
Massage Therapy

+ Dietetic Services

Healing services
not like food
Dietary Supplements

+ Christian Science Practitioners

Social Security Definition

Maintaining Good Health

* Yet to be proven efficacy

Preventive Health Services

- Self-Care
- Prevention
- Wellness
- Health promotion

Cost
① ↓ in Revenue for Govt.
② ↑ expense to everyone - Heat public

Intermediary → Drive costs - will care & affect people's decisions

Benefits Plan for CAM Options plan for CAM
similar to Vision, hearing, etc. Dental, Pharmacy, Chiropractic

Administrability -

Regs: HIPAA, ADA, ERISA - non-discrimination
need Legislative Proposal
PHSA 2702 - Proposed Regs

wellness (defined)

(2)

6-24-20

Rob Hansen — Tax Credits for Research Purposes

Administrability

Fed Tax Code

Cost Fairness

Prior to deletion, item 221 read as follows:
"221. Cross reference."

In 1996, P.L. 104-191, Sec. 301(i), deleted item 220 and added new items 220 and 221.
Prior to deletion, item 220 read as follows:
"220. Cross reference."

In 1990, P.L. 101-508, Sec. 11802(e)(3), repealed items 220 and 221, and added new item 220.
Prior to repeal, items 220 and 221 read as follows:
"220. Jury duty pay remitted to employer.
"221. Cross References."

In 1988, P.L. 100-647, Sec. 6007(e), repealed item 220 and added items 220 and 221.
Prior to repeal, item 220 read as follows:
"220. Cross references."

In 1986, P.L. 99-514, Sec. 131(b)(3), repealed item 221. . . . Sec. 135(b)(2), repealed items 222 and 223 and added item 220. . . . Sec. 301(b)(5)(B), substituted "reference" for "references" in item 223 [before redesignation by Sec. 135(b)(1) of this Act.]
Prior to repeal, item 221 read as follows:
"221. Deduction for two-earner married couples."
Prior to repeal, items 222 and 223 [as amended by P.L. 99-514, Sec. 301(b)(5), above] read as follows:
"Sec. 222. Adoption expenses."
"Sec. 223. Cross references."

In 1981, P.L. 97-34, Sec. 103(c)(3), redesignated item 221 as 222 and added new item 221 . . . Sec. 125(b), redesignated item 222 [as redesignated by Sec. 103(c)(3) of this Act] as 223 and added new item 222 . . . Sec. 311(h)(11), repealed item 220.
Prior to repeal, item 220 read as follows:
"220. Retirement savings for certain married individuals."

In 1978, P.L. 95-600, Sec. 113(a)(1), repealed Code Sec. 218. This Act did not amend the list of Code Secs. for Part VII, but presumably Congress intended to.
Prior to repeal, the heading for Code Sec. 218 read as follows:
"Sec. 218. Contributions to candidates for public office."

In 1976, P.L. 94-455, Sec. 504(b)(2), repealed item 214.
Prior to repeal, item 214 read as follows:
"214. Expenses for household and dependent care services necessary for gainful employment."
—P.L. 94-455, Sec. 1501(c), amended item 220 and added item 221.
Prior to amendment, item 220 read as follows:
"220. Cross references."

In 1974, P.L. 93-406, Sec. 2002(h)(1), redesignated item 219 as 220 and added new item 219.

In 1971, P.L. 92-178, Sec. 702(c), redesignated item 218 as 219, and added new item 218 . . . Sec. 210(b), amended item 214.
Prior to amendment, item 214 read as follows:
"Expenses for care of certain dependents."

In 1964, P.L. 82-272, Sec. 213(a)(2), redesignated item 217 as 218, and added new item 217.

In 1962, P.L. 87-834, Sec. 28(b), amended item 216.
Prior to amendment, item 216 read as follows:
"Amounts representing taxes and interest paid to cooperative housing corporation."

Sec. 211. Allowance of deductions.

In computing taxable income under section 63 , there shall be allowed as deductions the items specified in this part, subject to the exceptions provided in part IX (section 261 and following, relating to items not deductible).

In 1977, P.L. 95-30, Sec. 102(b)(3), substituted "section 63" for "section 63(a)", effective for tax. yrs. begin. after 12/31/76.

Sec. 212. Expenses for production of income.

In the case of an individual, there shall be allowed as a deduction all the ordinary and necessary expenses paid or incurred during the taxable year—

(1) for the production or collection of income;

(2) for the management, conservation, or maintenance of property held for the production of income; or

(3) in connection with the determination, collection, or refund of any tax.

Sec. 213. Medical, dental, etc., expenses.

(a) Allowance of deduction.

There shall be allowed as a deduction the expenses paid during the taxable year, not compensated for by insurance or otherwise, for medical care of the taxpayer, his spouse, or a dependent (as defined in section 152), to the extent that such expenses exceed 7.5 percent of adjusted gross income.

(b) Limitation with respect to medicine and drugs.

An amount paid during the taxable year for medicine or a drug shall be taken into account under subsection (a) only if such medicine or drug is a prescribed drug or is insulin.

(c) Special rule for decedents.

(1) Treatment of expenses paid after death. For purposes of subsection (a), expenses for the medical care of the taxpayer which are paid out of his estate during the 1-year period beginning with the day after the date of his death shall be treated as paid by the taxpayer at the time incurred.

(2) Limitation. Paragraph (1) shall not apply if the amount paid is allowable under section 2053 as a deduction in computing the taxable estate of the decedent, but this paragraph shall not apply if (within the time and in the manner and form prescribed by the Secretary) there is filed—

(A) a statement that such amount has not been allowed as a deduction under section 2053, and

(B) a waiver of the right to have such amount allowed at any time as a deduction under section 2053.

(d) Definitions.

For purposes of this section—

(1) The term "medical care" means amounts paid—

(A) for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body,

(B) for transportation primarily for and essential to medical care referred to in subparagraph (A),

(C) for qualified long-term care services (as defined in section 7702B(c)), or

(D) for insurance (including amounts paid as premiums under part B of title XVIII of the Social Security Act, relating to supplementary medical insurance for the aged) covering medical care referred to in subparagraphs (A) and (B) or for any qualified long-term care insurance contract (as defined in section 7702B(b)).

In the case of a qualified long-term care insurance contract (as defined in section 7702B(b)), only eligible long-term care premiums (as defined in paragraph (10)) shall be taken into account under subparagraph (D).

(2) Amounts paid for certain lodging away from home treated as paid for medical care. Amounts paid for lodging (not lavish or extravagant under the circumstances) while away from home primarily for and essential to medical care referred to in paragraph (1)(A) shall be treated as amounts paid for medical care if—

(A) the medical care referred to in paragraph (1)(A) is provided by a physician in a licensed hospital (or in a medical care facility which is related to, or the equivalent of, a licensed hospital), and

(B) there is no significant element of personal pleasure, recreation, or vacation in the travel away from home.

The amount taken into account under the preceding sentence shall not exceed $50 for each night for each individual.

(3) Prescribed drug. The term "prescribed drug" means a drug or biological which requires a prescription of a physician for its use by an individual.

(4) Physician. The term "physician" has the meaning given to such term by section 1861(r) of the Social Security Act (42 U.S.C. 1395x(r)).

(5) Special rule in the case of child of divorced parents, etc. Any child to whom section 152(e) applies shall be treated as a dependent of both parents for purposes of this section.

(6) In the case of an insurance contract under which amounts are payable for other than medical care referred to in subparagraphs (A), (B), and (C) of paragraph (1)—

(A) no amount shall be treated as paid for insurance to which paragraph (1)(D) applies unless the charge for such insurance is either separately stated in the contract, or furnished to the policyholder by the insurance company in a separate statement,

(B) the amount taken into account as the amount paid for such insurance shall not exceed such charge, and

(C) no amount shall be treated as paid for such insurance if the amount specified in the contract (or furnished to the policyholder by the insurance company in a separate statement) as the charge for such insurance is unreasonably large in relation to the total charges under the contract.

(7) Subject to the limitations of paragraph (6), premiums paid during the taxable year by a taxpayer before he attains the age of 65 for insurance covering medical care (within the meaning of subparagraphs (A), (B), and (C) of paragraph (1)) for the taxpayer, his spouse, or a dependent after the taxpayer attains the age of 65 shall be treated as expenses paid during the taxable year for insurance which constitutes medical care if premiums for such insurance are payable (on a level payment basis) under the contract for a period of 10 years or more or until the year in which the taxpayer attains the age of 65 (but in no case for a period of less than 5 years).

(8) The determination of whether an individual is married at any time during the taxable year shall be made in accordance with the provisions of section 6013(d) (relating to determination of status as husband and wife).

(9) Cosmetic surgery.

(A) In general. The term "medical care" does not include cosmetic surgery or other similar procedures, unless the surgery or procedure is necessary to ameliorate a deformity arising from, or directly related to, a congenital abnormality, a personal injury resulting from an accident or trauma, or disfiguring disease.

(B) Cosmetic surgery defined. For purposes of this paragraph, the term "cosmetic surgery" means any procedure which 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.

(10) Eligible long-term care premiums.

(A) In general. For purposes of this section, the term "eligible long-term care premiums" means the amount paid during a taxable year for any qualified long-term care insurance contract (as defined in section 7702B(b)) covering an individual, to the extent such amount does not exceed the limitation determined under the following table:

In the case of an individual with an attained age before the close of the taxable year of:	The limitation is:
40 or less	$ 200
More than 40 but not more than 50	375
More than 50 but not more than 60	750
More than 60 but not more than 70	2,000
More than 70	2,500.

(B) Indexing.

(i) In general. In the case of any taxable year beginning in a calendar year after 1997, each dollar amount contained in subparagraph (A) shall be increased by the medical care cost adjustment of such amount for such calendar year. If any increase determined under the preceding sentence is not a multiple of $10, such increase shall be rounded to the nearest multiple of $10.

(ii) Medical care cost adjustment. For purposes of clause (i), the medical care cost adjustment for any calendar year is the percentage (if any) by which—

(I) the medical care component of the Consumer Price Index (as defined in section 1(f)(5)) for August of the preceding calendar year, exceeds

(II) such component for August of 1996.

The Secretary shall, in consultation with the Secretary of Health and Human Services, prescribe an adjustment which the Secretary determines is more appropriate for purposes of this paragraph than the adjustment described in the preceding sentence, and the adjustment so prescribed shall apply in lieu of the adjustment described in the preceding sentence.

(11) Certain payments to relatives treated as not paid for medical care. An amount paid for a qualified long-term care service (as defined in section 7702B(c)) provided to an individual shall be treated as not paid for medical care if such service is provided—

(A) by the spouse of the individual or by a relative (directly or through a partnership, corporation, or other entity) unless the service is provided by a licensed professional with respect to such service, or

(B) by a corporation or partnership which is related (within the meaning of section 267(b) or 707(b)) to the individual.

For purposes of this paragraph, the term "relative" means an individual bearing a relationship to the individual which is described in any of paragraphs (1) through (8) of section 152(a). This paragraph shall not apply for purposes of section 105(b) with respect to reimbursements through insurance.

(e) Exclusion of amounts allowed for care of certain dependents.

Any expense allowed as a credit under section 21 shall not be treated as an expense paid for medical care.

In 1996, P.L. 104-191, Sec. 322(a), deleted "or" at the end of subpara. (d)(1)(B), redesignated subpara. (d)(1)(C) as subpara. (d)(1)(D) and added new subpara. (d)(1)(C) . . . Sec. 322(b)(1), added "or for any qualified long-term care insurance contract (as defined in section 7702B(b))" before the period at the end of subpara. (d)(1)(D) [as redesignated by Sec. 322(a), of this Act, see above] . . . Sec. 322(b)(2)(A), added a flush sentence at the end of para. (d)(1) . . . Sec. 322(b)(2)(C), added paras. (d)(10) and (d)(11) . . . Sec. 322(b)(3)(A), substituted "subparagraphs (A), (B), and (C)" for "subparagraphs (A) and (B)" in para. (d)(6) . . . Sec. 322(b)(3)(B), substituted "paragraph (1)(D)" for "paragraph (1)(C)" in subpara. (d)(6)(A) . . . Sec. 322(b)(4), substituted "subparagraphs (A), (B), and (C)" for "subparagraphs (A) and (B)" in para. (d)(7), effective for tax. yrs. begin. after 12/31/96.

In 1993, P.L. 103-66, Sec. 13131(d)(3), repealed subsec. (f), effective for tax. yrs. begin. after 12/31/93.

Prior to repeal, subsec. (f) read as follows:

"(f) Coordination with health insurance credit under section 32.

"The amount otherwise taken into account under subsection (a) as expenses paid for medical care shall be reduced by the amount (if any) of the health insurance credit allowable to the taxpayer for the taxable year under section 32."

In 1990, P.L. 101-508, Sec. 11111(d)(1), added subsec. (f), effective for tax. yrs. begin. after 12/31/90.

—P.L. 101-508, Sec. 11342(a), added para. (d)(9), effective for tax. yrs. begin. after 12/31/90.

one provision of the Internal Revenue Code of 1954 cannot again be deducted under any other provision thereof.

(p) *Frustration of public policy.* The deduction of a payment will be disallowed under section 212 if the payment is of a type for which a deduction would be disallowed under section 162(c), (f), or (g) and the regulations thereunder in the case of a business expense. [Reg. § 1.212-1.]

☐ [*T.D.* 6279, 12-13-57. *Amended by T.D.* 7198, 7-12-72 *and T.D.* 7345, 2-19-75.]

[Reg. § 1.213-1]

§ 1.213-1. Medical, dental, etc., expenses.— (a) *Allowance of deduction.* (1) Section 213 permits a deduction of payments for certain medical expenses (including expenses for medicine and drugs). Except as provided in paragraph (d) of this section (relating to special rule for decedents) a deduction is allowable only to individuals and only with respect to medical expenses actually paid during the taxable year, regardless of when the incident or event which occasioned the expenses occurred and regardless of the method of accounting employed by the taxpayer in making his income tax return. Thus, if the medical expenses are incurred but not paid during the taxable year, no deduction for such expenses shall be allowed for such year.

(2) Except as provided in subparagraphs (4)(i) and (5)(i) of this paragraph, only such medical expenses (including the allowable expenses for medicine and drugs) are deductible as exceed 3 percent of the adjusted gross income for the taxable year. For taxable years beginning after December 31, 1966, the amounts paid during the taxable year for insurance that constitute expenses paid for medical care shall, for purposes of computing total medical expenses, be reduced by the amount determined under subparagraph (5)(i) of this paragraph. For the amounts paid during the taxable year for medicine and drugs which may be taken into account in computing total medical expenses, see paragraph (b) of this section. For the maximum deduction allowable under section 213 in the case of certain taxable years, see paragraph (c) of this section. As to what constitutes "adjusted gross income", see section 62 and the regulations thereunder.

(3)(i) For medical expenses paid (including expenses paid for medicine and drugs) to be deductible, they must be for medical care of the taxpayer, his spouse, or a dependent of the taxpayer and not be compensated for by insurance or otherwise. Expenses paid for the medical care of a dependent, as defined in section 152 and the regulations thereunder, are deductible under this section even though the dependent has gross income equal to or in excess of the amount determined pursuant to § 1.151-2 applicable to the calendar year in which the taxable year of the taxpayer begins. Where such expenses are paid by two or more persons and the conditions of section 152(c) and the regulations thereunder are met, the medical expenses are deductible only by the person designated in the multiple support agreement filed by such persons and such deduction is limited to the amount of medical expenses paid by such person.

(ii) An amount excluded from gross income under section 105(c) or (d) (relating to amounts received under accident and health plans) and the regulations thereunder shall not constitute compensation for expenses paid for medical care. Exclusion of such amounts from gross income will not affect the treatment of expenses paid for medical care.

(iii) The application of the rule allowing a deduction for medical expenses to the extent not compensated for by insurance or otherwise may be illustrated by the following example in which it is assumed that neither the taxpayer nor his wife has attained the age of 65:

Example. Taxpayer H, married to W and having one dependent child, had adjusted gross income for 1956 of $3,000. During 1956 he paid $300 for medical care, of which $100 was for treatment of his dependent child and $200 for an operation on W which was performed in September 1955. In 1956, he received a payment of $50 for health insurance to cover a portion of the cost of W's operation performed during 1955. The deduction allowable under section 213 for the calendar year 1956, provided the taxpayer itemizes his deductions and does not compute his tax under section 3 by use of the tax table, is $160, computed as follows:

Payments in 1956 for medical care	$300
Less: Amount of insurance received in 1956	50
Payments in 1956 for medical care not compensated for during 1956	$250
Less: 3 percent of $3,000 (adjusted gross income)	90
Excess, allowable as a deduction for 1956	$160

(4)(i) For taxable years beginning before January 1, 1967, where either the taxpayer or his spouse has attained the age of 65 before the close of the taxable year, the 3-percent limitation on the deduction for medical expenses does not apply with respect to expenses for medical care of the taxpayer or his spouse. Moreover, for taxable years beginning after December 31, 1959, and before January 1, 1967, the 3-percent limitation on the deduction for medical expenses does not apply to amounts paid for the medical care of a

dependent (as defined in sec. 152) who is the mother or father of the taxpayer or his spouse and who has attained the age of 65 before the close of the taxpayer's taxable year. For taxable years beginning before January 1, 1964, and for taxable years beginning after December 31, 1966, all amounts paid by the taxpayer for medicine and drugs are subject to the 1-percent limitation provided by section 213(b). For taxable years beginning after December 31, 1963, and before January 1, 1967, the 1-percent limitation provided by section 213(b) does not apply, under certain circumstances, to amounts paid by the taxpayer for medicine and drugs for the taxpayer and his spouse or for a dependent (as defined in sec. 152) who is the mother or father of the taxpayer or of his spouse. (For additional provisions relating to the 1-percent limitation with respect to medicine and drugs, see paragraph (b) of this section.) For taxable years beginning before January 1, 1967, whether or not the 3-percent or 1-percent limitation applies, the total medical expenses deductible under section 213 are subject to the limitations described in section 213(c) and paragraph (c) of this section and, where applicable, to the limitations described in section 213(g) and § 1.213-2.

(ii) The age of a taxpayer shall be determined as of the last day of his taxable year. In the event of the taxpayer's death, his taxable year shall end as of the date of his death. The age of a taxpayer's spouse shall be determined as of the last day of the taxpayer's taxable year, except that, if the spouse dies within such taxable year, her age shall be determined as of the date of her death. Likewise, the age of the taxpayer's dependent who is the mother or father of the taxpayer or of his spouse shall be determined as of the last day of the taxpayer's taxable year but not later than the date of death of such dependent.

(iii) The application of subdivision (i) of this subparagraph may be illustrated by the following examples:

Example (1). Taxpayer A, who attained the age of 65 on February 22, 1956, makes his return on the basis of the calendar year. During the year 1956, A had adjusted gross income of $8,000, and paid the following medical bills: (*a*) $560 (7 percent of adjusted gross income) for the medical care of himself and his spouse, and (*b*) $160 (2 percent of adjusted gross income) for the medical care of his dependent son. No part of these payments was for medicine and drugs nor compensated for by insurance or otherwise. The allowable deduction under section 213 for 1956 is $560, the full amount of the medical expenses for the taxpayer and his spouse. No deduction is allowable for the amount of $160 paid for medical care of the dependent son since the amount of such payment (determined without regard to the payments for the care of the taxpayer and his spouse) does not exceed 3 percent of adjusted gross income.

Example (2). H and W, who have a dependent child, made a joint return for the calendar year 1956. H became 65 years of age on August 15, 1956. The adjusted gross income of H and W in 1956 was $40,000 and they paid in such year the following amounts for medical care: (*a*) $3,000 for the medical care of H; (*b*) $2,000 for the medical care of W; and (*c*) $3,000 for the medical care of the dependent child. No part of these payments was for medicine and drugs nor compensated for by insurance or otherwise. The allowable deduction under section 213 for medical expenses paid in 1956 is $6,800 computed as follows:

Payments for medical care of H and W in 1956		$5,000
Payments for medical care of the dependent in 1956	$3,000	
Less: 3 percent of $40,000 (adjusted gross income)	1,200	1,800
Allowable deduction for 1956		$6,800

Example (3). D and his wife, E, made a joint income tax return for the calendar year 1962, and reported adjusted gross income of $30,000. On December 13, 1962, D attained the age of 65. During the year 1962, D's father, F, who was 87 years of age, received over half of his support from, and was a dependent (as defined in section 152) of, D. However, D could not claim an exemption under section 151 for F because F had gross income from rents in 1962 of $800. D paid the following medical expenses in 1962, none of which were compensated for by insurance or otherwise: hospital and doctor bills for D and E, $6,500; hospital and doctor bills for F, $4,850; medicine and drugs for D and E, $225, and for F, $225. Since none of the medical expenses are subject to the 3-percent limitation, the amount of medical expenses to be taken into account (before computing the maximum deduction) is $11,500, computed as follows:

Hospital and doctor bills—for D and E		$ 6,500
Hospital and doctor bills—for F		4,850
Medicine and drugs—for D and E	$225	
Medicine and drugs—for F	225	
Total medicine and drugs	$450	
Less: 1 percent of adjusted gross income ($30,000)	300	
Allowable expenses for medicine and drugs	$150	
Total medical expenses taken into account		$11,500

Since an exemption cannot be claimed for F on the 1962 return of D and E, their deduction for medical expenses (assuming that section 213(g) does not apply) is limited to $10,000 for that year ($5,000 multiplied by the two exemptions allowed for D and E under section 151(b)). If these identical facts had occurred in a taxable year beginning before January 1, 1962, the medical expense deduction for D and E would, for such taxable year, be limited to $5,000 ($2,500 multiplied by the two exemptions allowed for D and E under section 151(b)). See paragraph (c) of this section.

Example (4). Assume the same facts in Example (3), except that D furnished the entire support of his father's twin sister, G, who had no gross income during 1962 and for whom D was entitled to a dependency exemption. In addition, D paid $4,800 to doctors and hospitals during 1962 for the medical care of G. No part of the $4,800 was for medicine and drugs, and no amount was compensated for by insurance or otherwise. For purposes of the maximum limitation under section 213(c), the maximum deduction for medical expenses on the 1962 return of D and E is limited to $15,000 ($5,000 multiplied by 3, the number of exemptions allowed under section 151, exclusive of the exemptions for old age or blindness). If these identical facts had occurred in a taxable year beginning before January 1, 1962, the medical expense deduction for D and E would, for such taxable year, be limited to $7,500 ($2,500 multiplied by the three exemptions allowed under section 151, exclusive of the exemptions for old age or blindness). The medical expenses to be taken into account by D and E for 1962 and the maximum deductions allowable for such expenses are $15,400 and $15,000, respectively, computed as follows:

Medical expenses per example (3)		$ 11,500
Add: Expenses paid for G	$4,800	
Less: 3 percent of adjusted gross income ($30,000)	900	3,900
Total medical expenses taken into account		$ 15,400
Maximum deduction for 1962 ($5,000 multiplied by 3 exemptions)		15,000
Medical expenses not deductible		$ 400

Example (5). Assume that the facts set forth in Example (3) had occurred in respect of the calendar year 1964 rather than the calendar year 1962. Since both D and his father, F, had attained the age of 65 before the close of the taxable year, the 1-percent limitation does not apply to the amounts paid for medicine and drugs for D, E, and F. Accordingly, the total medical expenses taken into account by D and E for 1964 would be $11,800 (rather than $11,500 as in Example (3)) computed as follows:

Hospital and doctor bills—for D and E	$ 6,500
Hospital and doctor bills—for F	4,850
Medicine and drugs—for D and E	225
Medicine and drugs—for F	225
Total medical expenses taken into account	$11,800

(5)(i) For taxable years beginning after December 31, 1966, there may be deducted without regard to the 3-percent limitation the lessor of—(*a*) One-half of the amounts paid during the taxable year for insurance which constitute expenses for medical care for the taxpayer, his spouse, and dependents; or (*b*) $150.

(ii) The application of subdivision (i) of this subparagraph may be illustrated by the following example:

Example. H and W made a joint return for the calendar year 1967. The adjusted gross income of H and W for 1967 was $10,000 and they paid in such year $370 for medical care of which amount $350 was paid for insurance which constitutes medical care for H and W. No part of the payment was for medicine and drugs or was compensated for by insurance or otherwise. The allowable deduction under section 213 for medical expenses paid in 1967 is $150, computed as follows:

(1) Lesser of $175 (one-half of amounts paid for insurance) or	$150	$150
(2) Payments for medical care	$370	
(3) Less line 1	150	
(4) Medical expenses to be taken into account under 3-percent limitation (line 2 minus line 3)	$220	
(5) Less: 3 percent of $10,000 (adjusted gross income)	$300	
(6) Excess allowable as a deduction for 1967 (excess of line 4 over line 5)		$ 0
(7) Allowable medical expense deduction for 1967 (line 1 plus line 6)		$150

(b). *Limitation with respect to medicine and drugs*—(1) *Taxable years beginning before January 1, 1964.* (i) Amounts paid during taxable years beginning before January 1, 1964, for medicine and drugs are to be taken into account in computing the allowable deduction for medical expenses paid during the taxable year only to the extent that the aggregate of such amounts exceeds 1 percent of the adjusted gross income for the taxable year. Thus, if the aggregate of the amounts paid for medicine and drugs exceeds 1

percent of adjusted gross income, the excess is added to other medical expenses for the purpose of computing the medical expense deduction. The application of this subdivision may be illustrated by the following example:

Example. The taxpayer, a single individual with no dependents, had an adjusted gross income of $6,000 for the calendar year 1956. During 1956, he paid a doctor $300 for medical services, a hospital $100 for hospital care, and also spent $100 for medicine and drugs. These payments were not compensated for by insurance or otherwise. The deduction allowable under section 213 for the calendar year 1956 is $260, computed as follows:

Payments for medical care in 1956:

Doctor		$300
Hospital		100
Medicine and drugs	$100	
Less: 1 percent of $6,000 (adjusted gross income)	60	40
Total medical expenses taken into account		$440
Less: 3 percent of $6,000 (adjusted gross income)		180
Allowable deduction for 1956		$260

(ii) For taxable years beginning before January 1, 1964, the 1-percent limitation is applicable to all amounts paid by a taxpayer during the taxable year for medicine and drugs. Moreover, this limitation applies regardless of the fact that the amounts paid are for medicine and drugs for the taxpayer, his spouse, or dependent parent (the mother or father of the taxpayer or of his spouse) who has attained the age of 65 before the close of the taxable year. In a case where either a taxpayer or his spouse has attained the age of 65 and the taxpayer pays an amount in excess of 1 percent of adjusted gross income for medicine and drugs for himself, his spouse, and his dependents, it is necessary to apportion the 1 percent of adjusted gross income (the portion which is not taken into account as expenses paid for medical care) between the taxpayer and his spouse on the one hand and his dependents on the other. The part of the 1 percent allocable to the taxpayer and his spouse is an amount which bears the same ratio to 1 percent of his adjusted gross income which the amount paid for medicine and drugs for the taxpayer and his spouse bears to the total amount paid for medicine and drugs for the taxpayer, his spouse, and his dependents. The balance of the 1 percent shall be allocated to his dependents. The amount paid for medicine and drugs in excess of the allocated part of the 1 percent shall be taken into account as payments for medical care for the taxpayer and his spouse on the one hand and his dependents on the other, respectively. A similar apportionment must be made in the case of a dependent parent (65 years of age or over) of the taxpayer or his spouse. The application of this subdivision (ii) may be illustrated by the following example:

Example. H and W, who have a dependent child, made a joint return for the calendar year 1956. H became 65 years of age on September 15, 1956. The adjusted gross income of H and W for 1956 is $10,000. During the year, H and W paid the following amounts for medical care: (i) $1,000 for doctors and hospital expenses and $180 for medicine and drugs for themselves; and (ii) $500 for doctors and hospital expenses and $140 for medicine and drugs for the dependent child. These payments were not compensated for by insurance or otherwise. The deduction allowable under section 213(a)(2) for medical expenses paid in 1956 is $1,420, computed as follows:

H and W:			
Payments for doctors and hospital			$1,000.00
Payments for medicine and drugs	$180.00		
Less: Limitation for medicine and drugs (see computation below)		56.25	
			123.75
Medical expenses for H and W to be taken into account			$1,123.75
Dependent:			
Payments for doctors and hospital	$500.00		
Payments for medicine and drugs	$140.00		
Less: Limitation for medicine and drugs (see computation below)		43.75	
		96.25	
Total medical expenses		$596.25	
Less: 3 percent of $10,000 (adjusted gross income)		300.00	
Medical expenses for the dependent to be taken into account			296.25
Allowable deduction for 1956		$1,420.00	

Payments for medicine and drugs:	
H and W	$ 180.00
Dependent	140.00
Total payments	$ 320.00
Less: 1 percent of $10,000 (adjusted gross income)	100.00
Payments to be taken into account	$ 220.00

Allocation of 1-percent exclusion:

H and W $\frac{180}{320} \times \$100 =$	$ 56.25
Dependent $\frac{140}{320} \times \$100 =$	43.75
Total	$ 100.00

(2) *Taxable years beginning after December 31, 1963.* (i) Except as otherwise provided in subdivision (ii) of this subparagraph, amounts paid during taxable years beginning after December 31, 1963, for medicine and drugs are to be taken into account in computing the allowable deduction for medical expenses paid during the taxable year only to the extent that the aggregate of such amounts exceeds 1 percent of the adjusted gross income for the taxable year. Thus, if the aggregate of the amounts paid for medicine and drugs which are subject to the 1-percent limitation exceeds 1 percent of adjusted gross income, the excess is added to other medical expenses for the purpose of computing the medical expense deduction.

(ii) The 1-percent limitation provided by section 213 does not apply to amounts paid by a taxpayer during a taxable year beginning after December 31, 1963, and before January 1, 1967, for medicine and drugs for the medical care of the taxpayer and his spouse if either has attained the age of 65 before the close of the taxable year. Moreover, for taxable years beginning after December 31, 1963, and before January 1, 1967, the 1-percent limitation with respect to medicine and drugs does not apply to amounts paid for the medical care of a dependent (as defined in sec. 152) who is the mother or father of the taxpayer or of his spouse and who has attained the age of 65 before the close of the taxpayer's taxable year. Amounts paid for medicine and drugs which are not subject to the limitation on medicine and drugs are added to other medical expenses of a taxpayer and his spouse or the dependent (as the case may be) for the purpose of computing the medical expense deduction.

(iii) The application of this subparagraph may be illustrated by the following examples:

Example (1). H and W, who have a dependent child, C, were both under 65 years of age at the close of the calendar year 1964 and made a joint return for that calendar year. During the year 1964, H's mother, M, attained the age of 65, and was a dependent (as defined in section 152) of H. The adjusted gross income of H and W in 1964 was $12,000. During 1964 H and W paid the following amounts for medical care: (i) $600 for doctors and hospital expenses and $120 for medicine and drugs for themselves; (ii) $350 for doctors and hospital expenses and $60 for medicine and drugs for C; and (iii) $400 for doctors and hospital expenses and $100 for medicine and drugs for M. These payments were not compensated for by insurance or otherwise. The deduction allowable under section 213(a)(1) for medical expenses paid in 1964 is $1,150, computed as follows:

H, W and C:			
Payments for doctors and hospital		$ 950	
Payments for medicine and drugs	$180		
Less: 1 percent of $12,000 (adjusted gross income)	120	60	
Total medical expenses		$1,010	
Less: 3 percent of $12,000 (adjusted gross income)		360	
Medical expenses of H, W and C to be taken into account			$ 650
M:			
Payments for doctors and hospitals		$ 400	
Payments for medicine and drugs		100	
Medical expenses of M to be taken into account			$ 500
Allowable deduction for 1964			$1,150

Example (2). H and W, who have a dependent child, C, made a joint return for the calendar year 1964, and reported adjusted gross income of $12,000. H became 65 years of age on January 23, 1964. F, the 87 year old father of W, was a dependent of H. During 1964, H and W paid the

following amounts for medical care: (i) $400 for doctors and hospital expenses and $75 for medicine and drugs for H; (ii) $200 for doctors and hospital expenses and $100 for medicine and drugs for W; (iii) $200 for doctors and hospital expenses and $175 for medicine and drugs for C; and (iv) $700 for doctors and hospital expenses and $150 for medicine and drugs for F. These payments were not compensated for by insurance or otherwise. The deduction allowable under section 213(a)(2) for medical expenses paid in 1964 is $1,625, computed as follows:

H and W:			
Payments for doctors and hospital		$ 600	
Payments for medicine and drugs		175	
Medical expenses for H and W to be taken into account			$ 775
F:			
Payments for doctors and hospital		700	
Payments for medicine and drugs		150	
Medical expenses for F to be taken into account			$ 850
C:			
Payments for doctors and hospital		$ 200	
Payments for medicine and drugs	$175		
Less: 1 percent of $12,000 (adjusted gross income)	120	55	
Total medical expenses		$ 255	
Less: 3 percent of $12,000 (adjusted gross income)		360	
Medical expenses for C to be taken into account			$ 0
Allowable deduction for 1964			$1,625

Example (3). Assume the same facts as example (2) except that the calendar year of the return is 1967 and the amounts paid for medical care were paid during 1967. The deduction allowable under section 213(a) for medical expenses paid in 1967 is $1,520, computed as follows:

Payments for doctors and hospitals:			
H	$400		
W	200		
C	200		
F	700		
		$1,500	
Payments for medicine and drugs:			
H	$ 75		
W	100		
C	175		
F	150		
	$500		
Less: 1 percent of $12,000 (adjusted gross income)	120	$ 380	
Medical expenses to be taken into account			$1,880
Less: 3 percent of $12,000 (adjusted gross income)			360
Allowable medical expense deduction for 1967			$1,520

(3) *Definition of medicine and drugs.* For definition of medicine and drugs, see paragraph (e)(2) of this section.

(c) *Maximum limitations.* (1) For taxable years beginning after December 31, 1966, there shall be no maximum limitation on the amount of the deduction allowable for payment of medical expenses.

(2) Except as provided in section 213(g) and § 1.213-2 (relating to maximum limitations with respect to certain aged and disabled individuals for taxable years beginning before January 1, 1967), for taxable years beginning after December 31, 1961, and before January 1, 1967, the maxi-

mum deduction allowable for medical expenses paid in any one taxable year is the lesser of:

(i) $5,000 multiplied by the number of exemptions allowed under section 151 (exclusive of exemptions allowed under section 151(c) for a taxpayer or spouse attaining the age of 65, or section 151(d) for a taxpayer who is blind or a spouse who is blind);

(ii) $10,000, if the taxpayer is single, not the head of a household (as defined in section 1(b)(2)) and not a surviving spouse (as defined in section 2(b)), or is married and files a separate return; or

(iii) $20,000, if the taxpayer is married and files a joint return with his spouse under section 6013, or is the head of a household (as defined in section 1(b)(2)), or a surviving spouse (as defined in section 2(b)).

(3) The application of subparagraph (2) of this paragraph may be illustrated by the following example:

Example. H and W made a joint return for the calendar year 1962 and were allowed five exemptions (exclusive of exemptions under section 151(c) and (d)), one for each taxpayer and three for their dependents. The adjusted gross income of H and W in 1962 was $80,000. They paid during such year $26,000 for medical care, no part of which is compensated for by insurance or otherwise. The deduction allowable under section 213 for the calendar year 1962 is $20,000, computed as follows:

Payments for medical care in 1962	$26,000
Less: 3 percent of $80,000 (adjusted gross income)	2,400
Excess of medical expenses in 1962 over 3 percent of adjusted gross income	$23,600
Allowable deduction for 1962 ($5,000 multiplied by five exemptions allowed under sec. 151(b) and (e) but not in excess of $20,000)	$20,000

(4) Except as provided in section 213(g) and § 1.213-2 (relating to certain aged and disabled individuals), for taxable years beginning before January 1, 1962, the maximum deduction allowable for medical expenses paid in any one taxable year is the lesser of:

(i) $2,500 multiplied by the number of exemptions allowed under section 151 (exclusive of exemptions allowed under section 151(c) for a taxpayer or spouse attaining the age of 65, or section 151(d) for a taxpayer who is blind or a spouse who is blind);

(ii) $5,000, if the taxpayer is single, not the head of a household (as defined in section 1(b)(2)) and not a surviving spouse (as defined in section 2(b)), or is married and files a separate return; or

(iii) $10,000, if the taxpayer is married and files a joint return with his spouse under section 6013, or is head of a household (as defined in section 1(b)(2)), or a surviving spouse (as defined in section 2(b)).

(5) For the maximum deduction allowable for taxable years beginning before January 1, 1967, if the taxpayer or his spouse is age 65 or over and is disabled, see § 1.213-2.

(d) *Special rule for decedents.* (1) For the purpose of section 213(a), expenses for medical care of the taxpayer which are paid out of his estate during the 1-year period beginning with the day after the date of his death shall be treated as paid by the taxpayer at the time the medical services were rendered. However, no credit or refund of tax shall be allowed for any taxable year for which the statutory period for filing a claim has expired. See section 6511 and the regulations thereunder.

(2) The rule prescribed in subparagraph (1) of this paragraph shall not apply where the amount so paid is allowable under section 2053 as a deduction in computing the taxable estate of the decedent unless there is filed in duplicate (i) a statement that such amount has not been allowed as a deduction under section 2053 in computing the taxable estate of the decedent and (ii) a waiver of the right to have such amount allowed at any time as a deduction under section 2053. The statement and waiver shall be filed with or for association with the return, amended return, or claim for credit or refund for the decedent for any taxable year for which such an amount is claimed as a deduction.

(e) *Definitions*—(1) *General.* (i) The term "medical care" includes the diagnosis, cure, mitigation, treatment, or prevention of disease. Expenses paid for "medical care" shall include those paid for the purpose of affecting any structure or function of the body or for transportation primarily for and essential to medical care. See subparagraph (4) of this paragraph for provisions relating to medical insurance.

(ii) Amounts paid for operations or treatments affecting any portion of the body, including obstetrical expenses and expenses of therapy or X-ray treatments, are deemed to be for the purpose of affecting any structure or function of the body and are therefore paid for medical care. Amounts expended for illegal operations or treatments are not deductible. Deductions for expenditures for medical care allowable under section 213 will be confined strictly to expenses incurred primarily for the prevention or alleviation of a physical or mental defect or illness. Thus, payments for the

following are payments for medical care: Hospital services, nursing services (including nurses' board where paid by the taxpayer), medical, laboratory, surgical, dental and other diagnostic and healing services, X-rays, medicine and drugs (as defined in subparagraph (2) of this paragraph, subject to the 1 percent limitation in paragraph (b) of this section), artificial teeth or limbs, and ambulance hire. However, an expenditure which is merely beneficial to the general health of an individual, such as an expenditure for a vacation, is not an expenditure for medical care.

(iii) Capital expenditures are generally not deductible for Federal income tax purposes. See section 263 and the regulations thereunder. However, an expenditure which otherwise qualifies as a medical expense under section 213 shall not be disqualified merely because it is a capital expenditure. For purposes of section 213 and this paragraph, a capital expenditure made by the taxpayer may qualify as a medical expense, if it has as its primary purpose the medical care (as defined in subdivisions (i) and (ii) of this subparagraph) of the taxpayer, his spouse, or his dependent. Thus, a capital expenditure which is related only to the sick person and is not related to permanent improvement or betterment of property, if it otherwise qualifies as an expenditure for medical care, shall be deductible; for example, an expenditure for eye glasses, a seeing eye dog, artificial teeth and limbs, a wheel chair, crutches, an inclinator or an air conditioner which is detachable from the property and purchased only for the use of a sick person, etc. Moreover, a capital expenditure for permanent improvement or betterment of property which would not ordinarily be for the purpose of medical care (within the meaning of this paragraph) may, nevertheless, qualify as a medical expense to the extent that the expenditure exceeds the increase in the value of the related property, if the particular expenditure is related directly to medical care. Such a situation could arise, for example, where a taxpayer is advised by a physician to install an elevator in his residence so that the taxpayer's wife who is afflicted with heart disease will not be required to climb stairs. If the cost of installing the elevator is $1,000 and the increase in the value of the residence is determined to be only $700, the difference of $300, which is the amount in excess of the value enhancement, is deductible as a medical expense. If, however, by reason of this expenditure, it is determined that the value of the residence has not been increased, the entire cost of installing the elevator would qualify as a medical expense. Expenditures made for the operation or maintenance of a capital asset are likewise deductible medical expenses if they have as their primary purpose the medical care (as defined in subdivisions (i) and (ii) of this subparagraph) of the taxpayer, his spouse, or his dependent. Normally, if a capital expenditure qualifies as a medical expense, expenditures for the operation or maintenance of the capital asset would also qualify provided that the medical reason for the capital expenditure still exists. The entire amount of such operation and maintenance expenditures qualifies, even if none or only a portion of the original cost of the capital asset itself qualified.

(iv) Expenses paid for transportation primarily for and essential to the rendition of the medical care are expenses paid for medical care. However, an amount allowable as a deduction for "transportation primarily for and essential to medical care" shall not include the cost of any meals and lodging while away from home receiving medical treatment. For example, if a doctor prescribes that a taxpayer go to a warm climate in order to alleviate a specific chronic ailment, the cost of meals and lodging while there would not be deductible. On the other hand, if the travel is undertaken merely for the general improvement of a taxpayer's health, neither the cost of transportation nor the cost of meals and lodging would be deductible. If a doctor prescribes an operation or other medical care, and the taxpayer chooses for purely personal considerations to travel to another locality (such as a resort area) for the operation or the other medical care, neither the cost of transportation nor the cost of meals and lodging (except where paid as part of a hospital bill) is deductible.

(v) The cost of in-patient hospital care (including the cost of meals and lodging therein) is an expenditure for medical care. The extent to which expenses for care in an institution other than a hospital shall constitute medical care is primarily a question of fact which depends upon the condition of the individual and the nature of the services he receives (rather than the nature of the institution). A private establishment which is regularly engaged in providing the types of care or services outlined in this subdivision shall be considered an institution for purposes of the rules provided herein. In general, the following rules will be applied:

(*a*) Where an individual is in an institution because his condition is such that the availability of medical care (as defined in subdivisions (i) and (ii) of this subparagraph) in such institution is a principal reason for his presence there, and meals and lodging are furnished as a necessary incident to such care, the entire cost of medical care and meals and lodging at the institution,

which are furnished while the individual requires continual medical care, shall constitute an expense for medical care. For example, medical care includes the entire cost of institutional care for a person who is mentally ill and unsafe when left alone. While ordinary education is not medical care, the cost of medical care includes the cost of attending a special school for a mentally or physically handicapped individual, if his condition is such that the resources of the institution for alleviating such mental or physical handicap are a principal reason for his presence there. In such a case, the cost of attending such a special school will include the cost of meals and lodging, if supplied, and the cost of ordinary education furnished which is incidental to the special services furnished by the school. Thus, the cost of medical care includes the cost of attending a special school designed to compensate for or overcome a physical handicap, in order to qualify the individual for future normal education or for normal living, such as a school for the teaching of braille or lip reading. Similarly, the cost of care and supervision, or of treatment and training, of a mentally retarded or physically handicapped individual at an institution is within the meaning of the term "medical care."

(*b*) Where an individual is in an institution, and his condition is such that the availability of medical care in such institution is not a principal reason for his presence there, only that part of the cost of care in the institution as is attributable to medical care (as defined in subdivisions (i) and (ii) of this subparagraph) shall be considered as a cost of medical care; meals and lodging at the institution in such a case are not considered a cost of medical care for purposes of this section. For example, an individual is in a home for the aged for personal or family considerations and not because he requires medical or nursing attention. In such case, medical care consists only of that part of the cost for care in the home which is attributable to medical care or nursing attention furnished to him; his meals and lodging at the home are not considered a cost of medical care.

(*c*) It is immaterial for purposes of this subdivision whether the medical care is furnished in a Federal or State institution or in a private institution.

(vi) See section 262 and the regulations thereunder for disallowance of deduction for personal, living, and family expenses not falling within the definition of medical care.

(2) *Medicine and drugs.* The term "medicine and drugs" shall include only items which are legally procured and which are generally accepted as falling within the category of medicine and drugs (whether or not requiring a prescription). Such term shall not include toiletries or similar preparations (such as toothpaste, shaving lotion, shaving cream, etc.) nor shall it include cosmetics (such as face creams, deodorants, hand lotions, etc., or any similar preparation used for ordinary cosmetic purposes) or sundry items. Amounts expended for items which, under this subparagraph, are excluded from the term "medicine and drugs" shall not constitute amounts expended for "medical care."

(3) *Status as spouse or dependent.* In the case of medical expenses for the care of a person who is the taxpayer's spouse or dependent, the deduction under section 213 is allowable if the status of such person as "spouse" or "dependent" of the taxpayer exists either at the time the medical services were rendered or at the time the expenses were paid. In determining whether such status as "spouse" exists, a taxpayer who is legally separated from his spouse under a decree of separate maintenance is not considered as married. Thus, payments made in June 1956 by A, for medical services rendered in 1955 to B, his wife, may be deducted by A for 1956 even though, before the payments were made, B may have died or in 1956 secured a divorce. Payments made in July 1956 by C, for medical services rendered to D in 1955 may be deducted by C for 1956 even though C and D were not married until June 1956.

(4) *Medical insurance.* (i) (*a*) For taxable years beginning after December 31, 1966, expenditures for insurance shall constitute expenses paid for medical care only to the extent that such amounts are paid for insurance covering expenses of medical care referred to in subparagraph (1) of this paragraph. In the case of an insurance contract under which amounts are payable for other than medical care (as, for example, a policy providing an indemnity for loss of income or for loss of life, limb, or sight)—

(*1*) No amount shall be treated as paid for insurance covering expenses of medical care referred to in subparagraph (1) of this paragraph unless the charge for such insurance is either separately stated in the contract or furnished to the policyholder by the insurer in a separate statement,

(*2*) The amount taken into account as the amount paid for such medical insurance shall not exceed such charge, and

(*3*) No amount shall be treated as paid for such medical insurance if the amount specified in the contract (or furnished to the policyholder by the insurer in a separate statement) as the charge for such insurance is unreasonably

large in relation to the total charges under the contract.

For purposes of the preceding sentence, amounts will be considered payable for other than medical care under the contract if the contract provides for the waiver of premiums upon the occurrence of an event. In determining whether a separately stated charge for insurance covering expenses of medical care is unreasonably large in relation to the total premium, the relationship of the coverages under the contract together with all of the facts and circumstances shall be considered. In determining whether a contract constitutes an "insurance" contract it is irrelevant whether the benefits are payable in cash or in services. For example, amounts paid for hospitalization insurance, for membership in an association furnishing cooperative or so-called free-choice medical service, or for group hospitalization and clinical care are expenses paid for medical care. Premiums paid under Part B, Title XVIII of the Social Security Act (42 U.S.C. 1395j-1395w), relating to supplementary medical insurance benefits for the aged, are amounts paid for insurance covering expenses of medical care. Taxes imposed by any governmental unit do not, however, constitute amounts paid for such medical insurance.

(*b*) For taxable years beginning after December 31, 1966, subject to the rules of (*a*) of this subdivision, premiums paid during a taxable year by a taxpayer under the age of 65 for insurance covering expenses of medical care for the taxpayer, his spouse, or a dependent after the taxpayer attains the age of 65 are to be treated as expenses paid during the taxable year for insurance covering expenses of medical care if the premiums for such insurance are payable (on a level payment basis) under the contract—

(*1*) For a period of 10 years or more, or

(*2*) Until the year in which the taxpayer attains the age of 65 (but in no case for a period of less than 5 years).

For purposes of this subdivision (*b*), premiums will be considered payable on a level payment basis if the total premium under the contract is payable in equal annual or more frequent installments. Thus, a total premium of $10,000 payable over a period of 10 years at $1,000 a year shall be considered payable on a level payment basis.

(ii) For taxable years beginning before January 1, 1967, expenses paid for medical care shall include amounts paid for accident or health insurance. In determining whether a contract constitutes an "insurance" contract it is irrelevant whether the benefits are payable in cash or in services. For example, amounts paid for hospitalization insurance, for membership in an association furnishing cooperative or so-called free-choice medical service, or for group hospitalization and clinical care are expenses paid for medical care.

(f) *Exclusion of amounts allowed for care of certain dependents.* Amounts allowable under section 44A in computing a credit for the care of certain dependents shall not be treated as expenses paid for medical care.

(g) *Reimbursement for expenses paid in prior years.* (1) Where reimbursement, from insurance or otherwise, for medical expenses is received in a taxable year subsequent to a year in which a deduction was claimed on account of such expenses, the reimbursement must be included in gross income in such subsequent year to the extent attributable to (and not in excess of) deductions allowed under section 213 for any prior taxable year. See section 104, relating to compensation for injuries or sickness, and section 105(b), relating to amounts expended for medical care, and the regulations thereunder, with regard to amounts in excess of or not attributable to deductions allowed.

(2) If no medical expense deduction was taken in an earlier year, for example, if the standard deduction under section 141 was taken for the earlier year, the reimbursement received in the taxable year for the medical expense of the earlier year is not includible in gross income.

(3) In order to allow the same aggregate medical expense deductions as if the reimbursement received in a subsequent year or years had been received in the year in which the payments for medical care were made, the following rules shall be followed:

(i) If the amount of the reimbursement is equal to or less than the amount which was deducted in a prior year, the entire amount of the reimbursement shall be considered attributable to the deduction taken in such prior year (and hence includible in gross income); or

(ii) If the amount of the reimbursement received in such subsequent year or years is greater than the amount which was deducted for the prior year, that portion of the reimbursement received which is equal in amount to the deduction taken in the prior year shall be considered as attributable to such deduction (and hence includible in gross income); but

(iii) If the deduction for the prior year would have been greater but for the limitations on the maximum amount of such deduction provided by section 213(c), then the amount of the reimbursement attributable to such deduction (and hence includible in gross income) shall be the amount of the reimbursement received in a subse-

quent year or years reduced by the amount disallowed as a deduction because of the maximum limitation, but not in excess of the deduction allowed for the previous year.

(4) The application of subparagraphs (1), (2), and (3) of this paragraph may be illustrated by the following examples. Examples (1) and (2) reflect the maximum limitation on the medical expense deduction applicable to taxable years beginning after December 31, 1961. Examples (3) and (4) reflect the maximum limitation on the medical expense deduction applicable to taxable years beginning prior to January 1, 1962. For explanation of such maximum medical expense limitations, see paragraph (c) of this section.

Example (1). Taxpayer A, a single individual (not the head of a household and not a surviving spouse) with one dependent, is entitled to two exemptions under the provisions of section 151. He had an adjusted gross income of $35,000 for the calendar year 1962. During 1962 he paid $16,000 for medical care. A received no reimbursement for such medical expenses in 1962, but in 1963 he received $6,000 upon an insurance policy covering the medical expenses which he paid in 1962. A was allowed a deduction of $10,000 (the maximum) from his adjusted gross income for 1962. The amount which A must include in his gross income for 1963 is $1,050, and the amount to be excluded from gross income for 1963 is $4,950, computed as follows:

Payments for medical care in 1962 (not reimbursed in 1962)		$16,000
Less: 3 percent of $35,000 (adjusted gross income)		1,050
Excess of medical expenses not reimbursed in 1962 over 3 percent of adjusted gross income		14,950
Allowable deduction for 1962		$10,000
Amount by which the medical deduction for 1962 would have been greater than $10,000 but for the limitations on the maximum amount provided by section 213		4,950
Reimbursement received in 1963	$6,000	
Less: Amount by which the medical deduction for 1962 would have been greater than $10,000 but for the limitations on the maximum amount provided by section 213	4,950	
Reimbursement received in 1963 reduced by the amount by which the medical deduction for 1962 would have been greater than $10,000 but for the limitations on the maximum amount provided by section 213		1,050
Amount attributed to medical deduction taken for 1962		1,050
Amount to be included in gross income for 1963		1,050
Amount to be excluded from gross income for 1963 ($6,000 less $1,050)		4,950

Example (2). Assuming that A, in example (1), received $15,000 in 1963 as reimbursement for the medical expenses which he paid in 1962, the amount which A must include in his gross income for 1963 is $10,000, and the amount to be excluded from gross income for 1963 is $5,000, computed as follows:

Reimbursement received in 1963	$15,000
Less: Amount by which the medical deduction for 1962 would have been greater than $10,000 but for the limitations on the maximum amount provided by section 213	4,950
Reimbursement received in 1963 reduced by the amount by which the medical deduction for 1962 would have been greater than $10,000 but for the limitations on the maximum amount provided by section 213	$10,500
Deduction allowable for 1962	10,000
Amount of reimbursement received in 1963 to be included in gross income for 1963 as attributable to deduction allowable for 1962	10,000
Amount to be excluded from gross income for 1963 ($15,000 less $10,000)	5,000

Example (3). Taxpayer A, a single individual (not the head of a household and not a surviving spouse) with one dependent, is entitled to two exemptions under the provisions of section 151. He had an adjusted gross income of $35,000 for the calendar year 1956. During 1956 he paid $9,000 for medical care. A received no reimbursement for such medical expenses in 1956, but in 1957 he received $6,000 upon an insurance policy covering the medical expenses which he paid in 1956. A was allowed a deduction of $5,000 (the maximum) from his adjusted gross income for 1956. The amount which A must include in his gross income for 1957 is $3,050 and the amount to be excluded from gross income for 1957 is $2,950, computed as follows:

Payments for medical care in 1956 (not reimbursed in 1956)	$ 9,000
Less: 3 percent of $35,000 (adjusted gross income)	1,050
Excess of medical expenses not reimbursed in 1956 over 3 percent of adjusted gross income	$ 7,950
Allowable deduction for 1956	5,000
Amount by which the medical deductions for 1956 would have been greater than $5,000 but for the limitations on the maximum amount provided by section 213	2,950
Reimbursement received in 1957	$ 6,000

Less: Amount by which the medical deduction for 1956 would have been greater than $5,000 but for the limitations on the maximum amount provided by section 213	2,950
Reimbursement received in 1957 reduced by the amount by which the medical deduction for 1956 would have been greater than $5,000 but for the limitations on the maximum amount provided by section 213	3,050
Amount attributed to medical deduction taken for 1956	3,050
Amount to be included in gross income for 1957	3,050
Amount to be excluded from gross income for 1957 ($6,000 less $3,050)	2,950

Example (4). Assuming that A, in example (3), received $8,000 in 1957 as reimbursement for the medical expenses which he paid in 1956, the amount which A must include in his gross income for 1957 is $5,000 and the amount to be excluded from gross income for 1957 is $3,000 computed as follows:

Reimbursement received in 1957	$ 8,000
Less: Amount by which the medical deduction for 1956 would have been greater than $5,000 but for the limitations on the maximum amount provided by section 213	2,950
Reimbursement received in 1957 reduced by the amount by which the medical deduction for 1956 would have been greater than $5,000 but for the limitations on the maximum amount provided by section 213	$ 5,050
Deduction allowable for 1956	5,000
Amount of reimbursement received in 1957 to be included in gross income for 1957 as attributable to deduction allowable for 1956	5,000
Amount to be excluded from gross income for 1957 ($8,000 less $5,000)	3,000

(h) *Substantiation of deductions.* In connection with claims for deductions under section 213, the taxpayer shall furnish the name and address of each person to whom payment for medical expenses was made and the amount and date of the payment thereof in each case. If payment was made in kind, such fact shall be so reflected. Claims for deductions must be substantiated, when requested by the district director, by a statement or itemized invoice from the individual or entity to which payment for medical expenses was made showing the nature of the service rendered, and to or for whom rendered; the nature of any other item of expense and for whom incurred and for what specific purpose, the amount paid therefor and the date of the payment thereof; and by such other information as the district director may deem necessary. [Reg. § 1.213-1.]

☐ [*T.D.* 6279, 12-13-57. *Amended by T.D.* 6451, 2-3-60; *T.D.* 6604, 7-23-62; *T.D.* 6661, 6-26-63; *T.D.* 6761, 9-28-64; *T.D.* 6946, 2-12-68; *T.D.* 6985, 12-26-68; *T.D.* 7114, 5-17-71; *T.D.* 7317, 6-27-74 *and T.D.* 7643, 8-27-79.]

[Reg. § 1.215-1]

§ 1.215-1. Periodic alimony, etc., payments.—(a) A deduction is allowable under section 215 with respect to periodic payments in the nature of, or in lieu of, alimony or an allowance for support actually paid by the taxpayer during his taxable year and required to be included in the income of the payee wife or former wife, as the case may be, under section 71. As to the amounts required to be included in the income of such wife or former wife, see section 71 and the regulations thereunder. For definition of "husband" and "wife" see section 7701(a)(17).

(b) The deduction under section 215 is allowed only to the obligor spouse. It is not allowed to an estate, trust, corporation, or any other person who may pay the alimony obligation of such obligor spouse. The obligor spouse, however, is not allowed a deduction for any periodic payment includible under section 71 in the income of the wife or former wife, which payment is attributable to property transferred in discharge of his obligation and which, under section 71(d) or section 682, is not includible in his gross income.

(c) The following examples, in which both H and W file their income tax returns on the basis of a calendar year, illustrate cases in which a deduction is or is not allowed under section 215:

Example (1). Pursuant to the terms of a decree of divorce, H, in 1956, transferred securities valued at $100,000 in trust for the benefit of W, which fully discharged all his obligations to W. The periodic payments made by the trust to W are required to be included in W's income under section 71. Such payments are stated in section 71(d) not to be includible in H's income and, therefore, under section 215 are not deductible from his income.

Example (2). A decree of divorce obtained by W from H incorporated a previous agreement of H to establish a trust, the trustees of which were instructed to pay W $5,000 a year for the remainder of her life. The court retained jurisdiction to order H to provide further payments if necessary for the support of W. In 1956 the trustee paid to W $4,000 from the income of the trust and $1,000 from the corpus of the trust. Under the provisions of sections 71 and 682(b), W would include $5,000 in her income for 1956. H would not include any part of the $5,000 in his income nor take a deduction therefor. If H had paid the $1,000 to W

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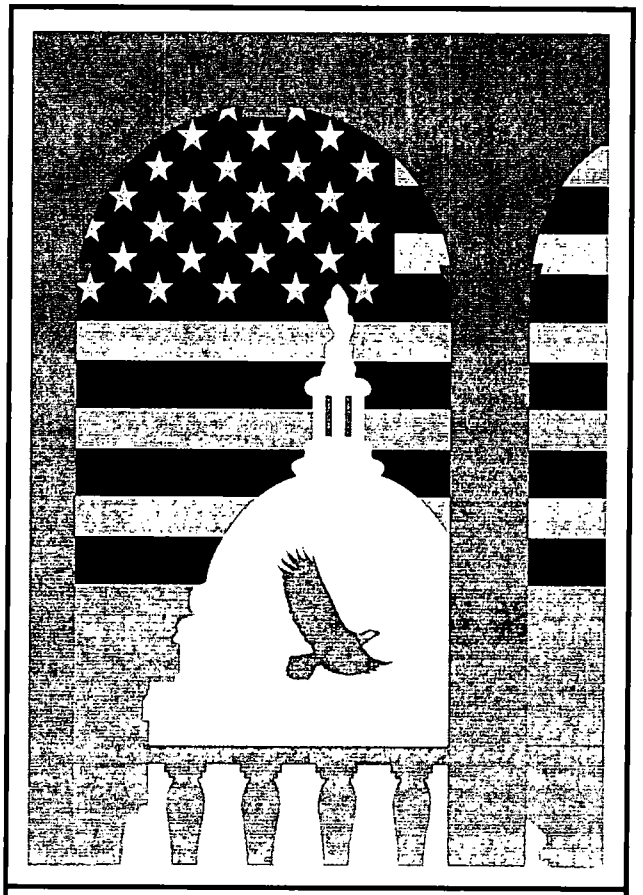
Medical and Dental Expenses

For use in preparing
2000 Returns



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Contents

Important Changes

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.

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 you, 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 are not deductible as medical expenses.

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.

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 provided. (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 medical savings account or Medicare+Choice savings account.

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 34, 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 noncommunity 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.*

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. Last year your son was your dependent. This year he no longer qualifies as your dependent. However, you paid $800 this year for medical expenses your son incurred last year, when he was your dependent. You can include the $800 in figuring this year's medical expense deduction. You cannot include this amount on last year's 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, 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 medical savings account or Medicare+Choice savings account.

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 last year's income tax return. He died this year with unpaid medical expenses of $1,500 from last year and $2,000 from this year. His survivor or personal representative can file an amended return for last year claiming the $1,500 medical expenses. The $2,000 of medical expenses from this year can be included on this year's return, which will be the decedent's final return.

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.

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.
- 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.

Capital expense work chart. Use the following chart to figure the amount of your capital expense to include in your medical expenses.

1. Enter amount you paid for the improvement.	$
2. Enter increase in value of your home. If line 2 is equal to or more than line 1, you have no deduction. Stop here. If not, go on to line 3.	
3. Subtract line 2 from line 1. This is your medical expense.	$

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 like this:

1. Enter amount you paid for the improvement.	**$8,000**
2. Enter increase in value of your home. If line 2 is equal to or more than line 1, you have no deduction. Stop here. If not, go on to line 3.	**4,400**
3. Subtract line 2 from line 1. This is your medical expense.	**$3,600**

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 in the cost of a car specially designed to hold a wheelchair and a regular car.

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 also *Eyeglasses* and *Laser 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.

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.

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.

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, or
- Membership in an association that gives cooperative or so-called "free-choice" medical service, or group hospitalization and clinical care.
- Qualified long-term care insurance contracts (subject to additional limitations). See *Long-Term Care Contracts, Qualified* in Publication 502.

You **cannot** deduct insurance premiums paid with pretax dollars because the premiums are not included in box 1 of your Form W–2.

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.

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 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), you 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 60% 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 the 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.

Laser Eye Surgery

You can include in medical expenses the amount you pay for surgery to improve vision, such as radial keratotomy or other laser eye surgery, if it is done primarily to promote the correct function of the eye.

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 recommend 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. Lodging is included for a person for whom transportation expenses are a medical expense because that person is 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 Contracts, Qualified

A qualified long-term care insurance 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, or
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 $190 a day ($69,540 a year) for 2000. The $190 is indexed for inflation.

Itemized deductions. If you itemize deductions, you can include the following as medical expenses on Schedule A (Form 1040).

1) Unreimbursed expenses for qualified long-term care services.

2) Qualified long-term care premiums up to the amounts shown below.

a) Age 40 or under – $220.

b) Age 41 to 50 – $410.

c) Age 51 to 60 – $820.

d) Age 61 to 70 – $2,200.

e) Age 71 or over – $2,750.

The limit on premiums is for each person.

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 you, 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 *Long-Term Care Contracts, Qualified,* 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. If you paid for a stop-smoking program in 1997 or 1998, you may be able to file an amended return on Form 1040X to include in medical expenses the amounts you paid for that stop-smoking program. 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 ***10 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 10 cents a mile for a total of $280. He then adds the $50 tolls and parking for a total of $330.

Bill includes the $330 of car expenses with his other medical expenses for the year because the $330 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.

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 the cost of a weight-loss program undertaken at a physician's direction to treat an existing disease (such as heart disease). But you cannot include the cost of a weight-loss program if the purpose of the weight control is to maintain your general good health.

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.

X-ray Fees

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

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.

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 Accounts

You cannot deduct as a qualified medical expense amounts you contribute to a medical savings account (MSA). You cannot deduct qualified medical expenses as an itemized deduction if you pay for them with a tax-free distribution from your MSA. You also cannot use other funds equal to the amount of the distribution and claim a deduction. For more information on 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 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 can be included with medical expenses.

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 to maintain your general good health. But you can include the cost of a weight-loss program undertaken at a physician's direction to treat an existing disease (such as heart disease).

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.

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.

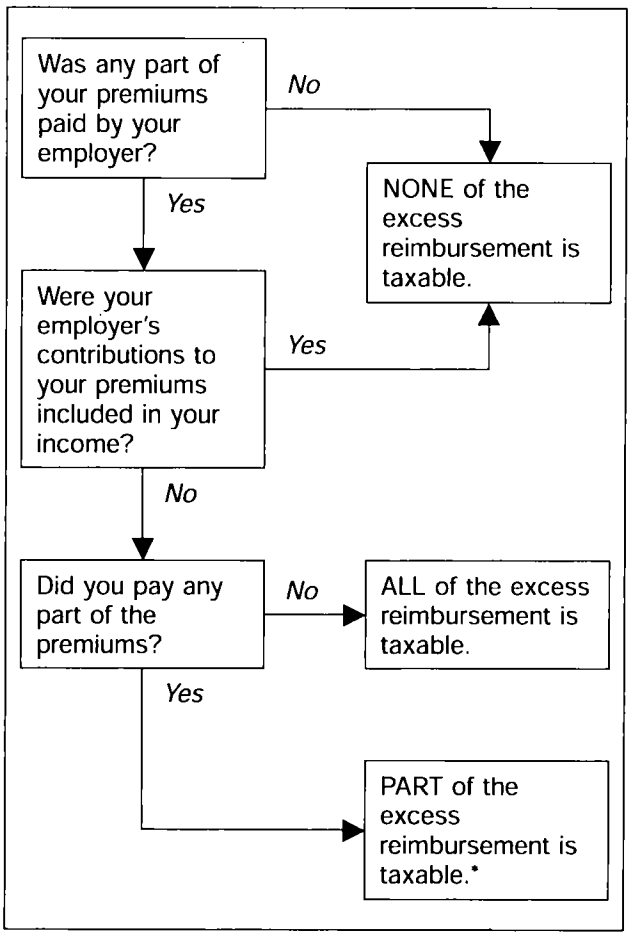
You must, however, reduce your medical expenses by any part of these payments that is designated for medical costs. See *How Do You Figure Your Deduction*, later.

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.

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 *What Medical Expenses Are Deductible*, earlier, for the per diem amounts.

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



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

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.

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 like this:

Total annual cost of policy	$2,000
Amount paid by employer	600
Employer's contribution in relation to the total annual cost of the policy ($600 ÷ $2,000)	***30%***

You must include in your gross income 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 expense 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 $2,500 under your employer's policy and $1,500 under your personal policy.

You figure the part of the excess reimbursement that is from your employer's contribution like this:

Step 1.	
Reimbursement from employer's policy	$2,500
Reimbursement from your policy	1,500
Total reimbursement	***$4,000***
Amount of medical expenses from your policy [($1,500 + $4,000) × $3,600 total medical expenses]	$1,350
Amount of medical expenses from your employer's policy [($2,500 + $4,000) × $3,600 total medical expenses]	2,250
Total medical expenses	***$3,600***
Excess reimbursement from your employer's policy ($2,500 − $2,250)	$250
Step 2.	
Because both you and your employer contributed to the cost of this policy, you must divide the cost to determine the excess reimbursement from your employer's contribution.	
Employer's contribution in relation to the annual cost of the policy ($300 ÷ $1,200)	25%
Amount to report as other income on line 21, Form 1040 (25% × $250)	***$62.50***

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 must report the reimbursement as income up to the amount you previously deducted as medical expenses. However, 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.

Example. You are single. Your adjusted gross income last year was $20,000. During that year you paid medical insurance premiums of $500 and other medical expenses of $1,900. You deducted $900, figured like this:

Step 1.	
Medical expenses	$1,900
Insurance premiums	500
Total	$2,400
Minus 7.5% (.075) of adjusted gross income	1,500
Total medical expense deduction	***$900***

Step 2.

Last year, your itemized deductions, including medical expenses, were $5,100. This year, you collected $600 from your insurance policy for part of last year's medical expenses. If you had collected it last year, your deduction for medical expenses would have been only $300, figured like this:

Medical expenses	$1,900
Insurance premiums	500
Total	$2,400
Minus: insurance payments	600
Balance	$1,800
Minus: 7.5% (.075) of adjusted gross income	1,500
Total medical expense deduction	***$300***

Step 3.

Your $900 medical expense deduction last year reduced your income tax in that year. You must include the $600 of insurance reimbursement in income this year. Report the $600 on line 21 of Form 1040.

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.

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 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.

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 on page 17.

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 34.

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 on the next page.

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 (5% for 1983–1986 and 3% before 1983) used to compute the medical deduction. Use the formula below (with amounts from the return on which the cost of the equipment was deducted) to figure the adjusted basis.

$$\text{7.5\% (5\% for 1983–1986, 3\% before 1983) of Adjusted Gross Income} \times \frac{\text{Cost of Equipment}}{\text{Total Medical Expenses}} = \text{Adjusted Basis}$$

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 formula below to figure the increase.

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

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 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	$3,750
Limit (7.5% of adjusted gross income of $5,000)	−375
Allowable medical expense deduction	$3,375
Other itemized deductions	6,400
Allowable itemized deductions	$9,775

There was a $4,775 surplus of allowable itemized deductions over adjusted gross income ($9,775 − $5,000 = $4,775).

Allocating the nondeductible limit. To determine the part of the 7.5% limit that is allocable to the oxygen equipment, multiply the limit, $375, by the ratio of cost of the equipment, $3,000, to the total medical expenses, $3,750 [$375 × ($3,000 ÷ $3,750) = $300]. Your basis in the equipment is this $300 portion of the cost of the equipment that is 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, multiply the total available surplus deductions, $4,775, 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. Your adjusted basis in the oxygen equipment includes this $1,319 [$4,775 × ($2,700 ÷ $9,775) = $1,319]. This amount is the portion of surplus deductions allocable to the oxygen equipment. Your total adjusted basis in the equipment is $1,619 ($300 + $1,319).

Determining gain. This year, you sold the oxygen equipment for $2,000. 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.

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.

SCHEDULES A&B
(Form 1040)
Department of the Treasury
Internal Revenue Service

Schedule A—Itemized Deductions

(Schedule B is on back)

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

OMB No. 1545-0074

1999

Attachment Sequence No. 07

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.				
	1	Medical and dental expenses (see page A-1)	1	3,434		
	2	Enter amount from Form 1040, line 34	2	33,004		
	3	Multiply line 2 above by 7.5% (.075)	3	2,475		
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			4	959

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 the IRS at **1–800–829–1040.**
- 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 select:

- *Frequently Asked Tax Questions* (located under *Taxpayer Help & Ed)* to find answers to questions you may have.
- *Forms & Pubs* to download forms and publications or search for forms and publications by topic or keyword.
- *Fill-in Forms* (located under *Forms & Pubs)* to enter information while the form is displayed and then print the completed form.
- *Tax Info For You* to view Internal Revenue Bulletins published in the last few years.
- *Tax Regs in English* to search regulations and the Internal Revenue Code (under *United States Code (USC)).*
- *Digital Dispatch* and *IRS Local News Net* (both located under *Tax Info For Business)* to receive our electronic newsletters on hot tax issues and news.
- *Small Business Corner* (located under *Tax Info For Business)* to 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**.

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.

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.**
- *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 evaluate the quality of our telephone services in several ways.

- A second IRS representative sometimes monitors live telephone calls. That person only evaluates the IRS assistor and does not keep a record of any taxpayer's name or tax identification number.
- We sometimes record telephone calls to evaluate IRS assistors objectively. We hold these recordings no longer than one week and use them only to measure the quality of assistance.
- We value our customers' opinions. Throughout this year, we will be surveying our customers for their opinions on our service.

Walk-in. You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Also, some libraries and IRS offices have:

- An extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs.
- The Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.

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

- Current tax forms, instructions, and publications.
- Prior-year tax forms, instructions, and publications.
- Popular tax forms which may be filled in electronically, printed out for submission, and saved for recordkeeping.
- 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 **www.irs.gov/cdorders.** The first release is available in mid-December and the final release is available in late January.

IRS Publication 3207, *The Business Resource Guide,* is an interactive CD-ROM that contains information important to small businesses. It is available in mid-February. You can get one free copy by calling **1–800–829–3676.**

Index

Tax Publications for Individual Taxpayers

See *How To Get Tax Help* for a variety of ways to get publications, including by computer, phone, and mail.

General Guides

1 Your Rights as a Taxpayer
17 Your Federal Income Tax (For Individuals)
334 Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)
509 Tax Calendars for 2001
553 Highlights of 2000 Tax Changes
910 Guide to Free Tax Services

Specialized Publications

3 Armed Forces' Tax Guide
225 Farmer's Tax Guide
378 Fuel Tax Credits and Refunds
463 Travel, Entertainment, Gift, and Car Expenses
501 Exemptions, Standard Deduction, and Filing Information
502 Medical and Dental Expenses
503 Child and Dependent Care Expenses
504 Divorced or Separated Individuals
505 Tax Withholding and Estimated Tax
508 Tax Benefits for Work-Related Education
514 Foreign Tax Credit for Individuals
516 U.S. Government Civilian Employees Stationed Abroad
517 Social Security and Other Information for Members of the Clergy and Religious Workers
519 U.S. Tax Guide for Aliens
520 Scholarships and Fellowships
521 Moving Expenses
523 Selling Your Home
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530 Tax Information for First-Time Homeowners
531 Reporting Tip Income
533 Self-Employment Tax
534 Depreciating Property Placed in Service Before 1987
537 Installment Sales
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544 Sales and Other Dispositions of Assets
547 Casualties, Disasters, and Thefts (Business and Nonbusiness)
550 Investment Income and Expenses
551 Basis of Assets
552 Recordkeeping for Individuals
554 Older Americans' Tax Guide
555 Community Property
556 Examination of Returns, Appeal Rights, and Claims for Refund
559 Survivors, Executors, and Administrators
561 Determining the Value of Donated Property
564 Mutual Fund Distributions
570 Tax Guide for Individuals With Income From U.S. Possessions
575 Pension and Annuity Income
584 Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
587 Business Use of Your Home (Including Use by Day-Care Providers)
590 Individual Retirement Arrangements (IRAs) (Including Roth IRAs and Education IRAs)
593 Tax Highlights for U.S. Citizens and Residents Going Abroad
594 The IRS Collection Process
595 Tax Highlights for Commercial Fishermen
596 Earned Income Credit (EIC)
721 Tax Guide to U.S. Civil Service Retirement Benefits
901 U.S. Tax Treaties
907 Tax Highlights for Persons with Disabilities
908 Bankruptcy Tax Guide
911 Direct Sellers
915 Social Security and Equivalent Railroad Retirement Benefits
919 How Do I Adjust My Tax Withholding?
925 Passive Activity and At-Risk Rules
926 Household Employer's Tax Guide
929 Tax Rules for Children and Dependents
936 Home Mortgage Interest Deduction
946 How To Depreciate Property
947 Practice Before the IRS and Power of Attorney
950 Introduction to Estate and Gift Taxes
967 IRS Will Figure Your Tax
968 Tax Benefits for Adoption
970 Tax Benefits for Higher Education
971 Innocent Spouse Relief
972 Child Tax Credit
1542 Per Diem Rates
1544 Reporting Cash Payments of Over $10,000
1546 The Taxpayer Advocate Service of the IRS

Spanish Language Publications

1SP Derechos del Contribuyente
579SP Cómo Preparar la Declaración de Impuesto Federal
594SP Comprendiendo el Proceso de Cobro
596SP Crédito por Ingreso del Trabajo
850 English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
1544SP Informe de Pagos en Efectivo en Exceso de $10,000 (Recibidos en una Ocupación o Negocio)

Commonly Used Tax Forms

See *How To Get Tax Help* for a variety of ways to get forms, including by computer, fax, phone, and mail. For fax orders only, use the catalog number when ordering.

Form Number and Title	Catalog Number
1040 U.S. Individual Income Tax Return	11320
Sch A & B Itemized Deductions & Interest and Ordinary Dividends	11330
Sch C Profit or Loss From Business	11334
Sch C-EZ Net Profit From Business	14374
Sch D Capital Gains and Losses	11338
Sch D-1 Continuation Sheet for Schedule D	10424
Sch E Supplemental Income and Loss	11344
Sch EIC Earned Income Credit	13339
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Form Number and Title	Catalog Number
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2106-EZ Unreimbursed Employee Business Expenses	20604
2210 Underpayment of Estimated Tax by Individuals, Estates, and Trusts	11744
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6251 Alternative Minimum Tax–Individuals	13600
8283 Noncash Charitable Contributions	62299
8582 Passive Activity Loss Limitations	63704
8606 Nondeductible IRAs	63966
8812 Additional Child Tax Credit	10644
8822 Change of Address	12081
8829 Expenses for Business Use of Your Home	13232
8863 Education Credits	25379

(Filed by the Office of the Federal Register on May 28, 1999, 11:22 a.m., and published in the issue of the Federal Register for June 3, 1999, 64 F.R. 29788)

Section 213.—Medical, Dental, Etc., Expenses

26 CFR 1.213–1: Medical, dental, etc., expenses. (Also section 262; 1.262–1.)

Medical expenses; smoking-cessation programs. Uncompensated amounts paid by taxpayers for participation in a smoking-cessation program and for prescribed drugs designed to alleviate nicotine withdrawal are expenses for medical care that are deductible under section 213 of the Code. The cost of nicotine gum and patches available without a prescription is not deductible as a medical expense. Rev. Rul. 79–162 is revoked.

Rev. Rul. 99–28

ISSUE

Are uncompensated amounts paid by taxpayers for participation in a smoking-cessation program, for prescribed drugs designed to alleviate nicotine withdrawal, and for nicotine gum and nicotine patches that do not require a prescription, expenses for medical care that are deductible under § 213 of the Internal Revenue Code?

FACTS

Taxpayers *A* and *B* were cigarette smokers. *A* participated in a smoking-cessation program and purchased nicotine gum and nicotine patches that did not require a prescription. *A* had not been diagnosed as having any specific disease, and participation in the program was not suggested by a physician. *B* purchased drugs that required a prescription of a physician to alleviate the effects of nicotine withdrawal. *A*'s and *B*'s costs were not compensated for by insurance or otherwise.

LAW AND ANALYSIS

Section 213(a) allows a deduction for uncompensated expenses for medical care of an individual, the individual's spouse or a dependent to the extent the expenses exceed 7.5 percent of adjusted gross income. Section 213(d)(1) provides, in part, that medical care means amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body.

Under § 213(b), a deduction is allowed for amounts paid during the taxable year for medicine or a drug only if the medicine or drug is a prescribed drug or insulin. Section 213(d)(3) defines a "prescribed drug" as a drug or biological that requires a prescription of a physician for its use by an individual.

Section 1.213–1(e)(1)(ii) of the Income Tax Regulations provides, in part, that the deduction for medical care expenses will be confined strictly to expenses incurred primarily for the prevention or alleviation of a physical or mental defect or illness. An expense that is merely beneficial to the general health of an individual is not an expense for medical care.

Section 262 provides that, except as otherwise expressly provided by the Code, no deduction is allowed for personal, living, or family expenses.

Rev. Rul. 79–162, 1979–1 C.B. 116, holds that a taxpayer who has no specific ailment or disease may not deduct as a medical expense under § 213 the cost of participating in a smoking-cessation program. However, the Internal Revenue Service has held that treatment for addiction to certain substances qualifies as medical care under § 213. *See* Rev. Rul. 73–325, 1973–2 C.B. 75 (alcoholism); Rev. Rul. 72–226, 1972–1 C.B. 96 (drug addiction).

A report of the Surgeon General, *The Health Consequences of Smoking: Nicotine Addiction* (1988), states that scientists in the field of drug addiction agree that nicotine, a substance common to all forms of tobacco, is a powerfully addictive drug. Other reports of the Surgeon General have concluded, based on numerous studies, that a strong causal link exists between smoking and several diseases. *See, e.g., Tobacco Use Among U.S. Racial/Ethnic Minority Groups* (1998); *Preventing Tobacco Use Among Young People* (1994); *The Health Benefits of Smoking Cessation* (1990). Scientific evidence has thus established that nicotine is addictive and that smoking is detrimental to the health of the smoker.

Under the facts provided, the smoking-cessation program and the prescribed drugs are treatment for *A*'s and *B*'s addiction to nicotine. Accordingly, *A*'s costs for the smoking-cessation program and *B*'s costs for prescribed drugs to alleviate the effects of nicotine withdrawal are amounts paid for medical care under § 213(d)(1). However, under § 213(b), *A*'s costs for nicotine gum and nicotine patches are not deductible because they contain a drug (other than insulin) and do not require a prescription of a physician.

HOLDING

Uncompensated amounts paid by taxpayers for participation in a smoking-cessation program and for prescribed drugs designed to alleviate nicotine withdrawal are expenses for medical care that are deductible under § 213, subject to the 7.5 percent limitation. However, amounts paid for drugs (other than insulin) not requiring a prescription, such as nicotine gum and certain nicotine patches, are not deductible under § 213.

EFFECT ON OTHER DOCUMENTS

Rev. Rul. 79–162 is revoked.

DRAFTING INFORMATION

The principal authors of this revenue ruling are Donna M. Crisalli and John T. Sapienza, Jr. of the Office of Assistant Chief Counsel (Income Tax and Accounting). For further information regarding this revenue ruling, contact Ms. Crisalli or Mr. Sapienza on (202) 622-4920 (not a toll-free call).

Section 262.—Personal, Living, and Family Expenses

26 CFR 1.262–1: Personal, living, and family expenses.

Are uncompensated amounts paid by taxpayers for participation in a smoking-cessation program, for prescribed drugs designed to alleviate nicotine withdrawal, and for nicotine gum and nicotine patches that do not require a prescription, expenses for medical care that are deductible under § 213 of the Code. See Rev. Rul. 99–28, on this page.

Section 6621.— Determination of Interest Rate

26 CFR 301.6621–1: Interest rate.

Interest rates; underpayments and overpayments. The rate of interest deter-