Deducting medical expenses: Restrictions and opportunities

An income tax deduction for medical expenses may be available for medical and other health care expenses, if you itemize (on Schedule A of Form 1040). A review of the deduction rules will help you gauge the likelihood that Uncle Sam will be of any assistance.

The IRS is very generous in defining "medical expense" for purposes of the deduction. Fees for doctors, dentists, ophthalmologists, chiropractors, psychiatrists and most nursing care meet the definition. Bills for routine physical examinations and general preventive care are not deductible.

Prescription drugs, therapy treatments, special medical equipment (for example, wheelchairs, prosthetic devices) and even acupuncture are all deductible expenses. But nonprescription drug costs are not deductible.

Unfortunately, many taxpayers incur deductible expenses but fail to qualify for the deduction. The barrier is the requirement that unreimbursed medical expenses exceed 7.5% of adjusted gross income (10% for purposes of the alternative minimum tax).

This requirement means, in reality, that you must accumulate some rather hefty medical bills before you even can begin to take advantage of the deduction.

Consider a taxpayer with an adjusted gross income of $75,000 and a total of $15,000 in medical expenses. If her insurance reimburses her 80% of that amount ($12,000), the $3,000 balance will not be deductible because it's much less than $5,625, the level that she must exceed to qualify for the deduction.

Being aware of some less-than-obvious deductible expenses can help you cross the threshold. For instance, premium payments for major medical and other forms of insurance, including qualified long-term care premiums, may be included in the tally of expenses. (If your employer requires you to share premium costs for group coverage, the portion that you pay is a deductible expense.)

Transportation costs as part of medical expenses, even routine trips to a doctor or pharmacy, are deductible—including travel by bus, train, taxi or plane. It's important to keep a record of the date, miles traveled and the medical reasons for the travel. For auto transportation IRS allows 18 cents a mile for 2006 when computing deductible expenses. For 2007 20 cents a mile is deductible as part of medical expenses. Also note: Parking fees and tolls are separately deductible. A taxpayer may choose to deduct actual out-of-pocket expenses, but more detailed substantiation is required.

The costs of lodging (but not meals) for medical treatment away from home are deductible, but no more than $50 a night. The rules are strict: Lodging must be essential to medical care, and care must be provided by a doctor in a licensed hospital or clinic. Lodgings must not be "extravagant," and there should be no significant element of personal pleasure in the travel.

A question often arises as to which parent can claim medical expenses for a child in the event that the parents are divorced or separated. The answer is that medical expenses paid by a parent may be deducted no matter which parent claims the child as a dependent on a tax return—as long as total medical expenses paid exceed 7.5% of the parent's adjusted gross income.

Tax planning or maximizing the medical expense deduction is difficult: You incur expenses when you need treatment. However, when treatment is elective (for example, some kinds of surgery or dental work), and timing is not crucial to your health, you should try to schedule it so that you can incur costs in a year when you know that you will exceed the threshold.

Any developments occurring after January 15, 2007, are not reflected in this article.