

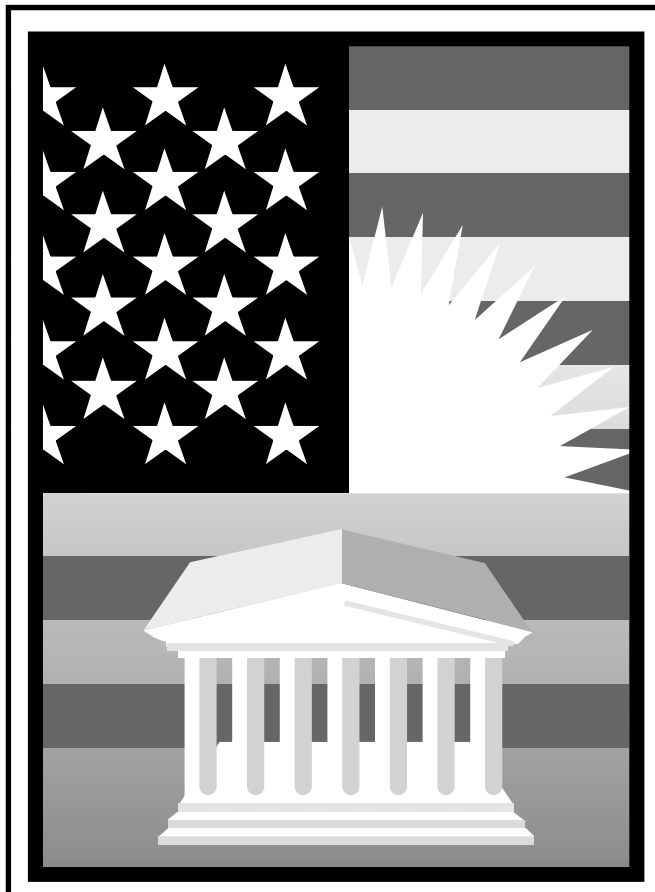


Department of the Treasury
Internal Revenue Service

Publication 502
Cat. No. 15002Q

Medical and Dental Expenses

For use in preparing
1999 Returns



Get forms and other information faster and easier by:
COMPUTER

- World Wide Web • www.irs.gov
- FTP • [ftp.irs.gov](ftp://ftp.irs.gov)

FAX

- From your FAX machine, dial • (703) 368-9694
- See *How To Get More Information* in this publication.

Important Changes

Self-employed health insurance deduction rate increase. For 1999, the rate increased from 45% to 60%.

Stop-smoking programs. You can now include in medical expenses amounts you pay for a program to stop smoking. If you paid for a program in 1997 or 1998, you may be able to file an amended return on Form 1040X, *Amended U.S. Individual Income Tax Return*, 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.

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.

Important Reminder

Medical savings account. You may be able to make deductible contributions to a medical savings account (MSA). If you are an employee of a small business (fewer than 50 employees), or self-employed and covered only by a high deductible health plan, you may be eligible to have an MSA. You deduct MSA contributions on Form 1040, line 25, not on Schedule A (Form 1040) as a qualified medical expense. See Publication 969, *Medical Savings Accounts (MSAs)*, for more information.

Introduction

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

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

What Form Is Used?

You figure 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 at the end of this publication.

How Much 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*.

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 *Decedents*, later.) 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 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.

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 *Decedents*, 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 as well as for the decedent's spouse and dependents.

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.

Dependents. 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 1. 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.

Example 2. You cannot claim an exemption for your son, age 22, because he earned more than the standard deduction amount and he is not a student. However, he is still your dependent because you provided more than half of his support, including \$800 for medical expenses. You can include the \$800 in figuring your medical expense deduction.

Example 3. You provided more than half of your married daughter's support, including medical expenses of \$1,200. She and her husband file a joint return. Although you may not be able to claim an exemption for your daughter, she is still your dependent, and you can include in your medical expenses the \$1,200 you paid.

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 because he or she had gross income of more than the standard deduction amount or filed a joint return.

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 1. 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.

Example 2. Assume the same facts as in the previous example except that your mother had gross income that was more than her standard deduction amount. You meet the support test under a multiple support agreement but you cannot claim an exemption for your mother because she had gross income that was more than her standard deduction amount. However, you can include the amount you paid for your mother's medical expenses.

Decedents

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.

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 executor will pay the expenses in January of next year. The executor 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.

Medical Care

Medical care expenses include amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, and for treatments affecting any part or function of the body. The expenses must be primarily to alleviate or prevent a physical or mental defect or illness. Expenses for solely cosmetic reasons generally are not expenses for medical care. Also, expenses that are merely beneficial to one's general health (for example, vacations) are not expenses for medical care.

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 include amounts within certain limits, for any qualified long-term care insurance contract. See *Insurance Premiums* and *Transportation*, later, for more information.

Medical Expenses

Following is a list of items that you can or cannot 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.

Baby Sitting and Child Care

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*, 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.	\$
<hr/>	
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.	
<hr/>	
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
<hr/>	
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
<hr/>	
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 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*, later.

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.

Crutches

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

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.

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.

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.

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.

Electrolysis or Hair Removal

See *Cosmetic Surgery*, earlier.

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.

Founder's Fee

See *Lifetime Care—Advance Payments*, later.

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.

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.

Hair Transplant

See *Cosmetic Surgery*, earlier.

Health Club Dues

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

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

Health 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 in 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.

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. See *Nursing Services*, later. 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

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.

You can also include in medical expenses premiums paid for a qualified long-term care insurance contract. However, insurance premiums you pay for qualified long-term care insurance contracts are subject to additional limitations. See *Long-term Care Contracts, Qualified*, later.

The insurance policy can pay you, the patient, or the care provider (hospital, doctor, dentist, etc.) directly.

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 portion must be separately stated in the insurance contract or given to you in a separate statement.

Cafeteria plans. Do not include in your medical and dental expenses insurance premiums paid by an employer-sponsored health insurance plan (cafeteria plan) unless the premiums are included in box 1 of your Form(s) W-2. Also, do not include any other medical and dental expenses paid by the plan unless the amount paid is included in box 1 of your Form(s) 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 65 for insurance for medical care for yourself, your spouse, or your dependents after you reach 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 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 either 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*.

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

Laboratory Fees

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

Lead-based Paint Removal

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

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

Learning Disability

You can include in medical expenses tuition fees you pay to a special school for a child who has severe learning disabilities caused by mental or physical impairments, including nervous system disorders. Your doctor must 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 dependent 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 dependent 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 is included as a medical expense for lodging. (Meals are not deductible.)

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:

- 1) Must be guaranteed renewable,
- 2) Must not provide for a cash surrender value or other money that can be paid, assigned, pledged, or borrowed,
- 3) Must 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 must 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, and 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 (\$69,350 a year) for 1999. 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 less – \$210.
 - b) Age 41 to 50 – \$400.
 - c) Age 51 to 60 – \$800.
 - d) Age 61 to 70 – \$2,120.
 - e) Age 71 and above – \$2,660.



The limit on premiums is for each person.

Maternity Clothes

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

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 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 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 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 amounts 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 social security tax, FUTA, Medicare tax, and state employment taxes you pay for a nurse, attendant, or other person who provides medical care as a medical expense. 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 Pub-

lication 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*, earlier.

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.

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*, earlier).

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*, later, 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 now 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.

Swimming Lessons

See *Dancing Lessons*, 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.

Weight Loss Program

You cannot include the cost of a weight loss program for your general health even if your doctor prescribes the program.

Wheelchair

You can include in medical expenses amounts you pay for an autoeette 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 autoeette 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.

Impairment-Related Work Expenses (Business or Medical)

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.

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:

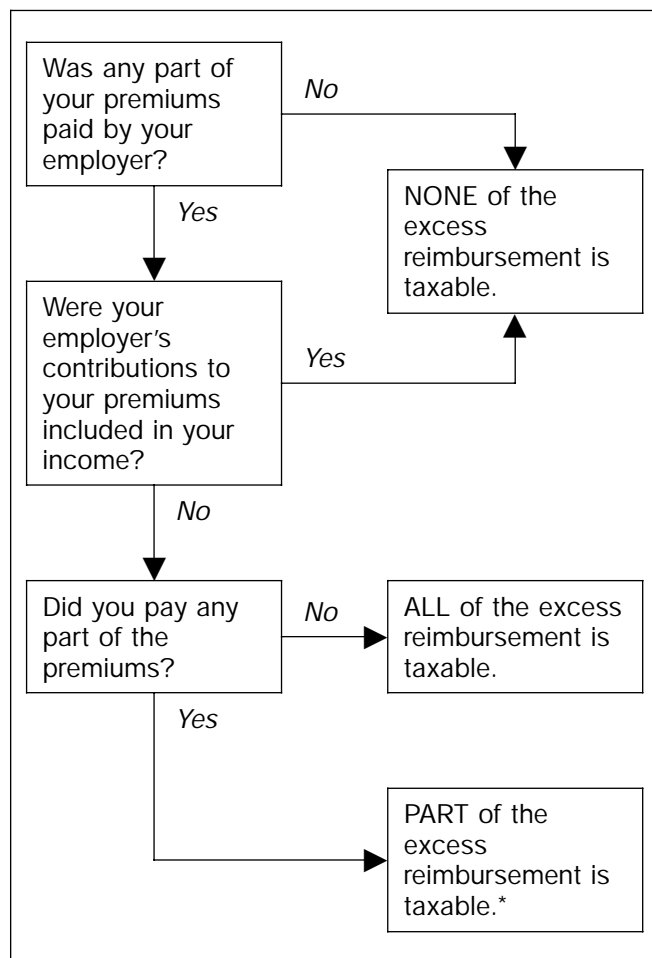
- Permanent loss or loss of use of a member or function of the body (loss of limb, sight, hearing, etc.) or disfigurement that is based on the nature of the injury without regard to the amount of time lost from work,
- Loss of earnings, or
- Damages for personal injury or sickness.

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

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

You do not have a medical deduction if you are reimbursed for all of your medical expenses for the year.

Figure 1. Is Your Excess Medical Reimbursement Taxable?



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

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

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

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 a medical expense you deducted in an earlier year, you must report as income the amount you received from insurance or other sources that is equal to, or less than, 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.

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.

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

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.

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

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 \times (\$3,000 \div \$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 [$\$4,775 \times (\$2,700 \div \$9,775) = \$1,319$]. 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.

How To 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 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 portion of Schedule A, Form 1040, shown later.



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

Schedule A—Itemized Deductions

(Schedule B is on back)

1999

Attachment
Sequence No. **07**

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

Name(s) shown on Form 1040

Bill and Helen Jones

Your social security number

000 : 00 : 0000

Medical and Dental Expenses	Caution. Do not include expenses reimbursed or paid by others.				
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	

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.

- *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**.

How To Get More Information

You can 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.

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.



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, *Small 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

A	
Abortion	4
Acupuncture	4
Adopted child's medical expenses	3
AGI limitation	2
Alcoholism	4
Ambulance	4
Artificial limb	4
Artificial teeth	4
Assistance (See More information)	
Autoette (See Wheelchair)	

B	
Baby sitting	4
Birth control pills	4
Braille books and magazines ..	4

C	
Cafeteria plans	7
Capital expenses	4
Car	5
Car expenses:	
Medical expense	11
Child care	4
Chiropractor	5
Christian science practitioner ..	5
Chronically ill	9
Community property	2
Contact lenses	5
Controlled substance	9
Cosmetic surgery	5
Crutches	6

D	
Dancing lessons	6
Decedent's medical expenses	2, 3
Dental treatment	6
Dependent's medical expenses	2
Diaper service	6
Drug addiction	6
Drugs (See Medicines)	

E	
Electrolysis (See Cosmetic surgery)	
Employment taxes	10
Eyeglasses	6

F	
Founder's fee	6
Free tax services	16
Funeral expenses	6

G	
Guide dog	6

H	
Hair removal (See Cosmetic surgery)	
Hair transplant (See Cosmetic surgery)	
Health club dues	6
Health institute	6
Health maintenance organization (HMO)	6
Hearing aid	6
Help (See More information)	
HMO (See Health maintenance organization (HMO))	
Home care (See Nursing services)	
Hospital services (See also Lodging)	6
Household help	6
How to figure your deduction	15

I	
Illegal operations and treatments	6
Impairment-related expenses	12
Insurance premiums	7
Insurance reimbursement	12, 13, 14
Insurance reimbursement in a later year	14
Medical expenses you did not deduct	14
Reimbursement is more than medical expenses	13
Itemized deductions	9

L	
Laboratory fees	8
Lead-based paint removal	8
Learning disability	8
Legal fees	8
Lifetime care	8
Lodging	8
Long-term care contracts	8

M	
Maternity clothes	9
Meals	9
Medical information plan	9
Medical savings accounts	9
Medicare	7
Medicines	9
Mentally retarded, special home for	9

N	
Nursing home	10
Nursing services (See also Long - term care contracts) .	10

O	
Operations	10
Optometrist (See Eyeglasses)	
Organ donors (See Transplants)	
Osteopath	10
Oxygen	10

P	
Parking fees and tolls:	
Medical	12
Patterning exercises	11
Personal use items	10
Prosthesis (See Artificial limb)	
Psychiatric care (See also Psychoanalysis)	10
Psychoanalysis	10
Psychologist	11
Publications (See More information)	

S	
Sale of medical property	14
Schools and education, special	11
Self-employed persons	7
Settlement of damage suit	15
Sick leave	7
Spouse's medical expenses	2
Sterilization	11
Stop-smoking program	11
Surgery (See Operations)	
Swimming lessons (See Dancing lessons)	

T	
Tax form	2
Form 1040X	2
Tax help	16
Telephone	11
Television	11
Therapy	11
Transplants	11
Transportation	11
Trips (See also Lodging)	12
TTY/TDD information	16
Tuition	12

W	
Weight loss program	12
Wheelchair	12

X	
X-ray fees	12

Tax Publications for Individual Taxpayers

See *How To Get More Information* 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)
- 225 Farmer's Tax Guide
- 334 Tax Guide for Small Business
- 509 Tax Calendars for 2000
- 553 Highlights of 1999 Tax Changes
- 595 Tax Highlights for Commercial Fishermen
- 910 Guide to Free Tax Services

Specialized Publications

- 3 Armed Forces' 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
- 524 Credit for the Elderly or the Disabled
- 525 Taxable and Nontaxable Income
- 526 Charitable Contributions
- 527 Residential Rental Property
- 529 Miscellaneous Deductions

- 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
- 541 Partnerships
- 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 Understanding the Collection Process
- 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 More Information* for a variety of ways to get forms, including by computer, fax, phone, and mail. For fax orders only, use the catalog numbers when ordering.

Form Number and Title	Catalog Number	Form Number and Title	Catalog Number
1040 U.S. Individual Income Tax Return	11320	2106 Employee Business Expenses	11700
Sch A & B Itemized Deductions & Interest and Ordinary Dividends	11330	2106-EZ Unreimbursed Employee Business Expenses	20604
Sch C Profit or Loss From Business	11334	2210 Underpayment of Estimated Tax by Individuals, Estates, and Trusts	11744
Sch C-EZ Net Profit From Business	14374	2441 Child and Dependent Care Expenses	11862
Sch D Capital Gains and Losses	11338	2848 Power of Attorney and Declaration of Representative	11980
Sch D-1 Continuation Sheet for Schedule D	10424	3903 Moving Expenses	12490
Sch E Supplemental Income and Loss	11344	4562 Depreciation and Amortization	12906
Sch EIC Earned Income Credit	13339	4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return	13141
Sch F Profit or Loss From Farming	11346	4952 Investment Interest Expense Deduction	13177
Sch H Household Employment Taxes	12187	5329 Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts, and MSAs	13329
Sch J Farm Income Averaging	25513	6251 Alternative Minimum Tax-Individuals	13600
Sch R Credit for the Elderly or the Disabled	11359	8283 Noncash Charitable Contributions	62299
Sch SE Self-Employment Tax	11358	8582 Passive Activity Loss Limitations	63704
1040A U.S. Individual Income Tax Return	11327	8606 Nondeductible IRAs	63966
Sch 1 Interest and Ordinary Dividends for Form 1040A Filers	12075	8812 Additional Child Tax Credit	10644
Sch 2 Child and Dependent Care Expenses for Form 1040A Filers	10749	8822 Change of Address	12081
Sch 3 Credit for the Elderly or the Disabled for Form 1040A Filers	12064	8829 Expenses for Business Use of Your Home	13232
1040EZ Income Tax Return for Single and Joint Filers With No Dependents	11329	8863 Education Credits	25379
1040-ES Estimated Tax for Individuals	11340		
1040X Amended U.S. Individual Income Tax Return	11360		