



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

May 9, 2006

Number: **INFO 2006-0034**
Release Date: 9/29/2006
UIL: 9999.98-00

CONEX118152-06
CC:TEGE:EOEG:ET1

Dear :

I am responding to your letter to Senator Richard Burr. He wrote to us on your behalf and asked us to respond to your question about the taxability of reimbursed medical expenses. As part of your retirement benefits, you received a reimbursement from your prior employer for a percentage of your Medicare Part B premium that had been deducted from your social security benefit in a previous year and for which you had taken an itemized deduction on your federal income tax return. You question the requirement that you include the amount of the reimbursed medical expenses as income on your current year federal income tax return as this could result in an additional tax on your social security income.

As a general rule, if the only source of a retiree's income is social security benefits, then those benefits are not subject to federal income taxes. However, a portion of social security benefits may be taxable if a taxpayer receives other income in addition to social security benefits.

The income tax treatment of social security benefits is governed by section 86 of the Internal Revenue Code (the Code). Section 86 was added to the Code in 1983. The purpose of this section is to tax social security benefits in a manner similar to other retirement benefits – that is, to the extent they exceed a worker's after-tax contributions. See S. Rep. No. 98-23, 98th Cong., 1st Sess. 26 (1983), 1983-2 C.B. 326, 328. Under section 86, a portion of social security benefits is includible in a recipient's gross income when the adjusted gross income (AGI) combined with certain other amounts exceeds a specific level.

It is important to recognize that only monthly benefits under Title II of the Social Security Act are taxable under section 86 of the Code. These are benefits provided under the Old-Age, Survivors, and Disability Insurance program. Since Medicare Part A (Hospital Insurance Benefits for the Aged and Disabled) and Part B (Supplementary Medical Insurance Benefits for the Aged and Disabled) are provided under Title XVIII of the Social Security Act, these types of benefits are not taxed under section 86 of the Code.

Section 105(b) of the Code includes in gross income amounts paid by an employer for medical expenses that were deducted in a prior taxable year. These taxable medical expense reimbursements increase AGI. Therefore, although Medicare benefits are not taxed under section 86 of the Code, this increase in AGI may subject some additional portion of your social security benefit to taxation under section 86. This is the correct outcome under section 86 of the Code. Any change to the law would require legislative action.

For additional information on the taxability of social security benefits, I am enclosing a copy of Publication 915, *Social Security Benefits and Equivalent Railroad Retirement Benefits*. I hope that this information is helpful. If you have other questions, please contact _____ at () _____ (not a toll-free number).

Sincerely,

Janine Cook
Branch Chief, Employment Tax Branch 1
(Exempt Organizations/Employment
Tax/Government Entities)
(Tax Exempt & Government Entities)

cc:
Enclosure