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WASHINGTON, D.C. 20224

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CONEX-102698-07

The Honorable Richard G. Lugar
United States Senate
Washington, DC 20510

Attention:

Dear Senator Lugar:

I am responding to your request for information dated _____, on behalf of your constituent, _____. He inquired about the proper year of deduction of medical expenses for cash basis taxpayers.

In general, the method of accounting taxpayers use determines when they can take into account income and expenses. [section 451 and 461 of the Internal Revenue Code (the Code)]. Most individual taxpayers use the cash receipts and disbursements method of accounting. Taxpayers who use this method must recognize income in the taxable year in which they actually or constructively receive the income, and must claim deductions and expenses in the year in which they actually pay them.

The Congress enacted section 213 of the Code to allow taxpayers to deduct medical care expenses, if the expenses exceed 7.5 percent of the taxpayer's gross income. However, the deductions are only allowable in the taxable year in which the taxpayer actually paid the medical expenses, regardless of when the incident or event which occasioned the expense occurs and regardless of the type of method of accounting the taxpayer uses. [section 1.213-1(a) of the Income Tax Regulations]. This rule prevents the bunching of expenses into a single year in order to exceed the gross income limitation. Consequently, if the

taxpayer incurred medical expenses that they did not pay during the taxable year, they cannot deduct them in that year and can only deduct in the year that the taxpayer actually pays the expenses. These rules were enacted in 1960 and were last amended in 1979.

I hope this information is helpful. It is intended for informational purposes and does not constitute a ruling. See Rev. Proc. 2007-1 § 2.04, 2007-1 I.R.B. 7. If you have any questions, please contact me or _____ at _____. As requested, I am replying in duplicate and returning your enclosure.

Sincerely,

Christopher F. Kane
Branch Chief, Branch 3
(Income Tax & Accounting)

Enclosures (2)