

Medical Deductions for Your Tax Return



Do you know how much you spent last year on medical expenses? Do you care? Well, you should. Why? Taxes! The word recounts a time every spring when you need to organize your finances. Though, it's probably not most people's favorite time of the year (well, if you're a CPA you may feel differently), this year may just be a chance for you to get some extra money on your return. It's time to put that shoebox full of medical receipts and EOBs to work for you and your family (and hopefully save some dollars along the way).

While taxes can be intimidating, medical tax deductions don't have to be. Itemizing your medical expenses to reduce the amount of taxes you owe is as simple as pulling together your receipts for payments and totaling the amount you paid in a given year for medical services, procedures, equipment, prescriptions, insurance premiums, and mileage. While it doesn't necessarily sound like "medical" terminology, dental expenses, vision expenses (glasses, contact lenses, exams), and hearing aids are even considered medical expenses for tax-purposes. Remember, you cannot deduct any of the expense covered by the insurance company, but you can deduct your co-pay and other out-of-pocket fees.

Yes! That's right! Your medical expenses are tax deductible if they exceed 7.5% of your AGI (we will tell you about that later). To help you get started, a complete list of items that can be deducted is available at the end of this guide or go online to <http://tinyurl.com/7la5t8>

Finding Out If You Qualify

In order to qualify for a deduction, your medical expenses paid by you in 2008 have to be 7.5% or more of your Adjusted Gross Income (AGI). Your AGI is your income minus any adjustments from a 401k or other qualified investment (this would include your Health Savings Account contributions for the year). AGI is the last number at the bottom of your 1040 form.

Here's an example: let's assume your AGI for 2008 is \$40,000. In order to benefit from claiming your medical expenses as part of your itemized deductions (instead of the standard deduction), the medical expenses you paid would have to be \$3,000 or more.

Next Steps

Here's what you need to do to take advantage of the deduction:

- Collect your receipts for all of the medical expenses paid in 2008 for you and your dependents.
- Organize receipts by each doctor, each hospital, each pharmacy, etc.
- Total the amount you personally paid to each of the providers.
- Multiply your AGI by 7.5% and compare to your total expenses.
- If your expenses are greater than 7.5% of your AGI, fill out IRS Schedule A form (found at <http://www.irs.gov/pub/irs-pdf/f1040sab.pdf>)
- Include the form with your tax return.



Additional Tips and Info

A commonly overlooked expense is Transportation. For 2008, mileage for the purpose of receiving medical care was deductible at 19 cents per mile for the first half of the year and 27 cents per mile in the second half of the year. Even if you just traveled locally, the miles can really add up, and might be the thing that puts you over the 7.5% threshold, so be sure to consider your allowable mileage, as well as any parking and/or airline flight expenses you may have incurred for medical care.

There are tools available to help you organize and track expenses throughout the year. One we are very familiar with (and it's free) can be found online at www.changehealthcare.com. Here you can track your ongoing medical care and payments. At the end of the year, use the reports section, select "All of 2008 in One Report." And you'll be ready to tackle your tax preparation ... well at least this aspect of your taxes! Don't you wish it was all this straight forward? Don't just take our word for it, check it out at www.changehealthcare.com.

NOTE: In addition to all of the allowable deductions, there is an equally long list of expenses that are NOT deductible. For that list and more information, check out the IRS website at <http://www.irs.gov/publications/p502/index.html>. Both lists are on the next page of this document.

FURTHER NOTE: We're not accountants, and we're definitely not your accountant. Check with yours to be sure you qualify and file properly.

Included Expenses

Abortion
Acupuncture
Alcoholism
Ambulance
Annual Physical Examination
Artificial Limb
Artificial Teeth
Autoette
Bandages
Body Scan
Breast Reconstruction Surgery
Birth Control Pills
Braille Books and Magazines
Capital Expenses
Car
Chiropractor
Christian Science Practitioner
Contact Lenses
Crutches
Dental Treatment
Diagnostic Devices
Disabled Dependent Care Expenses
Drug Addiction
Drugs
Eyeglasses
Eye Surgery
Fertility Enhancement
Founder's Fee
Guide Dog or Other Service Animal
Health Institute
Health Maintenance Organization (HMO)
Hearing Aids
Home Care
Home Improvements
Hospital Services
Insurance Premiums
Intellectually and Developmentally Disabled, Special Home for
Laboratory Fees
Lead-Based Paint Removal
Learning Disability
Legal Fees
Lifetime Care—Advance Payments
Lodging
Long-Term Care
Meals
Medical Conferences
Medical Information Plan
Medical Services
Medicines
Nursing Home
Nursing Services
Operations
Optometrist
Organ Donors
Osteopath
Oxygen
Physical Examination
Pregnancy Test Kit
Prosthesis
Psychiatric Care
Psychoanalysis
Psychologist
Special Education
Sterilization
Stop-Smoking Programs
Surgery
Telephone
Television
Therapy
Transplants
Transportation
Trips
Tuition
Vasectomy
Vision Correction Surgery
Weight-Loss Program
Wheelchair
Wig
X-ray

http://www.irs.gov/publications/p502/ar02.html#en_US_publink100014854

Excluded Expenses

Baby Sitting, Childcare, and Nursing Services for a Normal, Healthy Baby
Controlled Substances
Cosmetic Surgery
Dancing Lessons
Diaper Service
Electrolysis or Hair Removal
Flexible Spending Account
Funeral Expenses
Future Medical Care
Hair Transplant
Health Club Dues
Health Coverage Tax Credit
Health Savings Accounts
Household Help
Illegal Operations and Treatments
Insurance Premiums
Maternity Clothes
Medical Savings Account (MSA)
Medicines and Drugs From Other Countries
Nonprescription Drugs and Medicines
Nutritional Supplements
Personal Use Items
Swimming Lessons
Teeth Whitening
Veterinary Fees
Weight-Loss Program

<http://www.irs.gov/publications/p502/ar02.html#>