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Medical and Dental Expenses

(Including the Health Coverage Tax Credit)

For use in preparing

2004 Returns



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What's New

Standard mileage rate. The standard mileage rate allowed for out-of-pocket expenses for a car when you use it for medical reasons is 14 cents a mile for 2004. See *Transportation* under *What Medical Expenses Are Includible*.

Health Savings Accounts (HSAs). Beginning in 2004, you may be able to make tax-deductible contributions to a health savings account to pay qualified medical expenses. Health savings accounts are discussed in Publication 969, *Health Savings Accounts and Other Tax-Favored Health Plans*.

Reminder

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.

Introduction

This publication explains the itemized deduction for medical and dental expenses that you claim on Schedule A (Form 1040). It discusses what expenses, and whose expenses, you can and cannot include in figuring the deduction. It explains how to treat reimbursements and how to figure the deduction. It also tells you how to report the deduction and what to do if you sell medical property or receive damages for a personal injury.

Medical expenses include dental expenses, and in this publication, the term “medical expenses” is often used to refer to medical and dental expenses.

You can deduct only the part of your medical and dental expenses that is more than 7.5% of your adjusted gross income. If your medical and dental expenses are not more than 7.5% of your adjusted gross income, you cannot claim a deduction.

After discussing the medical and dental expenses deduction, this publication explains how to treat impairment-related work expenses, health insurance premiums if you are self-employed, and the health coverage tax credit that is available to certain individuals.

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

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can write to us at the following address:

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Ordering forms and publications. Visit www.irs.gov/formspubs to download forms and publications, call 1-800-829-3676, or write to one of the three addresses shown under *How To Get Tax Help* in the back of this publication.

Useful Items

You may want to see:

Publication

- 969** Health Savings Accounts and Other Tax-Favored Health Plans

Forms (and Instructions)

- 1040** U.S. Individual Income Tax Return
- Schedule A (Form 1040)** Itemized Deductions
- 8853** Archer MSAs and Long-Term Care Insurance Contracts
- 8885** Health Coverage Tax Credit

What Are Medical Expenses?

Medical expenses are the costs of diagnosis, cure, mitigation, treatment, or prevention of disease, and the costs for treatments affecting any part or function of the body. They include the costs of equipment, supplies, and diagnostic devices needed for these purposes. They also include dental expenses.

Medical care expenses must be primarily to alleviate or prevent a physical or mental defect or illness. They do not include expenses that are merely beneficial to general health, such as vitamins or a vacation.

Medical 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 expenses also include amounts paid for qualified long-term care services and limited amounts paid for any qualified long-term care insurance contract.

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 *Decedent* under *Whose Medical Expenses Can You Include*, later, for an exception.) 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 “online” 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. If you use a credit card, include medical expenses you charge to your credit card in the year the charge is made, not 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, Amended U.S. Individual Income Tax Return, 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.

Separate returns. If you and your spouse live in a non-community 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.

How Much of the Expenses 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 (Form 1040, line 37).

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 \$40,000, 7.5% of which is \$3,000. You paid medical expenses of \$2,500. You cannot deduct any of your medical expenses because they are not more than 7.5% of your adjusted gross income.

Whose Medical Expenses Can You Include?

You can generally include medical expenses you pay for yourself as well as those you pay for someone who was your spouse or your dependent either when the services were provided or when you paid for them. There are different rules for decedents and for individuals who are the subject of multiple support agreements.

Spouse. You can include medical expenses you paid for your spouse. To include 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, 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 received the medical services, he can include those expenses in figuring his medical deduction for this year.

Dependent. You can include medical expenses you paid for your dependent. For you to include 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 all three of the following requirements are met.

1. That person lived with you for the entire year as a member of your household or is:
 - a. Your child, grandchild, great grandchild, etc. (a legally adopted child is considered your child).
 - b. Your stepchild.
 - c. Your brother, sister, half brother, half sister, stepbrother, or stepsister.
 - d. Your parent, grandparent, or other direct ancestor, but not foster parent.
 - e. Your stepfather or stepmother.
 - f. A brother or sister of your father or mother.
 - g. A son or daughter of your brother or sister.
 - h. Your father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law.
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.
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. In 2003, your son was your dependent. In 2004, he no longer qualified as your dependent. However, you paid \$800 in 2004 for medical services provided to your son in 2003, when he was your dependent. You can include the \$800 in your medical expenses for 2004. You cannot include this amount in your 2003 medical expenses.

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 the agency or other person for medical care that was provided and paid for 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. For purposes of the medical and dental expenses deduction, a child of divorced or separated parents can be treated as a dependent of both parents. Each parent can include the medical expenses he or she pays for the child, even if the other parent claims the child's dependency exemption, if:

1. The child is in the custody of one or both parents for more than half the year,
2. The child receives over half of his or her support during the year from his or her parents, and
3. The child's parents:
 - a. Are divorced or legally separated under a decree of divorce or separate maintenance,
 - b. Are separated under a written separation agreement, or
 - c. Live apart at all times during the last 6 months of the year.

This does not apply if the child's exemption is being claimed under a multiple support agreement.

Support claimed under a multiple support agreement.

If you are considered to have provided more than half of a person's support under a multiple support agreement, you can include medical expenses you pay for that person, even if you cannot claim an exemption for that person. 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.

For rules regarding what expenses you can include this year, see *What Expenses Can You Include This Year*, earlier.

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. You and your three brothers each provide one-fourth of your mother's total support. Under a multiple support agreement, you treat your mother as your 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.

Decedent. 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's spouse and dependents as well as for the decedent.

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.



Qualified medical expenses paid before death by the decedent are not deductible if paid with a tax-free distribution from any Archer MSA or health savings account.

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 his 2003 income tax return. He died in 2004 with unpaid medical expenses of \$1,500 from 2003 and \$1,800 in 2004. His survivor or personal representative can file an amended return for 2003 claiming a deduction based on the \$1,500 medical expenses. The \$1,800 of medical expenses from 2004 can be included on the decedent's final return for 2004.

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.

What Medical Expenses Are Includible?

Following is a list of items that you can 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 amounts you pay for transportation to and from meetings of an Alcoholics Anonymous Club in your community if the 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.

Bandages

You can include in medical expenses the cost of medical supplies such as bandages used to cover torn skin.

Breast Reconstruction Surgery

You can include in medical expenses the amounts you pay for breast reconstruction surgery following a mastectomy for cancer.

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 a home, or for improve-

ments, if their main purpose is medical care for you, your spouse, or your dependent. The cost of permanent improvements that increase the value of your property may be partly included as a medical expense. The cost of the improvement is reduced by the increase in the value of your property. The difference is a medical expense. If the value of your property is not increased by the improvement, the entire cost is included as a medical expense.

Certain improvements made to accommodate a 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 elevators generally add value to the house).
- 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 worksheet. Use Worksheet A to figure the amount of your capital expense to include in your medical expenses.

Worksheet A. Capital Expense Worksheet

Instructions: Use this worksheet to figure the amount, if any, of your medical expenses due to a home improvement.

1. Enter the amount you paid for the home improvement **1.** _____
2. Enter the value of your home immediately after the improvement **2.** _____
3. Enter the value of your home immediately before the improvement **3.** _____
4. Subtract line 3 from line 2. This is the increase in the value of your home due to the improvement. **4.** _____
 - If line 4 is more than or equal to line 1, you have no medical expenses due to the home improvement; stop here.
 - If line 4 is less than line 1, go to line 5.
5. Subtract line 4 from line 1. These are your medical expenses due to the home improvement **5.** _____

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 as shown in the filled-in example of Worksheet A.

Worksheet A. Capital Expense Worksheet—Illustrated

Instructions: Use this worksheet to figure the amount, if any, of your medical expenses due to a home improvement.

1. Enter the amount you paid for the home improvement **1.** 8,000
2. Enter the value of your home immediately after the improvement **2.** 124,400
3. Enter the value of your home immediately before the improvement **3.** 120,000
4. Subtract line 3 from line 2. This is the increase in the value of your home due to the improvement. **4.** 4,400
 - If line 4 is more than or equal to line 1, you have no medical expenses due to the home improvement; stop here.
 - If line 4 is less than line 1, go to line 5.
5. Subtract line 4 from line 1. These are your medical expenses due to the home improvement **5.** 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 rule applies 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 to buy and install special plumbing fixtures for a person with a disability, 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 between the cost of a regular car and a car specially designed to hold a wheelchair.

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 *Eyeglasses* and *Eye Surgery*, later.

Crutches

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

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. But see *Teeth Whitening* under *What Expenses Are Not Includible*, later.

Diagnostic Devices

You can include in medical expenses the cost of devices used in diagnosing and treating illness and disease.

Example. You have diabetes and use a blood sugar test kit to monitor your blood sugar level. You can include the cost of the blood sugar test kit in your medical expenses.

Disabled Dependent Care Expenses

Some disabled dependent care expenses may qualify as either:

- Medical expenses, or
- Work-related expenses for purposes of taking a credit for dependent care.

You can choose to apply them either way as long as you do not use the same expenses to claim both a credit and a medical expense deduction.

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.

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.

Eye Surgery

You can include in medical expenses the amount you pay for eye surgery to treat defective vision, such as laser eye surgery or radial keratotomy.

Fertility Enhancement

You can include in medical expenses the cost of the following procedures to overcome an inability to have children.

- Procedures such as *in vitro* fertilization (including temporary storage of eggs or sperm).
- Surgery, including an operation to reverse prior surgery that prevented the person operated on from having children.

Founder's Fee

See *Lifetime Care—Advance Payments*, later.

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.

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 of the individual receiving the treatment.

Health Maintenance Organization (HMO)

You can include in medical expenses amounts you pay to entitle you, or your spouse 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.

Home Improvements

See *Capital Expenses*, earlier.

Hospital Services

You can include in medical expenses amounts you pay for the cost of inpatient care at a hospital or similar institution if a principal reason for being there is to receive medical care. This includes amounts paid for meals and lodging. Also see *Lodging*, later.

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,

- Membership in an association that gives cooperative or so-called “free-choice” medical service, or group hospitalization and clinical care, or
- Qualified long-term care insurance contracts (subject to additional limitations). See *Qualified Long-Term Care Insurance Contracts* under *Long-Term Care*, later.

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

Note. When figuring the amount of insurance premiums you can deduct on Schedule A, do not include any health coverage tax credit advance payments shown on Form 1099-H, box 1. Also, if you are claiming the health coverage tax credit, subtract the amount shown on Form 8885, line 4 (reduced by any advance payments shown on line 6 of that form), from the total insurance premiums you paid.

Employer-Sponsored Health Insurance Plan

Do not include in your medical and dental expenses on Schedule A (Form 1040) any insurance premiums paid by an employer-sponsored health insurance plan unless the premiums are included on your Form W-2, box 1. Also, do not include on Schedule A (Form 1040) any other medical and dental expenses paid by the plan unless the amount paid is included on your Form W-2, box 1.

Example. You are a federal employee participating in the Federal Employee Health Benefits (FEHB) program. Your share of the FEHB premium is paid with pre-tax dollars. Because you are an employee whose insurance premiums are paid with money that is never included in your gross income, you cannot deduct the premiums paid with that money.

Long-term care services. Contributions made by your employer to provide coverage for qualified long-term care services under a flexible spending or similar arrangement must be included in your income. This amount will be reported as wages on your Form W-2, box 1.

Health reimbursement arrangement (HRA). If you have medical expenses that are reimbursed by a health reimbursement arrangement, you cannot include those expenses in your medical expenses. This is because an HRA is funded solely by the employer.

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 you can include the premiums you paid for Medicare A as a medical expense.

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 include in medical expenses 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 age 65 for insurance for medical care for yourself, your spouse, or your dependents after you reach age 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 also must 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), 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.

Insurance Premiums You Cannot Include

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.

Laboratory Fees

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

See *Special Education*, later.

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. You can use a statement from the retirement home to prove the amount properly allocable to medical care. The statement must be based either on the home’s prior experience or on information from a comparable home.

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 child 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 child and must not be refundable.

Payments for future medical care. Generally, you cannot 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 a principal 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 institu-

tion. You can include the cost of such lodging while away from home if all of the following requirements are met.

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. You can include lodging for a person traveling with the person receiving the medical care. For example, if a parent is traveling with a sick child, up to \$100 per night can be included as a medical expense for lodging. Meals are not included.

Do not include the cost of lodging while away from home for medical treatment if that treatment is not received 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 received.

Long-Term Care

You can include in medical expenses amounts paid for qualified long-term care services and premiums paid for qualified long-term care insurance contracts.

Qualified Long-Term Care Services

Qualified long-term care services are necessary diagnostic, preventive, therapeutic, curing, treating, mitigating, rehabilitative services, and maintenance and personal care services (defined later) that are:

1. Required by a chronically ill individual, and
2. Provided pursuant to a plan of care prescribed by a licensed health care practitioner.

Chronically ill individual. An individual is chronically ill if, within the previous 12 months, a licensed health care practitioner has certified that the individual meets either of the following descriptions.

1. He or she is unable to perform at least two activities of daily living without substantial assistance from another individual for at least 90 days, due to a loss of functional capacity. Activities of daily living are eating, toileting, transferring, bathing, dressing, and continence.
2. He or she requires substantial supervision to be protected from threats to health and safety due to severe cognitive impairment.

Maintenance and personal care services. Maintenance or personal care services is care which has as its primary purpose the providing of a chronically ill individual with needed assistance with his or her disabilities (includ-

ing protection from threats to health and safety due to severe cognitive impairment).

Qualified Long-Term Care Insurance Contracts

A qualified long-term care insurance contract is an insurance contract that provides only coverage of qualified long-term care services. The contract must:

1. Be guaranteed renewable,
2. Not provide for a cash surrender value or other money that can be paid, assigned, pledged, or borrowed,
3. 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 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.

The amount of qualified long-term care premiums you can include is limited. You can include the following as medical expenses on Schedule A (Form 1040).

1. Qualified long-term care premiums up to the amounts shown below.
 - a. Age 40 or under – \$260.
 - b. Age 41 to 50 – \$490.
 - c. Age 51 to 60 – \$980.
 - d. Age 61 to 70 – \$2,600.
 - e. Age 71 or over – \$3,250.
2. Unreimbursed expenses for qualified long-term care services.

Note. The limit on premiums is for each person.

Meals

You can include in medical expenses the cost of meals at a hospital or similar institution if a principal reason 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 Conferences

You can include in medical expenses amounts paid for admission and transportation to a medical conference if the medical conference concerns the chronic illness of yourself, your spouse, or your dependent. The costs of the medical conference must be primarily for and necessary to the medical care of you, your spouse, or your dependent. The majority of the time spent at the conference must be spent attending sessions on medical information.



The cost of meals and lodging while attending the conference is not deductible as a medical expense.

Medical Information Plan

You can include in medical expenses amounts paid to a plan that keeps medical information in a computer data bank and retrieves and furnishes the information upon request to an attending physician.

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.

Note. This rule applies only to the deduction for medical expenses. It does not limit reimbursements of medical expenses by employer-sponsored health plans that reimburse the cost of both prescription and nonprescription medicines.

Imported medicines and drugs. If you imported medicines or drugs from other countries, see *Medicines and Drugs From Other Countries*, under *What Expenses Are Not Includible*, later.

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, home for the aged, or similar institution, for yourself, your spouse, or your dependents. This includes the cost of meals and lodging in the home if a principal 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, how-

ever, 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. The 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, amounts paid to the attendant 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 *Maintenance and personal care services* under *Qualified Long-Term Care Services*, 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 amount 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 divide 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 as a medical expense social security tax, FUTA, Medicare tax, and state employment taxes you pay for a nurse, attendant, or other person who provides medical care. If the attendant also provides personal and household services, you can include as a medical expense only the amount of employment taxes paid for medical services as explained earlier under *Nursing Services*. For information on employment tax responsibilities of household employers, see Publication 926, *Household Employer's Tax Guide*.

Operations

You can include in medical expenses amounts you pay for legal operations that are not for unnecessary cosmetic surgery. See *Cosmetic Surgery* under *What Expenses Are Not Includible*, later.

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.

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*, next, and *Transportation*, later.

Psychoanalysis

You can include in medical expenses payments for psychoanalysis. However, you cannot include payments for psychoanalysis that is part of required training to be a psychoanalyst.

Psychologist

You can include in medical expenses amounts you pay to a psychologist for medical care.

Special Education

You can include in medical expenses fees you pay on a doctor's recommendation for a child's tutoring by a teacher who is specially trained and qualified to work with children who have learning disabilities caused by mental or physical impairments, including nervous system disorders.

You can include in medical expenses the cost (tuition, meals, and lodging) of attending a school that furnishes special education to help a child to overcome learning disabilities. A doctor must recommend that the child attend the school. Overcoming the learning disabilities must be a principal reason for attending the school, and any ordinary education received must be incidental to the special education provided. Special education includes:

- Teaching Braille to a visually impaired person,
- Teaching lip reading to a hearing impaired person, or
- Giving remedial language training to correct a condition caused by a birth defect.

You cannot include in medical expenses the cost of sending a problem child to a school where the course of study and the disciplinary methods have a beneficial effect on the child's attitude if the availability of medical care in the school is not a principal reason for sending the student there.

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 include in medical expenses amounts you pay for a program to stop smoking. 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.

Telephone

You can include in medical expenses the cost of special telephone equipment that lets a hearing-impaired person communicate over a regular telephone. You can also include the cost of repairing the equipment.

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 part of 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 received 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 any expenses you pay for medical care you receive because you are a donor or a possible donor of a kidney or other organ. This includes transportation.

You can include any expenses you pay for the medical care of a donor in connection with the donating of an organ. This includes transportation.

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.

Car expenses. You can include out-of-pocket expenses, such as the cost of gas and oil, when you use a car for medical reasons. You cannot include depreciation, insurance, general repair, or maintenance expenses.

If you do not want to use your actual expenses, for 2004 you can use a standard rate of 14 cents a mile for use of a car for medical reasons.

You can also include 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 14 cents a mile for a total of \$392. He then adds the \$50 tolls and parking for a total of \$442.

Bill includes the \$442 of car expenses with his other medical expenses for the year because the \$442 is more than the \$255 he figured using actual expenses.

Transportation expenses you cannot include. You cannot include in medical expenses the cost of transportation in the following situations.

- Going to and from work, even if your condition requires an unusual means of transportation.
- Travel for purely personal reasons to another city for an operation or other medical care.
- Travel that is merely for the general improvement of one’s health.

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 the trip is made on the advice of a doctor. However, see *Medical Conferences*, earlier.

Tuition

Under special circumstances, you can include charges for tuition in medical expenses. See *Special Education*, earlier.

You can include charges for a health plan included in a lump-sum tuition fee if the charges are separately stated or can easily be obtained from the school.

Vasectomy

You can include in medical expenses the amount you pay for a vasectomy.

Vision Correction Surgery

See *Eye Surgery*, earlier.

Weight-Loss Program

You can include in medical expenses amounts you pay to lose weight if it is a treatment for a specific disease diagnosed by a physician (such as obesity, hypertension, or heart disease). This includes fees you pay for membership in a weight reduction group and attendance at periodic meetings. You cannot include membership dues in a gym, health club, or spa as medical expenses, but you can include separate fees charged there for weight loss activities.

You cannot include the cost of diet food or beverages in medical expenses because the diet food and beverages substitute for what is normally consumed to satisfy nutritional needs. You can include the cost of special food in medical expenses only if:

1. The food does not satisfy normal nutritional needs,
2. The food alleviates or treats an illness, and
3. The need for the food is substantiated by a physician.

The amount you can include in medical expenses is limited to the amount by which the cost of the special food exceeds the cost of a normal diet. See also *Weight-Loss Program* under *What Expenses Are Not Includible*, later.

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.

Wig

You can include in medical expenses 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.

X-ray

You can include in medical expenses amounts you pay for X-rays for medical reasons.

What Expenses Are Not Includible?

Following is a list of some items that you cannot include in figuring your medical expense deduction. The items are listed in alphabetical order.

Baby Sitting, Childcare, and Nursing Services for a Normal, Healthy Baby

You cannot include in medical expenses amounts you pay for the care of children, even if the expenses enable you, your spouse, or your dependent to get medical or dental treatment. Also, any expense allowed as a childcare credit cannot be treated as an expense paid for medical care.

Controlled Substances

You cannot include in medical expenses amounts you pay for controlled substances (such as marijuana, laetrile, etc.), in violation of federal law.

Cosmetic Surgery

Generally, you cannot include in medical expenses the amount you pay for unnecessary cosmetic surgery. This includes 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. You generally cannot include in medical expenses the amount you pay for procedures such as face lifts, hair transplants, hair removal (electrolysis), teeth whitening, and liposuction.

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.

Example. An individual undergoes surgery that removes a breast as part of treatment for cancer. She pays a surgeon to reconstruct the breast. The surgery to reconstruct the breast corrects a deformity directly related to the disease. The cost of the surgery is includible in her medical expenses.

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.

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.

Electrolysis or Hair Removal

See *Cosmetic Surgery*, earlier.

Flexible Spending Account

You cannot include in medical expenses amounts for which you are fully reimbursed by your flexible spending account if you contribute a part of your income on a pre-tax basis to pay for the qualified benefit.

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.

Future Medical Care

Generally, you cannot 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 under *Long-Term Care*, earlier.

Hair Transplant

See *Cosmetic Surgery*, earlier.

Health Club Dues

You cannot include in medical expenses health club dues, or amounts paid to improve one's 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 Coverage Tax Credit

You cannot include in medical expenses amounts you pay for health insurance that you use in figuring your health coverage tax credit. For more information, see *Health Coverage Tax Credit*, later.

Health Savings Accounts

You cannot include in medical expenses any payment or distribution for medical expenses out of a health savings account.

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. For more information, see *Nursing Services*, earlier. Also, certain maintenance or personal care services provided for qualified long-term care can be included in medical expenses. For more information, see *Qualified Long-Term Care Services*, earlier.

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

See *Insurance Premiums* under *What Medical Expenses Are Includible*, earlier.

Maternity Clothes

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

Medical Savings Account (MSA)

You cannot include in medical expenses amounts you contribute to an Archer MSA. You cannot include medical expenses you pay for with a tax-free distribution from your Archer MSA. You also cannot use other funds equal to the amount of the distribution and include the expenses. For more information on Archer MSAs, see Publication 969, *Health Savings Accounts and Other Tax-Favored Health Plans*.

Medicines and Drugs From Other Countries

In general, you cannot include in your medical expenses the cost of a prescribed drug brought in (or ordered shipped) from another country, because you can only include the cost of a drug that was imported legally. (You can include the cost of a prescribed drug the Food and Drug Administration announces can be legally imported by individuals.) However, you can include the cost of a prescribed drug you purchase and consume in another country if the drug is legal in both the other country and the United States.

Nonprescription Drugs and Medicines

Except for insulin, you cannot include in medical expenses amounts you pay for a drug that is not prescribed.

Example. Your doctor recommends that you take aspirin. Because aspirin is a drug that does not require a physician's prescription, you cannot include its cost in your medical expenses. But, see *Note* under *Medicines*, earlier.

Nutritional Supplements

You cannot include in medical expenses the cost of nutritional supplements, vitamins, herbal supplements, “natural medicines,” etc. unless they are recommended by a medical practitioner as treatment for a specific medical condition diagnosed by a physician. Otherwise, these items are taken to maintain your ordinary good health, and are not for medical care.

Personal Use Items

You cannot include in medical expenses the cost of 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 toothbrush and toothpaste is a nondeductible personal expense.

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* under *What Medical Expenses Are Includible*, earlier).

Swimming Lessons

See *Dancing Lessons*, earlier.

Teeth Whitening

You cannot include in medical expenses amounts paid to whiten teeth that are discolored as a result of age. See *Cosmetic Surgery*, earlier.

Veterinary Fees

Except for the care of guide dogs for the seeing-impaired or hearing-impaired, or for other animals specially trained to assist persons with physical disabilities, you cannot include veterinary fees in your medical expenses.

Weight-Loss Program

You cannot include in medical expenses the cost of a weight-loss program if the purpose of the weight loss is the improvement of appearance, general health, or sense of well-being. You cannot include amounts you pay to lose weight unless the weight loss is a treatment for a specific disease diagnosed by a physician (such as obesity, hypertension, or heart disease). This includes fees you pay for membership in a weight reduction group and attendance at periodic meetings. Also, you cannot include membership dues in a gym, health club, or spa.

You cannot include the cost of diet food or beverages in medical expenses because the diet food and beverages substitute for what is normally consumed to satisfy nutritional needs. You cannot include the cost of special food in medical expenses unless all three of the following requirements are met.

1. The food does not satisfy normal nutritional needs.

2. The food alleviates or treats an illness.
3. The need for the food is substantiated by a physician.

The amount you can include in medical expenses is limited to the amount by which the cost of the special food exceeds the cost of a normal diet.

How Do You Treat Reimbursements?

You can include in medical expenses only those amounts paid during the tax year for which you received no insurance or other reimbursement.

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.

Even if a policy provides reimbursement only for certain specific medical expenses, you must use amounts you receive from that policy to reduce your total medical expenses, including those it does not provide reimbursement for.

Example. You have insurance policies which cover your hospital and doctors' bills but not your nursing bills. The insurance you receive for the hospital and doctors' bills is more than their charges. In figuring your medical deduction, you must reduce the total amount you spent for medical care by the total amount of insurance you received even if the policies do not cover some of your medical expenses.

Health reimbursement arrangement (HRA). A health reimbursement arrangement is an employer-funded plan that reimburses employees for medical care expenses and allows unused amounts to be carried forward. An HRA is funded solely by the employer and the reimbursements for medical expenses, up to a maximum dollar amount for a coverage period, are not included in your income.

Other reimbursements. 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 to the extent the payment is based on the nature of the injury without regard to the amount of time lost from work, or
- Loss of earnings.

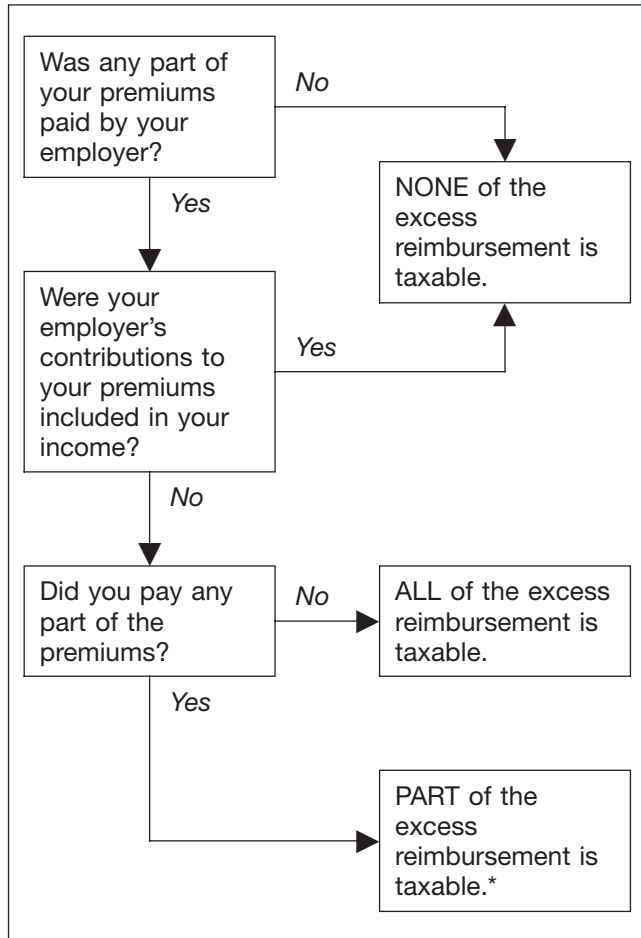
You must, however, reduce your medical expenses by any part of these payments that is designated for medical costs. See *How Do You Figure and Report the Deduction on Your Tax Return*, later.

For how to treat damages received for personal injury or sickness, see *Damages For Personal Injuries*, later.

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

If you are reimbursed more than your medical expenses, you may have to include the excess in income. You may want to use Figure 1 to help you decide if any of your reimbursement is taxable.

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 \$230 a day (\$84,180 for 2004) for qualified long-term care services.

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.

You can figure the amount of the excess reimbursement you must include in gross income using Worksheet B.

Worksheet B. Excess Reimbursement Includible in Income When You Have Only One Policy

Instructions: Use this worksheet to figure the amount of excess reimbursement you must include in income when both you and your employer contributed to your medical insurance and your employer's contributions are not included in your gross income.

1. Enter the amount contributed to your medical insurance for the year by your employer 1. _____
2. Enter the total annual cost of the policy 2. _____
3. Divide line 1 by line 2 3. _____
4. Enter the amount of excess reimbursement 4. _____
5. Multiply line 3 by line 4. This is the amount of the excess reimbursement you must include as other income on Form 1040, line 21 5. _____

Example. You are covered by your employer's medical insurance policy. The annual premium is \$2,000. Your employer pays \$600 of that amount, which is not included in your gross income, and the balance of \$1,400 is taken out of your wages. You receive \$500 excess reimbursement for your medical expenses. The part of the excess reimbursement you receive under the policy that is from your employer's contributions is figured as follows.

Worksheet B. Excess Reimbursement Includible in Income When You Have Only One Policy— Illustrated

Instructions: Use this worksheet to figure the amount of excess reimbursement you must include in income when both you and your employer contributed to your medical insurance and your employer's contributions are not included in your gross income.

1. Enter the amount contributed to your medical insurance for the year by your employer 1. 600
2. Enter the total annual cost of the policy 2. 2,000
3. Divide line 1 by line 2 3. .30
4. Enter the amount of excess reimbursement 4. 500
5. Multiply line 3 by line 4. This is the amount of the excess reimbursement you must include as other income on Form 1040, line 21 5. 150

You must include in your gross income 30% (.30) of \$500, or \$150, of the 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 cost of at least one of which is paid by both you and your employer, you must first divide the medical expenses 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. Any excess reimbursement that is due to your employer's contributions is includible in your income.

You can figure the part of the excess reimbursement that is from your employer's contribution by using Worksheet C. Use Worksheet C only if both you and your employer paid part of the cost of at least one policy. If you had more than one policy, but you did not share in the cost of at least one policy, do not use Worksheet C.

Worksheet C. Excess Reimbursement Includible in Income When You Have More Than One Policy

Instructions: Use this worksheet to figure the amount of excess reimbursement you must include as income on your tax return when a) you are reimbursed under two or more health insurance policies, b) at least one of which is paid for by both you and your employer, and c) your employer's contributions are not included in your gross income. If you and your employer did not share in the cost of at least one policy, do not use this worksheet.

1. Enter the reimbursement from your employer's policy 1. _____
2. Enter the reimbursement from your own policy 2. _____
3. Add lines 1 and 2 3. _____
4. Divide line 1 by line 3. 4. _____
5. Enter the total medical expenses you paid during the year. If this amount is at least as much as the amount on line 3, stop here because there is no excess reimbursement. 5. _____
6. Multiply line 4 by line 5 6. _____
7. Subtract line 6 from line 1 7. _____
8. Enter employer's contribution to the annual cost of the employer's policy 8. _____
9. Enter total annual cost of the employer's policy 9. _____
10. Divide line 8 by line 9. This is the percentage of your total excess reimbursement you must report as other income 10. _____
11. Multiply line 7 by line 10. This is the amount of your total excess reimbursement you must report as other income on Form 1040, line 21 11. _____

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 \$2,400 under your employer's policy and \$1,600 under your own personal policy. The amount you must report as other income is figured as follows.

Worksheet C. Excess Reimbursement Includible in Income When You Have More Than One Policy—Illustrated

Instructions: Use this worksheet to figure the amount of excess reimbursement you must include as income on your tax return when a) you are reimbursed under two or more health insurance policies, b) at least one of which is paid for by both you and your employer, and c) your employer's contributions are not included in your gross income. If you and your employer did not share in the cost of at least one policy, do not use this worksheet.

1. Enter the reimbursement from your employer's policy 1. 2,400
2. Enter the reimbursement from your own policy 2. 1,600
3. Add lines 1 and 2 3. 4,000
4. Divide line 1 by line 3 4. .60
5. Enter the total medical expenses you paid during the year. If this amount is at least as much as the amount on line 3, stop here because there is no excess reimbursement. 5. 3,600
6. Multiply line 4 by line 5 6. 2,160
7. Subtract line 6 from line 1 7. 240
8. Enter employer's contribution to the annual cost of the employer's policy 8. 300
9. Enter total annual cost of the employer's policy 9. 1,200
10. Divide line 8 by line 9. This is the percentage of your total excess reimbursement you must report as other income 10. .25
11. Multiply line 7 by line 10. This is the amount of your total excess reimbursement you must report as other income on Form 1040, line 21 11. 60

What If You Receive Insurance Reimbursement in a Later Year?

If you are reimbursed in a later year for medical expenses you deducted in an earlier year, you generally must report the reimbursement as income up to the amount you previously deducted as medical expenses.

However, you 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.

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, *Taxable and Nontaxable Income*.

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 the reimbursement, up to the amount of the expense, in income. 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.

How Do You Figure and Report the Deduction on Your Tax Return?

Once you have determined which medical care expenses you can include, figure and report the deduction on your tax return.

What Tax Form Do You Use?

You report 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.

How Do You 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 37.

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 -0-. 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 list shows the net amounts, after insurance reimbursements, that Bill and Helen paid this year for medical expenses.

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 part of Schedule A, Form 1040, as shown.

SCHEDULES A&B (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Name(s) shown on Form 1040

Schedule A—Itemized Deductions

(Schedule B is on back)

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

OMB No. 1545-0074

2004

Attachment
Sequence No. **07**

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-2)	1	3,434		
2	Enter amount from Form 1040, line 37 2 33,004				
3	Multiply line 2 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	



Recordkeeping. For each medical expense, you should keep a record of:

- The amount and date of each payment.

- The name and address of each person you paid, and

You can keep a record like the following.

Record of medical expenses

	Name of each person you paid	Address of each person you paid	Amount paid	Date paid	Transportation (mileage, taxi, etc.)
1.					
2.					
3.					
4.					
5.					
6.					
7.					
8.					
9.					

You should also keep a statement or itemized invoice showing the following.

- What medical care was received.
- Who received the care.
- The nature and purpose of any other medical expenses.
- Who the other medical expenses were for.
- The amount of the other medical expenses and the date of payment.

gain. The taxable gain is the amount of the selling price that is more than the adjusted basis of the equipment or property.

The adjusted basis is the portion of the cost of the equipment or property that you could not deduct because of the 7.5% limit used to compute the medical deduction. Use Worksheet D, later, to figure the adjusted basis of the equipment or property.

Do not send these records with your return.

Sale of Medical Equipment or Property

If you deduct the cost of medical equipment or property in one year and sell it in a later year, you may have a taxable

Worksheet D. Adjusted Basis of Medical Equipment or Property Sold

Instructions: Use this worksheet if you deducted the cost of medical equipment or property in one year and sold the equipment or property in a later year. This worksheet will give you the adjusted basis of the equipment or property you sold.

1. Enter the cost of the equipment or property. **1.** _____
2. Enter your total includible medical expenses for the year you included the cost in your medical expenses **2.** _____
3. Divide line 1 by line 2 **3.** _____
4. Enter 7.5% of your AGI for the year the cost was included in your medical expenses **4.** _____
5. Multiply line 3 by line 4. If your allowable itemized deductions for the year you purchased the equipment or property were not more than your AGI for that year, stop here. This is the adjusted basis of the equipment or property. If your allowable itemized deductions for the year you purchased the equipment or property were more than your AGI for that year, complete lines 6 through 11 **5.** _____
6. Subtract line 5 from line 1 **6.** _____
7. Enter your total allowable itemized deductions for the year the cost was included in your medical expenses **7.** _____
8. Divide line 6 by line 7 **8.** _____
9. Enter your AGI for the year the cost was included in your medical expenses **9.** _____
10. Subtract line 9 from line 7 **10.** _____
11. Multiply line 8 by line 10. **11.** _____
12. Add line 5 to line 11. If your allowable itemized deductions for the year you purchased the equipment or property were more than your AGI for that year, this is the adjusted basis of the equipment or property **12.** _____

Next, use Worksheet E to figure the total gain or loss on the sale of the medical equipment or property.

Worksheet E. Gain or Loss On the Sale of Medical Equipment or Property

Instructions: Use the following worksheet to figure total gain or loss on the sale of medical equipment or property that you deducted in an earlier year.

1. Enter the amount that the medical equipment or property sold for **1.** _____
2. Enter your selling expenses **2.** _____
3. Subtract line 2 from line 1 **3.** _____
4. Enter the adjusted basis of the equipment or property from line 5 or Worksheet D, line 12 **4.** _____
5. Subtract line 4 from line 3. This is the total gain or loss from the sale of the medical equipment or property. **5.** _____

If you have a loss, it is not deductible. If you have a gain, it is includible in your income. The part of the gain that is a recovery of an amount you previously deducted is taxable as ordinary income. Enter it on Form 1040, line 21. Any part of the gain that is more than the recovery of an amount you previously deducted, is taxable as a capital gain. Enter it on Schedule D (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.

Example. 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 \$10,750 for deductible medical services and \$6,400 for other itemized deductions. Your adjusted gross income (AGI) was \$15,000.

Taking into account the 7.5% limit on medical expenses, your allowable itemized deductions totaled \$19,025, figured as follows:

Oxygen equipment	3,000
Medical services	10,750
Total medical expenses	13,750
7.5% of AGI (.075 × \$15,000)	-1,125
Allowable medical expense deduction	12,625
Other itemized deductions	6,400
Allowable itemized deductions	<u>19,025</u>

You figure your adjusted basis as shown on the filled-in Worksheet D.

Worksheet D. Adjusted Basis of Medical Equipment or Property Sold—Illustrated

Instructions: Use this worksheet if you deducted the cost of medical equipment or property in one year and sold the equipment or property in a later year. This worksheet will give you the adjusted basis of the equipment or property you sold.

1. Enter the cost of the equipment or property.	1.	<u>3,000</u>
2. Enter your total includible medical expenses for the year you included the cost in your medical expenses	2.	<u>13,750</u>
3. Divide line 1 by line 2	3.	<u>.218</u>
4. Enter 7.5% of your AGI for the year the cost was included in your medical expenses	4.	<u>1,125</u>
5. Multiply line 3 by line 4. If your allowable itemized deductions for the year you purchased the equipment or property were not more than your AGI for that year, stop here. This is the adjusted basis of the equipment or property. If your allowable itemized deductions for the year you purchased the equipment or property were more than your AGI for that year, complete lines 6 through 11	5.	<u>245</u>
6. Subtract line 5 from line 1	6.	<u>2,755</u>
7. Enter your total allowable itemized deductions for the year the cost was included in your medical expenses	7.	<u>19,025</u>
8. Divide line 6 by line 7	8.	<u>.145</u>
9. Enter your AGI for the year the cost was included in your medical expenses	9.	<u>15,000</u>
10. Subtract line 9 from line 7	10.	<u>4,025</u>
11. Multiply line 8 by line 10.	11.	<u>584</u>
12. Add line 5 to line 11. If your allowable itemized deductions for the year you purchased the equipment or property were more than your AGI for that year, this is the adjusted basis of the equipment or property.	12.	<u>829</u>

This year you sold the oxygen equipment for \$2,025 and you had selling expenses of \$25. You must report on this year's tax return part of the \$2,000 as ordinary income. To compute the part of the sales price that is taxable, you must determine the gain by subtracting the total adjusted basis from the selling price.

Worksheet E. Gain or Loss On the Sale of Medical Equipment or Property—Illustrated

Instructions: Use the following worksheet to figure gain or loss on the sale of medical equipment or property that you deducted in an earlier year.

1. Enter the amount that the medical equipment or property sold for	1.	<u>2,025</u>
2. Enter your selling expenses	2.	<u>25</u>
3. Subtract line 2 from line 1	3.	<u>2,000</u>
4. Enter the adjusted basis of the equipment or property from line 5 or Worksheet D, line 12	4.	<u>829</u>
5. Subtract line 4 from line 3. This is the total gain or loss from the sale of the medical equipment or property.	5.	<u>1,171</u>

Determining gain. The taxable gain is the amount of the selling price that is more than the equipment's adjusted basis. You realized a gain of \$1,171. In this case, the entire amount represents the recovery of an amount previously deducted for federal income tax purposes and is taxable as ordinary income.

Damages For Personal Injuries

If you receive an amount in settlement of a personal injury suit, part of that award may be for medical expenses that you deducted in an earlier year. If it is, you must include that part in your income in the year you receive it to the extent it reduced your taxable income in the earlier year. See *What If You Receive Insurance Reimbursement in a Later Year*, discussed earlier.

Example. You sued this year for injuries you suffered in an accident last year. You sought \$10,000 for your injuries and did not itemize your damages. Last year, you paid \$500 for medical expenses for your injuries. You deducted those expenses on last year's tax return. This year you settled your lawsuit for \$2,000. Your settlement did not itemize or allocate the damages. The \$2,000 is first presumed to be for the medical expenses that you deducted. The \$500 is includible in your income this year because the entire \$500 was allowed as a medical expense deduction last year.

Future medical expenses. If you receive an amount in settlement of a damage suit for personal injuries, part of that award may be for future medical expenses. If it is, you must reduce any future medical expenses for these injuries until the amount you received has been completely used.

Example. You were injured in an accident. You sued and sought a judgment of \$50,000 for your injuries. You settled the suit for \$45,000. The settlement provided that \$10,000 of the \$45,000 was for future medical expenses for your injuries. You cannot include the first \$10,000 that you pay for medical expenses for those injuries.

Workers' compensation. If you received workers' compensation and you deducted medical expenses related to that injury, you must include the workers' compensation in income up to the amount you deducted. If you received workers' compensation, but did not deduct medical expenses related to that injury, no workers' compensation is includible in your income.

Impairment-Related Work Expenses

If you are disabled, you can take a business deduction for expenses that are necessary for you to be able to work. If you take a business deduction for these impairment-related work expenses, they are not subject to the 7.5% limit that applies to medical expenses.

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.

Impairment-related expenses defined. Impairment-related expenses are those ordinary and necessary business expenses that 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.

Where to report. 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, complete Form 2106, Employee Business Expenses, or Form 2106-EZ, Unreimbursed Employee Business Expenses. Enter on Schedule A (Form 1040), line 27, that part of the amount on Form 2106, line 10, or Form 2106-EZ, line 6, that is related to your impairment. Enter the amount that is unrelated to your impairment on Schedule A (Form 1040), line 20. 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.

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, as an adjustment to income, up to 100% of the amount paid for medical and qualified long-term care insurance on behalf of yourself, your spouse, and dependents.

The insurance plan must be established under your trade or business, and you cannot take this deduction to the extent that the amount of the deduction is more than your earned income from that trade or business.

You cannot take this 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. This rule is applied separately to plans that provide long-term care insurance and plans that do not provide long-term care insurance.

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 any 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.
- You are using amounts paid for qualified long-term care insurance to figure the deduction.

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

Note. When figuring the amount you can deduct for insurance premiums, do not include any advance payments shown on Form 1099-H, box 1, Health Coverage Tax Credit (HCTC) Advance Payments. Also, if you are claiming the health coverage tax credit, subtract the amount shown on Form 8885, line 4 (reduced by any advance payments shown on line 6 of that form), from the total insurance premiums you paid.

Where to report. You take this deduction on Form 1040, line 31. If you itemize your deductions and do not claim 100% of your self-employed health insurance on line 31, include any remaining premiums with all other medical care expenses on Schedule A (Form 1040), subject to the 7.5% limit.

Health Coverage Tax Credit

There is a health coverage tax credit available to certain individuals who receive a pension benefit from the Pension Benefit Guaranty Corporation (PBGC) or are eligible to receive certain Trade Adjustment Assistance (TAA) or who are eligible for the Alternate Trade Adjustment Assistance (ATAA) program. You qualify for this credit if you:

1. Are an eligible individual,
2. Pay for qualified health insurance covering an eligible coverage month for yourself or for yourself and qualifying family members,
3. Do not have other specified coverage, and
4. Are not in prison.

You qualify for this credit on a month-by-month basis. If you qualify, you can claim a credit equal to 65% of the premiums you pay for qualified health insurance.

You can either take this credit on your tax return or have it paid on your behalf in advance to your insurance company. Your payments and any payments paid on your behalf in advance are treated as having been made on the first day of the month for which they are made. If the credit is paid on your behalf in advance, that amount will reduce the amount of the credit you can claim on your tax return. If you received National Emergency Grant (NEG) payments during 2004 for qualified health insurance, that amount will also reduce the amount of the credit you can claim.

Eligible Individual

You are an eligible individual for any month during which one of the following is true.

1. You receive a TAA for individuals under the Trade Act of 1974 for at least one day in the month.
2. You would receive a TAA but do not because you have not yet exhausted your unemployment benefits, and are covered under a TAA certification.
3. You are a worker receiving a supplemental wage allowance under section 246 of the Trade Act of 1974 for such month.
4. You are at least 55 years old as of the first day of the month and are receiving pension benefits from the PBGC.

Once you qualify under (1) or (2) above, you remain eligible for the first month that you otherwise cease to be eligible.

Example. You receive a TAA for individuals during May, but do not receive another for the rest of the year. You are eligible for the health coverage tax credit for both May and June.

You are not an eligible individual if an exemption can be claimed for you on another person's tax return.

ATAA workers. If you are eligible for the Alternative Trade Adjustment Assistance (ATAA) program, you are eligible for this credit for a period not to exceed two years if you:

1. Are covered by a qualifying certification,
2. Are reemployed not more than 26 weeks after the date of separation from the adversely affected employment,
3. Are at least 50 years of age,
4. Do not earn more than \$50,000 a year in wages from reemployment,

5. Are employed on a full-time basis, and
6. Do not return to the employment from which you were separated.

Qualifying Family Member

You can include the premiums you pay for qualified health insurance for qualifying family members in figuring your credit. Qualifying family members are:

- Your spouse, and
- Your dependents for whom you can claim an exemption on your tax return. (For children whose parents are divorced, see *Children of divorced parents*, later.)

However, if any otherwise qualifying family member has other specified coverage (defined later), then that person is not a qualifying family member. Also, your spouse is not your qualifying family member if:

- You are married on the last day of your tax year,
- Your spouse is also an eligible individual, and
- You file separate returns.

Children of divorced parents. If a child is in the custody of one or both of the child's parents for more than one-half of the year, the child is generally considered the dependent of the parent having custody for the greater part of the year (the custodial parent) if the parents either:

- Are divorced or legally separated under a decree of divorce or separate maintenance,
- Are separated under a written separation agreement, or
- Lived apart at all times during the last 6 months of the year.

For purposes of the health coverage tax credit, a child in this situation is treated as the dependent of the custodial parent even if:

1. The custodial parent cannot claim an exemption for the dependent child because that parent released any claim to the exemption for the year, or
2. There is a pre-1985 decree or agreement that entitles the noncustodial parent to the exemption.

Legally separated. You are not considered married if you are legally separated from your spouse under a decree of divorce or separate maintenance. You can claim the credit on a separate return.

Married and living apart. You are not considered married and can claim the credit if all of the following apply.

- You file a separate return.
- Your home is the home of a qualifying person (defined later) for more than half the year.
- You pay more than half the cost of keeping up your home for the year.

- Your spouse does not live in your home for the last 6 months of the year.

Qualifying person. A qualifying person is any of the following individuals.

- Your dependent under age 13 for whom you can claim an exemption.
- Your spouse or dependent who is physically or mentally not able to care for himself or herself.

Qualified Health Insurance

The following health insurance qualifies for the credit.

- COBRA continuation coverage. (This is coverage that employers with 20 or more employees must offer to employees or former employees and their beneficiaries who have lost coverage because of certain events.)
- Coverage under a group health plan that is available through the employment of your spouse. (But see *Other Specified Coverage*, later.)
- Coverage under an individual health insurance policy if you were covered during the entire 30-day period that ends on the date you separated from the employment which qualified you for the allowance or benefit as an eligible individual (defined earlier). For this purpose, coverage under an individual health insurance policy includes medical insurance offered to individuals and their families, but does not include coverage under a federal, state, or other group health insurance policy.

State-qualified health insurance. The following health insurance qualifies for the credit to the extent the sponsoring state elects to have it apply.

- State-based continuation coverage provided by the state under a state law that requires such coverage.
- Coverage offered through a qualified state high-risk pool.
- Coverage under a health insurance program offered to state employees or a similar state-based health insurance program.
- Coverage through an arrangement entered into by the state and a group health plan, an issuer of health insurance coverage, an administrator, or an employer.
- Coverage offered through a state arrangement with a private sector health care coverage purchasing pool.
- Coverage under a state-operated health plan that does not receive any federal financial participation.

To find out which plans are qualified for your state, you can:

- Visit the website, www.irs.gov, type “hctc” in the *IRS* keyword box, click on “go,” and then under *Re-*

sources, click on *A list of Qualified Health Plans* organized by state, or

- You can call 1-866-628-4282 (tollfree) (or TDD/TTY 1-866-626-4282) between 7:00 a.m. and 7:00 p.m. central time, Monday through Friday.

Nonqualified Health Insurance

The following health insurance does not qualify for the credit.

1. Medicare supplemental (Medigap) insurance, Tricare supplemental insurance, or similar supplemental insurance to an employer-sponsored group health plan.
2. Any insurance if substantially all of the coverage is:
 - a. Coverage for on-site medical clinics,
 - b. Hospital indemnity or other fixed indemnity insurance,
 - c. Accident or disability income insurance (or a combination of the two),
 - d. Liability insurance,
 - e. A supplement to liability insurance,
 - f. Workers’ compensation or similar insurance,
 - g. Automobile medical payment insurance,
 - h. Credit-only insurance,
 - i. Limited scope dental or vision benefits,
 - j. Benefits for long-term care, nursing home care, home health care, community-based care (or any combination), or
 - k. Coverage for only a specified disease or illness.
3. Coverage under a flexible spending or similar arrangement.

Insurance that covers other individuals. If you have qualified health insurance that covers anyone besides yourself and your qualifying family member(s), (defined earlier), you may not be able to take into account all of your payments. You cannot treat an amount as paid for insurance for yourself and qualifying family members unless all of the following requirements are met.

- The charge for insurance for yourself and qualifying family members is either separately stated in the contract or furnished to you by the insurance company in a separate statement.
- The amount you paid for insurance for yourself and qualifying family members is not more than the charge that is stated in the contract or furnished by the insurance company.
- The amount stated in the contract or furnished by the insurance company is not unreasonably large in relation to the total charges under the contract.

Eligible Coverage Month

Eligibility for the credit is determined on a monthly basis. An eligible coverage month is any month in which, as of the first day of the month, you:

1. Are an eligible individual (defined earlier),
2. Are covered by qualified health insurance (defined earlier) that you pay for,
3. Do not have other specified coverage (defined later), and
4. Are not imprisoned under federal, state, or local authority.

If you file a joint return, only one spouse has to satisfy the requirements.

Other Specified Coverage

Even if you are otherwise eligible, you are not eligible for the credit for a month if, as of the first day of the month, you have other specified coverage. Other specified coverage is coverage under the following.

1. Any insurance which constitutes medical care (unless substantially all of that insurance is for benefits listed earlier under (1) or (2) under *Nonqualified Health Insurance*) if at least 50% of the cost of the coverage is paid by an employer (or former employer) of you or your spouse.
2. Any of the following government health programs:
 - a. Medicare Part A or Part B,
 - b. Medicaid, or the State Children's Health Insurance Program (SCHIP),
 - c. The Federal Employees Health Benefit Plan (FEHBP), or
 - d. Tricare, the medical and dental care program for members and certain former members of the uniformed services and their dependents.



Two important points here are that you are not entitled to the credit for a month, if on the first day of that month, you are either:

1. Covered by Medicare, or
2. Covered by a group health plan available through your or your spouse's employer and the employer contributes 50% or more of the premium.

How To Report

To claim the credit, complete Form 8885, Health Coverage Tax Credit, and attach it to your Form 1040 or Form 1040NR. Report the credit on Form 1040, line 69, or Form 1040NR, line 63, and check box c. You cannot claim the credit on Form 1040A or Form 1040EZ.

You must attach invoices and proof of payment for any amounts you include on Form 8885, line 2, for which you did not receive an advance payment. If you file your return

electronically, attach the invoices and proof of payment to your Form 8453. Proof of payment may include a pay stub if insurance is through a spouse's employment, a bank check, or bank statement for premiums that are automatically deducted from your account.

If you claim this credit, you cannot take the same expenses that you use to figure your health coverage tax credit into account in determining your:

- Medical and dental expenses on Schedule A (Form 1040),
- Self-employed health insurance deduction, or
- Archer Medical Savings Account (MSA) distributions.

Refundable and Advanceable

You can claim this credit and receive a refund even if you do not owe any taxes or earn any income.

You can get your credit in advance by calling the HCTC customer contact center at 1-866-628-4282 (tollfree) (or TDD/TTY 1-866-626-4282) between 7:00 a.m. and 7:00 p.m. central time, Monday through Friday, to register. The Treasury Department will pay your insurer 65% of your health insurance premiums as you pay the remaining 35%. The amount of the credit you can claim on your tax return will be reduced by the amount of the credit you receive in advance.

How To Get Tax Help

You can get help with unresolved tax issues, 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.

Contacting your Taxpayer Advocate. If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate independently represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate toll free at 1-877-777-4778.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call 1-800-829-4059 if you are a TTY/TDD user.
- Visit the website at www.irs.gov/advocate.

For more information, see Publication 1546, The Taxpayer Advocate Service of the IRS—How To Get Help With Unresolved Tax Problems.

Free tax services. To find out what services are available, get Publication 910, IRS 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.



Internet. You can access the IRS website 24 hours a day, 7 days a week, at www.irs.gov to:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2004 refund. Click on *Where's My Refund*. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically) and have your 2004 tax return available because you will need to know your filing status and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- See answers to frequently asked tax questions.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using our Form W-4 calculator.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.



Fax. You can get over 100 of the most requested forms and instructions 24 hours a day, 7 days a week, by fax. Just call 703-368-9694 from the telephone connected to your fax machine. When you call, you will hear instructions on how to use the service. The items you request will be faxed to you.

For help with transmission problems, call 703-487-4608.

Long-distance charges may apply.



Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-829-3676 to order current-year forms, instructions, and publications and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain

IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.

- *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 and press 2 to listen to pre-recorded messages covering various tax topics.
- *Refund information.* If you would like to check the status of your 2004 refund, call 1-800-829-4477 and press 1 for automated refund information or call 1-800-829-1954. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically) and have your 2004 tax return available because you will need to know your filing status and the exact whole dollar amount of your refund.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.



Walk-in. Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- *Services.* You can walk in to your local Taxpayer Assistance Center every business day to ask tax questions or get help with a tax problem. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. You can set up an appointment by calling your local Center and, at the prompt, leaving a message requesting Everyday Tax Solutions help. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.



Mail. You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 business days after your request is received. Use 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 for tax products. You can order Publication 1796, IRS Federal Tax Products CD-ROM, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms and instructions.
- Frequently requested tax forms that may be filled in electronically, printed out for submission, and saved for recordkeeping.

- Internal Revenue Bulletins.

Buy the CD-ROM from National Technical Information Service (NTIS) on the Internet at www.irs.gov/cdorders for \$22 (no handling fee) or call 1-877-233-6767 toll free to buy the CD-ROM for \$22 (plus a \$5 handling fee). The first release is available in early January and the final release is available in late February.



CD-ROM for small businesses. Publication 3207, The Small Business Resource Guide, CD-ROM 2004, is a must for every small business owner or any taxpayer about to start a business. This handy, interactive CD contains all the business tax forms, instructions, and publications needed to successfully manage a business. In addition, the CD provides an abundance of other helpful information, such as how to prepare a business plan, finding financing for your business, and much more. The design of the CD makes finding information easy and quick and incorporates file formats and browsers that can be run on virtually any desktop or laptop computer.

It is available in early April. You can get a free copy by calling 1-800-829-3676 or by visiting the website at www.irs.gov/smallbiz.



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Tax Publications for Individual Taxpayers

See *How To Get Tax Help* 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)
- 334** Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)
- 509** Tax Calendars for 2005
- 553** Highlights of 2004 Tax Changes
- 910** IRS Guide to Free Tax Services

Specialized Publications

- 3** Armed Forces' Tax Guide
- 54** Tax Guide for U.S. Citizens and Residents Aliens Abroad
- 225** Farmer's 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 (Including the Health Coverage Tax Credit)
- 503** Child and Dependent Care Expenses
- 504** Divorced or Separated Individuals
- 505** Tax Withholding and Estimated Tax
- 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
- 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
- 536** Net Operating Losses (NOLs) for Individuals, Estates, and Trusts
- 537** Installment Sales
- 541** Partnerships
- 544** Sales and Other Dispositions of Assets
- 547** Casualties, Disasters, and Thefts
- 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
- 571** Tax-Sheltered Annuity Plans (403(b) Plans)
- 575** Pension and Annuity Income
- 584** Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
- 587** Business Use of Your Home (Including Use by Daycare Providers)
- 590** Individual Retirement Arrangements (IRAs)
- 593** Tax Highlights for U.S. Citizens and Residents Going Abroad
- 594** What You Should Know About the IRS Collection Process
- 595** Tax Highlights for Commercial Fishermen
- 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** The IRS Will Figure Your Tax
- 968** Tax Benefits for Adoption
- 969** Health Savings Accounts and Other Tax-Favored Health Plans
- 970** Tax Benefits for Education
- 971** Innocent Spouse Relief
- 972** Child Tax Credit
- 1542** Per Diem Rates
- 1544** Reporting Cash Payments of Over \$10,000 (Received in a Trade or Business)
- 1546** The Taxpayer Advocate Service—How to Get Help With Unresolved Problems

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 Tax Help* for a variety of ways to get forms, including by computer, fax, phone, and mail. For fax orders only, use the catalog number 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 on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts	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	9465 Installment Agreement Request	14842
1040X Amended U.S. Individual Income Tax Return	11360		