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MAXIMUM LIMITATIONS ON DEDUCTION FOR MEDICAL EXPENSES

OCTOBER 3, 1962.—Ordered to be printed

Mr. BYRD of Virginia, from the Committee on Finance, submitted the following

REPORT

[To accompany H.R. 10620]

The Committee on Finance, to which was referred the bill (H.R 10620) to amend section 213 of the Internal Revenue Code of 1954 to increase the maximum limitations on the amount allowable as a deduction for medical, dental, etc., expenses, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

I. SUMMARY OF THE BILL

H.R. 10620, as passed by the House, raises the ceiling limitations now applicable to medical expense deductions. Your committee has accepted the House provision without change.

The medical expense deduction ceilings which are generally applicable are doubled by the House bill. Thus, the maximum medical expense deduction which may be taken by married couples, for example, is increased from $10,000 to $20,000, while the maximum which may be taken by single persons is increased from $5,000 to $10,000. In addition, the maximum amount which may be taken with respect to each exemption is increased from $2,500 to $5,000. For those age 65 or over who are disabled, the ceiling also is increased. Where both the taxpayer and his spouse are 65 or over and disabled, the ceiling is increased from $30,000 to $40,000, while the ceiling applicable where only one person is age 65 or over and disabled is increased from $15,000 to $20,000.

II. GENERAL STATEMENT

Under present law, the ceiling on medical expense deductions which may be taken has the effect of denying a deduction for medical expenses in the extreme hardship cases; namely, those cases in which the medical expenses are very large. In some cases, for example the expenses actually exceed the individual's income for the year. Your committee agrees with the House that in these and other such hardship cases the taxpayer should not be required to pay income tax with respect to income which must be devoted to the payment of legitimate medical bills. On the other hand, it is also recognized that it is difficult to accurately determine what constitutes a medical expense, and cases have arisen where items involving large expenses, which may not constitute proper medical expense deductions, nevertheless have been taken and allowed. In order to foreclose the deduction of these questionable types of items, it is necessary to retain some ceiling limitations on medical expense deductions, at least until it is possible to more accurately define proper medical expenses.

In view of these considerations, present law is amended in effect to double the generally applicable medical expense deductions ceilings. Also, ceilings applicable to those age 65 or over who are disabled are increased.

Under present law, a taxpayer is entitled to medical expense deductions of $2,500 per exemption (not including extra exemptions for blindness or age 65 or over). The bill raises this to $5,000. In addition, under present law, the maximum medical expense deduction of married couples filing joint returns, heads of households, and surviving sponses is limited to $10,000 without regard to the number of exemptions. The bill increases this limitation to $20,000. For other single persons, present law provides a maximum medical expense deduction of $5,000. The bill increases this to $10,000.

As special exceptions to the ceilings described above, present law provides that the maximum medical expense deduction for a taxpayer who is 65 or over and is disabled, or a taxpayer who files a joint return with a spouse who has reached age 65 and is disabled, is $15,000. The bill raises this ceiling to $20,000. Present law also provides that the maximum medical expense deduction on a joint return where both the taxpayer and his spouse have reached age 65 and both are disabled is $30,000. The bill increases this to $40,000.

The changes made by this provision apply with respect to taxable years beginning after December 31, 1961.

III. DEPARTMENTAL REPORT

TREASURY DEPARTMENT,
September 27, 1962.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in response to a request for the views of this Department on H.R. 10620 as amended and passed by the House of Representatives on September 11, 1962. This bill is entitled "An act to amend section 213 of the Internal Revenue Code of 1954 to increase the maximum limitations on the amount allowable as a deduction for medical, dental, etc., expenses."

H.R. 10620 would liberalize the medical expense deduction by raising the amount of the dollar limitations on the deductibility of medical expenses.

Present law allows taxpayers within certain prescribed limits to take an itemized deduction for medical expenses. The deduction is limited to the portion of the taxpayer's medical expenses that exceeds 3 percent of his adjusted gross income. However, if either the taxpayer or his spouse has reached the age of 65 before the close of the taxable year this 3-percent limit does not apply to their own medical expenses but only to medical expenses incurred for their dependents.

In addition, the medical expense deduction is generally subject to a maximum limitation of $2,500 per exemption (not including exemptions for age and blindness), and to a maximum overall limit of $5,000 for a single taxpayer or a married taxpayer filing a separate return, and $10,000 for a taxpayer filing a joint return or a head of household. Under H.R. 10620, these limitations would be doubled so that the new ceiling would henceforth be $5,000, $10,000 and $20,000, respectively.

The dollar limitations just described apply to all taxpayers except that larger dollar limits are provided for elderly, disabled taxpayers. For these, the maximum limitation under present law is $15,000, where either the taxpayer or his spouse has attained the age of 65 and is disabled, and is $30,000 on a joint return where both the taxpayer and his spouse are over 65 years of age and disabled. The House bill would raise these limitations to $20,000 and $40,000, respectively.

The legislation would be effective for taxable years beginning after December 31, 1961.

The medical expense deduction is intended to provide a limited deduction for extraordinary medical expenses. Since its adoption in 1942, the deduction has been liberalized a number of times in keeping with changing conditions. The ever-increasing costs of medical care is a matter of serious concern to us all, and the Treasury is not unaware that the expenses of certain illnesses are prohibitive and, in some cases, the cause of serious hardships to many taxpayers.

The principal problem in the administration of the medical expense deduction is determining what is a medical expense. In the past there has been some abuse in the claiming of ordinary living expenses as medical expenses. As the maximum dollar limits to the deduction are raised, it becomes increasingly difficult to prevent the claiming of such living expenses as medical expenses.

The Treasury is presently considering as part of its studies on major tax reform the whole subject of medical expense deduction. In this study, an appraisal is to be made not only of the limitation in present law but also of the definition of items includible in the term "medical expense" as well as other related matters. It would seem inopportune at this point to proceed with a partial amendment of a provision that is under comprehensive study since recommendations shortly may be forthcoming for revision of the whole provision, including the portion which the House bill would now change.

For this reason the Department is opposed to the enactment of H.R. 10620 at this time.

The Department has been advised by the Bureau of the Budget that there is no objection from the standpoint of the administration's program to the submission of this report to your committee.

Sincerely yours,

STANLEY S. SURREY,
Assistant Secretary.

IV. CHANGES IN EXISTING LAW

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1954

SUBTITLE A—INCOME TAXES

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SEC. 213. MEDICAL, DENTAL, ETC., EXPENSES

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(c) Maximum Limitations.—Except as provided in subsection (g), the deduction under this section shall not exceed [$2,500] *$5,000*, multiplied by the number of exemptions allowed for the taxable year as a deduction under section 151 (other than exemptions allowed by reason of subsection (c) or (d), relating to additional exemptions for age or blindness); except that the maximum deduction under this section shall be—

(1) [$5,000] *$10,000*, if the taxpayer is single and not the head of a household (as defined in section 1(b)(2)) and not a surviving spouse (as defined in section 2(b)) or is married but files a separate return; or

(2) [$10,000] *$20,000*, if the taxpayer files a joint return with his spouse under section 6013, or is the head of a household (as defined in section 1(b)(2)) or a surviving spouse (as defined in section 2(b)).

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(g) MAXIMUM LIMITATION IF TAXPAYER OR SPOUSE HAS ATTAINED AGE 65 AND IS DISABLED.—

(1) SPECIAL RULE.—Subject to the provisions of paragraph (2), the deduction under this section shall not exceed—

(A) [$15,000] *$20,000*, if the taxpayer has attained the age of 65 before the close of the taxable year and is disabled, or if his spouse has attained the age of 65 before the close of the taxable year and is disabled and if his spouse does not make a separate return for the taxable year, or

(B) [$30,000] *$40,000*, if both the taxpayer and his spouse have attained the age of 65 before the close of the taxable year and are disabled and if the taxpayer files a joint return with his spouse under section 6013.

(2) AMOUNTS TAKEN INTO ACCOUNT.—For purposes of paragraph (1)—

(A) amounts paid by the taxpayer during the taxable year for medical care, other than amounts paid for—

(i) his medical care, if he has attained the age of 65 before the close of the taxable year and is disabled, or

(ii) the medical care of his spouse, if his spouse has attained the age of 65 before the close of the taxable year and is disabled,

shall be taken into account only to the extent that such amounts do not exceed the maximum limitation provided in subsection (c) which would (but for the provisions of this subsection) apply to the taxpayer for the taxable year;

(B) if the taxpayer has attained the age of 65 before the close of the taxable year and is disabled, amounts paid by him during the taxable year for his medical care shall be taken into account only to the extent that such amounts do not exceed [$15,000] *$20,000*; and

(C) if the spouse of the taxpayer has attained the age of 65 before the close of the taxable year and is disabled, amounts paid by the taxpayer during the taxable year for the medical care of his spouse shall be taken into account only to the extent that such amounts do not exceed [$15,000] *$20,000*.

(3) MEANING OF DISABLED.—For purposes of paragraph (1), an individual shall be considered to be disabled if he is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued and indefinite duration. An individual shall not be considered to be disabled unless he furnishes proof of the existence thereof in such form and manner as the Secretary or his delegate may require.

(4) DETERMINATION OF STATUS.—For purposes of paragraph (1), the determination as to whether the taxpayer or his spouse is disabled shall be made as of the close of the taxable year of the taxpayer, except that if his spouse dies during such taxable year such determination shall be made with respect to his spouse as of the time of such death.

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