

CHEAP TRICKS

Plan now for 2007 tax deductions

by Martin M. Shenkman, CPA, MBA, PFS, JD

If you're lucky enough to have great medical insurance coverage, you're still likely to have considerable out-of-pocket costs for MS that insurance won't cover. If you're not so lucky, your unreimbursed medical costs really mount up. This article will guide you on deducting some of them. To get every deduction you can and protect yourself so you'll breeze through if you get audited, you need to understand basic tax rules, take some planning steps, and **keep records**.

You can't avoid tax time. You might avoid paying too much. See how here.

Deducting medical expenses generally

To get a deduction, your payments for medical or dental bills have to be, according to the IRS, "primarily to alleviate physical or mental defects or illnesses." Payments for general health, such as vitamins or a vacation trip, are not deductible.

● **Tip:** If you're taking supplements specifically to address your MS, have your doctor prescribe them. Then save the prescription in your tax file so you can demonstrate that they are not just for general health.

● **Tip:** You must actually pay a bill in 2007 to deduct it on your 2007 return. If you pay by check it's the date you mail or deliver the check that determines the year of deduction. For credit cards it's the date the charge appears on the bill, even if you pay it in 2008.

● **Tip:** Save all cancelled checks and credit card receipts.

A catch: insurance reimbursements

If your insurance pays for an expense, or reimburses you for it in 2007, you cannot deduct the amount the company paid or reimbursed.

You can only deduct what you paid over the reimbursement.

The 7.5% rule

You can only deduct medical expenses that exceed 7.5% of your adjusted gross income (AGI). AGI is all your taxable income (wages, dividends, interest) less certain adjustments (e.g., alimony).

● **Tip:** Bunch your big medical expenses! Estimate what 7.5% of your income is likely to be. If you're going to be close to that amount this year, try to defer medical expenses until 2008 or accelerate ones you'd otherwise pay in 2008 into this year. The goal is to bunch medical expenses in the years when you will exceed the 7.5% threshold.

Example: You earn \$45,000 and \$5,000 of investment income, for a total of \$50,000. You spend \$16,000 on medical costs, of which \$9,000 is reimbursed by insurance. So your medical expenses total \$7,000 [\$16,000 minus \$9,000]. But—7.5% x \$50,000 is \$3,750. This comes off the top. You can legally deduct the balance: \$3,250.

Deducting home improvements

You can deduct the cost of special equipment and home improvements as medical expenses if the main purpose is your medical care. These can include adding an accessible entrance ramp, installing a lift, widening doorways, building handrails, modifying cabinets, and so on. But your deduction is limited. Specifically, you cannot deduct your expenditures if the improvements increased the value of your home.

Example: You spent \$10,000 to add a wheelchair ramp to your front porch, and an elevator to your second floor. Your home was worth \$350,000 before and \$353,000 after. Your \$10,000 expenditure is reduced by \$3,000—the increase in your home's value. You can claim a \$7,000 deduction—plus other medical expenses—after subtracting the same 7.5% of your AGI as explained above.

● **Tip:** Improvements to accommodate a disability generally don't increase the value of your home, but the safest and least costly approach would be to have a local realtor give you a "before" and "after" valuation. The cost of this will be modest compared to a formal appraisal, and far more persuasive than ignoring the issue until you're audited.

Deducting conference expenses

The cost of attending a medical conference that addresses the concerns of a chronic illness for you, a spouse, or dependent (e.g., child) can be considered a medical expense. You can deduct the costs of admission and travel, but **not** meals and lodging.

Deducting work-related expenses

There is a valuable exception to the 7.5% rule. If your MS causes you to incur extra expenses ("impairment related expenses" in IRS terminology) to do your work satisfactorily, those costs are deductible—as business expenses, not medical expenses.

If you're self-employed, these are written off on Schedule C. If you're an employee, you'll have to fill out a special schedule, Form 2106 "Unreimbursed Employee Business Expenses." While most employee business expenses are reduced by 2% of your adjusted gross income (similar to the reduction by 7.5% for medical expenses), impairment-related expenses are not reduced.

Example: In order to continue working, you purchase a scooter and hire a part-time assistant to move equipment for you because of your MS fatigue. These costs should be fully deductible under this rule. Your deduction will not be subject to the 7.5% medical threshold because it is a business expense. It is not subject to the 2% threshold on business expenses because it is an "impairment-related expense."



The key is record-keeping

To maximize your tax deductions, make a possible audit easy, and save time and effort, keep good records. One good approach is to use a computerized checkbook and bookkeeping program like Quicken. These programs can memorize all your payments, set automatic reminders to pay regular bills, and more. Modify the standard categories to reflect various medical deduction categories you'll use. (Most are discussed in this article). Once the set-up is done (have someone help you if you're not familiar with it) a few key strokes will make record-keeping routine and easy. Not only will this eliminate much paperwork, you'll be able to print out schedules of deductions for your tax return.

If you write checks by hand, use two lines per entry in your check register and include a detailed description of each check. Consider using a special symbol or color of ink for different tax categories to make the year-end work easier.

The final step in the process is to coordinate the back up. Set up a filing system that matches your computerized (or manual) checkbook. Use file folders or a loose-leaf binder for all your receipts. File by check number or by tax category. **Example:** You pay a credit card bill that includes a medical expense. Number the credit card and medical receipts with the check number and put them in your file or binder in check number order. Or set up your folders or binder with tabs for each tax deduction category. File all your receipts (as they come in) in the appropriate folder or behind the appropriate tab.

Filing your return

You'll need to file Form 1040 including Schedule A "Itemized Deductions." The simpler Form 1040A and Form 1040EZ cannot be used.

Bottom line

With these steps you'll safely maximize tax deductions. Be cautious, however. There are a myriad of additional rules and complexities. This article explains some of the general rules and a few of the benefits most likely to be relevant.

● **Tip:** Hire a tax pro to help, but minimize their time and your cost by getting all your records into pristine order.

The unfortunate reality is that tax benefits just don't provide enough help for anyone with a chronic illness like MS. I'd say more but this is supposed to be a tax column, not an Op Ed.



Martin Shenkman knows MS because his wife was diagnosed in 2007. He's the author of 35 books including **Funding the Cure** (Demos, 2007). For more on financial, estate, and charitable planning for MS, visit his Web site, www.laweasy.com, and watch for his next column here.

Seattle family wants college-age students to have a leg up

by Martha King

Just three years ago the O'Donnell Foundation made a substantial gift to the National MS Society Scholarship Program in the State of Washington, jumpstarting its impact. Responses to the expanded program came from all over the state. This year, the Greater Washington Chapter was able to award 22 scholarships to students entering college—and, in an expansion of the national program, 44 scholarships to returning sophomores and juniors who were previous recipients.

Clearly, the chapter has emerged as a leader in this important Society program. Since 2003, the Society has awarded 715 scholarships nationally, to the tune of \$1,550,446. The Washington Chapter is responsible for 134 of them, by providing \$402,000 in scholarship funding.

Scholarships give hope

We met Jim O'Donnell, the chair of the O'Donnell Foundation, in New York this July. He had just delivered an impassioned presentation on the program to the Society's National Programs Review Committee. "Supporting students affected by MS should be one of the Society's top priorities," Jim said. "The impact of education can't be overstated as a way to counteract the realities of MS."

"Each scholar's personal story helps you wrap your arms around the power and positive results of the program," Jim explained. One scholar from a small Washington community is attending her first year of college this fall. She has a 3.73 high school GPA, is a member of the honor society, and tutors children in the summer. Her divorced mother has MS. With four people in the household, she has worked 20 hours a week to provide financial support to her family. Even with her contributions, the family's gross income is \$10,000, the bulk of which comes from Social Security.

"I know this scholarship will have a significant