



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
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OFFICE OF
CHIEF COUNSEL

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October 23, 2006

Dear _____ :

Senator Conrad Burns wrote to us on your behalf and asked us to respond to your question about why the law limits taxpayer's deductions for medical expenses and miscellaneous expenses to amounts above certain percentages of adjusted gross income (AGI).

Medical Expense Deduction

Section 213(a) of the Internal Revenue Code allows deductions for medical expenses when a taxpayer's medical expenses for a year exceed 7.5 percent of the taxpayer's AGI for that year. The deduction allowed is the amount by which the taxpayer's medical expenses exceed this 7.5 percent "floor". The limitation on deductions for medical expenses dates from 1942; the floor was originally 5 percent. The legislative history states that the deduction ". . . will be a help to persons or families having to undergo unusual outlays for medical purposes in any year. It is not intended to take care of the ordinary medical expenses, which on the average do not exceed 5 percent of net income" (88 Congressional Record 8469 (1942) (statement of Congressman Hinshaw)).

In 1986, the Congress raised the floor for medical expense deductions to 7.5 percent of AGI as part of the Tax Reform Act of 1986. The legislative history of the amendment affirms that Congress intended the deduction to help individuals with large medical expenses that absorb a substantial portion of a taxpayer's income and substantially affect the taxpayer's ability to pay taxes (Senate Rept. No. 99-313, at 59 (1986)). The Congress wanted to reduce the number of tax returns claiming deductions for medical expenses to eliminate the need for many taxpayers to keep records substantiating

medical expenses and to reduce the number of small deduction claims that the IRS would have to examine (Senate Rept. No. 99-313, supra).

Miscellaneous Expense Deduction

Also in 1986, Congress enacted section 67 of the Internal Revenue Code that allows deductions for miscellaneous expenses when a taxpayer's miscellaneous expenses for a year exceed 2 percent of the taxpayer's AGI for that year. The deduction allowed is the amount by which the taxpayer's miscellaneous expenses exceed this 2 percent floor. Under prior law, taxpayers who anticipated claiming itemized deductions were required to keep extensive records for often small expenditures. The Congress wanted to reduce the number of returns claiming deductions for miscellaneous expenses to reduce the record-keeping burden on taxpayers and the examination burden on the IRS. The Congress considered section 67 to be a desirable simplification of the tax law (H.R. Rept. No. 99-426, 109-110 (1986)).

Again, I hope this information is helpful. If you have any questions, please contact _____, _____, at (____) _____.

Sincerely,

George J. Blaine
Deputy Associate Chief Counsel
(Income Tax and Accounting)

cc: The Honorable Conrad Burns