How Seniors Can Cope With The Higher Post-2016 Floor Beneath Medical Expenses

It's time for older taxpayers—those age 65 and above—to consider how they will be affected by the higher post-2016 floor beneath medical expenses. Some may lose their medical expense deduction next year, while others may even be forced to take the standard deduction for the first time because of the raised floor. The first line of defense for older taxpayers is to make sure they aren't missing any medical deduction dollars. Then, it may pay to employ a bunching strategy for 2016-2017 expenses to make sure such taxpayers make the best use of their medical expense deductions.

<u>Unwelcome Surprise on the Way for Seniors</u>

For decades, medical expenses for all taxpayers that itemized were deductible to the extent they cumulatively exceeded 7.5% of adjusted gross income (AGI). However in 2010, the Affordable Care Act (ACA) raised this floor. For tax years beginning after December 31, 2012, the floor beneath the itemized deduction for medical expenses was increased from 7.5% of AGI to 10% of AGI.

To abate the outcry from older Americans, many of whom have more medical problems than the young, and therefore have heftier medical expenses, the ACA postponed raising the floor for seniors only. For tax years beginning after December 31, 2012 and ending before January 1, 2017—i.e., for 2013, 2014, 2015, and 2016—the 7.5% floor applies if the taxpayer or his or her spouse has reached age 65 before the close of the tax year. But the postponement ends this year and the 10% floor will take effect for seniors for tax years ending after December 31, 2016.

A taxpayer's first step to coping with the upcoming hike in the medical expense deduction floor is to make sure he or she is claiming or will be able to claim all legitimate medical expenses.

Deductible medical expenses are unreimbursed payments for the diagnosis, mitigation, treatment, prevention of disease or for the purpose of affecting the body's structure or function, and the costs of nursing services and related insurance payments and transportation expenses.

<u>Timing Considerations</u>

An itemizer may be certain that he will exceed the medical-expense-deduction floor for 2016, but may be uncertain about exceeding the floor for 2017. A taxpayer in this situation should consider putting plans in motion now to take care of discretionary or elective medical expenses this year rather than next. Such expenses may include dental implants or bridgework, or expensive eyewear (e.g., variable focus lenses), as well as certain types of surgeries that might safely be postponed or accelerated, such as LASIK surgery, cataract surgery, or knee replacement surgery. Taking care of any unpaid medical or dental bills before the end of the year would have the same effect as discretionary or elective medical expenses.

Where deferral may make sense. A taxpayer may be fairly certain that he will not exceed the medical-expense-deduction floor for 2016, but believes it possible that he will exceed next year's floor, even though it will be higher. This may be the case where the taxpayer or the taxpayer's spouse has been newly diagnosed with a degenerative disease, or where qualified LTC expenses or expensive nursing services are likely to be incurred next year. In such cases, the taxpayer should consider deferring discretionary or elective medical expenses until next year.

Deferring such expenses also may be appropriate where a taxpayer is likely to claim the standard deduction this year, but knows he will itemize deductions next year because of a non-medical-expense reason. This may include, for example, if the taxpayer plans to purchase a residence or make large charitable contributions.

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