



Tax Reduction Letter

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Revenue Ruling 55-331

Section 23(a), Deductions from Gross Income: Expenses

January 1955

Premiums paid by an individual for his personal disability insurance do not constitute business expenses under section 23(a) of the Internal Revenue Code of 1939, but constitute personal expenses the deduction of which is prohibited by section 24(a)(1) of the Code. Further, such payments do not constitute medical expenses within the meaning of section 23(x) of the Code. However, any amounts received by such individual pursuant to the insurance contract are excludable from gross income under section 22(b)(5) of the Code as amounts received as compensation for personal injuries or sickness.

Advice has been requested whether premiums paid by a taxpayer for his personal disability insurance, under the following circumstances, are deductible from his gross income as a business expense under the provisions of section 23(a) of the Internal Revenue Code of 1939 or as a medical expense under section 23(x) of the Code.

The taxpayer purchased disability insurance which would, in part, replace income lost by reason of the loss of, or loss of the use of, a portion of the body vital to his profession. The contract provides that, in consideration of the premiums paid, if at any time during the period of the insurance the taxpayer shall sustain full loss or partial loss of that part or parts of the body insured, the underwriters will pay the assured, his executors, or administrators, compensation in accordance with the terms of the contract, but not exceeding an aggregate of a certain sum. The specific question presented is whether the premiums paid for such contract of insurance are deductible as a business expense under section 23(a) of the Code.

The applicable sections of the Code involved are as follows:

SEC. 23. DEDUCTIONS FROM GROSS INCOME.

In computing net income there shall be allowed as deductions:

- (a) EXPENSES.-
 - (1) TRADE OR BUSINESS EXPENSES.-
 - (A) In General.-All the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, * * *.

* * *

- (x) **MEDICAL, DENTAL, ETC., EXPENSES.**-Expenses paid during the taxable year, not compensated for by insurance or otherwise, for medical care of the taxpayer, his spouse, or a dependent * * *

* * *

The term "medical care", as used in this subsection, shall include amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body (including amounts paid for accident or health insurance) * * *.

SEC. 24. ITEMS NOT DEDUCTIBLE.

- (a) **GENERAL RULE.**-In computing net income no deduction shall in any case be allowed in respect of-
 - (1) Personal, living, or family expenses, except extraordinary medical expenses deductible under section 23 (x);

SEC. 22. GROSS INCOME.

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- (b) **EXCLUSIONS FROM GROSS INCOME.**-The following items shall not be included in gross income and shall be exempt from taxation under this chapter;

* * *

- (5) **COMPENSATION FOR INJURIES OR SICKNESS.**-Except in the case of amounts attributable to (and not an excess of) deductions allowed under section 23 (x) in any prior taxable year, amounts received, through accident or health insurance or under workmen's compensation acts as compensation for personal injuries or sickness, plus the amount of any damages received whether by suit or agreement on account of such injuries or sickness, * * *;

The statute clearly distinguishes between ordinary and necessary expenses of a trade or business and personal expenses, the former being deductible and the latter nondeductible. Section 23 (a) (1) of the Code is not all inclusive, but the deduction of expenses under that section is limited to those referred to therein.

Since the benefits available to the taxpayer under the terms of the insurance contract indemnify him against loss of, or loss of the use of, a portion of the body, it is held that the premiums paid for such coverage do not constitute a business expense within the meaning of section 23 (a) of the Code, but constitute personal expenses the deduction of which is prohibited by section 24 (a) (1) of the Code. Further, since the benefits available indemnify the taxpayer against specified

losses or bodily injuries and do not, in any way, reimburse him for any medical expenses, the premiums paid for the coverage do not constitute a proper deduction under section 23 (x) of the Code as an extraordinary medical expense. Compare Rev. Rul. 19, C. B. 1953-1 59. However, any amounts received by the taxpayer pursuant to the insurance contract are excludable from gross income under the provisions of section 22 (b) (5) of the Code.