



Tax Reduction Letter

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Revenue Ruling 78-39

Section 213. Medical, Dental, Etc., Expenses

Credit card; medical expenses. The use of a bank credit card to pay an expense for medical care qualifies as the payment of a medical expense in the year the credit card charge is made regardless of when the bank is repaid.

Advice has been requested whether the use of a credit card to pay an expense for medical care is "payment" sufficient to support a deduction of the amount of the charge as an expense for medical care "paid during the taxable year," for the year the credit card charge was made, under section 213 of the Internal Revenue Code of 1954.

An individual (cardholder), who files tax returns on a calendar year basis, uses credit cards issued by a bank to purchase goods and services. The contract between the cardholder and the bank includes a provision that the cardholder agrees to pay the bank the total amount on the charge statement used to document each purchase. The bank provides blank charge statements (drafts) to participating vendors from whom the cardholder may make purchases by use of the bank credit card.

On November 15, 1976, the cardholder used the bank credit card to pay a hospital \$500 for medical services rendered to the cardholder. The bank billed the cardholder for this charge in December 1976, but the cardholder made no payment until January 1977. The cardholder paid the full amount of the indebtedness to the bank during the course of calendar year 1977.

The specific question presented is whether the \$500 payment to the hospital by the use of a bank credit card is includible in the medical expense deductions claimed on the cardholder's 1976 tax return.

Section 213 (a) of the Code allows as a deduction expenses paid during the taxable year, not compensated for by insurance or otherwise, for medical care of the taxpayer, the taxpayer's spouse, or dependent, subject to certain limitations.

Section 1.213-1 (a) (1) of the Income Tax Regulations provides, in pertinent part, that a deduction is allowable only to individuals and only with respect to medical expenses actually paid during the taxable year, regardless of when the incident or event that occasioned the expense occurred and regardless of the method of accounting employed by the taxpayer in making income tax returns. Thus, if the medical expenses are incurred but not paid during the taxable year, no deduction for such expenses shall be allowed for such year.

In the instant case, when the cardholder used the bank credit card to pay the hospital for the medical expenses, the cardholder became indebted to a third party (the bank) in such a way that the cardholder could not prevent the hospital from receiving payment. The credit card draft

received by the hospital from the cardholder could be deposited in the bank and credited to the hospital's account as if it were a check.

Since the cardholder's use of the bank credit card created the cardholder's own debt to a third party, the use of the bank credit card to pay a hospital for medical services is equivalent to use of borrowed funds to pay a medical expense. The general rule is that when a deductible payment is made with borrowed money, the deduction is not postponed until the year in which the borrowed money is repaid. Such expenses must be deducted in the year they are paid and not when the loans are repaid. *William J. Granan, 55 T.C. 753 (1971)*.

Accordingly, the \$500 payment made by bank credit card to the hospital is includible in the medical expense deductions claimed on the cardholder's 1976 tax return.