

Revenue Ruling 87-106

Medical, Dental, Etc., Expenses

Medical expenses; handicapped condition; capital expenditures. Listed are expenditures eligible for the medical expense deduction if made for the primary purpose of accommodating a personal residence to the handicapped condition of the taxpayer, the taxpayer's spouse, or dependents who reside there.

ISSUE

What capital expenditures incurred to accommodate a residence to a handicapped condition of the taxpayer, the taxpayer's spouse, or one of the taxpayer's dependents are deductible in full under *section 213 of the Internal Revenue Code*?

LAW AND ANALYSIS

Section 213 (a) of the Code allows a deduction in computing taxable income for expenses paid during the taxable year, not compensated for by insurance or otherwise, for medical care of the taxpayer, the taxpayer's spouse, or a dependent (as defined in *section 152*) to the extent that the expenses exceed 7.5 percent of the taxpayer's adjusted gross income.

Section 213 (d) (1) of the Code defines the term "medical care" to include amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any [*2] structure or function of the body.

Section 1.213-1 (e) (1) (ii) of the regulations provides, in part, that deductions for expenditures for medical care allowable under *section 213 of the Code* will be confined strictly to expenses incurred primarily for the prevention or alleviation of a physical or mental defect or illness. An expenditure that is merely beneficial to the general health of an individual is not an expenditure for medical care.

Section 1.213-1 (e) (1) (iii) of the regulations provides, in part:

Capital expenditures are generally not deductible for Federal income tax purposes. See *section 263* and the regulations thereunder. However, an expenditure which otherwise qualifies as a medical expense under *section 213* shall not be disqualified merely because it is a capital expenditure. For purposes of *section 213* and this paragraph, a capital expenditure made by the taxpayer may qualify as a medical expense, if it has as its primary purpose the medical care (as defined in subdivisions (i) and (ii) of this subparagraph) of the taxpayer, his spouse, or his dependent. Thus, a capital expenditure which is related only to the sick person and is not related to permanent improvement or [*3] betterment of property, if it otherwise qualifies as an expenditure for medical care, shall be deductible; for example, an expenditure for eye glasses, a seeing eye dog, artificial teeth and limbs,

a wheel chair, crutches, an inclinator or an air conditioner which is detachable from the property and purchased only for the use of a sick person, etc. Moreover, a capital expenditure for permanent improvement or betterment of property which would not ordinarily be for the purpose of medical care (within the meaning of this paragraph) may, nevertheless, qualify as a medical expense to the extent that the expenditure exceeds the increase in the value of the related property, if the particular expenditure is related directly to medical care. Such a situation could arise, for example, where a taxpayer is advised by a physician to install an elevator in his residence so that the taxpayer's wife who is afflicted with heart disease will not be required to climb stairs. If the cost of installing the elevator is \$1,000 and the increase in the value of the residence is determined to be only \$700, the difference of \$300, which is the amount in excess of the value enhancement, is deductible as a medical [*4] expense. If, however, by reason of this expenditure, it is determined that the value of the residence has not been increased, the entire cost of installing the elevator would qualify as a medical expense.

In making a capital expenditure that would otherwise qualify as being for medical care, any additional expenditure that is attributable to personal motivation does not have medical care as its primary purpose and is not related directly to medical care for purposes of *section 213 of the Code*. Such personal motivations include, for instance, architectural or aesthetic compatibility with the related property. Consequently, such additional expenditures are not deductible under *section 213*. *Ferris v. Commissioner*, 582 F.2d 1112 (7th Cir. 1978), *rev'g and rem'g T.C.M. 1977-186*. In *Ferris*, the taxpayer had incurred additional costs for architectural and aesthetic reasons in building an enclosed pool that otherwise qualified as an expenditure for medical care. A deduction for the additional costs was denied.

In *Jacobs v. Commissioner*, 62 T.C. 813 (1974), the Tax Court held that for an expense to be deductible under *section 213 of the Code* it both must be an essential element of treatment and [*5] must not have otherwise been incurred for nonmedical reasons. An expenditure failing either test would be a nondeductible personal, living, or family expense under *section 262*. See *Rev. Rul. 76-80, 1976-1 C.B. 71*.

In S. Rep. No. 99-313, 99th Cong., 2d Sess. 59 (1986), 1986-3 (Vol. 3) C.B. 59, and 2 H.R. Rep. No. 99-841 (Conf. Rep.), 99th Cong., 2d Sess. II-22 (1986), 1986-3 (Vol. 4) C.B. 22, Congress expressed a desire to clarify that certain capital expenditures generally do not increase the value of a personal residence and thus generally are deductible in full as medical expenses. These expenditures are those made for removing structural barriers in a personal residence for the purpose of accommodating it to the handicapped condition of the taxpayer or the taxpayer's spouse or dependents who reside there.

The Internal Revenue Service has determined that expenditures for the following purposes generally do not increase the fair market value of a personal residence and thus generally are eligible in full for the medical expense deduction when made for the primary purpose of accommodating a personal residence to the handicapped condition of the taxpayer, the taxpayer's spouse, or dependents [*6] who reside there:

1. constructing entrance or exit ramps to the residence;

2. widening doorways at entrances or exits to the residence;
3. widening or otherwise modifying hallways and interior doorways;
4. installing railing, support bars, or other modifications to bathrooms;
5. lowering of or making other modifications to kitchen cabinets and equipment;
6. altering the location of or otherwise modifying electrical outlets and fixtures;
7. installing porch lifts and other forms of lifts (Generally, this does not include elevators, as they may add to the fair market value of the residence and any deduction would have to be decreased to that extent. See *section 1.213-1 (e) (1) (iii) of the regulations.*);
8. modifying fire alarms, smoke detectors, and other warning systems;
9. modifying stairs;
10. adding handrails or grab bars whether or not in bathrooms;
11. modifying hardware on doors;
12. modifying areas in front of entrance and exit doorways; and
13. grading of ground to provide access to the residence.

The above list of expenditures is not exhaustive. If substantially similar expenditures are incurred to accommodate a personal residence to the handicapped condition of the taxpayer or the taxpayer's spouse [*7] or dependents who reside there, those expenditures may be eligible in full for the medical deduction, provided they do not increase the fair market value of the personal residence. Moreover, only reasonable costs incurred to accommodate a personal residence to the handicapped condition are considered to be incurred for the purpose of medical care or are directly related to medical care for purposes of *section 213 of the Code*. Additional costs attributable to personal motivations are not deductible under *section 213*.

HOLDING

Subject to the percentage limitation of *section 213 (a) of the Code*, the above capital expenditures incurred to accommodate a residence to the handicapped condition of the taxpayer, the taxpayer's spouse, or one of the taxpayer's dependents generally are deductible in full under *section 213* provided that the residence is the personal residence of the handicapped individual.