On behalf of the millions of Americans facing high expenditures for catastrophic health events, costly chronic diseases or to provide ongoing care to aging, infirmed or disabled family members, our organizations write to urge your committee to maintain the itemized medical expenses deduction, which now allows middle-class Americans to subtract qualifying medical and dental expenses exceeding 10 percent of their adjusted gross income from their federal income taxes.

According to the Internal Revenue Service (IRS), these expenses cover the "costs of diagnosis, cure, mitigation, treatment, or prevention of disease, and the costs for treatments affecting any part or function of the body," including insurance premiums, devices, and long-term care. Yet, because there is a high hurdle for taxpayers to qualify for this deduction and it is only available to those who itemize their costs, the deduction is not widely used. In fact, a recent IRS analysis revealed that only 19 percent of the itemized returns for the 2015 tax year included the deduction for medical expenditures.\footnote{Internal Revenue Service (IRS). Individual Income Tax Returns Line Item Estimates, 2015. Publication 4801 (Rev. 9–2017). Available at: https://www.irs.gov/pub/irs-soi/15inlinecount.pdf} This translates into only 8.8 million tax filers.

The important point for the committee, however, is to understand who these 8.8 million Americans are. As documented in a September 17, 2017 report from the Congressional Research service (CRS), “Itemized Tax Deductions for Individuals: Data Analysis,” the taxpayers using this deduction are the very ones the proposed “Tax Cuts and Jobs Act” is supposed to help – middle-class people with incomes well below $200,000 a year and most frequently making between $50,000 and $100,000 a year.\footnote{Congressional Research Service (CRS). Individualized Tax Deductions for Individuals: Data Analysis. September 21, 2017. Available at: https://fas.org/sgp/crs/misc/R43012.pdf} Additionally, AARP estimates that about three-quarters of those who claim the medical expense deduction are 50 or older, and more than 70 percent have annual incomes of $75,000 or below.\footnote{Kaiser Health News. House Tax Bill Would Scrap Deduction for Medical Expenses. November 2, 2017. Available at: https://khn.org/news/house-tax-bill-would-scrap-deduction-for-medical-expenses/}
From the standpoint of the federal budget, the cost of maintaining the medical expense deduction will be minimal. According to the Treasury Department, it will cost about $10 billion a year in lost tax revenues in 2018 and about $144 billion over the next 10 years. By contrast, the toll on middle-class Americans if they lose this deduction will be substantial and painful, especially when they or a family member must confront a life-threatening diagnosis, a crippling accident, a progressive disease like Alzheimer’s, or caring for an older adult or a child with special needs.

According to the same 2016 analysis from the IRS, those 8.8 million Americans whose qualified medical costs exceeded 10 percent of their adjusted gross income in 2015 claimed $87 billion in expenses not covered by health insurance. In some situations, these costs came from out of nowhere and were out of the taxpayer’s control. In other cases, the deduction was a way to defray some of the unpredictable or unmanageable costs of care without going into medical debt, including high co-insurance, high deductibles, having to seek out-of-network care, and needing a treatment that is not covered by the person’s health plan.

For example, many middle-class taxpayers now use the medical expense deduction to help cover the uncompensated cost of long-term care for aging family members, including nursing homes and assisted living facilities. To put these costs into perspective, in 2016, the average annual cost of a private room in a nursing home was about $92,000 and $82,000 for a shared room. In the same year, the average annual cost of a home health aide to provide care was $31,000. On an individual level, this can mean payments of $7,000 a month for an elderly loved one.

Similarly, middle-income Americans now use the itemized medical expense deduction to help manage their out-of-pocket costs for chronic diseases like cancer. According to the American Cancer Society, in 2014, cancer patients paid nearly $4 billion out-of-pocket for their treatment. Additionally, a 2016 study from researchers at the University of Southern California (USC), Boston Children’s Hospital and the Rand Corporation estimates that parents, including many with limited means, provide nearly $36 billion annually in uncompensated medical care at home to children who have special health care needs, such as muscular dystrophy and cystic fibrosis.

While far from exhaustive, these examples underscore the need to maintain the medical expense deduction, which is certainly not overused and helps the middle-class pay for needed care for themselves and their loved ones while staying afloat. Today, one in five working age adults with health insurance have difficulty paying medical bills and as a result, are spending less on food,

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clothing and basic household items, using up most or all of their savings, taking an extra job or working more hours, increasing their credit card debt, and borrowing money from family and friends.

One of the ways the committee can help these Americans is by continuing to allow taxpayers with high medical costs to deduct these expenses from the income taxes.

We appreciate your consideration of the issues raised in this letter, and look forward to working closely with the Committee on this important matter.

Sincerely,

HealthyWomen
Alliance for Aging Research