

Bolster medical deduction for support

Suppose you support an elderly relative such as a parent, in-law or favorite aunt or uncle. Unfortunately, however, you get no tax benefit for your support.

Strategy: Pay the relative's medical expenses directly to the medical service provider. Even though dependency deductions are no long available under the Tax Cuts and Jobs Act (TCJA), you can add the payments onto your total medical expenses for the year for itemized deduction purposes.

For 2017 and 2018, the TCJA lowers the threshold for deducting medical expenses from 10% of adjusted gross income (AGI) to 7.5% of AGI. So those extra expenses you pay for a relative just might be enough to put you over the top.

Here's the whole story: Under prior rules for claiming a dependency exemption for an elderly relative, you had to provide more than half of the relative's support and he or she could not have more than the exemption amount in gross taxable income. (The personal exemption amount for 2017 was \$4,050.) For medical deduction purposes, however, the IRS says in Pub. 502, *Medical and Dental Expenses*, that you don't have to worry about the "gross income" part of the test.

Example: Uncle Joe receives \$10,000 in Social Security benefits and \$4,900 of taxable investment income a year. Since you give him \$1,250 a month for rent—for an annual total of \$15,000—you will provide more than half of Joe's support (\$15,000 vs. \$14,900). Under the old rules, you would not have qualified for a dependency exemption because of the gross income test. But the TCJA eliminated dependency exemptions anyway, beginning in 2018 and sunseting after 2025.

Joe has a \$1,000 medical expense this month. He intends to pay it out of his investment earnings.

Better idea: Pay the \$1,000 doctor's bill for Joe. Either reduce your monthly rent outlay by \$1,000 or, if you can afford it, add it to your ongoing support (or somewhere in between). Now you can include the \$1,000 payment in your medical expense calculation. This may qualify you for a deduction in 2018 or increase an existing one.

Tip: Joe can't deduct the medical expense, but he probably doesn't qualify for a deduction anyway. Plus, the deduction is more valuable to you in your higher tax bracket than it is to him.