

TAX PLANNING

(NOTE: The following article is the first in a series of four articles on year-end tax planning prepared for this newspaper by the Committee on Taxation of the Pennsylvania Institute of Certified Public Accountants.)

Save Money By Paying Major Bills Now

Have the medical bills for you and your dependents been heavy in 1966? It might be beneficial to make a quick calculation to determine the amount deductible on your 1966 individual income tax return.

The income tax laws permit a deduction for payment of

medical expenses if they exceed three percent of your adjusted gross income. Purchases of medicines and drugs, however, are "medical expenses" only to the extent they exceed one percent of your adjusted gross income. For taxpayers over 65 years of age the three percent and one percent limitations are waived for 1966. This waiver ends after 1966, so taxpayers over 65 will then be treated the same as all others.

Your planning in this area should consider any reimbursement for medical expenses you have received or anticipate receiving. Reimbursements applicable to medical expenses paid during the year are properly offset against such expenses in arriving at your medical expense deduction. Reimbursements attributable to medical expenses for which a deduction was allowed in a prior year are considered income in the year received.

If you have not yet paid all your medical bills, your year-end tax planning should consider whether the payments should be accelerated or deferred. To the extent your payments can be "bunched" in one year, resulting in expenses

in excess of the limitation, you will have gained a medical deduction which may not otherwise have been available.

Since the rules for deductibility of medical expenses change after 1966, consideration should be given to these changes:

1. Medical expenses include insurance premiums to cover hospital and doctor bills. In 1967 up to \$150 of such premiums will be deductible (if you itemize deductions) with out regard to the 3% limitation. Anything over \$150 paid for such insurance becomes part of the calculation subject to the 3% limit.

2. There will be no maximum medical expense deduction in 1967.

3. Insurance premiums for disability income, accidental death and dismemberment, and sight loss are not deductible.

A popular and legitimate means of reducing taxes is to alternate between years in using the standard deduction and itemizing the deductions. In the year itemization will be used, payment of deductible items in December will result in a lessening of income tax; while in the year the standard deduction will be used, payments of items due near the end of the year should be postponed until January. You cannot, however, obtain a deduction by paying a bill that is not due (i.e.: making a prepayment or "advance payment" on medical or dental work to be performed at a later date). But if you are considering a

medical check up, new glasses, or a visit to the dentist, a quick calculation may be in order to determine if payment for such medical expenses will be advantageous this year.

Examples of medical expenses in addition to those already enumerated include payments to laboratories and nurses, the cost of X-rays, hearing devices, dentures, and transportation expenses relative to illness. If you use your automobile for transportation to doctors, hospitals, etc., you may use a standard mileage rate of \$.05 per mile to determine the deductible cost.

Your planning should also consider any wages or payments received under a wage-continuation plan while absent from work on account of sickness or injury. If payments received during the first thirty days of absence are not more than 75 percent of your weekly wage rate, they may be excluded from your gross income up to a maximum of \$75 per week. This exclusion, however, does not apply for the first week of absence unless you are hospitalized at least one day during your absence. If you are absent from work for more than thirty days, payments received applicable to the period beginning with the thirty-first day of absence may be excluded up to \$100 a week, regardless of whether they ex-



Temperatures for the period Saturday through Wednesday will average below the normal range of 43 to 27 degrees. Officially, the weatherman said it will be cold throughout the period following some moderation over the weekend. Unofficially, he said, "Don't believe it; it's getting colder every minute!" We'll go along with that.

Not much precipitation is in the five-day forecast at this time as the weatherman looks for less than 1/4-inch total moisture, and this in the form of snow flurries about Monday. Would you believe 12 inches?

ceed 75 percent of your weekly wage rate.

One other item to consider is the likelihood of your being in a higher or lower tax bracket in 1967. Obtaining a deduction in the year of greater income and higher tax rates is the aim of tax planning.

Now is the time to review your unpaid bills to determine whether, for income tax purposes, they should be paid now or deferred until January of 1967.



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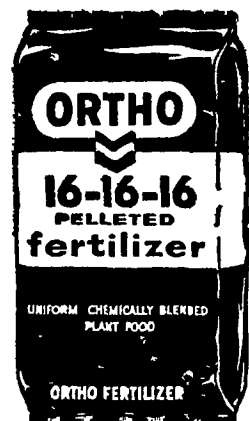


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