Congressional Research Service
Informing the legislative debate since 1914

Individual Tax Provisions ("Tax Extenders") Expiring in 2020: In Brief

February 28, 2020

Congressional Research Service
https://crsreports.congress.gov
R46243

CRS REPORT
Prepared for Members and
Committees of Congress

Congressional Research Service
Informing the legislative debate since 1914

Individual Tax Provisions ("Tax Extenders") Expiring in 2020: In Brief

R46243

February 28, 2020

Molly F. Sherlock, Coordinator
Specialist in Public Finance

Grant A. Driessen
Analyst in Public Finance

Jane G. Gravelle
Senior Specialist in Economic Policy

Mark P. Keightley
Specialist in Economics

Sean Lowry
Analyst in Public Finance

SUMMARY

Six temporary individual income tax provisions were extended or reinstated by the Further Consolidated Appropriations Act, 2020 (P.L. 116-94). In the past, Congress has regularly acted to extend expired or expiring temporary tax provisions. These provisions are often referred to as "tax extenders." Of the six provisions that were extended through 2020, three had expired in 2017 and were extended retroactively. They are

- the tax exclusion for canceled mortgage debt,
- the mortgage insurance premium deduction, and
- the above-the-line deduction for qualified tuition and related expenses.

Two of the tax provisions extended through 2020 are health related. The first of these provisions was scheduled to expire at the end of 2019. The second had expired at the end of 2018, and thus was extended retroactively. They are

- the health coverage tax credit, and
- the 7.5% floor for the medical expense deduction.

A sixth provision, the exclusion from gross income for volunteer firefighters and emergency responders, which had expired in 2010, was reinstated and expanded for one year, through 2020. This report provides background information on individual income tax provisions that will expire in 2020. For other reports related to extenders, see

- CRS Report R45347, *Tax Provisions That Expired in 2017 ("Tax Extenders")*, by Molly F. Sherlock,
- CRS Report R44990, *Energy Tax Provisions That Expired in 2017 ("Tax Extenders")*, by Molly F. Sherlock, Donald J. Marples, and Margot L. Crandall-Hollick, and
- CRS Report R44930, *Business Tax Provisions that Expired in 2017 ("Tax Extenders")*, coordinated by Molly F. Sherlock.

Contents

Introduction 1
Tax Exclusion for Canceled Mortgage Debt 2
Mortgage Insurance Premium Deductibility 3
Above-the-Line Deduction for Qualified Tuition and Related Expenses 4
Credit for Health Insurance Costs of Eligible Individuals 6
Medical Expense Deduction Adjusted Gross Income (AGI) Floor of 7.5% 7
Benefits for Volunteer Firefighters and Emergency Medical Responders 9

Tables

Table 1. Estimated Cost of Temporary Individual Provisions in P.L. 116-94 2
Table 2. Distribution by Income Class of the Qualified Tuition Deduction, 2017 6

Contacts

Author Information 9

Introduction

In the past, Congress has regularly acted to extend expired or expiring temporary tax provisions.[1] Collectively, these temporary tax provisions are often referred to as "tax extenders." There are 33 temporary tax provisions scheduled to expire at the end of 2020. This report discusses six provisions related to the individual income tax: (1) the tax exclusion for canceled mortgage debt, (2) mortgage insurance premium deductibility, (3) the above-the-line deduction for qualified tuition and related expenses, (4) the credit for health insurance costs of eligible individuals, (5) the medical expense deduction adjusted gross income (AGI) floor of 7.5%, and (6) the exclusion for income of certain state and local tax rebates and reimbursement for volunteer firefighters and emergency medical responders.

These six provisions were extended through 2020 in the Further Consolidated Appropriations Act, 2020 (P.L. 116-94). The first three provisions had expired at the end of 2017 and have been included in recent tax extenders legislation. Two provisions are housing related. The provision allowing homeowners to deduct mortgage insurance premiums was first enacted in 2006 (effective for 2007). The provision allowing qualified canceled mortgage debt income associated with a primary residence to be excluded from income was first enacted in 2007. Both provisions were temporary when first enacted, but in recent years have been extended as part of tax extenders legislation. The above-the-line deduction for qualified tuition and related expenses was first added as a temporary provision in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16), and has regularly been extended since.

The Further Consolidated Appropriations Act, 2020, also extended through 2020 individual provisions that expired in 2019 and 2018. The credit for health insurance costs of eligible individuals (also known as the health coverage tax credit [HCTC]) was scheduled to expire after 2019, whereas the medical expense deduction adjusted gross income (AGI) floor of 7.5% had expired at the end of 2018. The act also reinstated for one year, and expanded, a provision allowing for the exclusion from income of certain state and local tax rebates and reimbursement for volunteer firefighters and emergency medical responders that had expired in 2010.

The three provisions that expired in 2018, 2019, or 2010 were not in the previous tax extenders legislation. The health coverage tax credit, which applied to recipients of trade adjustment assistance, among others, was last extended through 2019 by the Trade Preferences Extension Act of 2015 (P.L. 114-27). The 7.5% floor for itemized deductions for medical expenses was provided through 2018 by the 2017 tax revision (P.L. 115-97, commonly known as the Tax Cuts and Jobs Act). The exclusion of reimbursements for volunteer firefighters and emergency medical respondents was originally enacted in the Mortgage Forgiveness Debt Relief Act of 2007 (P.L. 110-142).

In recent years, Congress has chosen to extend most, if not all, recently expired or expiring provisions as part of tax extenders legislation. The most recent tax extenders package is in the Taxpayer Certainty and Disaster Tax Relief Act of 2019, Division Q of the Further Consolidated Appropriations Act, 2020 (P.L. 116-94). The temporary reinstatement of the exclusion for volunteer firefighters and emergency medical responders was in a different part of the act, Division O, the Setting Every Community Up for Retirement Enhancement ("SECURE") Act of 2019.

[1] For an overview of tax extenders, see CRS Report R45347, *Tax Provisions That Expired in 2017 ("Tax Extenders")*, by Molly F. Sherlock.

The estimated cost of the extensions of temporary individual tax provisions enacted in the Further Consolidated Appropriations Act, 2020 (P.L. 116-94) is provided in **Table 1**. As described above, the first three provisions had expired at the end of 2017. Thus, they were extended for three years (with two years of the three-year extension being retroactive). The 7.5% medical expense deduction floor had expired at the end of 2018, meaning that one year of the two-year extension was retroactive. The health care tax credit was scheduled to expire at the end of 2019, and was extended for one year. The provision for volunteer firefighters and emergency medical responders is scheduled to be effective for one year (2020).

Table 1. Estimated Cost of Temporary Individual Provisions in P.L. 116-94

(billions of dollars)

Provision	Cost of Extension or Enactment in P.L. 116-94
Tax Exclusion for Canceled Mortgage Debt	$2.3
Mortgage Insurance Premium Deductibility	$1.3
Above-the-Line Deduction for Qualified Tuition and Related Expenses	$0.7
Credit for Health Insurance Costs of Eligible Individuals	([1])
Medical Expense Deduction Adjusted Gross Income Floor of 7.5%	$3.6
Benefits for Volunteer Firefighters and Emergency Medical Responders	([1])

Source: Joint Committee on Taxation, *Estimated Budget Effects of the Revenue Provisions Contained in the House Amendment to the Senate Amendment to H.R. 1865, the Further Consolidated Appropriations Act, 2020,"* December 17, 2019, JCX-54R-19.

Notes: ([1]) is less than $50 million. The cost estimates are estimated reductions in revenue over a 10-year budget period (FY2020 - FY2029). However, all reductions in revenue occur in either FY2020 or FY2021 because the extensions are through 2020.

Tax Exclusion for Canceled Mortgage Debt[2]

Historically, when all or part of a taxpayer's mortgage debt has been forgiven, the amount canceled has been included in the taxpayer's gross income.[3] This income is typically referred to as canceled mortgage debt income. Canceled (or forgiven) mortgage debt is common with a short sale, in which a homeowner agrees to sell a house and transfer the proceeds to the lender in exchange for the lender relieving the homeowner from repaying any debt in excess of the sale proceeds. For example, in a short sale, a homeowner with a $300,000 mortgage may be able to sell the house for $250,000. The lender would receive the $250,000 from the home sale and forgive the remaining $50,000 in mortgage debt.[4] Lenders report the canceled debt to the Internal Revenue Service (IRS) using Form 1099-C. A copy of the 1099-C is also sent to the borrower, who in general must include the amount listed in his or her gross income in the year of discharge.

To understand why forgiven debt has historically been taxable, it may be helpful to explain why it is viewed as income from an economic perspective. Income is a measure of the increase in an

[2] Section 108(a)(1)(E) of the Internal Revenue Code.

[3] Generally, any type of debt that has been canceled is to be included in a taxpayer's gross income. Several permanent exceptions to this general tax treatment of canceled debt exist. They are discussed in CRS Report RL34212, *Analysis of the Tax Exclusion for Canceled Mortgage Debt Income*, by Mark P. Keightley and Erika K. Lunder.

[4] A lender must agree to a short sale prior to a borrower selling a house, or the borrower will still be obligated to repay the balance remaining on the mortgage.

individual's purchasing power over a designated period of time. When individuals experience a reduction in their debts, their purchasing power has increased (because they no longer have to make payments). Effectively, their disposable income has increased. From an economic standpoint, it is irrelevant whether a person's debt was reduced via a direct transfer of money to the borrower (e.g., wage income) that was then used to pay down the debt, or whether it was reduced because the lender forgave a portion of the outstanding balance. Both have the same effect, and thus both are subject to taxation.

The Mortgage Forgiveness Debt Relief Act of 2007 (P.L. 110-142), signed into law on December 20, 2007, temporarily excluded qualified canceled mortgage debt income that is associated with a primary residence from taxation. Thus, the act allowed taxpayers who did not qualify for one of several existing exceptions to exclude canceled mortgage debt from gross income. The provision was originally effective for debt discharged before January 1, 2010. Since then, the provision has regularly been extended as part of the tax extenders. The exclusion was most recently extended through December 31, 2020, in the Taxpayer Certainty and Disaster Tax Relief Act of 2019, enacted as Division Q of the Further Consolidated Appropriations Act, 2020 (P.L. 116-94).

The rationales for extending the exclusion are to minimize hardship for households in distress and lessen the risk that nontax homeowner retention efforts are thwarted by tax policy. The exclusion's supporters may also argue that extending the exclusion would continue to assist the recoveries of the housing market and overall economy. The exclusion's opponents may argue that extending the provision would make debt forgiveness more attractive for homeowners, which could encourage homeowners to be less responsible about fulfilling debt obligations. Some may also view the exclusion as unfair because its benefits depend on whether a homeowner is able to negotiate a debt cancelation, the taxpayer's income tax bracket, and whether the taxpayer retains ownership of the house following the debt cancellation.

Mortgage Insurance Premium Deductibility[5]

Traditionally, homeowners who itemize their tax deductions have been able to deduct the interest paid on their mortgages, as well as any property taxes they pay. Beginning in 2007, homeowners could also deduct qualifying mortgage insurance premiums as a result of the Tax Relief and Health Care Act of 2006 (P.L. 109-432). Specifically, homeowners could effectively treat qualifying mortgage insurance premiums as mortgage interest, thus making the premiums deductible if the homeowner itemized, and if the homeowner's adjusted gross income was below a certain threshold ($55,000 for single, and $110,000 for married filing jointly). Originally, the deduction was only to be available for 2007, but it was extended several times. The deduction was extended through December 31, 2020, in the Taxpayer Certainty and Disaster Tax Relief Act of 2019, enacted as Division Q of the Further Consolidated Appropriations Act, 2020 (P.L. 116-94).

Taxpayers of all ages may be less likely to claim the mortgage insurance premium deduction compared to prior periods because other provisions of the 2017 tax revision, including a higher standard deduction (in part as a trade-off for elimination of personal exemptions) and a cap on the deduction of state and local taxes, reduced the expected number of itemizers (projected to fall from about one-third of individual income tax returns to 11%).[6]

[5] Section 163(h)(3)(E) of the Internal Revenue Code.

[6] The 11% estimate for 2019 is from Joint Committee on Taxation, *Overview of the Federal Tax system as In Effect for 2019*, JCX-9-19, March 20, 2019, https://www.jct.gov/publications.html?func=startdown&id=5172.

A justification for allowing the deduction of mortgage insurance premiums is that it helps to promote homeownership and, relatedly, the recovery of the housing market following the December 2007-June 2009 Great Recession. Homeownership is often argued to bestow certain benefits to society, such as higher property values, lower crime, and higher civic participation. Homeownership may also promote a more even distribution of income and wealth, as well as establish greater individual financial security. Furthermore, homeownership may have a positive effect on living conditions, which can lead to a healthier population.

With regard to the first justification, it is not clear that the deduction for mortgage insurance premiums affects the homeownership rate. Economists have identified the high transaction costs associated with a home purchase—mostly resulting from the down payment requirement, but also from closing costs—as the primary barrier to homeownership.[7] The ability to deduct insurance premiums does not lower this barrier—most lenders will require mortgage insurance if the borrower's down payment is less than 20% regardless of whether the premiums are deductible. The deduction may allow buyers to borrow more, however, because they can deduct the higher associated premiums and therefore afford a higher housing payment.

Concerning the second justification, it is also not clear that the deduction for mortgage insurance premiums is still needed to assist in the housing market's recovery. Based on the S&P CoreLogic Case-Shiller U.S. National Composite Index, home prices have generally increased since the bottom of the market following the Great Recession.[8] In addition, the available housing inventory is now slightly below its historical level.[9] Both of these indicators suggest that the market is stronger than when the provision was enacted.

Economists have noted that owner-occupied housing is already heavily subsidized via tax and nontax programs. To the degree that owner-occupied housing is oversubsidized, it could be argued that extending the deduction for mortgage insurance premiums would lead to a greater misallocation of resources that are directed toward the housing industry.

Above-the-Line Deduction for Qualified Tuition and Related Expenses[10]

This provision allows taxpayers to deduct up to $4,000 of qualified tuition and related expenses for postsecondary education (both undergraduate and graduate) from their gross income. Expenses that qualify for this deduction include tuition payments and any fees required for enrollment at an eligible education institution.[11] Other expenses, including room and board

[7] See for example, Peter D. Linneman and Susan M. Wachter, "The Impacts of Borrowing Constraints," *Journal of the American Real Estate and Urban Economics Association*, vol. 17, no. 4 (Winter 1989), pp. 389-402; Donald R. Haurin, Patrick H. Hendershott, and Susan M. Wachter, "Borrowing Constraints and the Tenure Choice of Young Households," *Journal of Housing Research*, vol. 8, no. 2 (1997), pp. 137-154; and Mathew Chambers, Carlos Garriga, and Donald Schlagenhauf, "Accounting for Changes in the Homeownership Rate," *International Economic Review*, vol. 50, no. 3 (August 2009), pp. 677-726.

[8] S&P Dow Jones Indices, S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index, retrieved from FRED, Federal Reserve Bank of St. Louis https://fred.stlouisfed.org/series/CSUSHPINSA, February 25, 2020.

[9] U.S. Bureau of the Census and U.S. Department of Housing and Urban Development, "Monthly Supply of Houses in the United States," retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/MSACSR.

[10] Section 222 of the Internal Revenue Code.

[11] Payments made with borrowed funds are eligible for the deduction: the year of eligibility is determined by the date payment is made to the institution and not when the loan is repaid.

expenses, are generally not qualifying expenses for this deduction. The deduction is "above-the-line," that is, it is not restricted to itemizers.

Individuals who could be claimed as dependents, married persons filing separately, and nonresident aliens who do not elect to be treated as resident aliens do not qualify for the deduction, in part to avoid multiple claims on a single set of expenses.

The amount that can be claimed for the deduction is generally reduced by any tax-free assistance, if that assistance can be used to pay for expenses that qualify for the deduction. Tax-free assistance includes tax-free grants and scholarships (including Pell Grants), employer-provided educational assistance, and veterans' educational assistance.[12]

The maximum deduction taxpayers can claim depends on their income level. Taxpayers can deduct up to

- $4,000 if their income is $65,000 or less ($130,000 or less if married filing jointly); or
- $2,000 if their income is between $65,000 and $80,000 ($130,000 and $160,000 if married filing jointly).

Taxpayers with income above $80,000 ($160,000 for married joint filers) are ineligible for the deduction. These income limits are not adjusted for inflation.

The above-the-line deduction for qualified tuition and related expenses was enacted temporarily by the Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16). It has been extended a number of times. Most recently, the deduction was extended through December 31, 2020, in the Taxpayer Certainty and Disaster Tax Relief Act of 2019, enacted as Division Q of the Further Consolidated Appropriations Act, 2020 (P.L. 116-94).

One criticism of education tax benefits is that the taxpayer is faced with a confusing choice of deductions and credits and tax-favored education savings plans, and that these benefits should be consolidated. Some tax reform proposals have consolidated these benefits into a single education credit.[13]

Taxpayers may claim the tuition and fees deduction instead of education tax credits for the same student. These credits include permanent tax credits: the American Opportunity Tax Credit (AOTC) and Lifetime Learning Credit. The AOTC is directed at undergraduate education and is limited to the first four years of postsecondary education.[14] The Lifetime Learning Credit (20% of up to $10,000) is not limited in years of coverage. These credits are generally more advantageous than the deduction, except for higher-income taxpayers, in part because the credits are phased out at lower levels of income than the deduction. For example, for single taxpayers, the Lifetime Learning Credit begins phasing out at $59,000 for 2020.

---

[12] Qualified expenses being deducted also must be reduced if paid with tax-free interest from Education Savings Bonds, tax-free distributions from Coverdell Education Savings Accounts, and tax-free earnings withdrawn from Qualified Tuition Plans (i.e., 529 Plans).

[13] See, for example, President George W. Bush's Advisory Panel's proposal, *Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System*, November 2005, which can be found at http://www.taxreformpanel.gov/; and the proposal by Chairman Camp of the Ways and Means Committee (The Tax Reform Act of 2014). An explanation of the education provision in this draft legislation can be found at the Joint Committee on Taxation's technical discussion of the individual provisions, JCX-12-14, February 26, 2014, https://www.jct.gov/publications.html?func=startdown&id=4554.

[14] See CRS Report R41967, *Higher Education Tax Benefits: Brief Overview and Budgetary Effects*, by Margot L. Crandall-Hollick.

The deduction benefits taxpayers according to their marginal tax rate. Students usually have relatively low incomes, but they may be part of families in higher tax brackets. The maximum amount of deductible expenses limits the tax benefit's impact on individuals attending schools with comparatively high tuitions and fees. Because the income limits are not adjusted for inflation, the deduction might be available to fewer taxpayers over time if extended in its current form.

The distribution of the deduction in **Table 2** indicates that some of the benefit is concentrated in the income range where the Lifetime Learning Credit has phased out, but also that significant deductions are claimed at lower income levels. Because the Lifetime Learning Credit is preferable to the deduction at lower income levels, it seems likely that confusion about the education benefits may have caused taxpayers not to choose the optimal education benefit.[15]

Table 2. Distribution by Income Class of the Qualified Tuition Deduction, 2017

Income Class ($ in the thousands)	Percentage Distribution of All Returns Claiming Deductions	Percentage Distribution of Dollars Deducted
Below $10	23.3%	31.5%
$10 to $20	8.2	9.3
$20 to $30	5.2	5.6
$30 to $40	3.7	3.8
$40 to $50	3.6	3.3
$50 to $75	14.9	12.3
$75 to $100	5.8	5.2
$100 to $200	35.2	29.1
$200 and over	0.0	0.0

Source: Based on Internal Revenue Service, Statistics of Income, 2017, Table 1.4, available at https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income.

Credit for Health Insurance Costs of Eligible Individuals[16]

The credit for health insurance costs of eligible individuals, commonly known as the health coverage tax credit (HCTC), reduces the cost of qualified health insurance for eligible individuals.[17] To be eligible to claim the HCTC, taxpayers must be (1) an eligible trade adjustment assistance (TAA) recipient;[18] (2) an eligible alternative TAA recipient or

[15] The Government Accountability Office (GAO) has also discussed the lack of optimal choices with education preferences. See GAO, *Improved Tax Information Could Help Families Pay for College*, GAO-12-560, May 18, 2012, http://www.gao.gov/products/GAO-12-560; and GAO, *Multiple Higher Education Tax Incentives Create Opportunities for Taxpayers to Make Costly Mistakes*, GAO-08-717T, May 1, 2008, http://www.gao.gov/products/GAO-08-717T.

[16] Section 35 of the Internal Revenue Code.

[17] For additional information on this provision, see CRS Report R44392, *The Health Coverage Tax Credit (HCTC): In Brief*, by Bernadette Fernandez.

[18] For more information, see CRS Report R44153, *Trade Adjustment Assistance for Workers and the TAA*

reemployment TAA recipient; or (3) an eligible Pension Benefit Guaranty Corporation (PBGC) pension recipient.[19] Additionally, an individual is not eligible for the HCTC if they have access to "other specified coverage," which includes coverage for which an employer (or former employer) incurs 50% of the cost as well as Medicare, Medicaid, the Children's Health Insurance Programs, and other federal and military health or medical benefit plans.

Under this provision, eligible taxpayers are allowed a refundable tax credit for 72.5% of the premiums they pay for qualified health insurance for themselves and their family members. Eligible taxpayers with qualified health insurance may claim the tax credit (1) when tax returns are filed, or (2) as advance payments, on a monthly basis, throughout the year. This latter option helps taxpayers pay for health plan premiums as they become due. The credit is not available for months beginning on or after January 1, 2021

The HCTC was originally authorized by the Trade Act of 2002 (P.L. 107-210). The credit has been extended and modified several times. Extensions or modifications have been made in trade adjustment assistance legislation as well as tax extenders legislation. The Trade Preferences Extension Act of 2015 (P.L. 114-27) extended the HCTC through December 31, 2019, and also made changes to address the interaction between the HCTC and the premium tax credit established under the Patient Protection and Affordable Care Act (P.L. 111-148, as amended).[20] The credit was extended through December 31, 2020, in the Taxpayer Certainty and Disaster Tax Relief Act of 2019, enacted as Division Q of the Further Consolidated Appropriations Act, 2020 (P.L. 116-94).

Medical Expense Deduction Adjusted Gross Income (AGI) Floor of 7.5%[21]

Individuals are allowed to deduct unreimbursed medical expenses above a specific income threshold if they itemize their deductions. Prior to 2013, these deductions were allowed only for amounts in excess of 7.5% of income. Expenses reimbursed by an employer or insurance company are not eligible for deduction.

The Patient Protection and Affordable Care Act (P.L. 111-148, as amended) increased the floor for individuals claiming the itemized deduction for medical expenses from 7.5% to 10% of adjusted gross income (AGI).[22] The higher floor went into effect for taxpayers under age 65 beginning for the 2013 tax year. Individuals 65 or older, however, were still able to claim the deduction under the lower, 7.5% floor for tax years 2013 through 2016. The 2017 tax revision (P.L. 115-97)

Reauthorization Act of 2015, by Benjamin Collins.

[19] For more information, see CRS Report 95-118, *Pension Benefit Guaranty Corporation (PBGC): A Primer*, by John J. Topoleski.

[20] For more information, see CRS Report R44425, *Health Insurance Premium Tax Credits and Cost-Sharing Subsidies*, by Bernadette Fernandez.

[21] Section 213(f) of the Internal Revenue Code.

[22] Taxpayers first were allowed to deduct health care expenses above a specific income threshold in 1942. The deduction was a provision of the Revenue Act of 1942 (P.L. 77-753). In adopting such a rule, Congress was trying to encourage improved public health standards and ease the burden of high tax rates during World War II. Congress has modified the deduction a number of times, typically by either raising or lowering the AGI floor, or establishing or adjusting additional floors for various subcategories of medical spending within the deduction. For more information, see pp. 897-904 in CRS Committee Print CP10003, *Tax Expenditures: Compendium of Background Material on Individual Provisions — A Committee Print Prepared for the Senate Committee on the Budget, 2018*, by Jane G. Gravelle et al.

temporarily allowed all taxpayers (not just those aged 65 or older) to claim the deduction subject to the 7.5% floor for the 2017-2018 tax years. The Taxpayer Certainty and Disaster Tax Relief Act of 2019, enacted as Division Q of the Further Consolidated Appropriations Act, 2020 (P.L. 116-94), extends the 7.5% floor for all taxpayers through 2020. After 2020, under current law, the floor is scheduled to increase to 10% of AGI for all taxpayers.

A complicated set of rules governs the expenses eligible for the deduction.[23] Generally speaking, these expenses include amounts paid by the taxpayer on behalf of himself or herself, his or her spouse, and eligible dependents for the following purposes: (1) health insurance premiums (including employee payments for employer-sponsored health plans, Medicare Part B premiums, and other self-paid premiums); (2) diagnosis, treatment, mitigation, or prevention of disease, or for the purpose of affecting any structure or function of the body, including dental care; (3) prescription drugs and insulin (but not over-the-counter medicines); (4) transportation primarily for and essential to medical care; and (5) lodging away from home primarily for and essential to medical care, up to $50 per night for each individual.[24]

The current lower floor is for all taxpayers, and future extensions, if any, could make the lower floor general, or limit it to taxpayers 65 and over. Based on a 2011 special study of deductions by age, 58% of dollars deducted were by those 65 and over, who made up 39% of taxpayers claiming the deduction.[25]

Taxpayers of all ages may be less likely to claim the medical expense deduction compared to prior periods because, as mentioned previously, other provisions of the 2017 tax revision, including a higher standard deduction (in part as a trade-off for elimination of personal exemptions) and a cap on the deduction of state and local taxes, reduced the expected number of itemizers (projected to fall from about one-third of taxpayers to 11%).[26] These provisions are slated to expire after 2025, but are in place for the next few years. The likelihood of itemizing generally increases with income. However, the AGI floor for the medical expenses deduction reduces the likelihood that very high-income individuals would claim the deduction.[27] For all taxpayers, medical expenses alone might not make it worthwhile to itemize unless they can also claim other itemized deductions (e.g., home mortgage interest or state and local taxes).

---

[23] CRS Committee Print CP10003, *Tax Expenditures: Compendium of Background Material on Individual Provisions — A Committee Print Prepared for the Senate Committee on the Budget, 2018*, by Jane G. Gravelle et al.

[24] For more information, see IRS Publication 502, "Medical and Dental Expenses," https://www.irs.gov/publications/p502/index.html.

[25] Jeff Curry and Jonathan Dent, "Individual Income Tax Returns, by Age of Primary Taxpayer, Tax Years 1997 and 2007," IRS, Statistics of Income Bulletin, Spring 2011, https://www.irs.gov/pub/irs-soi/11inincomeretsprbul.pdf and accompanying data at https://www.irs.gov/uac/soi-tax-stats-special-studies-on-individual-tax-return-data#age.

[26] The 11% estimate for 2019 is from Joint Committee on Taxation, *Overview of the Federal Tax System as In Effect for 2019*, JCX-9-19, March 20, 2019, https://www.jct.gov/publications.html?func=startdown&id=5172.

[27] In general, a larger percentage of the tax returns from the medical expense deduction goes to taxpayers in the lower- to middle-income brackets, relative to other common itemized deductions. Lower-income taxpayers have relatively low rates of health insurance coverage because they cannot afford health insurance coverage or coverage is not offered by their employers. As a result, many of these taxpayers are forced to pay out-of-pocket for the health care they and their immediate families receive. In addition, medical spending constitutes a larger fraction of household budgets among low-income taxpayers than it does among high-income taxpayers, making it easier for low-income taxpayers to exceed the AGI threshold. See CRS Committee Print CP10003, *Tax Expenditures: Compendium of Background Material on Individual Provisions — A Committee Print Prepared for the Senate Committee on the Budget, 2018*, by Jane G. Gravelle et al. for further discussion.

Benefits for Volunteer Firefighters and Emergency Medical Responders[28]

The Mortgage Forgiveness Debt Relief Act of 2007 (P.L. 110-142) provided an exclusion from gross income of certain benefits for members of qualified voluntary emergency response organizations. These payments include the forgiveness or rebate of state and local income and property taxes or payments by states or their political subdivisions to reimburse for expenses. The exclusion was limited to $30 a month. The provision disallowed any itemized deductions for the state and local taxes otherwise excluded.

This provision was enacted after a 2002 IRS decision that a reduction in property taxes for volunteers who are emergency responders was includible in gross income.[29]

The provision was temporary, effective from the date of enactment (December 20, 2007) through 2010. The provision was allowed to expire as scheduled.

The SECURE Act of 2019, enacted as Division O of the Further Consolidated Appropriations Act, 2020 (P.L. 116-94), reinstated the provision for 2020 and increased the amount to $50 a month.

The reinstated provision is likely to have a wider scope than it previously did because of the reduction in the number of itemizers due to provisions of the 2017 tax act (P.L. 115-97), which is expected to reduce the share of itemizers, previously about one-third of taxpayers, to an estimated 11%.[30]

Author Information

Molly F. Sherlock, Coordinator
Specialist in Public Finance

Mark P. Keightley
Specialist in Economics

Grant A. Driessen
Analyst in Public Finance

Sean Lowry
Analyst in Public Finance

Jane G. Gravelle
Senior Specialist in Economic Policy

[28] Section 139B of the Internal Revenue Code.

[29] IRS Chief Counsel Advice 200302045, December 3, 2002, https://www.irs.gov/pub/irs-wd/0302045.pdf.

[30] The 11% estimate for 2019 is from Joint Committee on Taxation, *Overview of the Federal Tax System as In Effect for 2019*, JCX-9-19, March 20, 2019, https://www.jct.gov/publications.html?func=startdown&id=5172.

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.