Lang v. Commissioner, 41 B.T.A. 392 (1942)

For medical expense deductions, compensation "by insurance" refers specifically to insurance received for medical expenses, not general disability payments.

Summary

The Board of Tax Appeals addressed whether a taxpayer could deduct medical expenses when they received compensation from accident insurance policies. The IRS argued that the insurance payments fully compensated the taxpayer, disallowing the deduction. The Board held that only the portion of insurance specifically designated for medical expenses should offset the deductible medical expenses, differentiating those payments from general disability payments received under the same policies.

Facts

The taxpayer expended $2,117.90 on medical care in 1942 due to an accident. This included hospitalization, doctors' bills, nurses, and medicine. The taxpayer received $7,011.66 in total compensation under personal accident insurance contracts in 1942. Of this amount, $6,160 was for weekly disability indemnity, and $851.66 was specifically for hospitalization.

Procedural History

The Commissioner of Internal Revenue disallowed the medical expense deduction, arguing the insurance payments compensated for the expense. The taxpayer appealed to the Board of Tax Appeals, contesting the Commissioner's determination.

Issue(s)

Whether the taxpayer's medical expenses were "compensated for by insurance or otherwise" under Section 23(x) of the Internal Revenue Code when the taxpayer received payments under accident insurance contracts, part of which were for disability and part for hospitalization.

Holding

No, because only the portion of the insurance payments specifically designated for medical expenses ($851.66) should be considered as compensation reducing the deductible medical expenses. The disability payments are not considered compensation for medical care.

Court's Reasoning

The court interpreted Section 23(x) to mean that "the insurance received as compensation must necessarily be upon the risk insured, i.e., medical expense, and

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not upon some other risks" such as disability. The court emphasized that the $851.66 was paid under the policies to indemnify the petitioner specifically for hospital and graduate nurse indemnity and surgical indemnity. The court rejected the Commissioner's argument that Section 22(b)(5) supported his contention, stating that it did not aid in interpreting Section 23(x) for determining deductible medical expenses. The court reasoned that the statute plainly distinguishes between payments for medical expenses and payments for disability, even if both arise from the same accident insurance policy.

Practical Implications

This case clarifies that when determining medical expense deductions, only insurance payments specifically designated for medical care reduce the deductible amount. General disability payments or other forms of compensation received under an accident insurance policy are not considered compensation for medical expenses. This ruling is important for tax planning, allowing taxpayers to deduct medical expenses even when they receive disability income. Later cases and IRS guidance have generally followed this principle, emphasizing the need to allocate insurance payments to specific expenses to determine the deductible amount.

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