Granan v. Commissioner, 55 T. C. 753; 1971 U. S. Tax Ct. LEXIS 185 (U. S. Tax Court, February 16, 1971)

Payments on a loan used to pay medical expenses are not deductible as medical expenses in the year of repayment.

Summary

William J. Granan sought to deduct payments made in 1965 on a loan taken out in 1964 to cover his dependent sister's medical expenses. The U. S. Tax Court held that these payments were not deductible as medical expenses in 1965, as the medical expenses were considered paid in 1964 when the original note was delivered to the hospital. The court emphasized that the timing of the payment, not the repayment of borrowed funds, determines the year of deduction, adhering to established tax principles and preventing taxpayers from electing the year of deduction.

Facts

In 1964, William J. Granan's dependent sister, Marlene, incurred significant medical expenses during her 76-day hospitalization at Albany Medical Center Hospital. Granan initially paid $5,000 towards these expenses but became unemployed. He then executed a promissory note to the hospital for $4,012. 20, which was transferred to National Commercial Bank & Trust Co. After securing new employment, Granan borrowed $3,720. 93 from Albany Savings Bank, using his savings as collateral, and used these funds to pay off the hospital note in August 1964. He made payments on the bank loan in 1964 and 1965, claiming deductions for these payments as medical expenses in 1965.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Granan's 1965 Federal income tax, disallowing the deduction of the 1965 loan payments as medical expenses. Granan petitioned the U. S. Tax Court for relief, leading to the court's decision on February 16, 1971.

Issue(s)

1. Whether payments made in 1965 on a loan taken out in 1964 to pay medical expenses are deductible as medical expenses in 1965.

Holding

1. No, because the medical expenses were considered paid in 1964 when the original note was delivered to the hospital, not in 1965 when the loan was repaid.

Court's Reasoning

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The court applied the general rule that when a deductible payment is made with borrowed money, the deduction is not postponed until the years in which the borrowed money is repaid. The court cited previous cases such as *Irving Segall* and *Hazel McAdams* to support this rule. The court emphasized that the timing of the payment determines the year of deduction, and allowing deductions in the year of loan repayment would enable taxpayers to elect the year of deduction, which is contrary to established tax principles. The court acknowledged Granan's situation but could not ignore legal principles to allow the deduction in 1965. The court also noted that Congress had not provided for carryover of unused medical deductions, thus reinforcing the decision.

Practical Implications

This decision clarifies that payments on loans used to cover medical expenses are not deductible in the year of repayment. Taxpayers must claim medical expense deductions in the year the expenses are actually paid, even if payment is made with borrowed funds. This ruling affects how taxpayers and tax professionals should approach the timing of medical expense deductions, ensuring they are claimed in the correct tax year. It also underscores the absence of a legislative provision for carryover of unused medical deductions, impacting tax planning strategies. Subsequent cases, such as *Patrick v. United States*, have continued to apply this principle, reinforcing its significance in tax law.

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