Deducting Medically Necessary Home Improvements

As the population ages, more and more homes are being remodeled to accommodate the medical needs of senior citizens. And many medical conditions unrelated to aging also require substantial home modification. Understanding the rules for deducting these expenditures can reduce the net after-tax cost of making your home more accessible and responsive to the special needs of a family member or other dependent.

Individuals can claim medical deductions for the cost of special equipment (or certain improvements) installed in a home if the main purpose is to accommodate the individual’s, spouse’s, or dependents’ medical needs. However, deductions for medically required capital expenditures (e.g., remodeling) for permanent improvements to the home qualify only to the extent the costs exceed the increase in the home’s value. In other words, if a change to the home increases its value, the cost of the change is only deductible to the extent the costs exceed the new value created by the change.

For example, assume a taxpayer installs a special filtration system in his home as prescribed by a physician for his son’s allergies, and the system, including installation, cost $2,500. If the system does not increase the home’s value, the full $2,500 qualifies as a deductible medical expense. However, if the system increased the home’s value by $1,000, only the difference between the cost of the system and the increase in the home’s value ($1,500) is deductible as a medical expense. Note that the ongoing costs of operating and maintaining the filtration system will also qualify as medical expenses (as long as the son’s medical requirement continues).

Many improvements commonly made to accommodate a home for a taxpayer’s (or spouse’s or dependents’) disabled condition are deemed not to add value to the house and thus can be included in full as medical expenses. These changes include adding entrance or exit ramps, widening doorways and hallways, installing railings in bathrooms, lowering kitchen cabinets, relocating fixtures, and installing porch lifts. (But note that interior elevators are generally deemed to add value to a house and thus are not always fully deductible.)

Call us if you are considering any of these home improvements so we can help you deduct the full amount you are entitled to.