CHAPTER 7

Medical Expenses and Casualty Losses

THE medical expense allowance was added to the list of personal deductions in 1942. Its initial form has endured to the present, although its scope has been considerably enlarged. Its limits—upper and lower—make the provisions for its calculation more complex than those for the other deductions. The lower limit, or floor, is a given percentage of adjusted gross income which must be excluded from the sum of medical expenses to be deducted. The exclusion is therefore in proportion to size of income. The upper limit is a ceiling on the amount of medical expenses that can be deducted per return. The ceiling varies with the family status of the taxpayer, having a larger maximum for those with dependents.

Almost all medical and dental expenditures made on behalf of the taxpayer and his immediate family qualify for deduction. Included are payments made during the year for diagnosis, treatment, and prevention; for medical supplies, drugs, and equipment (eyeglasses, dentures, and other prosthetic devices); for hospitalization and clinical care; and premiums for accident and health insurance. To offset the inclusion of insurance premiums, only amounts not reimbursed may be included as deductions.

Quantitative Restrictions and the Rationale of the Medical Deduction

The quantitative restrictions placed on this allowance have been relaxed from time to time. Initially, 5 per cent of the taxpayer's income[1] was excluded from the medical expenses, and the maximum amount deductible was $1,250 for single persons and married persons filing separate returns, $2,500 for heads of families and married persons filing joint returns. By 1948 the deduction had evolved to a $1,250 upper limit per exemption claimed, with a maximum of $2,500 on separate returns, but the upper limit for joint returns could now reach $5,000 if there were as many as four exemptions. Beginning with 1951, the exclusion of 5 per cent of income was removed if the taxpayer,

[1] Net income (including medical expenses) before 1944; adjusted gross income from then on.

or his spouse, had reached the age of 65 (but the exclusion for medical expenses made on behalf of his dependents and the ceiling provisions remained). Recently, under the Internal Revenue code of 1954, the floor was lowered and the ceiling raised for all taxpayers. The floor was divided into two parts. For all medical, dental, and drug expenses the minimum exclusion became 3 per cent of income. But before being included with other expenses, drugs became subject to a separate floor of 1 per cent to exclude the large variety of ordinary drugstore purchases, such as bandages and aspirins, which have long been regular household expenses for American families. The floor varies at present by exclusion of between 3 and 4 per cent of income, depending on the amount spent for drugs per return. The ceilings were uniformly doubled, the upper limit now ranging from $2,500 to $10,000.

The form in which the medical deduction was cast suggests that it was intended only for taxpayers with unusually large medical expenditures in relation to their incomes. It is the only deduction for which there is strong evidence of the intent behind its enactment. On the part of the Treasury it stated: "A deduction should be allowed for extraordinary medical expenses that are in excess of a specified percentage of the family's net income. The amount allowed under such a deduction should, however, be limited to some specified maximum amount."[2] The objective appears to have been greater differentiation between taxpayers than that obtained through economic net income alone. At the same time the Treasury seems to have feared unwelcome extensions of the underlying principle, unless the deduction was confined to the unpredictable and emergency component of medical expenditures. It is not evident that the ordinary, predictable amount of such expenses, which can be budgeted like all others, affect individuals' capacity to pay taxes differently from outlays for food, clothing, and shelter. Hence, the emphasis on "extraordinary" medical expenses.[3]

[2] Statement of Randolph E. Paul at Hearings before the Committee on Ways and Means, *Revenue Revision of 1942*, 1942, 77th Cong., 2nd Sess., p. 1612.

[3] For a somewhat different point of view, see James E. Jensen, "Rationale of the Medical Expense Deduction," *National Tax Journal*, September 1954, p. 275. Jensen appears to hold that if refinement of the tax base "to correspond as closely as possible with individuals' ability to pay" is to be the objective, then "personal differences, such as medical expenses, which affect ability to pay should give rise to deductions, irrespective of the size of gross income. Of the several plans available, the full deduction plan best satisfies the differentiation objective." See also, by the same author, "Medical Expenditures and Medical Deduction Plans," *Journal of Political Economy*, December 1952, p. 504. Jensen's concept of ability to pay is not made

Of course, the mere provision of a floor is no evidence that a desire for more interpersonal equity motivated the medical deduction. A subsidy device, calculated to expand medical expenditures, could conceivably have such a feature also. Indeed, the ceiling on the amount deductible seems to contradict the interpersonal-equity rationale, for if the extraordinary, "catastrophic" element of medical expenses was to be singled out for better differentiation between taxpayers, a ceiling on the amount deductible would be in conflict with this purpose. But, judging from the words of the Treasury's spokesman at the time of enactment, a medical care subsidy through the medium of the income tax was not the primary intent. "We have to think of the revenue as well as the considerations of equity, and we do not want to open the door to a deduction for the ordinary medical expenses which go along in ordinary course in the average family. But we do think there should be some allowance, and we think of the allowance in terms of medical expenses in excess of 5 per cent of the income, but not to exceed $2,500. . . . We do not want to extend this deduction to families with chronic invalids who spend a great deal of money and perhaps enjoy their illnesses. In other words it seemed to us that $2,500 was a reasonable maximum limitation."[4] Thus the Treasury's professed interest was increased "equity,"[5] and the upper limit was proposed for administrative and revenue purposes although, as we shall see presently, the imposition of an upper limit has had only a slight effect on the amount deductible.

The minimum exclusion of 5 per cent of income, on the other hand, had a very important effect on the amount that could be deducted,

explicit, but it seems to require the deduction of all medical expenses. By extension, it might be necessary to add a large number of other deductions with a consequent drastic shrinkage of the tax base.

[4] *Revenue Revision of 1942*, pp. 1613, 1623.

[5] However, the Senate Finance Committee's report made no mention of such fundamental considerations. It recommended enactment "in consideration of the heavy tax burden that must be borne by individuals during the existing emergency and of the desirability of maintaining the present high level of public health and morale" (*The Revenue Bill of 1942*, Senate Report No. 1631, 77th Cong., 2nd Sess., 1942, p. 6). One may infer from this somewhat cryptic statement that the deduction was intended as a device to affect the volume of medical expenditures rather than one to refine the tax base in line with some concept of taxable income. But if a subsidy is desired, a tax credit of the type discussed in the chapter dealing with philanthropic contributions (pp. 87ff.), rather than an income offset, might be more appropriate. Such a tax credit, varying only with the size of medical expense, and not with income, has been proposed by Harold M. Groves to the President's Commission on Health Needs of the Nation (see Vol. 4 of the Commission's Report to the President, *Financing a Health Program for America*, Washington, 1953, p. 145).

and even on the distribution of the deduction by size of income. The 5 per cent floor was decided on when the data compiled by the National Resources Committee on consumer expenditures in 1935-1936 had already been well digested, and when figures from the Bureau of Labor Statistics' *Study of Family Spending and Saving in Wartime* were just appearing. It is therefore fair to assume that the general effect of the minimum exclusion on the amount and distribution of the deduction was understood from the outset. The data showed that, like expenditures for food and shelter, medical outlays rose as income rose, but not in proportion. They were generally close to 5 per cent of money income for families and single individuals with incomes below $2,000 and about 3 per cent of income for those with $5,000 and over (Table 39). The average for all groups was around 4 per cent. Since the figures showed that the percentage of income spent on medical care tends to vary inversely with income, it was fairly evident that medical hardship, as defined by the tax law, would be most likely to occur among persons in the lower part of the income distribution.

An inspection of the 1935-1936 and 1941 figures must have revealed from the start that under the new medical allowance (1) only a modest fraction of total medical expenditures would be deductible, and (2) the distribution, by size of income, of the medical deductions would differ appreciably from the distribution of medical expenditures themselves. The higher the 5 per cent exclusion relative to taxpayers' average medical expenditures, the less would be the deduction in the aggregate and the more concentrated in the lowest income groups.

The 1950 and 1952-1953 patterns were similar to those for the earlier years. The increase in medical expenditure continued to be in lower proportion than the increase in income, but the percentage of income spent for medical care in given income groups appears to have been much higher than before. As we see from the table, however, the rise in medical outlays at given income levels was greatly offset by the upward shift in incomes, which had taken place in the intervening years. For example, the group with less than $2,000 per annum is reported to have spent almost 12 per cent of its income for medical care in 1952-1953, as against roughly 5 per cent in the years before 1950. But it also comprised only one-fifth of the reporting units, as against two-thirds a decade earlier. The same is more clearly shown in Table 40, where families and single individuals are ranked by quintiles rather than by income groups with fixed class limits. The amount spent for

TABLE 39

Per Cent of Consumer Money Income Spent for Medical Care, by Income Groups, 1935-1936, 1941, 1950, and 1952-1953

MONEY INCOME ($000's)	*Medical Expense as Per Cent of Income* (1)		*Per Cent of Families and Single Individuals in Income Group* (2)	
1935-1936 (NATIONAL RESOURCES COMMITTEE)				
Under 1	5.2	4.7	53.0	84.0
1-2	4.3		31.0	
2-3	4.3		9.7	
3-5	4.1		4.0	
5 and over	3.2		2.3	
All Groups	4.0		100.0	
1941 (BUREAU OF LABOR STATISTICS)				
Under 1	7.5	5.6	33.9	64.4
1-2	5.0		30.5	
2-3	4.2		21.1	
3-5	4.1		10.5	
5 and over	2.7		4.0	
All Groups	4.3		100.0	
1950 (BLS—WHARTON SCHOOL: URBAN U.S.)[a]				
Under 2	7.5		18.6	
2-3	5.4		18.7	
3-5	5.0		40.9	
5-10	4.2		19.4	
10 and over	2.4		2.4	
All Groups	4.6		100.0	
1952-1953 (ANDERSON-FELDMAN)	*Based on Totals*	*Median Percentages*		
Under 2	11.8	6.2	19	
2-3.5	6.1	4.0	22	
3.5-5	5.4	3.9	24	
5-7.5	4.7	3.6	21	
7.5 and over	3.0	3.3[b]	13	
All Groups	4.8	4.1	99[c]	

[a] The percentages for 1950 are for net money income before tax, but are arrayed by net money income after tax.

[b] Because the exact incomes of families whose stated incomes were greater than $10,000 was not available, the income of each family in this group was taken to be $10,000 for this computation. The median presented for the $7,500-and-over group may conceivably be one-half of 1 per cent too high, "although the actual error is probably smaller than that." The median for all units is not likely to be too high by more than one-tenth of 1 per cent. See Anderson, *op.cit.*, p. 115.

[c] Income of 1 per cent of units unknown.

Source, by dates

1935-1936: National Resources Committee data, adjusted for comparability with

1941 BLS data (see Bureau of Labor Statistics, *Family Spending and Saving in Wartime*, Bulletin No. 822, Washington, 1945, p. 201).

1941: Bureau of Labor Statistics, *op.cit.*, pp. 68-75.

1950: Wharton School of Finance and Commerce, *Study of Consumer Expenditures, Incomes and Savings*, Vols. XI, XVI, University of Pennsylvania, 1956. The sample distributions of families by income groups for nine classes of cities were blown up to correspond to the estimated total urban population in the nine classes of cities as given in Vol. XI, p. XIII.

1952-1953: Odin W. Anderson with Jacob J. Feldman, *Family Medical Costs and Voluntary Health Insurance: A Nationwide Survey*, New York, 1956, pp. 114, 231.

medical care by all groups rose from 4.3 per cent of income in the 1941 survey to only 4.8 per cent in the 1952-1953 survey. Since the surveys were conducted under different auspices and with some differences in technique and concepts, we are not in a position to say that the figures in Table 39 indicate an upward trend.[6] In short, the percentage of

TABLE 40

Per Cent of Consumer Money Income Spent for Medical Care, by Quintiles of Consumer Units, 1935-1936, 1941, 1950, and 1952-1953

QUINTILES	*1935-1936*	*1941*[a]	*1950*	*1952-1953*
Lowest	6.9	12.9	7.3	11.6
Second	5.1	5.3	5.4	6.5
Third	4.5	5.0	5.3	5.4
Fourth	4.3	4.3	4.7	4.9
Highest	3.9	3.4	3.7	3.4
Total	4.0	4.3	4.6	4.8

[a] When negative income recipients are excluded for 1941 the percentages are as follows:

Lowest	7.9
Second	5.3
Third	5.0
Fourth	4.3
Highest	3.4
Total	4.2

Source: Same as Table 39 for 1935-1936, 1941 and 1950. For 1952-1953 the figures are not strictly comparable to those in Table 39. To obtain estimates by quintiles, the incomes of families in each income group had to be estimated. This was done by dividing mean gross medical charges as given by Anderson and Feldman (*op.cit.*), in Table A-15 by the ratio of medical outlay to income in Table A-16. The income figures thus obtained are only approximately correct.

[6] Other estimates of total personal medical care expenditures, such as that made by the Department of Commerce as part of the Personal Consumption Expenditure series, suggest that there has been no upward trend in direct personal medical care expenditures relative to income over the past quarter-century. See Table 45 and note 24 below. Louis J. Paradiso and Clement Winston have found that for the years 1947-1954 medical care and burial expenditures of consumers have, on average, varied in proportion to changes in disposable personal income (see "Consumer Expenditure-Income Patterns," *Survey of Current Business*, September 1955, p. 29).

income spent for medical care in any one (current dollar) income group has risen, but the distribution of income has shifted upward as well, and the over-all ratio of medical expenditures to income has not changed much. The first fact is probably strongly connected with the second and third: the decade separating the 1941 and 1952-1953 data was one of inflationary price rises. The cost of medical care goes up with other costs during inflation. Hence, for persons in the same income group at the beginning and at the end of the period, the ratio of medical expenditures to income is likely to rise.

Had medical expenditures not risen in proportion to incomes, the percentage exclusion would probably have lowered progressively the fraction of the public's total medical expenses that could be deducted. That lowering has so far not occurred, as we shall see later. If it should occur over a sustained period of time, the question of periodic downward revisions of the percentage exclusion (that is, the standard of medical hardship) would probably arise.

Even without a decline in the over-all ratio, there were nevertheless strong popular demands in the early 1950's to lower the percentage exclusion. In part the demands may have arisen from the realization, during a decade of experience, that while the exclusion was only a little above the ratio of average expenditures to income, the unequal distribution of medical expenditures left many more taxpayers' medical outlays below the exclusion than the ratio of average expenditures to income might suggest. This is illustrated by the juxtaposition in Table 39 of median percentages and percentages based on total expenditures and income for 1952-1953. One-half of consumer units in the survey reported medical expenses under 4 per cent of their income while total outlays were 4.8 per cent of total income.[7] These facts were, of course, not necessarily out of line with the aim of the deduction, which was presumably to make allowance for "extraordinary" expenses. Yet the deduction's adequacy is largely a matter of opinion, and both the House and Senate committees concerned found "general agreement that limiting the deduction only to expenses in excess of 5 per

[7] The same is also suggested by the statistics discussed below, showing that in 1956 18 per cent of all tax returns reported medical expenses amounting to 46 per cent of the Commerce Department's estimate of personal medical care outlays for that year (Tables 42 and 43). Emily H. Huntington, in a study entitled *Cost of Medical Care: The Expenditures for Medical Care of 455 Families in the San Francisco Bay Area, 1947-1948* (University of California Press, 1951), notes that for the 455 urban families surveyed, medical and dental expenditures were on average 7.6 per cent of income and the corresponding median percentage 5.5 per cent.

cent of adjusted gross income does not allow the deduction of all 'extraordinary' medical expenses."[8] Previously, in his budget message of January 1954, President Eisenhower had urged Congress to lower the minimum exclusion. "The present tax allowance for unusual medical expenses is too limited to cover the many tragic emergencies which occur in too many families. I recommend that a tax allowance be given for medical expenses in excess of 3 per cent of income instead of 5 per cent as at present."[9]

Three years earlier the floor had been removed entirely for a taxpayer and his spouse if either had reached the age of 65. The reasons for this move were the generally lowered earning capacity and increased medical expenses of people aged 65 and over. Therefore, it was thought that the percentage exclusion would accentuate their hardship.[10] Some may question, with Pechman,[11] whether our system of differentiating tax liabilities on the basis of income and personal exemptions does not adequately reflect any existing differences between older and younger persons' ability to pay taxes. It is true that older persons tend to have lower incomes than others, but size of income is automatically taken into account by a progressive rate schedule (and some may argue even by a flat rate income tax!). Above-average medical expenses are also allowed for, in the type of deduction available to all taxpayers. One may indeed argue that if the aged have much higher medical expenses than the rest of the population, the removal of the ceiling rather than the floor provision might be more appropriate. On the other hand, one may defend the removal of the floor for the aged, on the ground that even with incomes comparable to those of younger persons, the aged operate under peculiar handicaps: their prospects for income and ability to recuperate from illness are less favorable, and they find it frequently more difficult than younger persons to obtain medical insurance.[12]

[8] *Internal Revenue code of 1954*, House Report 1337 to accompany H.R. 8300, 83rd Cong., 2nd Sess., March 9, 1954, p. 20.

[9] *The President's Budget Message for 1955*, Washington, 1954, p. 17.

[10] See Senate Report 781, *The Revenue Act of 1951*, 82nd Cong., 1st Sess., 1951, p. 51.

[11] Joseph A. Pechman, "Individual Income Tax Provisions of the 1954 Code," *National Tax Journal*, March 1955, p. 122.

[12] "Persons 65 years of age and over are hospitalized more often than any other age group (except females 18 to 34), and they stay in the hospital longer. At the same time it is difficult for them to obtain insurance because of their age." Odin W. Anderson with Jacob J. Feldman, *Family Medical Costs and Voluntary Health Insurance: A Nationwide Survey*, New York, 1956, p. 88.

Finally, we have to consider that taxpayers with health insurance tend to get relatively less benefit from the medical deduction than those without, their precise position varying with the breadth and amount of insurance coverage.[13] The insured benefit less from the deduction because their medical outlays tend to be less erratic than those of the uninsured. The percentage exclusion was intended to make allowance for the erratic element in medical expenses. For the year 1956, data show that 70 per cent of the United States population was covered by some voluntary hospital insurance, 61 per cent by some surgical-services insurance, and 39 per cent by some medical-services insurance.[14] Among the family units in the survey for 1953 (Anderson and Feldman, sponsored by the Health Information Foundation), 41 per cent of those with income under $3,000 were enrolled in some kind of health insurance, but the proportion rose to 71 per cent for those with $3,000 to $5,000, and to 80 per cent for those with $5,000 and over.[15] Of the total amount of medical expenses incurred during 1955, an estimated 22 per cent was covered by insurance benefits.[16] While not a large proportion, all signs point toward a higher rate currently and continued growth in future years. Furthermore, the 22 per cent figure just cited probably somewhat understates the importance of the overlap between insurance benefits and the medical deduction, since a large part of these benefits are paid for the so-called extraordinary medical expenses for which most insurance plans, as well as the medical deduction, are designed.

There is, however, another aspect of the relation between insurance and the deduction. It has been found that for given income levels the

[13] The deductibility, without limitation, of all costs of voluntary health insurance plans received considerable support during the House Ways and Means Committee Hearings on the Revenue act of 1954. (See Hearings before the Committee on Ways and Means, *General Revenue Revision*, 83rd Cong., 1st Sess., Part 1, 1953.) Representatives Oliver P. Bolton (p. 79), Robert W. Kean (p. 81), Paul B. Dague (p. 82), and Kenneth B. Keating (pp. 117ff.) each made strong pleas for complete deductibility of health insurance premiums on the ground that it would be an effective answer to demands for a compulsory health insurance program. Representative Keating introduced a bill to provide an offset against tax liability itself, on a sliding scale, for voluntary insurance premiums paid. The general tenor of the hearings was in favor of liberalization of the medical deduction in the direction of a subsidy, rather than a device to relieve extraordinary medical expenses of those who find it temporarily difficult to carry their ordinary share of the tax load.

[14] *Statistical Abstract of the U.S., 1958*, p. 481.

[15] Anderson with Feldman, *op.cit.*, Tables A-1 and A-4.

[16] See Health Insurance Council, *The Extent of Voluntary Health Insurance Coverage in the United States*, October 1956, p. 27. Benefit payments for 1955 are given as $2,530 million, or 22 per cent of the total shown in Table 41.

insured generally incur higher medical expenses (including reimbursed expenses but excluding premium payments) than the noninsured. Thus it is possible—though we possess no adequate information[17]—that the insured at given income levels obtain as large an absolute amount of medical deduction (although a smaller proportion of total expenditures) as the noninsured. This follows from the deliberate bias of the deduction in favor of medical expenses that are large relative to income, whereas medical insurance tends to even out an individual's or family's medical outlays over time. In its treatment of medical insurance, the Canadian income tax law excludes premium payments from deduction, but allows deduction of insurance benefits paid to the insured. This automatically evens the advantage in deduction between insured and uninsured taxpayers. A revenue problem may be created by insurance plans that provide full coverage for some or all types of medical expenditures. Deductibility would then encourage the taxpayer to incur medical bills as large as possible.

[17] The survey conducted by Anderson and Feldman shows, by income groups, that average medical expenses are larger for families with some health insurance than for those without insurance (*op.cit.*, Tables A-15 and A-16). Insurance benefits as per cent of gross medical charges (all charges incurred for hospital, medical, and dental services and goods, but excluding costs of voluntary health insurance) for families who received insurance benefits averaged 52 per cent in 1952-1953 for families with incomes under $2,000, and 30 per cent for those with incomes over $7,500 (Table A-72). However, information on the size of this groups' gross medical charges is not given, nor would this information, in the absence of data on the cost of insurance for those families, give an adequate idea of the size of their possible medical deductions.

A study by Emily H. Huntington of expenditures of salaried workers in the San Francisco Bay area in 1950 (*Spending of Middle Income Families*, University of California Press, 1957) suggests that among those who had medical care expenditures in connection with hospitalization, the amount paid for such care by individuals, aside from insurance premiums, if any, was on average considerably lower for the insured than the uninsured. But figures for expenditures for nonhospitalized care, suggest the opposite comparison: the cost of care not paid for by prepayment plans was generally greater for those with insurance than for those without. Huntington's figures are not sufficiently refined by size of income (though they are for middle-income salaried families), nor sufficiently representative geographically and occupationally, to support more than a vague surmise on the effect of insurance on the pattern of medical deductions. Thus tentatively, the figures suggest that, for illnesses involving hospitalization, the insured are less likely to be able to claim medical deductions than the uninsured, but for nonhospitalized medical care, the insured have an equal or better chance for deductions (see Huntington, pp. 125-131, particularly Tables 67-69).

Further relevant information is presented by George A. Shipman and others in an unpublished study of medical service corporations in the state of Washington (sponsored by the Health Information Foundation). The data, from a sample survey of insured rural and urban families in two Washington counties for 1956, suggest that families and individuals tend to spend more "out of pocket" for health goods and services, the higher their premium payments.

Some writers on the subject have looked on the medical deduction as something akin to a social health insurance scheme, a protection within the income tax framework against involuntary risk, similar to the deduction allowed for casualty losses.[18] The higher taxes, incurred in years when taxpayers can claim no commensurate deductions, may be viewed as premiums, and the tax reduction obtained when a deduction can be claimed may be likened to benefit payments. Of course, the fact that some taxpayers pay "premiums," that is, higher taxes, without much likelihood of receiving direct benefits, makes the medical deduction an insurance plan with a subsidy element. Those who do not purchase available private medical insurance may benefit at the expense of those who do.

Briefly, the medical deduction allowance as now constituted appears to favor those over 65 years old, those with relatively low incomes, and those with little or no insurance—three groups that overlap considerably. A qualification for all three groups is the standard deduction. Those who can claim significant amounts for other deductible expenses are more likely to be able to claim medical deductions than are those who cannot. Evidence on this relationship will be presented in the next section.

Trend in Medical Deductions, 1942-1956

Personal medical care expenses, as estimated by the Department of Commerce, have risen from $3.7 billion in 1942 to $12.1 billion in 1956.[19] Of the 1942 total, $0.7 billion, or 18 per cent, was reported

[18] White, for instance (*op.cit.*, pp. 362-63), considers the medical expense and casualty loss deductions a reflection of society's dual concern with risk: protection of persons and property against the involuntary risk of loss from sudden, unforeseen illness and destruction; and protection of the rewards, often spectacularly high, resulting from voluntary risk taking. See also Jensen, "Medical Expenditures," p. 503. Jensen notes that "a full medical deduction at the federal level would achieve partial compulsory health insurance without inciting the controversy aroused by the latter proposal." Comparison of the medical deduction with the casualty loss deduction is discussed in the last section of this chapter.

[19] The Department of Commerce estimates of total medical care expenses of consumers are used in Tables 41 and 42 as rough approximations of medical expenses in the deductible category. They include some outlays not made by consumers themselves, such as payments by government and philanthropy for hospital care and employer contributions to insurance. Herbert E. Klarman, taking these items into account, obtained estimates of $9.3 for 1953 and $9.5 billion for 1954, compared to $10 and $10.6 billion in our tables. (See Klarman, "Changing Costs of Medical Care and Voluntary Health Insurance," *Journal of Insurance*, September 1957, pp. 23-41.) On the other hand the tax return concept of medical expense is in some ways considerably more liberal than that underlying the Commerce estimates, as for instance the

as deductions on all tax returns, and $3.5 billion, or 29 per cent, in 1956. From 1942 to 1950, the last year before the percentage exclusion was abolished for those over 65 years of age, the amount deducted on all returns fluctuated between 17 and 20 per cent of the estimated total (Table 41). By 1952 and 1953 it had risen to 23 and 24 per cent,

TABLE 41

Estimated Total Deductible Medical Expenses and Amounts Deducted on Tax Returns, 1942-1956
(dollars in millions)

YEAR	*Total Deductible* (1)	*Amounts Deducted on* *Taxable Returns* (2)	*All Returns* (3)	*Amount Deducted as Per Cent of Total* (2) ÷ (1) (4)	(3) ÷ (1) (5)
1942	3,735	534	656	14.3	17.6
1943	4,189	773	800	18.5	19.1
1944	4,705	722	803	15.3	17.1
1945	5,042	836	936	16.6	18.6
1946	6,104	906	1,100	14.8	18.0
1947	6,817	1,156	1,398	17.0	20.5
1948	7,385	1,040	1,304	14.1	17.7
1949	7,702	1,170	1,488	15.2	19.3
1950	8,276	1,260	1,560	15.2	18.9
1951	8,780	n.a.	n.a.	—	—
1952	9,397	1,843	2,138	19.6	22.8
1953	10,107	2,043	2,397	20.2	23.7
1954	10,603	2,482	2,975	23.4	28.1
1955	11,273	n.a.	n.a.	—	—
1956	12,106	2,993	3,473	24.7	28.7

Source, by column
(1) Department of Commerce, *Survey of Current Business.*
(2) and (3) U.S. Treasury Department, *Statistics of Income* for years 1942 to 1956.

respectively. The lowering of the floor for the medical expense deduction by the 1954 Revenue act further increased the amounts deducted to 28 per cent of the total. The above percentages suggest that of the increase in medical deductions, from $1.56 billion in 1950 to $2.14 billion in 1952,[20] about $350 million was due to the additional allowance for those over 65.

The $3.5 billion claimed as medical deductions in 1956 may be viewed in one sense as a federal government participation of $700

inclusion of transportation costs to and from clinics and physicians. The direction of bias in the figures we use below is thus difficult to assess.

[20] No data were tabulated for 1951.

million in private medical expenditures via the income tax. Roughly 90 per cent of this amount was for so-called expenses of extraordinary size (that is, expenses exceeding the floor), and about 10 per cent constituted participation in the ordinary expenses of taxpayers over 65 years old, that is, the expenses of the aged which did not exceed the 3 per cent floor.[21]

The data in Table 41 show the relationship between medical deductions and estimated total personal medical expenses of all individuals. Since the deductions are only those medical expenses that fell between the floor and ceiling, the table does not tell us the total medical expenses of those who received tax abatements. The total is approximated in Table 42. For 1942-1953, only the amounts below the floor were included since there was too little information on amounts above the ceiling, except for 1949. Figures for that year indicate that the amounts shown in Table 42 would have been only 1 per cent higher without the ceiling for 1948-1950.[22] In contrast, the amounts

[21] A breakdown of the $2,993 million of medical deductions on taxable returns, in millions of dollars, follows:

	Itemizers' Medical		Tax Cost to Government	Percentage Cost to Government (3)÷(1)
	Expenditures (1)	Deductions (2)	(3)	(4)
Taxpayers under 65	4,381	2,542	567	12.9
Taxpayers over 65	542	452	133	24.5
	4,923	2,993	699	14.2

Of the $452 million deducted by taxpayers over 65, medical expenses of ordinary size amounted at most to 3 per cent of the adjusted gross income of those taxpayers, giving us this possible breakdown for taxpayers over 65, in millions of dollars:

	Itemizers' Medical		Tax Cost to Government	Percentage Cost to Government (3)÷(1)
	Expenditures (1)	Deductions (2)	(3)	(4)
Ordinary size	262	228	82	31.3
Extraordinary size	280	223	50	17.9
	542	452	133	25.5

Thus at most $82 million, out of $699 million, was the tax cost to the government of the deductions representing ordinary sized medical expenses of the aged. Since not all the aged who itemized medical expenses actually had deductions equal to 3 per cent of their income, our estimate overstates their ordinary sized deductions and understates their extraordinary sized ones. We can therefore say with some confidence that not more than one-tenth of the total estimated tax cost of the medical allowance arises from exemption of the aged from the 3 per cent exclusion.

[22] As shown in Table 50 below, 1 per cent of those with medical deductions had expenses equal to, or exceeding, the upper limit in 1949 according to data in *Statistics of Income* for 1949. Jensen's data for Wisconsin (*op.cit.*, p. 510), also for 1949,

TABLE 42

Estimated Amount of Medical Expenses of Individuals Claiming Deductions Compared to Total Amount Deductible, 1942-1956
(dollars in millions)

YEAR	*Total Deductible* (1)	*Medical Expenses*[a] *of Those Reporting on Taxable Returns* (2)	*Medical Expenses*[a] *of Those Reporting on All Returns* (3)	*Per Cent of Total* (2) ÷ (1) (4)	*Per Cent of Total* (3) ÷ (1) (5)
1942	3,735	944	1,102	25.3	29.5
1943	4,189	1,393	1,415	33.3	33.8
1944	4,705	1,161	1,253	24.7	26.6
1945	5,042	1,329	1,442	26.4	28.6
1946	6,104	1,462	1,705	24.0	27.9
1947	6,817	1,875	2,174	27.5	31.9
1948	7,385	1,740	2,079	23.6	28.2
1949	7,702	1,957	2,356	25.4	30.6
1950	8,276	2,148	2,530	26.0	30.6
1951	8,780	n.a.	n.a.	—	—
1952	9,397	3,024	3,379	32.2	36.0
1953	10,107	3,428	3,848	33.9	38.1
1954	10,603	3,873	4,470	36.5	42.2
1955	11,273	n.a.	n.a.	—	—
1956	12,106	4,923	5,505	40.7	45.5

[a] Estimated by adding to the amounts shown in Table 41 the equivalent of 5 per cent of the income reported on returns with medical deductions for years before 1954. For 1952 and 1953, the 5 per cent exclusion applied only to taxpayers below 65 years of age, and therefore the correction was made on the basis of the estimated income of only that group. No adjustment was made for medical expenses that exceeded the upper limit for the years 1942-1953, so that strictly speaking the heading for those years should read "medical expense below upper limits, etc." On the basis of Wisconsin data for 1949, the totals shown above for the years 1948-1950 would be raised by only 1.2 per cent in the absence of the upper limit. See Jensen, "Medical Expenditures and Medical Deduction Plans," *Journal of Political Economy*, December 1952, p. 510. For 1954 the figures are as given in *Statistics of Income*. For 1956, drug expenses as reported in *Statistics of Income* do not include expenses of less than 1 per cent of AGI. The amount was therefore estimated on the basis of 1954 data, and this figure is included in the totals shown above.

below the floor accounted for well over one-third of the medical expenses of taxpayers claiming the deduction (Table 43). So estimated, the amount of medical expenses incurred by those able to claim a deduction came to 30 per cent of the aggregate in 1942, 31 per cent in 1950, and upwards of 45 per cent in 1956. These are sizeable percentages when we consider that those who claimed the deduction had to over-

show that after correction for the upper limit the expenditure figures in columns 2 and 3 of Table 42 would be raised by only 1.2 per cent. This would raise the medical expenses of those reporting on all returns in 1949 from 30.6 to 31 per cent of the total. The same approximate relationship holds for the other years. This is suggested by the figures for 1956, shown in Table 47. In that year the amount above the ceiling was 1.8 per cent of the amount reported below the ceiling.

come the barrier of the standard deduction as well as that of the floor. In fact, the impediment of the standard deduction was greatest in the income range where the floor alone would have been less an obstacle than at higher ranges.

The combination of these two percentage exclusions, moreover,

TABLE 43

Ratio of Deductions for Medical Expenses to Estimated Total Medical Expenses of Individuals Claiming the Deduction, 1942-1956

YEAR	*Amount Deducted as Per Cent of Total*	
	Taxable Returns (1)	*All Returns* (2)
1942	56.6	59.5
1943	55.5	56.5
1944	62.2	64.1
1945	62.9	64.9
1946	62.0	64.5
1947	61.7	64.3
1948	59.8	62.7
1949	59.8	63.2
1950	58.7	61.7
1951	—	—
1952	60.9	63.3
1953	59.6	62.3
1954	64.1	66.6
1955	—	—
1956	60.8	63.1

Source, by column

(1) Column 2, Table 41 ÷ column 2, Table 42.
(2) Column 3, Table 41 ÷ column 3, Table 42.

makes it difficult to predict a priori the incidence of the medical deduction by size of medical expense. As we have seen, the medical deduction was designed for taxpayers whose medical expenses are large relative to their income, not necessarily to those with large absolute medical expenses. Moreover, the standard deduction prevents many with relatively and absolutely large medical expenses from claiming the deduction for lack of other deductible expenses. This makes it the more significant that what was evidently a small percentage of the population—the taxpayers with medical deductions—reported a large share of total private medical expenses. We estimate that for 1950 medical expenses equal to 31 per cent of the total were reported on 9 per cent of all tax returns filed; for 1956 (with the greatly reduced

floor provision in effect) 46 per cent of the total were reported on 18 per cent of the returns filed (Tables 42 and 44). This is a rough, though adequate, indication that on average medical expenditures were much higher for the group claiming the deduction than for the population as a whole.[28] That recent changes in the floor provision, and its aboli-

TABLE 44

Number of Tax Returns with Itemized Medical Expense Deduction as Per Cent of All Tax Returns, 1942-1956

YEAR	*Taxable* (1)	*All Returns* (2)
1942	12.0	10.5
1943	11.8	11.1
1944	7.1	6.9
1945	7.8	7.2
1946	8.9	7.4
1947	10.0	8.7
1948	9.5	7.9
1949	10.8	8.9
1950	10.8	9.2
1951	—	—
1952	13.2	11.4
1953	14.4	12.5
1954	17.9	15.2
1955	—	—
1956	20.7	17.9

Source: *Statistics of Income.*

tion for the aged, have made deductions available to persons with relatively smaller medical expenditures than before, is borne out by the fact that the fraction of those with medical deduction doubled, from 9 to 18 per cent, whereas the fraction of medical expenditures thus covered rose from only 31 to 46 per cent. That is, the additional

[28] The inference is somewhat strengthened if we consider that the group taking the deduction is an even smaller percentage of the total population than of the tax return universe. On the other hand, not all families (or single persons) have medical expenses in a given year, as we seem to imply above. The tax return population was 89 per cent of the total United States civilian population in 1950 and 94 per cent in 1952. According to the survey for 1952-1953 by Anderson and Feldman (*op.cit.*, p. 135), 5 per cent of families and single individuals had no net medical expenses (after insurance benefits) in that period. Similarly, the Bureau of Labor Statistics' 1950 survey of urban consumer units shows about 4 per cent of the units reporting no medical care expenditures (Wharton School of Finance and Commerce, University of Pennsylvania, *Study of Consumer Expenditures, Incomes and Savings, 1950*, University of Pennsylvania Press, 1956, Vol. VIII, p. 3). These facts modify, but do not alter materially, the relationships cited in the text.

9 per cent of returns added only 15 per cent of total medical expenditures.

Table 45 shows the size of medical expenses relative to income. Nationwide personal medical expenses have been about 4 per cent of income since 1946 and slightly less in the four earlier years (Chart 13).[24] Medical deductions on tax returns have been between 6 and 9

TABLE 45

Medical Expenses as Per Cent of Income, 1942-1956
(*dollars in billions*)

YEAR	*Total Adjusted Gross Income* (1)	*Total Medical Expense as Per Cent of Total AGI* (2)	*AGI Reported on Returns With Medical Deduction* (3)	*Medical Expense of Taxpayers as Per Cent of AGI* (3) *Deducted* (4)	*Total* (5)
1942	107.2	3.5	9.6	6.8	11.5
1943	129.0	3.2	12.8	6.2	11.1
1944	137.5	3.4	9.0	8.9	13.9
1945	140.2	3.6	10.1	9.3	14.3
1946	156.1	3.9	12.1	9.1	14.1
1947	171.6	4.0	15.5	9.0	14.0
1948	184.8	4.0	15.5	8.4	13.4
1949	184.3	4.2	17.4	8.6	13.5
1950	201.4	4.1	19.4	8.0	13.0
1951	226.6	3.9	—	—	—
1952	240.6	3.9	31.6	6.8	10.7
1953	254.4	4.0	36.1	6.6	10.7
1954	253.0	4.2	45.8	6.5	9.8
1955	272.7	4.1	—	—	—
1956	292.5	4.1	61.6	5.6	8.9

Source, by column

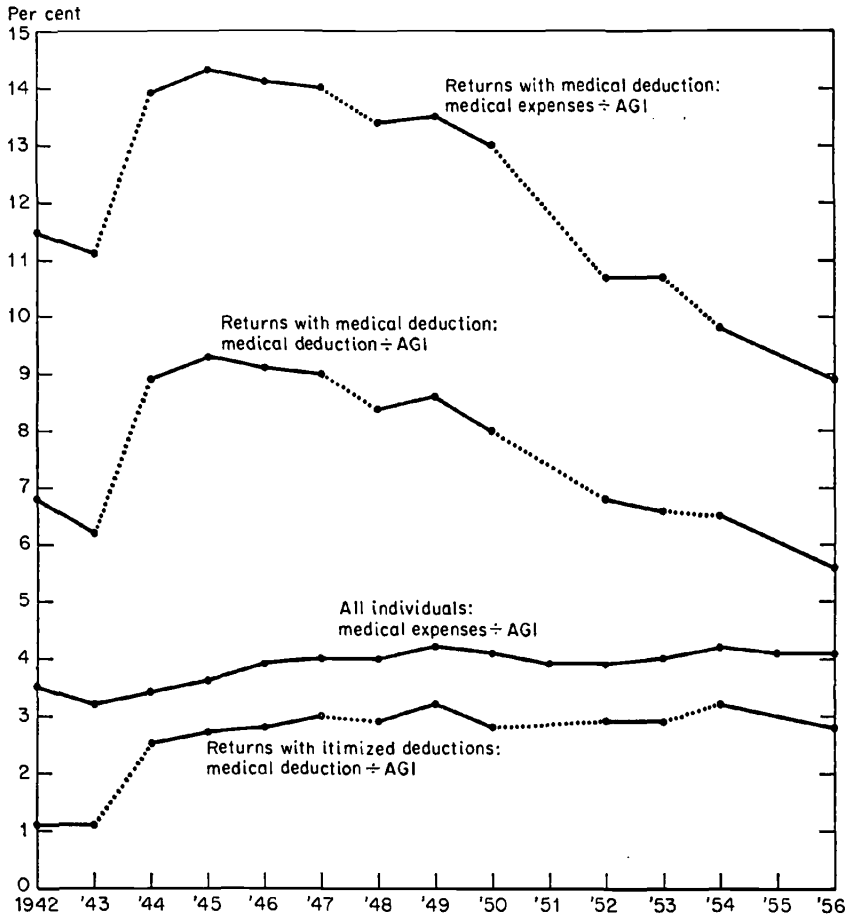
(1) Department of Commerce personal income figures adjusted for differences in concept.
(2) Column 1, Table 41 ÷ column 1 of this table.
(3) 1944-1950, 1954, and 1956 from *Statistics of Income*. 1942-1943 and 1952-1953 are our estimates obtained by multiplying average AGI of all taxpayers in each income class by the number of returns with medical deductions.
(4) Column 3, Table 41 ÷ column 3.
(5) Column 3, Table 42 ÷ column 3.

per cent of the income reported by those claiming the deductions. But total medical expenses of this group have been over one-tenth of its income in every year before 1954. In the period 1944-1947 total

[24] There was, however, no upward trend in personal medical expenditures relative to income. Medical care expenditures were well over 4 per cent of income during the latter half of the 1930's (for example, 4.3 per cent of adjusted gross income in 1936) and apparently declined only during the war years.

expenses were as high as 14 per cent of income, while the amounts actually deducted were 9 per cent in each of those four years. In 1948, when income-splitting between spouses was inaugurated and the ceil-

CHART 13



Note: Dotted lines indicate changes in law affecting medical deduction.
Source: Table 45 and bottom line from column (3) Table 41 ÷ column (5) Table 13.

Medical Deductions and Expenses as Per Cent of Adjusted Gross Income, 1942-1956

ing on the standard deduction raised from $500 to $1,000, the ratios fell to a slightly lower level. For the three years 1948-1950 medical expenses were somewhat above 13 per cent of income of the group itemizing them, and the corresponding medical deductions exceeded 8 per cent of income. When, in 1951, the minimum exclusion for the

aged was removed, there was another decline in the ratios reflecting the addition of taxpayers with medical expenses of ordinary size. By 1956 medical expenses were 9 per cent, and the deductions less than 6 per cent of the income of taxpayers with medical deductions.

The figures in Tables 42 to 45 show that, in line with the provision's intent, the medical deduction has gone to taxpayers whose average medical expenses are well above the average size of the rest of the population, and that such medical expenses, during the fifteen years under study, have absorbed more than one-tenth of the group's income as compared to 4 per cent for the whole population. But not all of the benefited group's medical expenses were deductible. Mainly because of the provision of a floor under the deductible amount, the deduction never exceeded two-thirds of the group's actual medical expenses. Viewed as an indirect government subsidy, the value of the medical deduction to taxpayers in 1956 was close to $700 million. For that year the relation of the tax rebate to medical expenditures is summarized in the next tabulation, in millions of dollars.

Medical Expenses			Tax Equivalent as per cent of:	
Estimated total	Of taxable Individuals Claiming Deduction	Tax Equivalent of Deduction	Total	Expenditures of claimants
12,106	4,923	699	5.8	14.2

The tax cost of the deduction amounted to about 6 per cent of total medical expenses of individuals, and about 14 per cent of the expenses of those who benefited from itemized deductions.

Medical Deductions by Size of Income on Tax Returns

The medical expense deduction for taxpayers who could avail themselves of it varied between 6 and 9 per cent of that group's income over the period 1942 to 1956 (Table 45). But the average for the medical allowance gives less indication than that for any of the three previously discussed deductions of how taxpayers fare at various levels of income. As Table 46 shows, the differences are striking. On returns with a medical deduction and less than $2,000 income, the deduction has been well over 10 per cent of income in all years, except 1942. Moving up the income scale, the decline in the percentages has been smooth and steep. In the $5,000 to $10,000 income range the deduction has been close to 5 per cent of income in recent years; in the

$50,000 to $100,000 income group it has been less than 3 per cent; and for incomes over $100,000 it has been less than 1 per cent.

On the low income returns the deduction has been a relatively large proportion of a taxpayer's total medical expense. As the income scale

TABLE 46

Medical Deduction as Per Cent of Income on Taxable Returns with That Deduction, by Income Groups, Selected Years, 1942-1956

INCOME GROUP[a] ($000's)	1942[b]	1945	1947	1949	1952[b]	1953[b]	1954	1956
Under 2	8.7	12.4	12.2	11.7	12.9	12.6	11.3	11.7
2-3	5.5	9.4	9.5	9.7	9.7	10.0	9.7	9.3
3-5	4.5	7.5	7.7	7.2	7.2	7.1	7.0	6.7
5-10	5.1	7.0	6.9	6.8	5.6	5.3	5.3	4.6
10-25[c]	4.5	5.4	5.5	6.3	5.5	5.3	5.0	4.4
25-50[c]	3.0	3.5	3.6	4.4	3.5	3.5	3.8	3.5
50-100	1.8	2.2	2.2	2.9	1.8	1.8	2.3	2.2
100-500	1.0	0.9	1.0	1.4	0.8	0.8	1.1	1.0
500 and over	0.1	0.1	0.4	0.3	0.1	0.1	0.2	0.2
Average	6.1	8.5	8.0	7.4	6.2	6.0	5.7	5.1

[a] Net income groups for 1942; adjusted gross income groups for all other years.

[b] For 1942, 1952, and 1953, the income of taxpayers with medical deductions was computed by multiplying the average income reported on all returns with itemized deductions in a given income group by the frequency of returns with medical deduction in that group. A slight downward bias in the percentages shown in the table resulted from this method. Thus had computed, instead of actual, incomes been used for 1947, 1949, and 1954, the average percentages would have been 7.9, 7.2, and 5.7, respectively.

[c] Income groups are $10-20,000 and $20-50,000 in 1952, 1953, and 1954.

rises, the proportion declines. In Table 47 estimates by income groups of the total medical expenses of taxpayers with medical deductions are presented for 1949 and 1956. In 1956 the deduction amounted to $3.5 billion on all returns, the amount below the floor to $1.9 billion, and that beyond the ceiling to a little less than $0.1 billion. Nearly two-thirds of the medical expenses of those claiming the deduction was deductible from income, a proportion close to the average for those in the $3,000 to $5,000 income group. For those with less than $2,000, over four-fifths was deductible, and for the group with $100,000 and over slightly less than half. It is thus once more evident that but for the upward shift in the medical expense-to-income ratios for given money incomes (a shift suggested by the figures in Tables 40 and 45), the rise over time in taxpayers' incomes with a given percentage floor,

TABLE 47

Total Medical Expenses and Income Reported on Returns with Medical Deductions, by Income Groups, 1949 and 1956
(dollars in millions)

INCOME GROUP ($000's)	*AGI on Returns With Medical Deduction* (1)	*Amount Deducted* (2)	*Amount not Deducted*			*Amount Deducted as % of Total*[d] (6)	*Group's Total Expenses as % of Income*[e] (7)
			Below Floor[a] (3)	*Above Ceiling (estimate)*[b] (4)	*Total* (2)+(3)+(4) (5)		
			1949				
Under 2	1,142.3	209.3	57.1	1.4	267.8	78.2	23.4
2-3	2,776.0	310.7	138.8	2.7	452.1	68.7	16.3
3-5	7,281.9	575.9	364.1	11.5	951.5	60.5	13.1
5-10	4,176.0	283.6	208.8	6.9	499.3	56.8	12.0
10-25	1,337.6	84.2	66.9	4.0	155.1	54.3	11.6
25-50	421.1	18.3	21.1	1.3	40.7	45.0	9.7
50-100	165.8	4.8	8.3	0.5	13.5	35.2	8.2
100-500	63.7	0.9	3.2	0.1	4.2	21.8	6.7
500 and over	4.6	c	0.2	c	0.2	4.9	5.3
Total	17,369.1	1,487.8	868.5	28.4	2,384.6	62.4	13.7
			1956				
Under 2	1,088.3	197.6	33.6	4.5	235.7	83.8	21.7
2-3	2,941.3	343.9	93.3	2.8	439.9	78.2	15.0
3-5	14,162.5	1,049.7	479.6	20.3	1,549.6	67.7	10.9
5-10	29,240.2	1,370.2	1,022.3	14.4	2,407.0	56.9	8.2
10-25	8,588.2	373.9	243.3	23.5	640.7	58.4	7.5
25-50	2,637.8	92.6	44.6	15.8	153.0	60.5	5.8
50-100	1,479.4	32.9	13.7	8.7	55.3	59.5	3.7
100-500	1,131.9	11.5	5.9	4.6	22.0	52.4	1.9
500 and over	364.8	0.6	1.1	0.6	2.3	26.9	0.6
Total	61,634.4	3,472.9	1,937.3	95.2	5,505.5	63.1	8.9

Figures may not add to totals because of rounding.

[a] For 1949, the figures in column 3 were obtained by multiplying column 1 by 0.05. For 1956, the reported adjusted gross income of taxpayers under 65 was multiplied by 0.03. The adjusted gross income of those with a deduction for drugs was estimated by using the information published for 1954. The estimated income of those with drug deductions was then multiplied by 0.01 and the product included in column 3.

[b] For 1949, column 4 was estimated by distributing the total of $28.4 million among income groups in the same proportions as the frequency of taxpayers who had medical deductions equal to, or exceeding, the upper limit (see Table 50 below). The total was obtained by applying Jensen's ratio (see footnote 22, above) to the sum of columns 2 and 3.

[c] Less than $0.1 million.

[d] Column (2) ÷ (5).

[e] Column (5) ÷ (1).

Source: *Statistics of Income*, 1949, pp. 33-37; *Statistics of Income*, 1956, Table F.

would lead to a gradual decline in the deductible proportion of their medical expenses.[25]

The effect of the exclusion was, however, much more pronounced before it was lowered from 5 to 3 per cent and eliminated for persons over 65. The figures for 1949 show that the proportion that could be deducted declined from four-fifths at the lower end of the income distribution to one-fifth for taxpayers with reported incomes in excess of $100,000. Taxpayers in the $25,000 to $50,000 income group deducted 45 per cent of their medical expenses in 1949, and 60 per cent in 1956. Table 48 confirms the rise in the deductible proportion of medical expenses between 1949 and 1956, for taxpayers both under and over

TABLE 48

Medical Expenditures Deducted by Persons Under and Over 65 Years of Age as Per Cent of Total Medical Expenses and of Adjusted Gross Income, 1956
(dollars in millions)

ADJUSTED GROSS INCOME GROUP ($000's)	*Medical Expenses*			*Amount Deducted as Per Cent of*	
	Total Outlay (1)	*Deducted* (2)	*AGI* (3)	*Total Outlay* (4)	*AGI* (5)
		TAXPAYERS UNDER 65			
Under 2	177.7	145.6	870.1	81.9	16.7
2-3	348.4	258.0	2,409.5	74.1	10.7
3-5	1,342.6	869.9	12,620.4	64.8	6.9
5-10	2,231.9	1,216.0	27,350.0	54.5	4.4
10-25	510.8	270.2	6,746.8	52.9	4.0
25-50	93.8	49.8	1,229.4	53.1	4.1
50-100	25.7	12.8	360.4	49.6	3.5
100-500	6.5	2.3	110.6	35.4	2.1
500 and over	0.1	[a]	1.4	14.0	0.6
Total	4,737.6	2,824.6	51,698.5	59.6	5.5
		TAXPAYERS OVER 65			
Under 2	57.9	52.0	218.2	89.7	23.8
2-3	91.6	85.8	531.8	93.7	16.1
3-5	207.0	179.8	1,542.1	86.9	11.7
5-10	175.1	154.3	1,890.3	88.1	8.2
10-25	129.9	103.7	1,841.4	79.8	5.6
25-50	59.2	42.8	1,408.3	72.3	3.0
50-100	29.6	20.1	1,119.0	68.1	1.8
100-500	15.4	9.2	1,021.3	59.5	0.9
500 and over	2.3	0.6	363.4	27.2	0.2
Total	767.9	648.3	9,935.8	84.4	6.5

Figures may not add to totals because of rounding.
[a] The medical deduction in this income group amounted to $8,000.
Source: *Statistics of Income.*

[25] See the discussion relating to this on pp. 129-132.

65. Whereas the decline in percentage deductible, from the bottom to the top of the income scale, was from 78 to 5 per cent in 1949—when the 5 per cent exclusion was in effect—the decline was from 82 to 14 per cent for taxpayers under 65 in 1956, when the 3 per cent exclusion was in effect.

On returns filed for 1956 by persons over 65 the deduction declined over the income range from 90 to 27 per cent of total medical expenses. For this group the 1 per cent exclusion of drug expenditures and the ceiling on the deduction were retained, preventing deduction of all medical expenses. Up to about the $25,000 income level, the medical deductions were on average a greater proportion of income for taxpayers who itemized and were over 65 than for taxpayers who itemized and were under 65. Above the $25,000 level, the opposite is the case: the deduction was a smaller fraction of the income of those over 65 than of the income of those under 65. The tabulation below shows the range for 1954 and 1956, from lowest to highest income group, of medical deductions as per cent of income for the two age groups.

	Over 65	Under 65
1954	28 to 0.2	17 to 0.4
1956	24 to 0.2	17 to 0.6

The explanation lies in the way the standard deduction and the 3 per cent exclusion interact in "selecting" taxpayers who can take medical deductions. Even though the aged are not subject to a percentage exclusion of 3 per cent, up to the $10,000 level, they generally require a much larger medical deduction than those under 65, to enable them to reduce their tax liabilities by itemizing (as an alternative to the standard deduction). The reason is probably that younger persons can claim larger amounts of other deductions, especially property taxes and mortgage interest, and are less dependent upon large medical expenses in order to profit by itemizing. After a certain income level, apparently around $25,000, the respective effects of the two floors become reversed: the standard deduction, because it is limited to $1,000, becomes less important relative to income, and more of those over 65 find it advantageous to itemize; but the exclusion from medical expenditures, from which that age group is exempt, assumes increasing importance because medical expenses do not rise in proportion to income, and fewer taxpayers under 65 find it possible to itemize medical expenses as income rises. Table 49 shows this strikingly. The frequency of re-

TABLE 49

Number of Returns with Deduction for Medical Expenditures as Per Cent of All Returns, by Income and Age, 1956
(numbers in thousands)

ADJUSTED GROSS INCOME GROUP ($000's)	Under 65 Years			65 Years or Over		
	Number of Returns With Deduction for Medical Expense (1)	*Total Number of Returns* (2)	*Per Cent With Deduction* (1) ÷ (2) (3)	*Number of Returns With Deduction For Medical Expense* (4)	*Total Number of Returns* (5)	*Per Cent With Deduction* (4) ÷ (5) (6)
Under 2	605.7	13,389.8	4.5	147.7	1,983.2	7.4
2-3	952.6	7,216.0	13.2	212.3	827.8	25.6
3-5	3,088.3	15,250.8	20.3	396.4	1,076.9	36.8
5-10	4,150.9	15,659.6	26.5	282.6	683.6	41.3
10-25	506.0	2,426.5	20.9	118.8	224.7	52.9
25-50	37.7	293.5	12.9	40.5	52.7	76.7
50-100	5.6	69.9	8.0	16.4	19.2	85.1
100-500	0.8	15.2	5.3	6.0	6.7	89.9
500 and over	[a]	0.5	0.4	0.3	0.4	89.7
Total	9,347.7	54,321.8	17.2	1,220.9	4,875.2	25.0

Figures may not add to totals because of rounding.
[a] Only 2 returns in this income group.

Source: *Statistics of Income.*

turns with medical deductions of taxpayers over 65 rose steadily from 7 per cent in the less-than $2,000 group to 90 per cent in the over-$100,000 group, whereas for those under 65 the frequency rose from 5 per cent in the less-than $2,000 group to 26 per cent in the $5,000 to $10,000 group, returning to 5 per cent in the group reporting $100,000 and over.

While the ceiling limitation on the medical deduction has been quantitatively unimportant in relation to the aggregate, it has been of importance to taxpayers with incomes over $10,000 whose medical expenses exceeded the floor. Of the taxpayers in this group 11 per cent reported medical expenses for 1949 large enough to make their specific upper limit effective (Table 50). In the income group $25,000

TABLE 50

Number of Returns Reporting Medical Expense Deduction Equal to or Exceeding Specific Ceilings on Amount Deductible, by Income Groups, 1949

ADJUSTED GROSS INCOME GROUP ($000's)	*Number of Returns With Medical Deduction* (1)	*Number With Deduction Limited by Ceiling* (2)	*Per Cent of Total* (2) ÷ (1) (3)
	TAXABLE RETURNS		
Under 2	485,820	200	0.04
2-3	864,470	3,810	0.44
3-5	1,718,330	6,510	0.38
5-10	668,732	13,574	2.03
10-25	93,920	7,928	8.44
25-50	12,772	2,641	20.68
50-100	2,555	963	37.69
100-500	437	255	58.35
500 and over	5	4	80.00
Total	3,847,041	35,885	0.93
	NONTAXABLE RETURNS		
Total	736,966	20,024	2.72

Source: *Statistics of Income*, 1949.

to $50,000, one-fifth of the taxpayers had deductions of that size, and at the very top four-fifths fell into that category. This may be taken as evidence that for high-income taxpayers with extraordinarily large medical expenses, in the tax-law sense, the deduction allowance was inadequate because of its rigid ceiling provision, at least when judged by the established criterion that extraordinary, unbudgeted medical expenses affect the taxpayer's capacity to carry his ordinary share of

the tax load. The ceilings were generous in relation to the income and expenditure patterns of the low- and middle-income taxpayers. They were apparently not so for high income taxpayers, assuming that their medical expenditures are reported in good faith and do not include such borderline items as expensive prescribed vacations. But the latter problem might more appropriately be handled through administrative enforcement rather than the rough justice of a ceiling; unlike the lower limit, the ceiling bears no recognizable relation to income or expenditures, although it varies with family size.

Since 1949, the year to which the data in Table 50 pertain, the ceilings have been doubled. From 1954 on they varied from $2,500 to $10,000 instead of from $1,250 to $5,000. For many, particularly in the low- and middle-income range, the increase has undoubtedly removed the effect of the ceiling as a limitation on medical deductions. For high-income taxpayers the situation is less clear cut because the floor applicable to all taxpayers was also reduced—a measure which tends to move taxpayers closer to their ceilings. For those over 65 the floor was lowered to 1 per cent of income for expenditures on drugs, and for others to between 3 and 4 per cent of income. Hence, while these changes have increased the amount of medical deduction available to everybody, they have not necessarily made the ceiling less effective for high-income taxpayers.[26] Indeed Table 47 showed us that for persons who itemized the relative amount of medical expense over the ceiling was slightly larger in 1956 than in 1949.

The relationship between medical deductions and size of reported income so far discussed characterizes only a group of taxpayers filing—in the period 1942 to 1950, little over one-tenth of the number of taxable returns; in 1953, 14 per cent; and in 1956, 21 per cent. The increasing size of this group after 1953 reflects the lower minimum exclusion. Until 1950 the number of taxable returns with medical deductions in any of the income groups shown never exceeded 14 per cent of the total (Table 51). In the low- and middle-income groups the 10 per cent standard deduction effectively limited the number of taxpayers who could profit by itemized medical deductions, and the floor limited the number able to claim them. For a taxpayer with

[26] For example, a single taxpayer with an income of $100,000 and medical expenses of $7,000 could not, with the former 5 per cent floor and $1,250 upper limit, deduct all of the $2,000 by which his medical expenses exceeded the floor. Now the new upper limit is $2,500, but his medical expenses above the new floor—probably 4 per cent of income—come to $3,000, which is still more than he is allowed to deduct.

adjusted gross income of $10,000 or less in 1950, medical expenses had to be anywhere from 5 to 15 per cent of his income, depending on what other deductions he was able to claim, before he could benefit from itemizing.[27] Since 1954, the effective floor for the same income range

TABLE 51

Number of Taxable Returns With Medical Deductions as Per Cent of All Taxable Returns, by Size of Income Reported, Selected Years, 1942-1956

INCOME GROUP[a] ($000's)	1942	1945	1947	1950	1952	1954	1956
Under 2	11.0	5.9	6.7	6.0	6.1	6.6	6.9
2-3	13.0	8.7	10.0	9.2	11.0	12.8	14.6
3-5	14.7	10.0	12.3	13.3	15.6	20.0	21.5
5-10	10.5	10.9	14.0	13.5	16.0	23.0	27.0
10-25[b]	6.4	7.9	10.3	9.9	14.7	20.7	23.6
25-50[b]	3.7	4.6	6.3	7.5	16.6	22.5	22.6
50-100	2.3	3.0	4.3	5.4	20.7	25.0	24.6
100-500	1.0	1.7	2.1	3.2	27.6	30.9	31.2
500 and over	0.4	0.3	0.2	0.7	36.2	37.0	36.8
Average	12.0	7.8	10.0	10.8	13.2	17.9	20.7
				DOLLARS			
Average deduction	161	251	279	304	322	325	312
Average medical expense	276	399	453	509	559	507	514

Figures for all taxable returns exclude fiduciary returns.
[a] Net income groups for 1942; adjusted gross income groups all other years.
[b] For 1952 and 1954, the class limit is $20,000 rather than $25,000.

can vary anywhere from 0 to 14 per cent of income depending now on age, size of drug expenses, and other deductions.

The estimates presented in Table 52 show that in 1949 there were indeed a large number, probably over 1.6 million, of returns with medical expenses over 15 per cent of reported income. This is more than one-third of the returns with medical deductions and about 3 per cent of

[27] In other words, for a taxpayer with an income of $10,000 or less, medical expenses, if the only deductible expense, had to be as large as 15 per cent of income before an itemized deduction could exceed the standard deduction. The proverbial big-city dweller who rents his home and leads an anonymous life of no borrowing and no giving to philanthropy exemplifies this extreme. For the community-minded homeowner whose taxes, mortgage interest, and contributions may be high, medical expenses barely over 5 per cent of income sufficed for a specific deduction. Since 1954 the limits within which a taxpayer under 65, with income of $10,000 or less, may decide to claim medical expenses, have been 3 to 4 per cent at one end and 13 to 14 per cent at the other. The taxpayer with an income exceeding $10,000 needs a combination of medical expenses over 3 to 4 per cent of income and total deductions exceeding $1,000 in order to profit by itemizing.

TABLE 52

Estimated Number of Tax Returns with Medical Deductions of Ten Per Cent or More of Adjusted Gross Income, by Income Groups, 1949 and 1956
(*numbers in thousands*)

ADJUSTED GROSS INCOME GROUP ($000's)	Number of Returns			Returns as Per Cent of:	
		With Medical Deduction		Total Returns	Total with Deductions
	Total (1)	Total (2)	Over 10 per cent of income[a] (3)	(3) ÷ (1) (4)	(3) ÷ (2) (5)
			1949		
Under 2	19,550.6	824.4	489.8	2.5	59.4
2-3	12,137.6	1,099.5	456.8	3.8	41.5
3-5[b]	14,138.4	1,889.5	514.9	3.6	27.3
5-10	4,837.8	668.7	139.7	2.9	20.9
10-25	918.4	93.9	22.3	2.4	23.7
25-50	171.3	12.8	1.5	0.9	11.7
Total under $50,000	51,754.1	4,588.8	1,625.0	3.1	35.4
			1956		
Under 2	14,974.9	753.4	446.5	3.0	59.3
2-3	8,043.8	1,164.9	494.6	6.1	42.5
3-5	16,327.6	3,484.7	800.9	4.9	23.0
5-10[b]	16,339.8	4,433.5	567.2	3.5	12.8
10-25	2,654.3	624.8	68.6	2.6	11.0
25-50	346.4	78.2	6.8	2.0	8.7
50-100	89.2	22.0	1.2	1.3	5.5
Total under $100,000	58,776.0	10,561.5	2,385.8	4.1	22.6

[a] The estimates were made on the basis of a frequency distribution of tax returns with medical deduction by size of income and by size of medical deduction. See *Statistics of Income*, 1949 and 1956. For each income class the number of returns with medical deductions greater than 10 per cent of income was estimated. The 10 per cent level was set for each income class at 10 per cent of the average income for the class. For the medical deduction size class into which the 10 per cent value fell, the frequencies between that value and the upper limit of the class were estimated by straight line interpolation.

[b] Includes all nontaxable returns with adjusted gross income exceeding the lower class limit.

all returns.[28] In the group with incomes less than $2,000, over one-half of the returns with medical deductions showed medical expenses exceeding 15 per cent of income; in the $25,000 to $50,000 group, close to 12 per cent of the returns showed the same.

[28] This percentage appears conservative in view of the statistics presented in the Health Information Survey for 1952-1953 (Anderson and Feldman, *op.cit.*, p. 136). The authors report that 18.4 per cent of the families in their sample spent more than 10 per cent of income for personal health services, and 6.3 per cent spent more than 20 per cent for this purpose. A large part of the seeming discrepancy may arise from inclusion of persons with very low incomes who do not file tax returns. Omission of families with less than $1,000 income from the Health Information tabulation reduces the percentages to 14.1 with medical expenses exceeding 10 per cent of income, and 3.3 with 20 per cent of income.

Similar estimates were possible for 1956. To make the figures for the two years as comparable as possible, we estimated the number of returns with medical *deductions* exceeding 10 per cent of reported income for 1949 and 1956. The difference in the two years is that for 1949 a medical deduction of 10 per cent means in effect a medical *expense* of 15 per cent of income, because the 5 per cent exclusion applied to all taxpayers. In 1956 a deduction equal to 10 per cent of income may indicate an actual expense between 10 and 14 per cent of income. As the table shows, slightly over 4 per cent of all returns showed deductions exceeding 10 per cent of income for that year, which may mean expenses of about 12 per cent, on average. Thus there has been little significant change in this respect between 1949 and 1956. The figures suggest that many taxpayers' medical expenses may have to surmount a large proportion of the standard deduction, as well as the floor, before itemized medical expenses are advantageous and possible.

The changes in the medical deduction allowance since 1951 have, however, altered the direction of the curve describing the proportion of increased medical expenses that is passed on to the federal government at each level of income. The amount that can be passed on at a given level of income depends, first, on the marginal rate of tax at that level and, second, on the fraction of returns itemizing medical deductions (columns 2 and 3 of Table 53). The decline in proportion of itemized returns was so sharp before 1951 (because of the percentage exclusion applicable to all taxpayers) that it offset the rise with income in marginal tax rates. A larger amount of an increase in medical expenses was passed on to the federal government at low income levels than at higher levels.[29] The curve for 1956, in Chart 14, shows that the reverse now holds: an increase in medical expenses at high income levels brings with it, on average, more government participation than an increase at modest levels of income. The qualification "on average" is even more important here than when dealing similarly with deductible state and local taxes. The bottom curve in Chart 14 rises because taxpayers over 65 are not subject to the exclusion of 3 per cent of income. However, as Table 49 shows, the percentage for those under 65 still declines after the $10,000 income level; for those over 65 it rises throughout. The effect of the difference in degree of government participation in the expenses of persons under and over 65 is clear in the

[29] This is in sharp contrast to the curve showing relative amounts of an increase in deductible taxes that could be passed on to the federal government. See Table 33 and Chart 11, Chapter 5.

figures shown in footnote 19 above: 13 per cent of the amount of medical expenditures by those under 65, and 25 per cent of the amount by those over 65, was absorbed by tax abatement.

TABLE 53

Estimated Fraction of an Increase in Medical Expenses Passed on to Federal Government in the Form of Deduction, 1956

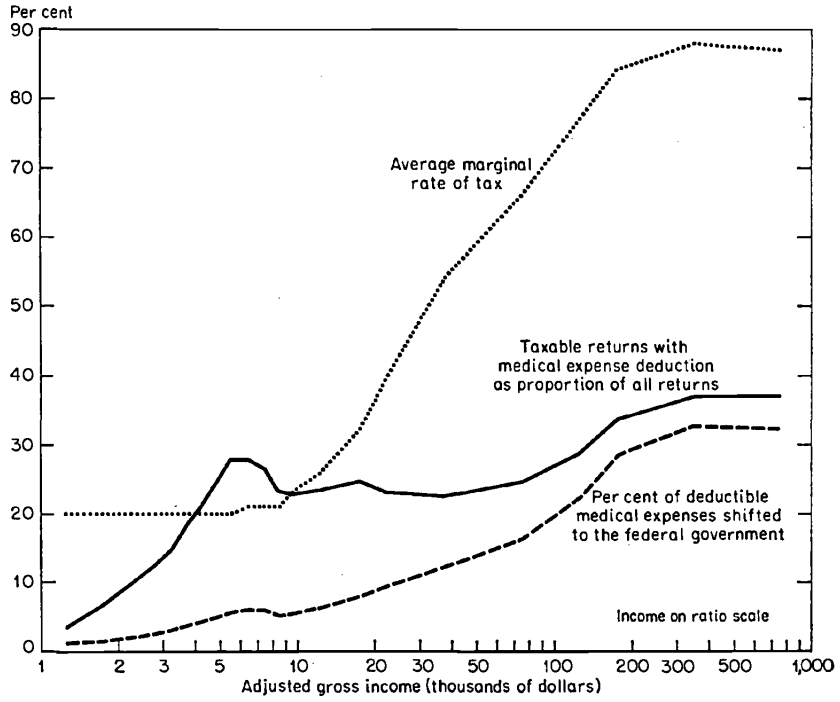
ADJUSTED GROSS INCOME GROUP ($000's)	*Average Marginal Rate of Tax* (1)	*Taxable Returns with Medical Deduction as per cent of all Returns* (2)	*Per Cent Increase in Medical Expenses Shifted to Federal Government* (1) × (2) (3)
0.6-1	0.20	1.0	0.2
1-1.5	0.20	3.2	0.6
1.5-2	0.20	6.5	1.3
2-2.5	0.20	9.6	1.9
2.5-3	0.20	12.2	2.4
3-3.5	0.20	14.6	2.9
3.5-4	0.20	18.7	3.7
4-4.5	0.20	21.0	4.2
4.5-5	0.20	23.8	4.8
5-6	0.20	27.9	5.6
6-7	0.21	27.8	5.8
7-8	0.21	26.5	5.7
8-9	0.21	23.0	4.9
9-10	0.23	22.7	5.2
10-15	0.26	23.3	6.2
15-20	0.32	24.7	7.8
20-25	0.40	22.9	9.3
25-50	0.54	22.6	12.2
50-100	0.66	24.6	16.4
100-150	0.77	28.7	22.1
150-200	0.84	33.6	28.3
200-500	0.88	36.9	32.6
500-1000	0.87	36.9	32.2
1000 and over	0.87	35.7	31.0

Source: Column 1: *Statistics of Income*, 1956. Change in average tax liability between two income groups divided by change in average taxable income. For income groups above the $15,000 level, the amount of income subject to alternative long-term capital gains rate was subtracted before computing average taxable income. Similarly the amount of long-term capital gains tax was subtracted before computing average tax liability.

Column 2: *Statistics of Income*, 1956.

Students and critics of the medical expense deduction, as formulated, frequently compare it, favorably or unfavorably, with the personal casualty loss deduction, pointing to either similarities or incongruities between them. A brief discussion of the comparisons follows.

CHART 14



Source: Table 53.

Fraction of an Increase in Medical Expenses Passed on to Federal Government, 1956

Medical Expenses and Casualty Losses

Two aspects of the medical expense deduction have been most frequently compared with the personal casualty loss deduction, one of the deductions in the earliest federal income tax law, which is still in its original form. They are the upper and lower limitations on the deductible amount of medical expenditures, and the deductibility of health insurance premiums. The two are so interrelated in this comparison that they cannot be entirely separated.

Compared with the medical expense allowance, in which, as we have seen, an attempt is made to differentiate among taxpayers by size of income, size of family, and age, the allowance for personal casualty losses is almost unrefined. Taxpayers have been permitted since the inception of the income tax to deduct the net loss of personal property caused by fire, flood, windstorm, theft, and the like, to the extent that such losses are not covered by insurance. At first glance, this allowance

deals with impairment of personal property much as the medical deduction deals with impairment of personal health, and the similarity has been stressed frequently in recent times by advocates of a more liberal tax treatment of medical expenses.[30] In the case of two taxpayers, one of whom suffers a broken leg and the other an explosion on his yacht,[31] the similarity is so great that it seems to demand equal tax treatment of the two losses. If the first taxpayer has no other medical outlays, the chances are that he will obtain little or no deduction for his expenses because of the percentage exclusion. The person who experiences the property loss, on the other hand, is not subject to any quantitative limitations other than the size of his income. However, the premium payments for insurance against such losses are not deductible, while medical insurance premiums are.

The exclusion of insurance premiums from the casualty loss deduction points up some consistency in the two allowances, which is frequently overlooked and easily obscured by the citation of polar cases as the above example. Medical expenditures, particularly when insurance premiums are included, encompass a wide variety of fairly routine, and hence budgetable, expenses like periodic visits to the family doctor and dentist, eyeglasses, and a host of preventive medicines that could hardly be classified under the rubric of casualties. Expenses of an emergency or casualty character are comparable to much of what is included in the casualty loss allowance. It follows that the percentage exclusion from the medical deduction need not imply inconsistency with the casualty loss deduction as long as the exclusion effects a separation of the routine from the sudden and unforeseen, especially since insurance premiums are excluded from the casualty loss deduction but not from the medical expense allowance.

The percentage exclusion does not strictly separate the routine from the sudden, casualty-type medical expense. Such a distinction is essentially a qualitative one, and the percentage exclusion was intended, as we have seen above, to quantitatively separate expenses of ordinary from those of extraordinary size. The consistency between the two deductions is, after all, probably only rough, and ready. The percentage floor will often exclude some casualty-type medical expenses, whereas under the allowance for property losses all casualties, however small,

[30] For instance, Hearings before the Committee on Ways and Means, House of Representatives, *General Revenue Revision*, 83rd Cong., 1st Sess., Part 1, 1953, pp. 74, 108, and 110.

[31] *Ibid.*, Representative Carl T. Curtis, p. 74.

are deductible. Indeed it might be argued that many of the personal property losses deducted are also likely to be routine, as in broken window panes and minor automobile mishaps. Another basic difference is that one is concerned with loss and the other solely with expenditures. Thus under the casualty loss deduction, expenditures to prevent loss are not deductible, but all actual losses incurred, whether or not replaced, are deductible. Under the medical expense allowance, some expenditures to prevent loss of health qualify for deduction, but loss of health as such is dealt with only as it manifests itself in actual expenditures.[32]

The question of insurance persists for both deductions. To the extent that it is available, the occurrence of large, unforeseen expenses and losses is avoidable, and the attendant hardship becomes more or less a matter of choice. Those who buy insurance, as pointed out above, tend to benefit less from both deduction allowances, and their tax payments tend to subsidize the uninsured, who assume for themselves that part of the risk not absorbed via the tax system. For a taxpayer subject to a high marginal rate of tax, that risk is greatly reduced for all personal property losses, and with regard to medical expenses above the floor for those under 65 years old. Indeed for property losses, high-income taxpayers who rationally compare alternatives can hardly afford to purchase insurance. They can save the expense of insurance premiums, and in case of loss the Treasury shares the cost at a rate equal to the taxpayer's marginal rate of tax.[33] The argument that the deductions are intended for those unable to afford the cost of insurance would transfer the rationale for medical and property loss deductions from the area of interpersonal equity to that of subsidy. And it is question-

[32] It would take little ingenuity to construe expenditures preventing loss of health to include better food and vacations. Borderline cases have many times dealt with vacations prescribed by physicians.

[33] In connection with personal property casualty losses, Vickrey comments: "This is at least one case in which . . . the tax law actually encourages the taxpayer to take risks. Ironically, in this particular case there is no special social advantage in having the taxpayer assume a risk, as there is in the case of investment in a new field." (*Op.cit.*, pp. 60-61) "The present law certainly tempts the wealthy to refrain from insuring and even to neglect to protect property adequately against fire, theft, or other casualty: in the event the casualty occurs the tax deduction will absorb such a large part of the loss that the protection may cost more than it is worth to the taxpayer as an individual. . . ." (p. 62) There is, however, no evidence so far to indicate widespread neglect of personal property. Our figures in Table 55 do show some rise in the relative frequency of returns with casualty loss deductions, particularly on returns with high incomes, but this may be attributed to the sharp rise, during the period, of ownership of automobiles, residences, and other consumer durables.

able whether the present deductions constitute an efficient device for a tax subsidy.

Critics of the medical expense deduction have used the personal property allowance to support arguments against the ceilings imposed. There is no upper limit on personal property loss deduction. They argue also that the stated intent of the medical allowance is to relieve those with expenses of extraordinary size, and that a ceiling on the deductible amount seems to be a contradiction in terms. Some would go in the other direction and allow a carry-forward or carry-back, or both, for medical expenses.[34] Such carry-forwards and carry-backs have been allowed for casualty losses and thefts since 1951.

In defense of the ceiling the usual argument is that medical expenditures beyond a generous maximum are often hard to distinguish from ordinary living expenses, and would therefore create an audit problem. While that particular difficulty may not exist so much for property losses, there seems to be some inconsistency of treatment between medical expenses and personal property losses. The number of returns with medical expenses exceeding the ceiling is relatively small (Table 50) suggesting that additional auditing in the interest of increased consistency might be worth its cost.

So far the deductions claimed for personal property losses resulting from theft, fire, storm, and various other accidents have never amounted to much over 1 per cent of total personal deductions (Table 9). In 1954, a year of serious floods, they amounted to $444 million on all tax returns, or less than 0.2 per cent of income reported. Because of their quantitative unimportance, no attempt is made here to present as detailed a statistical picture of the casualty loss deductions as for the four major personal expense allowances. The main features of this deduction are revealed in Table 54, showing the amounts claimed since 1939 in relation to income reported, and in Tables 55 and 56, where relative frequencies and the relation to income are presented by size of income reported.

The amount deducted on taxable returns for casualty loss was only 0.08 per cent of income in 1939 and 0.12 per cent in 1956. Since 1944, when the percentage was 0.13, there has been no rise in the amount reported relative to total reported income. However, as previously noted, the relative frequency of returns showing casualty losses has

[34] Hearings before the Committee on Ways and Means, *op.cit.*, pp. 80, 114.

TABLE 54

Amount of Casualty Loss Deductions Reported on Tax Returns As Per Cent of Total Income Reported, 1939-1956

YEAR	*Casualty Losses Reported on:* *Taxable Returns* (1)	*All Returns* (2)	*Per Cent of AGI on:* *Taxable Returns* (3)	*All Returns* (4)
	(millions)			
1939	14	26	.08	.10
1940	22	40	.09	.10
1941	44	70	.09	.11
1942	91	133	.13	.16
1943	116	140	.11	.13
1944	149	179	.13	.15
1945	128	153	.11	.13
1946	137	179	.12	.13
1947	193	254	.14	.17
1948	179	244	.13	.15
1949	171	229	.12	.14
1950	248	308	.16	.17
1951	n.a.	n.a.	—	—
1952	293	368	.15	.17
1953	326	393	.15	.17
1954	359	444	.17	.19
1955	n.a.	n.a.	—	—
1956	295	348	.12	.13

Source, by column

(1) and (2): *Statistics of Income.*
(3): (1) ÷ (3), Appendix Table D-2.
(4): (2) ÷ (6), Appendix Table D-2.

TABLE 55

Per Cent of All Taxable Returns Reporting Casualty Loss, by Size of Income Reported, Selected Years, 1939-1956

INCOME GROUP[a] *($000's)*	*1939*	*1941*	*1945*	*1947*	*1949*	*1952*	*1954*	*1956*
Under 2	n.a.	n.a.	0.6	0.8	0.8	0.8	1.0	0.8
2-3	n.a.	n.a.	1.4	1.6	1.5	1.7	1.9	1.7
3-5	n.a.	n.a.	2.5	3.1	3.3	3.8	4.1	3.2
5-10	2.7	4.6	3.8	5.4	4.9	6.4	7.6	5.8
10-25[b]	3.0	4.7	4.4	6.2	5.1	7.1	9.0	7.7
25-50[b]	3.8	5.0	5.1	7.4	7.1	8.9	12.2	9.3
50-100	4.6	5.8	6.0	8.8	9.6	12.2	16.5	11.7
100-500	6.3	7.6	6.8	12.0	12.5	15.6	23.9	14.3
500 and over	14.4	17.3	12.5	28.6	22.8	19.9	35.7	16.8
Average	n.a.	n.a.	1.4	2.2	2.6	3.7	4.6	3.9

[a] Net income groups for 1939 and 1941; adjusted gross income groups for other years.

[b] For 1952 and 1954, class limit is $20,000 instead of $25,000.

Source: *Statistics of Income.*

TABLE 56

Deductions for Casualty Loss as Per Cent of Income on Taxable Returns with That Deduction, by Income Groups, Selected Years, 1939-1956

INCOME GROUP[a] ($000's)	1939	1941	1945	1947	1949	1952	1954	1956
Under 2	n.a.	n.a.	9.1	8.3	7.7	8.1	6.9	7.1
2-3	n.a.	n.a.	6.1	5.8	5.0	5.1	5.6	5.3
3-5	n.a.	n.a.	4.8	4.7	4.0	3.8	3.2	3.4
5-10	4.1	2.8	4.4	3.8	3.1	2.8	2.4	2.2
10-25[b]	3.4	2.3	3.5	2.9	2.3	2.1	2.2	1.5
25-50[b]	1.9	1.4	2.5	2.5	2.1	1.7	2.0	1.4
50-100	1.6	1.4	2.1	2.4	1.6	1.4	2.1	1.0
100-500	1.2	0.5	1.6	2.1	1.2	1.0	1.6	0.7
500 and over	0.6	1.1	0.5	1.1	0.8	0.3	0.7	0.3
Average loss reported (dollars)	n.a.	n.a.	208	212	185	184	183	162

[a] Net income groups for 1939 and 1941; adjusted gross income groups for other years.

[b] For 1952 and 1954, class limit is $20,000 instead of $25,000.

Source: *Statistics of Income.*

increased. Less than 2 per cent of returns listed such loss in 1944 but almost 4 per cent did so in 1956 (Table 55).[35]

In contrast to the medical expense deductions, the relative frequencies rise sharply with size of income reported. In recent years, casualty losses were reported on only 1 per cent of returns in the lowest income group, and on between one-fifth and one-third in the highest. But for those who did report such losses, the relation to income resembled that for medical expenses, that is, the ratio of reported losses to income varied inversely with size of income (Table 56).

[35] This, and an upward shift in the percentage breakdown of the total by income groups, explains the sharp decline in the average ratio of loss to income on returns reporting casualty losses, observable in Table 56, even though the ratio did not decline when income on all taxable returns was used (Table 54).