

Fact Sheet

Medical Expense Tax Deduction: Key Characteristics by State

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Today taxpayers with high out-of-pocket medical expenses may be able to deduct a portion of their costs from their taxable income. In 2015, the latest year for which nationwide data are available, 8.8 million taxpayers relied on this tax provision, deducting \$86.9 billion.¹ Between 2016 and 2020, the deduction is estimated to reduce the tax bill of these taxpayers by a total of \$56.6 billion.²

Who Gets the Deduction and How Much?

The deduction is targeted to people with high medical expenses exceeding 10 percent of their income. In 2015, the out-of-pocket medical expenses of these tax filers averaged \$15,243. This represents more than a quarter of the estimated median household income (\$56,516).³ According to IRS tabulations, the average medical expenses of taxpayers with incomes below \$75,000 ranged from just below \$10,000 to almost \$15,000⁴—thus representing a major financial burden for a middle-class family.

Because of the 10 percent of income threshold, taxpayers deducted only \$9,904 on average in 2015. That represents less than two-thirds of the average unreimbursed expense incurred that year.

The actual tax savings from a tax deduction vary in proportion to taxpayers' marginal tax rate (MTR). Today these rates range from 10 percent to 39.6 percent. For example, taxpayers in the 15 percent tax bracket deducting \$10,000 would save \$1,500 in taxes. If these taxpayers' total unreimbursed medical expenses were close to the \$15,000 average, the deduction would offset just 10 percent of their out-of-pocket payments.

Geographic Variation: A Look at the Deduction by State

The deduction taken by households across the country varies, as medical costs, income levels, and many other factors differ by state. Table 1 below shows the number of taxpayers claiming the deduction, average amounts, and associated tax benefits for hypothetical taxpayers in two common tax brackets. The table uses the data reported by the National Taxpayer Advocate for 2014, the latest available information at the state level.⁵ In 2014, the income thresholds for itemizing medical expense deductions were 10 percent for taxpayers under age 65 and 7.5 percent for taxpayers ages 65 and older. Beginning in tax year 2017, that threshold is 10 percent of income for all ages.

The geographic variation is evident in the table. Twenty-nine jurisdictions have averages in excess of \$10,000. Tax savings mirror these figures. Nationally, the average tax savings are about \$2,500 for the 25 percent bracket and about \$1,500 for the 15 percent bracket.

Predictably, the total size of a state's population to a large extent drives the number of taxpayers claiming the medical expense deduction there. California has the largest number, at over 1 million taxpayers claiming the deduction. The order of the next two largest states is reversed, however, relative to their total population. Florida had 634,306 taxpayers



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TABLE 1
Medical Expense Tax Deduction (METD), Key Characteristics by State, 2014.

Jurisdiction	No of Returns	Average METD	Tax Savings at MTR of 25 percent	Tax Savings at MTR of 15 percent
National	8,788,190	\$ 9,958	\$ 2,490	\$ 1,494
Alabama	141,849	\$ 8,732	\$ 2,183	\$ 1,310
Alaska	11,934	\$ 11,433	\$ 2,858	\$ 1,715
Arizona	250,244	\$ 9,009	\$ 2,252	\$ 1,351
Arkansas	67,688	\$ 8,655	\$ 2,164	\$ 1,298
California	1,031,052	\$ 10,413	\$ 2,603	\$ 1,562
Colorado	159,412	\$ 10,266	\$ 2,566	\$ 1,540
Connecticut	116,390	\$ 11,114	\$ 2,778	\$ 1,667
Delaware	23,025	\$ 11,234	\$ 2,809	\$ 1,685
District of Columbia	18,770	\$ 11,056	\$ 2,764	\$ 1,658
Florida	634,306	\$ 10,157	\$ 2,539	\$ 1,524
Georgia	312,604	\$ 8,394	\$ 2,099	\$ 1,259
Hawaii	33,166	\$ 10,358	\$ 2,589	\$ 1,554
Idaho	49,749	\$ 9,236	\$ 2,309	\$ 1,385
Illinois	373,168	\$ 10,148	\$ 2,537	\$ 1,522
Indiana	149,794	\$ 10,466	\$ 2,617	\$ 1,570
Iowa	99,873	\$ 11,542	\$ 2,885	\$ 1,731
Kansas	83,764	\$ 11,367	\$ 2,842	\$ 1,705
Kentucky	89,275	\$ 9,522	\$ 2,380	\$ 1,428
Louisiana	101,851	\$ 10,650	\$ 2,662	\$ 1,597
Maine	35,764	\$ 10,248	\$ 2,562	\$ 1,537
Maryland	220,545	\$ 9,742	\$ 2,436	\$ 1,461
Massachusetts	193,544	\$ 11,053	\$ 2,763	\$ 1,658
Michigan	235,145	\$ 9,264	\$ 2,316	\$ 1,390
Minnesota	172,159	\$ 9,959	\$ 2,490	\$ 1,494
Mississippi	86,092	\$ 8,590	\$ 2,147	\$ 1,288
Missouri	165,001	\$ 10,049	\$ 2,512	\$ 1,507
Montana	39,906	\$ 9,146	\$ 2,287	\$ 1,372
Nebraska	56,801	\$ 11,502	\$ 2,876	\$ 1,725
Nevada	71,524	\$ 8,737	\$ 2,184	\$ 1,311
New Hampshire	41,633	\$ 11,154	\$ 2,789	\$ 1,673
New Jersey	386,855	\$ 8,842	\$ 2,210	\$ 1,326
New Mexico	53,193	\$ 9,337	\$ 2,334	\$ 1,401
New York	457,866	\$ 9,867	\$ 2,467	\$ 1,480

Jurisdiction	No of Returns	Average METD	Tax Savings at MTR of 25 percent	Tax Savings at MTR of 15 percent
North Carolina	308,775	\$ 9,438	\$ 2,360	\$ 1,416
North Dakota	15,665	\$ 14,928	\$ 3,732	\$ 2,239
Ohio	259,359	\$ 10,677	\$ 2,669	\$ 1,602
Oklahoma	93,236	\$ 10,029	\$ 2,507	\$ 1,504
Oregon	162,923	\$ 9,060	\$ 2,265	\$ 1,359
Pennsylvania	311,459	\$ 11,106	\$ 2,777	\$ 1,666
Rhode Island	25,894	\$ 10,201	\$ 2,550	\$ 1,530
South Carolina	138,571	\$ 9,077	\$ 2,269	\$ 1,361
South Dakota	21,626	\$ 12,786	\$ 3,197	\$ 1,918
Tennessee	144,826	\$ 9,284	\$ 2,321	\$ 1,393
Texas	561,544	\$ 10,228	\$ 2,557	\$ 1,534
Utah	74,733	\$ 7,745	\$ 1,936	\$ 1,162
Vermont	16,493	\$ 10,811	\$ 2,703	\$ 1,622
Virginia	261,037	\$ 9,987	\$ 2,497	\$ 1,498
Washington	205,597	\$ 10,536	\$ 2,634	\$ 1,580
West Virginia	22,807	\$ 10,515	\$ 2,629	\$ 1,577
Wisconsin	183,513	\$ 9,746	\$ 2,436	\$ 1,462
Wyoming	14,717	\$ 11,372	\$ 2,843	\$ 1,706

Source: IRS, National Taxpayer Advocate Reports to Congress and Research, Congressional District Statistics and author's calculations.

claiming the deduction and Texas had 561,544—even though Texas' population is considerably larger than Florida's (26.9 million v. 19.9 million, respectively, in 2014).⁶

Endnotes

- 1 IRS, Statistics of Income Division, Publication 1304, Sept. 2017, Table 2.1., Returns with Itemized Deductions: Sources of Income, Adjustments, Itemized Deductions by Type, Exemptions, and Tax Items, by Size of Adjusted Gross Income, Tax Year 2015 (Filing Year 2016), access date: Nov. 2, 2017, <https://www.irs.gov/pub/irs-soi/15in21id.xls>.
- 2 U.S. Congress, Joint Committee on Taxation, Estimates of Federal Tax Expenditures for Fiscal Years 2016-2020, JCX-3-17, Jan. 30, 2017, p. 38, <https://www.jct.gov/publications.html?func=startdown&id=4971>.
- 3 U.S. Census, Historical Income Tables: Households, Table H-8, Median Household Income by State: 1984 to 2016, access date: Nov. 2, 2017, <https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-households.html>.
- 4 IRS, Statistics of Income Division, Publication 1304, Sept. 2017, Table 2.1.
- 5 IRS, Taxpayer Advocate Service, Congressional Data Book for Tax Year 2014, access date: Nov. 2, 2017, https://www.irs.gov/pub/tas/ty14_congressional_stats.zip.
- 6 U.S. Census Bureau, Population Division, Table 1, Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2010 to July 1, 2016 (NST-EST2016-01), Dec. 2016, access date: Nov. 2, 2017, <https://www2.census.gov/programs-surveys/popest/tables/2010-2016/state/totals/nst-est2016-01.xlsx>.

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