The Internal Revenue Code of 1954 and Health Programs

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OF SPECIAL INTEREST to public health personnel are changes in the new Internal Revenue Code of 1954 providing additional tax relief for those who become ill and incur large medical bills. Also of interest are provisions affecting health manpower, training, and research.

The new revenue code was designed primarily to remove inequities, clarify tax law, and bring the provisions of the taxing statutes in line with current economic developments. Although the new tax act involved a tax reduction of $1.4 billion, it was designed as a reform and not a tax reduction measure.

Sick Leave Pay and Medical Costs

Two provisions of the Internal Revenue Code of 1954 are especially notable for their potential impact on health programs and voluntary health insurance. These provisions relate to sick leave pay or temporary disability benefits and the tax deduction allowed for medical expenses.

Employer Sickness Benefit Plans

In the last decade employer participation in employee health and welfare plans has expanded considerably. A combination of factors has stimulated employer interest in health plans. Increased recognition of such plans as an integral part of the labor-management programs, union emphasis on this form of protection in collective bargaining, the exemption of these plan benefits from restrictions of the wage stabilization program, and the indirect incentive of the excess profits tax have all contributed to this growth.

It has been estimated that employer contributions toward pension, health, and welfare plans reached $5 billion in 1953 (*1*) and that employer contributions for health insurance plans alone exceeded $750 million (*2*).

Considerable uncertainty developed under the earlier revenue laws concerning the tax liability of employer contributions toward sickness and health insurance of their employees. For some time before the enactment of the code of 1954, changes in Internal Revenue Service regulations were under discussion to clarify the employees' tax liability for these health and sickness insurance premiums. The new code specifies that premiums and contributions paid by employers under a plan to finance sickness and accident benefits are not currently taxed as employee income. Furthermore, employer payments and premiums to reimburse an employee for expenses incurred for the medical care of the employee, his spouse, and dependents are tax exempt, provided the employee does not claim a medical expense deduction for such expenses under his individual income tax.

Uncertainty also developed concerning the

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taxability of sickness benefits received by employees under plans operated by their employers (*3*). In general, amounts received as accident or cash sickness benefits were excluded from gross income under the earlier statutes and regulations, if the benefits were paid under an insurance contract. Benefits financed by an employer under a self-insured plan or a wage continuation plan were taxable. In the words of the Ways and Means Committee of the House of Representatives: "Very troublesome legal and administrative problems have arisen in determining whether particular plans, especially self-insured plans, which are financed by employers without the use of a carrier or insurance company, constitute insurance for purposes of the exemption" (*4*).

Although employer sickness benefit plans (including sick leave provisions for government employees) go back many years, provision of cash sickness benefits was stimulated considerably by the enactment of State temporary disability benefit laws, the Federal railroad cash sickness benefit provisions, and by collective bargaining agreements. Rhode Island adopted the first State temporary disability program in 1942. California, New Jersey, and New York also have enacted temporary disability statutes. In these three States, unlike Rhode Island, the benefits may be paid either from a State fund or under a private plan which conforms with State law. An approved private plan in these three States may be set up either in the form of a contract with an insurance carrier or on a self-insurance basis satisfactory to the States (*5*).

In 1953, cash sickness benefits under State law totaled $231.8 million. Of this total some $140 million was paid out through private plans, including about 8–10 percent which was paid out under self-insured plans. It has been estimated, furthermore, that in 1953 approximately $975 million was paid in premiums for private insurance against loss of income during sickness, and the benefits paid out under this insurance amounted to about 60 percent of the premiums, or $600 million (*6*). While there are no adequate current data on employer participation in the payment of these premiums, it has been estimated that employers are financing about 45 percent of the premiums paid.

In general, the new revenue code narrows the exemptions of these sickness benefits from taxable income by imposing a limitation on the maximum amount of sickness payments financed by employers which may be excluded from income. In testifying on the new revenue code, for example, Marion B. Folsom, Under Secretary of the Treasury, stated: "When the present law was put into effect giving tax exemption status to sick benefit payments under insured plans, very few insurance companies would write policies providing more than $50 or $75 a week benefits. But, in recent years they have cut off the maximum and now some of these insured plans provide almost unlimited benefits when people are out sick, for executives, as well as the rank and file. Under the present law, that is all tax exempt. Under our proposal, we would put a ceiling of $100 a week on tax exemptions of any sick benefit plan" (*7*).

The new code clearly excludes from gross income the benefits an employee receives under a workmen's compensation act for sickness or accident incurred in the course of employment. It also excludes compensation paid under a workmen's compensation act to the survivors of a deceased employee. Similarly, damages received on account of personal injury or sickness (whether by suit or agreement) are clearly excluded. Full exemption is also granted for payments received for the permanent loss or loss of use of a member or function of the body or the permanent disfigurement of the employee, his spouse, or dependent provided such payments are not a continuation of wages for the period an employee is absent from work (*8*).

Payments received by an employee under an accident or cash sickness plan for wage loss resulting from illness or injury are exempt up to a weekly rate of $100. However, such payments received during the first 7 days of illness are exempted from taxation only if the employee is hospitalized for at least one day during the period of illness. When the absence is caused by injury or accident there is no waiting period.

The exclusion from income, while narrowed for those receiving benefits under plans carried by insurance companies, is broadened to include payments under a self-insured plan and

amounts received as wages or in lieu of wages during a period of sickness. These payments, previously taxable, are now exempt within the $100 weekly maximum to the extent they are employer financed. In general, the provisions of the new code follow the practices of many commercial insurance policies in length of waiting periods, in differentiating between hospitalized illnesses and other illnesses, and in distinguishing between accidental and other disabilities. The new tax provisions add another incentive to hospitalization and raise many complex problems similar to those involved in the administration of sickness benefit payments.

A notice of proposed regulations under the accident and sickness benefit provisions of the new code was released in the Federal Register on March 24, 1955. These regulations set forth rules for determining the amount of benefits attributable to employer contributions in cases in which contributory and noncontributory plans are combined. They clarify the basis of differentiating payments which are related to a period of work absence from other disability benefits. The regulations also spell out the rules for determining the proportion of wages which may be excluded under wage continuation plans, by defining both the basis for determining the weekly rate of pay and the period during which income attributable to illness may be excluded.

If the amount of wages or benefits received does not exceed $100 a week, the full amount of the payment after the waiting period may be excluded from gross income without regard to the number of additional days of absence from work. If the wages exceed $100 a week, the payment during the period of illness is prorated in proportion to the $100 weekly maximum. For example, an employee earns $120 a week. He is ill for the waiting period and an additional 3 days. He receives a total of $192 during the period of illness. The $120 pay for the first week would be counted as income. Sixty dollars of the additional $72 in wages received for the 3 days of additional absence would be excluded from the employee's gross income. In other words, the exclusion would be in the ratio that the $100 maximum is to the weekly wage of $120.

Among the various problems of definition and interpretation in the new tax provisions is that of the definition of illness. The Internal Revenue Service under a recent ruling, for example, has determined that "payments received for a period of absence due solely to pregnancy may not be excluded from gross income. Pay for time missed for actual sickness during a pregnancy whether or not a result of the pregnancy, however, would be an exempt income amount."

It may be of interest to note that a provision of the new revenue code is especially addressed to the problem of equalizing the tax treatment of retirement pay on account of service-connected disabilities of the commissioned officers of the Public Health Service and of the Coast and Geodetic Survey with those of members of the armed services. For all these groups such payments are exempted from taxable income.

Medical Expense Deductions

A deduction for medical care expenses in excess of 5 percent of income was first introduced in 1942 along with the wartime increases in individual income taxes and reductions in personal exemptions. The Senate Finance Committee, in approving the deduction in that year, reported that "This allowance is recommended 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" (*9*). The deduction was modified by subsequent revenue acts. In 1944, the lower limit was changed from 5 percent of net income to 5 percent of adjusted gross income, that is, income before exemptions and allowed nonbusiness deductions. Other revenue acts raised the maximum amount of the deduction. A significant change was made by the Revenue Act of 1951 which permitted taxpayers 65 years of age and over to deduct medical expenses for themselves and their spouses without regard to the 5 percent of income minimum.

The new code makes three major changes in the medical care expense deduction. It allows deduction of medical expenses in excess of 3 percent instead of 5 percent of adjusted gross income. It limits the amount of drugs and medicine which may be included in medical care

Table 1. Number of taxable income tax returns with medical and dental deductions and amount of such deductions, 1950

Adjusted gross income classes	Number of tax returns (thousands)	Adjusted gross income reported (millions)	Medical and dental deductions (millions)	Medical and dental deductions plus 5 percent of adjusted gross income		
				Amount (millions)	Percent of adjusted gross income	Average amount per return
Total	4, 138	$17, 766	$1, 260	$2, 148	12. 1	$519
Under $1,000	40	36	4	6	16. 7	150
$1,000–$1,999	416	664	75	108	16. 3	260
$2,000–$2,999	818	2, 068	191	294	14. 2	359
$3,000–$3,999	1, 113	3, 890	295	489	12. 6	439
$4,000–$4,999	798	3, 551	236	414	11. 7	519
$5,000–$6,999	656	3, 786	233	422	11. 1	643
$7,000–$9,999	170	1, 372	97	166	12. 1	976
$10,000–$14,999	70	835	57	99	11. 9	1, 414
$15,000–$24,999	37	697	41	76	10. 9	2, 054
$25,000–$49,999	16	547	24	51	9. 3	3, 188
$50,000–$99,999	3	222	6	17	7. 7	5, 667
$100,000 and over	1	97	1	6	6. 2	6, 000

SOURCE: Data from the Internal Revenue Service.

expenses to sums in excess of 1 percent of income.

For example, a family with an adjusted gross income of $5,000 may deduct medical expenses above $150 instead of the amount in excess of $250 previously allowed. However, this family can include in the deduction only the amount above $50 that they paid for drugs and medicine. The maximum allowable deduction for medical expenses is increased from $1,250 to $2,500 per exemption. The overall limit per tax return for a married couple filing a joint return or a head of a household has been increased from $5,000 to $10,000. For a single person filing a return or married persons filing separately the maximum limit is raised from $2,500 to $5,000.

Other changes in the medical care deductions are also made by the new code. A new provision allows the expenses of a last illness to be deducted on the final return of a decedent, even if the expenses are paid after death. The definition of medical expenses is clarified by providing for the deduction of amounts paid for accident or health insurance and transportation expenses for travel prescribed for health reasons. Expenses for food and lodging during such travel are not deductible.

The Department of the Treasury at the time of the hearings on the new revenue act estimated that about 8.5 million taxpayers would receive additional tax relief as a consequence of the changes in the medical care deductions and that the net cost to the Government in the form of tax loss would be about $80 million.

In assessing the importance of the change in the medical care deduction provision, it is important to take account of the population represented on tax returns and the extent to which even large medical care bills fall within the limits of the so-called standard deduction option provided for all taxpayers (*10, 11*). An estimated 55 to 60 million tax returns were filed for the 1954 income year—80–85 percent estimated as taxable. The population represented on taxable returns has been estimated at between 65 and 70 percent of the total population. Those not taxable include, among others, persons drawing on their capital and assets for current living expenses, those with income less than $600 per person supported by the family head, and those receiving a large portion of their income from nontaxable sources such as public payments and contributory annuities.

Even among the taxpaying group, however, a standard deduction is used far more frequently than are itemized deductions. The standard deduction, written into tax laws to

simplify administration, authorizes an average amount of deduction for all taxpayers for the deductible items of expenses—such as charitable contributions, property taxes, interest on indebtedness, and medical expenses. The standard deduction amounts to 10 percent of adjusted gross income, up to $1,000 ($500 for spouses filing separate returns). Accordingly, those with no deductions other than medical care costs—even costs amounting to as much as 15 percent of income—would tend, because of the greater simplicity, to use a standard deduction. Despite this fact, in 1950, the last year for which complete tabulated data are available, some 4 million taxpayers itemized their medical care deductions. In the aggregate, medical expenses of these taxpayers exceeded $2 billion, or over $500 per tax return. The amount of medical and dental deductions totaled $1.3 billion (table 1). Almost half of the approximately 8.5 million taxpayers who itemized their deductions, instead of claiming a standard deduction, reported medical expenses in excess of 5 percent of income (table 2). The variation in the amount of average medical care expenses per return by income group and the percent of income spent for medical care are shown in tables 1 and 2. Table 3 indicates the proportion of total returns whether taxable or not which reported medical and dental deductions for that year and the amount of these deductions by income groups.

The data derived in the operation of the revenue act may be compared with data available on the distribution of medical care costs for all families in the population. The Health Information Foundation, for example, in its recent study of voluntary health insurance and consumer expenditures for personal health services in the period 1952–53, found that 7 percent of all families—approximately 3.5 million—incurred medical care expenses in excess of $495. Approximately 1 million families incurred medical care expenses equalling or exceeding one-half of their annual incomes, and about 500,000 families incurred medical expenses equalling or exceeding their annual income (*12*).

The national bill for medical care expenses in 1953 was approximately $10 billion, or about 4 percent of personal income after taxes. The total by class of service as estimated by the Social Security Administration is shown in table 4.

During the course of the hearings on the change in the medical care expense deductions much testimony was offered on the need for special tax provision to give taxpayers incen-

Table 2. Taxable returns with itemized deductions, all types of deductions and deductions for medical and dental expense, 1950

Adjusted income	Taxable returns with itemized deductions		Returns with medical expense deduction		
	Number (thousands)	Percent all taxable returns	Number (thousands)	Percent all taxable returns	Percent itemized taxable returns
Total	8, 724	22. 85	4, 138	10. 84	47. 43
Under $1,000	77	4. 90	40	2. 55	51. 95
$1,000–$1,999	710	11. 84	416	6. 94	58. 59
$2,000–$2,999	1, 443	16. 55	818	9. 38	56. 69
$3,000–$3,999	2, 082	24. 02	1, 113	12. 84	53. 46
$4,000–$4,999	1, 653	28. 80	798	13. 90	48. 28
$5,000–$6,999	1, 556	34. 21	656	14. 42	42. 16
$7,000–$9,999	488	31. 16	170	10. 86	34. 84
$10,000–$14,999	257	37. 85	70	10. 31	27. 24
$15,000–$24,999	220	55. 56	37	9. 34	16. 82
$25,000–$49,999	163	74. 09	16	7. 27	9. 82
$50,000–$99,999	56	88. 89	3	4. 76	5. 36
$100,000 and over	19	95. 00	1	5. 00	5. 26

SOURCE: Data from the Internal Revenue Service.

Table 3. Number and percent of income tax returns with medical and dental deductions, and amount of such deductions compared with adjusted gross income, by income class, 1950

Adjusted gross income classes [1]	Number of individual tax returns			Returns with medical and dental deductions [2]		
	Total (thousands)	With medical and dental deductions		Adjusted gross income reported on returns with medical deductions (millions)	Medical and dental deductions	
		Number (thousands)	Percent of total [3]		Amount [4] (millions)	Percent of adjusted gross income [4]
Total	53, 060	4, 859	9. 2	[5] $19, 397	$1, 560	8. 0
No adjusted gross income	404	8	1. 9	[6] 32	4	12. 8
Under $1,000 [7]	7, 362	122	1. 7	98	27	27. 6
$1,000–$1,999	10, 550	642	6. 1	1, 006	159	15. 8
$2,000–$2,999	11, 429	1, 040	9. 1	2, 613	280	10. 7
$3,000–$3,999	9, 837	1, 238	12. 6	4, 319	353	8. 2
$4,000–$4,999	5, 985	857	14. 3	3, 834	278	7. 3
$5,000–$6,999	4, 549	656	14. 4	3, 786	233	6. 2
$7,000–$9,999	1, 566	170	10. 8	1, 372	97	7. 1
$10,000–$14,999	679	69	10. 2	835	57	6. 8
$15,000–$24,999	396	37	9. 4	697	41	5. 8
$25,000–$49,999	220	16	7. 5	547	24	4. 3
$50,000–$99,999	63	3	5. 4	223	6	2. 8
$100,000 and over	20	1	3. 1	97	1	1. 4

[1] Adjusted gross income means gross income minus allowable trade and business deductions, expenses of travel and lodging in connection with employment, reimbursed expenses in connection with employment, deductions attributable to rents and royalties, certain deductions of life tenants and income beneficiaries of property held in trust, and allowable losses from sales or exchanges of property. Should these allowable deductions exceed the gross income, there is an adjusted gross deficit. The adjusted gross income classes are based on the amount of adjusted gross income, except that returns with adjusted gross deficit are designated "no adjusted gross income" without regard to the amount.

[2] Medical and dental expenses, reported on returns with itemized deductions, paid for the care of the taxpayer, his spouse, or dependents, not compensated by insurance or otherwise, which exceed 5 percent of the adjusted gross income. The deduction in 1950 could not exceed $1,250 multiplied by the number of exemptions other than those for age and blindness with a maximum deduction of $2,500, except on a joint return of husband and wife the maximum was $5,000.

[3] Percentages based on unrounded numbers of tax returns and dollar amounts in thousands.

[4] Reported on returns with medical deductions. Does not include nondeductible medical expenses equal to 5 percent of adjusted gross income.

[5] Adjusted gross income less adjusted gross deficit.

[6] Adjusted gross deficit.

[7] Persons with gross incomes below $600 are not required to file returns. However, many such persons do file returns, chiefly for the purpose of claiming refunds of tax prepayments; and those returns are included in the tabulation.

SOURCE: Data from the Internal Revenue Service.

tives for purchasing voluntary health insurance protection against large medical bills. At present, premiums paid for voluntary health insurance may be included as a medical care expense, but there is no special tax incentive for the purchase of this protection.

The American Hospital Association, through its Council on Government Relations, made known its view at the time of the hearings on the new revenue act. In a letter to the chairman of the Ways and Means Committee these views were stated as follows: "Hospitals recognize that many hospital and medical expenses that impose severe financial burdens upon families and individuals are not deductible because they do not exceed 5 percent of income. Where an extensive illness occurs, it often seems that the maximum of $1,250 hurts most the people who most need this help. But the problem cannot be solved by removing all limits. There are some economic implications in any complete removal of limitations which ought to be explored by the committee. As limits are lowered, there will be more deductions claimed and there

may need to be closer scrutiny of the nature and propriety of these deductions. Not all minor medical expenses are a handicap to income earning, and there is much to be said for limiting this form of relief to catastrophic situations, where these can be defined. . . . The American Hospital Association would generally favor (1) allowing the cost of voluntary health insurance to be deducted from taxable income without regard to fixed minimum percentage of income, and (2) some liberalization in medical expense deductions" (*13a*).

Health Manpower, Training and Research

The new revenue code contains a number of provisions affecting training and research expenditures. Among these provisions are the broadened definition of dependents, the clarification of the tax status of scholarships and fellowships, the liberalized deductions for contributions to hospitals and educational institutions, and special deductions for care of dependents.

Definition of Dependents

Although the Congress rejected proposals for tax deductions for higher education expenses, the new revenue code gives some recognition to the costs to parents of financing students through long periods of academic training and to the current levels of even sporadic earnings of full-time students. The American Council on Education, in testifying before the Ways and Means Committee, described the problems imposed by the earlier revenue provisions as follows: "It means that hundreds of thousands of students spend a considerable portion of their free time in enforced idleness. It places heavy financial burdens on their parents at a time when they can least afford to meet them. It makes it impossible for many poor, but worthy students, to attend institutions of higher learning because of the monetary limitation" (*13b*).

Before the enactment of the code of 1954, a $600 exemption was granted a taxpayer for a dependent if the dependent had a gross income of less than $600 a year. The new revenue act liberalizes this provision by permitting children to be counted as dependents for purposes of exemptions even though they earn income in excess of $600 a year. The children for whom an exemption may be claimed must be under the age of 19 or full-time students at an educational institution. Moreover in determining whether an exemption may be claimed for a child—that is in determining whether the taxpayer provides half or more of the support of the child—the new code permits any scholarships received for study at an educational institution to be ignored in applying the support test.

The problem of dependency credits for students attending medical or dental schools is especially significant because of the extended period and high cost of training and the proportion of students who work. Counts and Stalnaker, in a recent study on the cost of attending medical school, point out that, on the average, students spend $1,500 a year in addition to tuition and fees. Tuition at the schools included in their special study averaged (median value) $800, making the total cost for a student year about $2,300—or a total cost of $9,200 for the completion of 4 years of medical training. Counts and Stalnaker found in their questionnaire survey of 6,251 medical students from 26 selected medical schools that parents were the most important source of income for the majority of students. Approximately 59 percent of the students financed their way by help (other

Table 4. Private expenditures for medical care, 1950 and 1953 [1]

[In millions]

Item	1950	1953
Total	$8, 117	$9, 866
Hospital services	2, 121	2, 825
Physicians' services	2, 467	2, 859
Dentists' services	869	943
Other professional services	476	562
Medicine and appliances	1, 885	2, 192
Administrative and other net costs of medical care insurance	299	485
Insurance for hospital services	189	284
Insurance for physicians' services	110	201

[1] Based on data from Department of Commerce, 1954 National Income Supplement to Survey of Current Business. Excludes public expenditures for medical care and direct expenditures for nonhospital services by philanthropic organizations. Includes industrial expenditures for health insurance.

SOURCE: Voluntary insurance against sickness; 1948–53 estimates. Social Security Bulletin 17: 5, December 1954.

than loans) from parents. The median amount of income from parents was $1,300 (*14*).

About 3 out of each 4 students reported income from vacation earnings, the median amount being $550. In addition, about one-fourth of the students were employed other than during vacations and received cash payments for their work. A few of the students received services such as board, room, or laundry. Although some of the students were employed at the university where they were attending medical school, the majority had jobs outside the medical school. The median amount of earnings—other than vacation earnings—was $450.

Parents of medical or dental students who are providing half or more of the support of their children will now be permitted to claim the student for purposes of personal exemption even though he earns more than $600 a year. Although the student would be required to file a return, he could also claim a personal exemption of $600. At the lowest income tax bracket, this change would mean a tax saving to the parent of $120 a year. The reported income for parents in the study just cited averaged approximately $7,000, which might make the average tax saving somewhat higher (*14*).

Scholarships and Fellowships

Under earlier tax law there was no special provision regarding the treatment of scholarships and fellowships. The basic ruling of the Internal Revenue Service stated that the amount of a grant or fellowship was includible in gross income unless it could be established to be a gift. The ruling created considerable ambiguity.

The 1954 revenue bill adopted by the House of Representatives excluded scholarships or Federal grants from gross income, but severely limited the types of grants which could be excluded. For example, the House bill specified that postdoctoral fellowships and scholarships could be excluded only if the annual amount of the grant, plus any compensation received from a previous employer, was less than 75 percent of the recipient's earnings in the year preceding the grant.

The American Cancer Society, through its executive vice president, testified that under earlier law their fellowship stipends were ruled by the Internal Revenue Service to be gifts. Although they were not taxable earlier, under the bill as passed by the House the stipends granted by the American Cancer Society would have become taxable because the minimum grants were usually more than 75 percent of the prefellowship earnings. The Senate committee, to take account of the problems raised, adopted an exclusion of $300 per month of postdoctoral grants as a substitute for the 75 percent rule in the House bill.

The new revenue code excludes scholarship and fellowship grants from gross income with certain limitations. The exclusion extends to the value of services and accommodations, such as room, board, and laundry, which are received as part of the grant. It also extends to the amount received for travel, research, clinical assistants, or equipment to the extent that the sums are spent for these purposes.

The exclusion of grants to candidates for degrees does not apply to that portion of any amount received which represents payment for teaching, research, or other services in the nature of part-time employment required as a condition for receiving the grant. However, services required for all candidates for a particular degree are not to be considered part-time employment. For individuals who are not candidates for degrees, such as those receiving postdoctoral fellowships, the exclusion is limited to $300 a month for a maximum period of 36 months. Moreover, the grant may be excluded only if the grantor is a tax exempt organization or a Government agency.

The National Institutes of Health has prepared a summary statement on Public Health Service research fellowships for persons interested in applying for these fellowships. The provisions of the Internal Revenue Code of 1954 as they relate to fellowship awards are included in this summary statement (*15*). In general, postdoctoral awards would not be taxable under the new code because the amount of the awards is below the $300 a month maximum.

Charitable Contributions

The principle of providing an incentive to taxpayers to contribute to charitable causes has long been recognized in income-tax law. In

1952 the maximum allowed deduction for total charitable contributions was raised from 15 to 20 percent of income. The 1954 revenue code allows this limit to be exceeded to the extent that this excess represents contributions to hospitals, educational institutions, or churches. However, this excess may itself in the aggregate not exceed 10 percent of adjusted gross income. In addition, corporations that are limited in their deductions for charitable contributions to 5 percent of taxable income may carry over to the succeeding 2 taxable years any contributions in excess of the 5-percent limit.

In explanation of the changes, the House Ways and Means Committee reported: "This amendment by your committee is designed to aid these institutions in obtaining the additional funds they need in view of their rising costs and the relatively low rate of return they are receiving on endowment funds" (*4a*).

A number of groups appeared in support of continued Federal recognition of the role of voluntary nonprofit health organizations and education institutions through provision by the tax deductions of incentives to contribute to charitable causes.

Child Care Expenses

During the course of consideration by the House Ways and Means Committee of deductions for child care, the American Nurses Association presented its position in support of allowing working women to deduct the amount spent for child care for income tax purposes. In the course of the testimony Julia Thompson, representing the American Nurses Association, indicated that approximately 20 percent of the Nation's 335,000 active nurses would be immediately affected by this legislation. Miss Thompson also pointed out that of the 220,000 inactive nurses, approximately 58 percent have dependents under 18 years of age.

"The American Nurses Association believes that there are many of these inactive nurses—highly trained women greatly needed in hospitals and health agencies—who are willing and able to take nursing jobs but cannot do so because they will not earn enough to pay for help to take care of their children while they work. . . . It would seem that the proposed amendment to the Internal Revenue Code would help relieve the situation by enabling inactive nurses with children to return to their profession on an economical basis" (*13c*). Dr. William S. McNary of the American Hospital Association, in a letter to the chairman of the committee, also indicated the potential effect of the income tax change on hospital manpower resources.

In recognition of the special problems of expenses for child care a new deduction was introduced by the 1954 revenue code. A deduction up to $600 is allowed for expenses paid by a workingwoman or widow for the care of a dependent child or stepchild under 12 years of age or for the care of any dependent who is physically or mentally incapable of caring for himself. The care must be for the purpose of enabling the taxpayer to be employed.

The deduction is limited, moreover, in the case of a working wife. In such cases the deduction is allowed only if she files a joint return with her husband, and the deduction is reduced by the amount by which the combined adjusted gross income of both husband and wife exceeds $4,500, except where the husband is incapable of self-support because physically or mentally incapacitated.

The revenue bill as it passed the House restricted the allowable deduction of workingwomen to widows or those with incapacitated husbands and to expenses for the care of a child under 10 years of age. Various groups testified before the Senate Finance Committee on the need for liberalization of the deduction. Among those supporting liberalization were the United Cerebral Palsy Association and Dr. George G. Deaner of the Institute of Physical Medicine and Rehabilitation. The Senate Finance Committee, in reporting out changes in the House bill which were later voted by the Senate and accepted by the Conference Committee, stated: "Your committee's action in extending the deduction recognizes that similar financial problems may be incurred by taxpayers who, if they are to be gainfully employed, must provide care for physically or mentally incapacitated dependents other than their children. Moreover, it is recognized that in many low-income families, the earnings of the mother are essential for the maintenance of minimum living standards, even where the

father is also employed, and that in such situations the requirement for providing child care may be just as pressing as in the case of a widowed or divorced mother" (*16*).

Definition Problems Ahead

This brief summary of selected provisions of the new revenue code suggests the number and variety of health and medical care questions on which tax decisions will be required. Earlier revenue statutes involved determinations of medical care cost items—what types of expenses are medical care expenses and which of the expenses fall outside of medical care costs. The extra personal exemption for the blind necessitated definitions of blindness.

The new code, however, goes further in the direction of tax relief for hardship cases involving disability and illness. Many additional questions of definition are involved. The new tax deduction provisions for employer-financed compensation for injuries or sickness require differentiation of payments for permanent injury and wage continuation payments for illness. They also require definition, for example, of "permanent loss or loss of use of a member or function of the body," of "sickness," of a period of hospitalization and of continuous illness. The new deduction for expenses for care of dependents requires differentiation of expenses for "drugs and medicine" from other medical care costs as well as definition of "drugs and medicine." The additional deduction for designated types of charitable contributions requires definition of a "hospital." Problems of definition are currently being explored by the Internal Revenue Service, and clarifying regulations are being issued from time to time. Determinations in application of these definitions to individual cases will be the task of that administrative agency in the period ahead.

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