The Income Tax as Insurance: The Casualty Loss and Medical Expense Deductions and the Exclusion of the Medical Insurance Premiums

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Whether personal income tax deductions are appropriate refinements to the concept of income or unwarranted tax expenditures continues to be the subject of debate. The casualty loss and medical expense deductions are frequently justified on the ground that ability to pay is reduced by largely unavoidable expenditures or losses. This article reconsiders the question taking account of the availability of private insurance, which is in fact widespread for relevant losses in both areas. When individuals can insure, the second level of insurance implicit in the casualty loss and medical expense deductions distorts consumption choices and insurance decisions. In particular, individuals may be more exposed to losses because of tax deductions commonly believed to mitigate them. Given the option, individuals would prefer a regime that eliminated the deductions and offered correspondingly lower tax rates.

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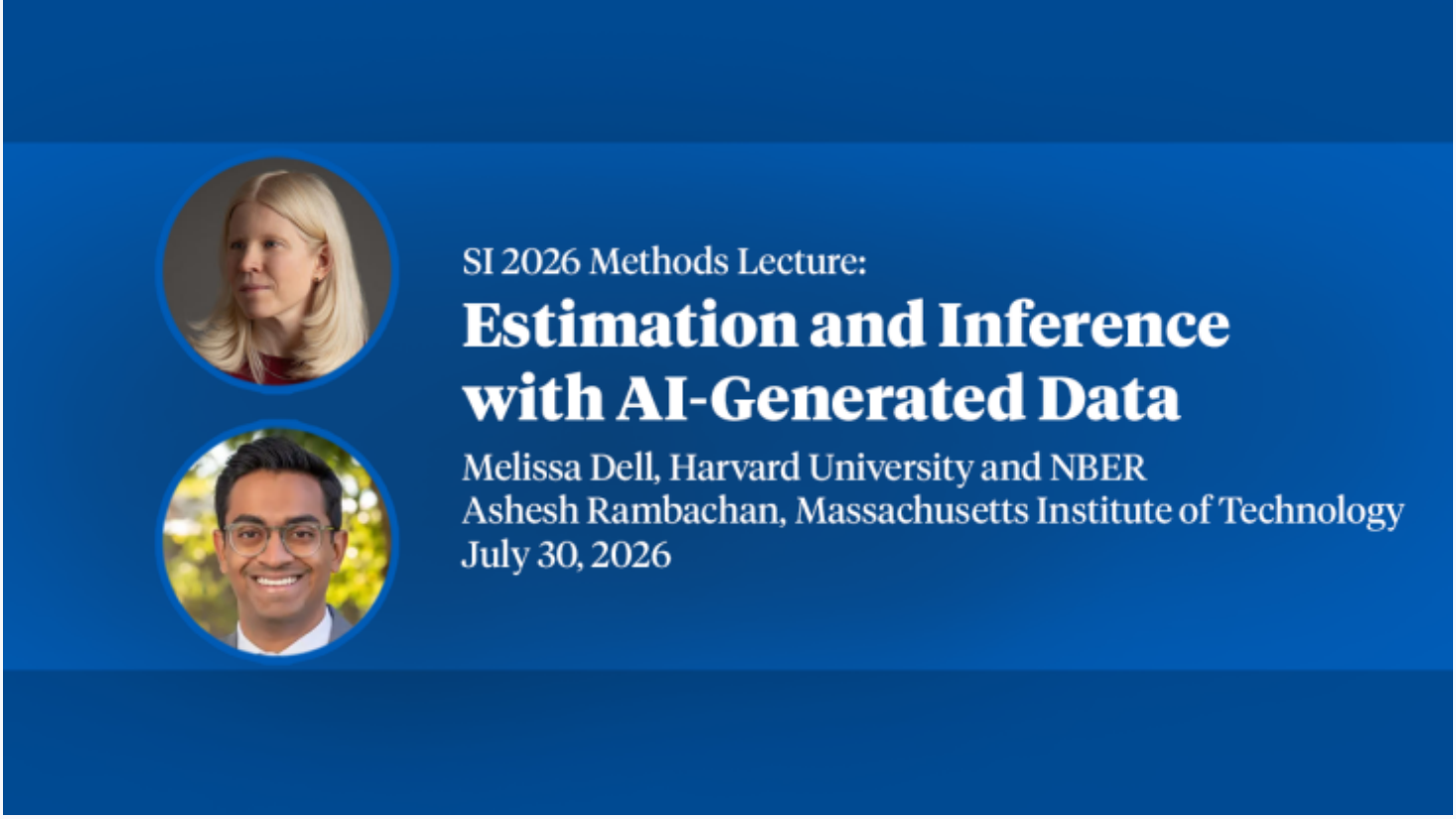


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