Name _____

Federal Income Tax
Illustration of Medical Reimbursement

Part I

During the current year, Melanie is involved in an automobile accident and incurs the following expenditures:

Doctor bills	$11,000
Hospital bills	13,000

Melanie is single and has no dependents. Her salary is $40,000, and other itemized deductions are $2,500. Melanie also receives a reimbursement of $18,000 from the insurance company for medical expenses incurred in connection with the accident.

What is Melanie's taxable income for the current year?

Book1

	A	B	C	D	E	F	G	H
1	GI		40,000				Reimb	
2	FOR				Doctor	11,000		
3	AGI		40,000		Hospital	13,000		
4	FROM				Total	24,000		
5					Less: 7.5% of AGI			
6	TI				Deductible Medical			
7					Other Itemized			2,500
8					Total Itemized			
9					(compared to standard?)			
10								

Part II

Assume all the same facts, and assume in the following year Melanie receives an additional $6,000 in settlement of a lawsuit arising because of the automobile accident. The settlement is to pay Melanie for the medical expenses incurred because of the accident that were not covered by insurance. What is the proper treatment of this $6,000 settlement?

Book1

	A	B	C	D	E	F	G	H
1	GI		40,000				Reimb	
2	FOR				Doctor	11,000		
3	AGI		40,000		Hospital	13,000		
4	FROM				Total	24,000		
5					Less: 7.5% of AGI			
6	TI				Deductible Medical			
7					Other Itemized			2,500
8					Total Itemized			
9					(compared to standard?)			
10								