TAX REPORT | By Laura Saunders

Special Tax Deductions For Special Education

More than six million children in the U.S. fall into the "special needs" category, and their ranks are expanding. The number of those affected by one developmental disability alone—autism—grew more than 70% between 2005 and 2010.

The tax code can help—if you know where to look.

There are numerous tax breaks for education, but the most important one for many special-needs students isn't an education break per se. Instead, it falls under the medical-expense category.

Although students with disabilities have a right to a "free and appropriate" public education by law, some families opt out and others pay for a range of supplemental therapies.

Such families can use Uncle Sam's medical-expense deduction for help coping with costs, say experts. But many parents and tax advisers overlook it.

"Parents are busy helping their children, and tax preparers often don't ask about medical expenses unless the taxpayer is old or ill," says Bernard Krooks, a New York attorney who is past president of the Special Needs Alliance, a nonprofit group with members specializing in disability law.

In fact, tax rules allow medical deductions for "diagnosis, cure, mitigation, or treatment...primarily to alleviate or prevent a physical or mental defect or illness" (IRS publication 502).

That can include the cost of a school or program if prescribed by a licensed health-care professional. It might even cover costs for a special two-year college certificate program for students with severe learning disabilities, such as the Reach program run by the University of Iowa, which costs as much as $40,000 a year.

The deduction also can be used for additional therapies. Regina Levy, a Los Angeles CPA with two special-needs children, offers a partial list: occupational therapy, music therapy, dance therapy, physical therapy, social-skills groups and "hippotherapy" (horseback riding), among others.

There is much more. If the education or therapy qualifies for a deduction, travel costs for the student also are deductible at 23½ cents a mile for the last half of 2011 (19 cents from January to June). Food and lodging at a specialized school is also. Even the cost of parental attendance at a relevant conference may be deductible, although food and lodging aren't, Mr. Krooks says.

Joseph Nagy, a CPA in Port Jefferson, N.Y., says he helped one family with a college-age son with severe attention deficit disorder maximize their deductions for 2008. The student couldn't live in a dorm, so the family bought a small house near the school.

The Internal Revenue Service allowed a $5,000 medical deduction to alter the house to his needs, and another $9,000 deduction equal to what room and board would have been, on the grounds that living off-campus was a medical necessity, Mr. Nagy says. (His tuition wasn't deductible as a medical expense because it wasn't a specialized program, though the family did take an education tax credit.)

There is an important limit to this break, however. Medical expenses are deductible only above a threshold of 7.5% of adjusted gross income, or 10% for those who owe alternative minimum tax. Families with access to a flexible-spending account can use dollars for the same expenses without a threshold, although in 2013 by law the FSA contribution limit drops to $2,500 from the $5,000 that many companies currently allow.

Then again, once a family has passed the hurdle, many other medical expenses are deductible—including contact-lens solution and birth-control pills, as well as out-of-pocket health-insurance premiums. Even with the hurdle, one family counseled by Mr. Krooks was eligible for a deduction of more than $30,000.

Families who hope to take large medical deductions for special-needs children probably need expert tax advice. But Mike Walther of Oak Wealth Advisors in Deerfield, Ill., who has helped many families with such children, offers these general tips:

◆ Establish the medical need for the special education or therapy. Note that it must be "primarily" to treat the issue. In one case, a mother couldn't take a deduction for sending her son to military school, even though it helped him, because the program wasn't primarily to treat his issues.

◆ Make sure to have the treatment prescribed by a doctor or other licensed health-care professional before it takes place.

◆ Keep careful records supporting the deduction, from prescription letters and canceled checks to travel mileage. "This is what's hardest for taxpayers," Mr. Walther says, "but it makes all the difference."

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Beyond Taxes

IRS Publication 502, Medical and Dental Expenses, can be found at www.irs.gov. Here's where to find other help:

- **Special Needs Alliance (www.specialneedsalliance.org)**
- **National Center for Learning Disabilities (www.ncld.org)**
- **Talk About Curing Autism (www.tacanow.org)**
- **Autism Society (www.autism-society.org)**
- **National Alliance on Mental Illness (www.nami.org)**
- **National Down Syndrome Society (www.ndss.org)**