



# 2014 Guide Tax Breaks & Incentives for Long Term Care Insurance

*Federal AND State*





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## Introduction

**Most states** offer incentives for those who purchase long term care insurance (LTCI). The two primary incentives are:

- state credits or deductions; and
- asset-retention incentives via Partnership insurance policies (more information on page 6).

**The federal government** has offered tax breaks since 1997 for the purchase of qualified long term care insurance policies.

This guide is intended to help you understand what incentives are available both in your state and in the federal tax code.

## Federal Tax Incentives

### Employer-Paid LTCI

Employers paying some or all of an employee's LTCI premium may take a deduction for the expense. There is no limit on the amount of premium an employer can pay, and premiums paid by an employer are excluded from the employee's gross income.

### Premiums Paid by an Individual

Deductibility for an individual is determined by combining premium payments (subject to age-based limits below) and itemized medical expenses. For taxpayers under age 65, if the total exceeds 10% of their Adjusted Gross Income (AGI), the premium may be deductible if the taxpayer itemizes. For taxpayers age 65-plus, the threshold is 7.5% until 2017, when it rises to 10% for the medical expense deduction. Please note that any discussion of federal tax deductibility refers to a Qualified policy, as defined by HIPAA. Most, but not all, LTCI policies currently available are Qualified policies.

### Cafeteria Plan

LTCI is not allowed in a Section 125 Cafeteria Plan.

### Individual Premium Deductibility Limits: 2014

Attained age before the close of the taxable year	Maximum deduction for year
40 or under	\$370
Over 40 but not greater than 50	\$700
Over 50 but not greater than 60	\$1,400
Over 60 but not greater than 70	\$3,720
Over 70	\$4,660

### Self-Employed

Premiums are deductible, like health insurance, subject to the age-based limits in the chart above. Unlike the rules for individual taxpayers, there is no threshold of AGI requirement for self-employed taxpayers (see Premiums Paid by an Individual).

### Health Savings Accounts (HSAs)

Qualified LTCI premiums may be paid with pre-tax dollars by using an HSA. Eligible premiums are the lesser of actual premiums paid and the "age-based" premium limits shown above.

### Medical Savings Accounts (Archer MSAs)

LTCI premiums are an acceptable expenditure.

### C-Corporation or Entity with a 501 Trust Providing LTCI to Employees

All premiums paid for employees, their spouses and dependents are deductible. Age-based deduction limits do not apply. There is no requirement that the insurance be provided on a non-discriminatory basis.

### Limited Liability Company

An LLC may deduct LTCI premiums on behalf of its employees. Owners of an LLC who work may include the employer-paid premium includable in their income, and would

## Disclaimer

The information within this booklet is provided for informational purposes only and should not be construed as tax or insurance advice. Please consult your tax advisor and your insurance professional for advice regarding your specific circumstances.

be allowed the age-based deduction available to partners and the self-employed.

**Partnership Entity**

A partnership may deduct LTCI payments made for employees, their spouses and dependents under the same rules outlined for C-corporations. However, the premiums paid on behalf of a partner are included in that partner’s income, and reported on each partner’s K-1. Partners are allowed the same age-based limits on LTCI deductibility as the self-employed.

**Sub-S Corporation**

Sub-S corporations are treated as a partnership for LTCI deductibility purposes. Owners (shareholders who own more than 2% of stock) must include employer-paid premiums in their income, and are subject to the same age-based limit to deductions as partners and the self-employed.

**Taxation of LTCI Benefits**

Benefits are normally tax-free as long as the insured is chronically ill and the benefits are used to pay for qualified long term care services. Benefits received on a “per diem” basis may be taxable, if they exceed both the cost of qualified care services and a daily threshold of \$330 (2014 amount).

**Other Tax Incentives**

While the decision whether or not to purchase long term care insurance is usually not made based on tax deductibility only, many incentives are available.

The Pension Protection Act of 2005 includes provisions allowing for a tax-free 1035 exchange of individually-owned life insurance or annuity policies into Qualified LTCI policies. In some cases, this allows existing policyholders to obtain LTCI protection with no out-of-pocket expense.

**More Information**

Information on each state is shown on pages 5-7.

Be sure to read about Partnership policies on page 7.

Consult with the specialist who gave you this booklet about which long term care planning options make the most sense for your situation.

**Notes**

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**Tax breaks effectively lower your premium cost. Long term care insurance can save your family’s inheritance.**

**The person who gave you this booklet can help you get answers to any questions that you have after reading this information.**

## State-by-State Overview

See explanation of state tax incentives on pages 6-7.

State	State Tax Incentive	Partnership Policies Available
Alabama	Deduction	Yes
Alaska	None	No
Arizona	None	Yes
Arkansas	Deduction	Yes
California	Deduction	Yes
Colorado	Credit	Yes
Connecticut	None	Yes
Delaware	None	Yes
DC	Deduction	No
Florida	None	Yes
Georgia	None	Yes
Hawaii	Deduction	No
Idaho	Deduction	Yes
Illinois	None	Yes
Indiana	Deduction	Yes
Iowa	Deduction	Yes
Kansas	None	Yes
Kentucky	Deduction	Yes
Louisiana	Credit	Yes
Maine	Credit/Deduction	Yes
Maryland	Credit	Yes
Massachusetts	None	No
Michigan	None	No
Minnesota	Credit	Yes
Mississippi	Credit	No
Missouri	Deduction	Yes

State	State Tax Incentive	Partnership Policies Available
Montana	Credit/Deduction	Yes
Nebraska	Deduction	Yes
Nevada	None	Yes
New Hampshire	None	Yes
New Jersey	Deduction	Yes
New Mexico	Credit/Exemption	No
New York	Credit	Yes
North Carolina	None	Yes
North Dakota	Credit	Yes
Ohio	Deduction	Yes
Oklahoma	Deduction	Yes
Oregon	Credit	Yes
Pennsylvania	None	Yes
Rhode Island	None	Yes
South Carolina	None	Yes
South Dakota	None	Yes
Tennessee	None	Yes
Texas	None	Yes
Utah	None	No
Vermont	None	No
Virginia	Credit/Deduction	Yes
Washington	None	Yes
West Virginia	Deduction	Yes
Wisconsin	Deduction	Yes
Wyoming	None	Yes

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## State Tax Incentives

### The following states have either state income tax deductions or tax credits for individuals who purchase LTCI policies.

**Alabama** Subject to specified limitations, premiums for qualifying long term care insurance are deductible.

**Arkansas** Premiums for a qualified insurance policy may be deductible as medical expense, if unreimbursed medical expenses exceed 10% of the taxpayer's Adjusted Gross Income.

**California** Premiums for a qualified LTCI contract are deductible to the extent they are deductible for federal income tax purposes.

**Colorado** Tax credit for 25% of total premiums paid during tax year, or \$150 for each policy, whichever is less. Credit available to taxpayers with federal taxable income <\$50,000 (<\$100,000 for joint returns). Policy must meet Colorado's definition of long term care.

**District of Columbia** Deduction for up to \$500 LTCI premium per year per individual is allowed for LTCI policies which meet the District of Columbia's definition of long term care.

**Hawaii** LTCI premiums are included as unreimbursed medical expenses, subject to the federal deduction limits. These premiums are deductible to the extent that total unreimbursed medical expenses exceed 10% of Hawaii Adjusted Gross Income.

**Idaho** Full amount of the premium paid by a taxpayer for a qualified LTCI policy meeting Idaho's definition of LTCI is deductible for the taxpayer and dependents, or taxpayer's employee - to the extent that the premium is not otherwise deductible or accounted for by Idaho income tax purposes.

**Indiana** The full amount of the premium paid for a qualified LTCI policy defined by a Partnership policy that meets the definition of the Indiana Code is deductible.

**Iowa** LTCI premiums for nursing home coverage are tax-deductible to the extent allowable under federal law and not otherwise deducted in computing Adjusted Gross Income.

**Kentucky** Premiums for LTCI policies as defined in the Kentucky code are excluded from Kentucky Adjusted Gross Income.

**Louisiana** State tax credit of 10% of long term care insurance premiums that meet eligibility requirements.

**Maine** Deduction of full premium less any amount deducted for federal income tax purposes and by any LTCI premiums claimed as an itemized deduction pursuant to Maine Rev. Stat. tit. 36 section 5125.

Employers providing LTC benefits to employees may qualify for a tax credit equal to the lowest of the following: 1) \$5,000, 2) 20% of the taxpayer's costs to provide the benefit, or 3) \$100 for each employee covered by an employer-paid policy.

**Maryland** One-time taxpayer credit for self, spouse, parents or children, up to \$500 cap based on eligible federally-qualified long-term care insurance premiums. Employers may claim a tax credit of 5% of costs to provide LTCI, up to the lesser of \$5,000 or \$100 multiplied by the number of participating employees.

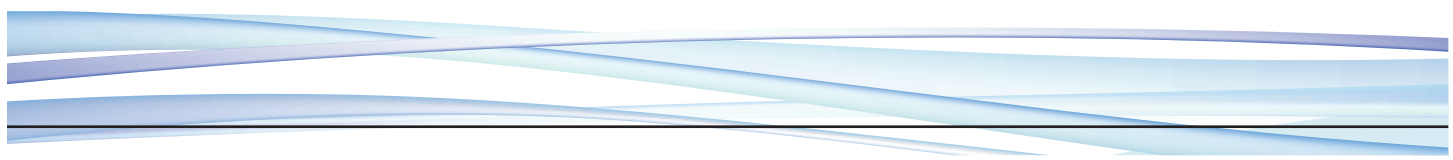
**Minnesota** Individual state tax credit equal to the lesser of \$100 or 25 percent of the amount paid for each owner of an eligible policy. Eligible policies have benefits of at least \$100,000. The maximum total credit is \$200 annually on a joint return, \$100 for other filers. Any unused tax credit may not be carried forward to future tax years.

**Mississippi** Individual tax credit equal to 25% of the premium for a qualified LTCI policy, with a maximum credit of \$500. A credit is not permitted to any premiums that were deducted in arriving at taxable income. Unused tax credit may not be carried forward.

**Missouri** Individual tax deduction for premiums paid for an LTCI policy that are non-reimbursed and not included in itemized deductions. Policy does NOT have to be tax qualified.

**Montana** CREDIT: LTCI premiums are eligible for the limited credit for the expense of caring for certain elderly family members. The credit amount is based on Adjusted Gross Income and cannot exceed \$5,000/qualifying family member, or \$10,000 for two or more family members.

DEDUCTION: LTCI premium is deductible for policies or certificates that cover qualified LTC services for the taxpayer, the taxpayer's parents or grandparents. To be eligible, the



premiums must not have been deducted elsewhere on the return in determining Montana adjusted gross income.

**Nebraska** Individual tax deduction for contributions made to a Nebraska Long-Term Care Savings Plan account, to a maximum of \$1,000, or \$2,000 for a married-filing-joint return, provided the contribution wasn't deducted for federal income tax purposes.

**New Jersey** LTCI premiums allowed under the deduction for medical expenses, to the extent they exceed 2% of adjusted gross income.

**New Mexico** CREDIT: Taxpayers age 65+ who are not the dependent of another taxpayer may claim a credit of \$2,800 for LTCI premiums paid for the taxpayer, spouse or dependents, if the insurance and unreimbursed medical care expenses equal \$28,000 or more.

EXEMPTION: LTCI premiums are included in the unreimbursed medical care expenses exemption of \$3,000 for taxpayers age 65+, if such expenses equal \$28,000 or more.

**New York** Tax credit for 20% of LTCI premium paid for a policy approved by the superintendent of insurance. Unused credits may be carried forward.

**North Dakota** Tax credit for a North Dakota LTC Partnership qualified plan for the taxpayer and/or his/her spouse. Maximum credit is \$250/insured.

**Ohio** Qualified LTCI is deductible for taxpayer, spouse and dependents, to the extent not already deducted or excluded in computing federal or Ohio Adjusted Gross Income.

**Oklahoma** LTCI premiums deductible on state returns to extent deductible under federal law.

**Oregon** Income tax credit of 15% of LTCI premiums, or \$500, whichever is less. Extended to a dependent or parent. Employers can take a \$500 per employee credit when LTCI is purchased for that employee. Credit is limited to policies issued after January 1, 2000, and is not refundable or able to be carried forward.

**Virginia** CREDIT: A state tax credit is available up to 15% of LTCI premiums, to the extent a deduction has not been claimed for federal income tax purposes.

DEDUCTION: Taxpayers can take a deduction for LTCI premiums from federal Adjusted Gross Income to compute

VA taxable income, but only if the taxpayer didn't deduct LTCI premiums for federal income tax purposes.

**West Virginia** Taxpayers can deduct from Federal AGI, for state tax purposes, the cost of an LTCI policy as defined in the West Virginia Code, for the taxpayer, his/her spouse, parent or other dependent, to the extent that the deduction is not allowed on federal income tax return.

**Wisconsin** Taxpayers take a deduction from Federal AGI for a portion of LTCI premium in calculating WI taxable income, including LTCI premium spent for a spouse's policy, to the extent a deduction isn't taken federally. The amount of LTCI premium deductible in calculating federal taxable income is not included in calculating the Wisconsin itemized deductions credit.

## Partnership Policies

Thanks to the Deficit Reduction Act of 2005, dozens of states have now enacted what are called "DRA Partnership" long term care plans. This refers to a partnership between private industry and public funding of long term care, the latter in the form of Medicaid.<sup>1</sup> Our government has incentivized the purchase of LTC insurance by synchronizing these programs in a very particular way.

For every \$1 in LTC claims paid from a Partnership-Qualified ("PQ") plan, \$1 is disregarded from Medicaid's asset eligibility rules at application, and the same \$1 is also disregarded during Medicaid estate recovery. Special care should be taken when designing a PQ plan. Its total lifetime account value, relative to one's underlying estate, should be considered. Inflation should also be considered.

Special agent training is required to sell PQ plans.

Please note that the states of CA, CT, IN, and NY each instituted Partnership programs which pre-dated the DRA; these four "grandfathered" states are entirely unique in their features.

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<sup>1</sup> Medi-Cal in California, MassHealth in Massachusetts

Did you know that, in addition to IRS tax breaks, many states offer incentives for those who purchase long term care insurance?

This guide will help you determine whether your purchase of long term care insurance may make you eligible for tax breaks or other incentives.

The person who sent you this booklet can answer all your questions related to long term care planning and long term care insurance.

