



# **2016 Guide** **Tax Breaks & Incentives** for Long Term Care Insurance *Federal AND State*



LONG TERM CARE ASSOCIATES

AMERICA'S LEADING RESOURCE FOR LONG TERM CARE INSURANCE



## Table of Contents

|   |   |
|---|---|
| <a href="#"><u>Introduction</u></a> . . . . .                   | 3 |
| <a href="#"><u>Disclaimer</u></a> . . . . .                     | 3 |
| <a href="#"><u>Premiums Paid by an Individual</u></a> . . . . . | 3 |
| <a href="#"><u>Premiums Paid by an Employer</u></a> . . . . .   | 3 |
| <a href="#"><u>Taxation of LTCI Benefits</u></a> . . . . .      | 4 |
| <a href="#"><u>Other Tax Incentives</u></a> . . . . .           | 4 |
| <a href="#"><u>More Information</u></a> . . . . .               | 4 |
| <a href="#"><u>State-by-State Overview</u></a> . . . . .        | 5 |
| <a href="#"><u>State Tax Incentives</u></a> . . . . .           | 6 |
| <a href="#"><u>Partnership Policies</u></a> . . . . .           | 7 |

## Introduction

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

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

**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 7).

## Premiums Paid by an Individual

Long term care (LTC) insurance premiums can be itemized as a medical expense. However, the amount of premium that can be itemized is limited based on age. This is called the Eligible Premium, shown on the table below.

| <b>Individual Premium Deductibility Limits: 2016</b> |                            |
|--|----------------------------|
| Attained age before the close of the taxable year    | Maximum deduction for year |
| 40 or under  | \$390                      |
| Over 40 but not greater than 50                      | \$730                      |
| Over 50 but not greater than 60                      | \$1,460                    |
| Over 60 but not greater than 70                      | \$3,900                    |
| Over 70  | \$4,870                    |

For taxpayers under age 65, if total medical expenses – including the Eligible LTC insurance premium – exceed 10% of their Adjusted Gross Income (AGI), the excess is deductible. For taxpayers over age 65, the AGI threshold for

the medical expense deduction remains at 7.5% until 2017 when it rises to 10%. Please note that only Tax-Qualified LTC insurance – as defined by the Health Insurance Portability and Accountability Act of 1996 (HIPAA) – is eligible for a federal tax deduction. Most, but not all, LTC insurance policies currently available are Tax-Qualified. Most policies issued before HIPAA's effective date of January 1, 1997 were granted a grandfathered Tax-Qualified status.

### Health Savings Accounts (HSAs)

LTC insurance premiums are an acceptable, tax-free, health care expense from an HSA, but only up to the age-based Eligible Premium limit, and only for Tax-Qualified policies.

### Medical Savings Accounts (Archer MSAs)

LTCI premiums are an acceptable expenditure.

### Cafeteria Plan

LTC insurance is not allowed in a pre-tax Section 125 (Cafeteria) Plan. Voluntary premiums paid through payroll deduction must be withheld on an after-tax basis. If applicable, the employee may be able to take an itemized deduction or a reimbursement from an HSA.

## Premiums Paid by an Employer

### Employer-Paid LTC Insurance

Employers (including non-profits) who pay some or all of a non-owner employee's LTC insurance premium may take a deduction for the expense. In addition, the employer can also deduct the LTC premium paid for a spouse or other tax dependent of the employee. There is no limit on the amount of premium an employer can pay and deduct, and premiums paid by an employer are excluded from the employee's gross income. This applies to ANY business entity as long as the employer is paying for a non-owner employee.

## 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.



## **Health Reimbursement Accounts (HRAs) or Health Reimbursement Arrangements (HRAs)**

LTC insurance premiums are an acceptable, tax-free, health care expense from an HRA, but only up to the age-based Eligible Premium limit, and only for Tax-Qualified policies.

## **C-Corporation or Entity with a 501 Trust**

Shareholders (owners) who are also W-2 employees are treated for LTC insurance as any other employee. All premiums paid for shareholder/employees, their spouse and tax dependents are deductible, and no age-based Eligible Premium limits apply. There is no requirement that long term care insurance be provided on a non-discriminatory basis.

Premiums paid for shareholders who are not employees are treated as a dividend – taxable to both the corporation and the shareholder.

## **Self-Employed Business Owners**

Business owners who are treated as being self-employed can deduct LTC insurance like health insurance without itemizing as part of the Self-Employed health Insurance Deduction. This is an above-the-line deduction, not subject to the AGI threshold for non-business-owner individuals.

## **Sole Proprietor**

Premium paid by the business for the owner, spouse and other tax dependents must be recognized as a draw, and is reported as business income. The owner can take up to the age-based Eligible Premium as a Self-Employed Health Insurance Deduction for each person covered.

## **Partnerships and LLCs**

Premiums paid for a partner, spouse and other tax dependents are included as income, and reported on the partner's K-1. The partner can then take up to the age-based Eligible Premium as a Self-employed Health Insurance Deduction for each insured.

## **Subchapter S Corporations**

Shareholders who own more than 2% of the stock of a sub-S corporation are generally treated as partners for health and LTC insurance deductibility purposes. Individual LTC insurance

policies must be paid by the S-corporation directly to the insurance company (or reimbursed with a formal, written agreement). The shareholder/employee must include the LTC insurance premium paid in their AGI; however, they may deduct up to 100% of the age-based Eligible Premium amount, without regard to the 10% AGI threshold.

## **Taxation of LTC Insurance 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 \$340 (2016 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.

**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                | No                             |
| 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         | None                | 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       | Deduction           | Yes                            |
| Washington     | None                | Yes                            |
| West Virginia  | Deduction           | Yes                            |
| Wisconsin      | Deduction           | Yes                            |
| Wyoming        | None                | Yes                            |

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



## 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.

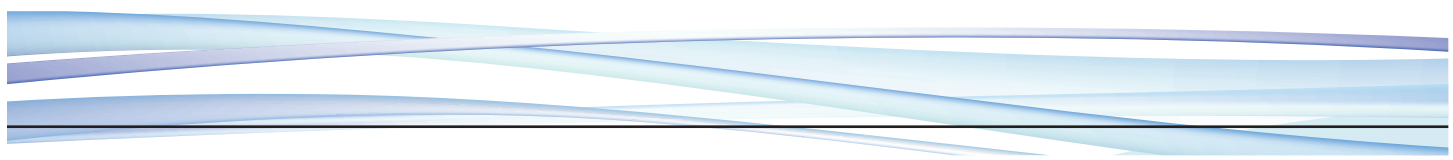
**Minnesota** Individual state tax credit equal to the lesser of \$100 or 25 percent of the amount paid for each owner of an eligible policy. Eligible policies have benefits of at least \$100,000. The maximum total credit is \$200 annually on a joint return, \$100 for other filers. Any unused tax credit 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. People paying the premiums for others are eligible for the tax credit (as well as their own, if applicable) regardless of other's tax dependency status; i.e., adult child could pay premium for parents and get a tax credit even if parents are not dependents. Tax credit is not refundable; however, 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.

**Virginia** 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.

---

<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.



*Provided by*



LONG TERM CARE ASSOCIATES

**To learn more please contact:**

**Edna Martin**

*Long Term Care Insurance Specialist*

**Long Term Care Associates, Inc.**

[edna@ltc-associates.com](mailto:edna@ltc-associates.com)

253-927-3775