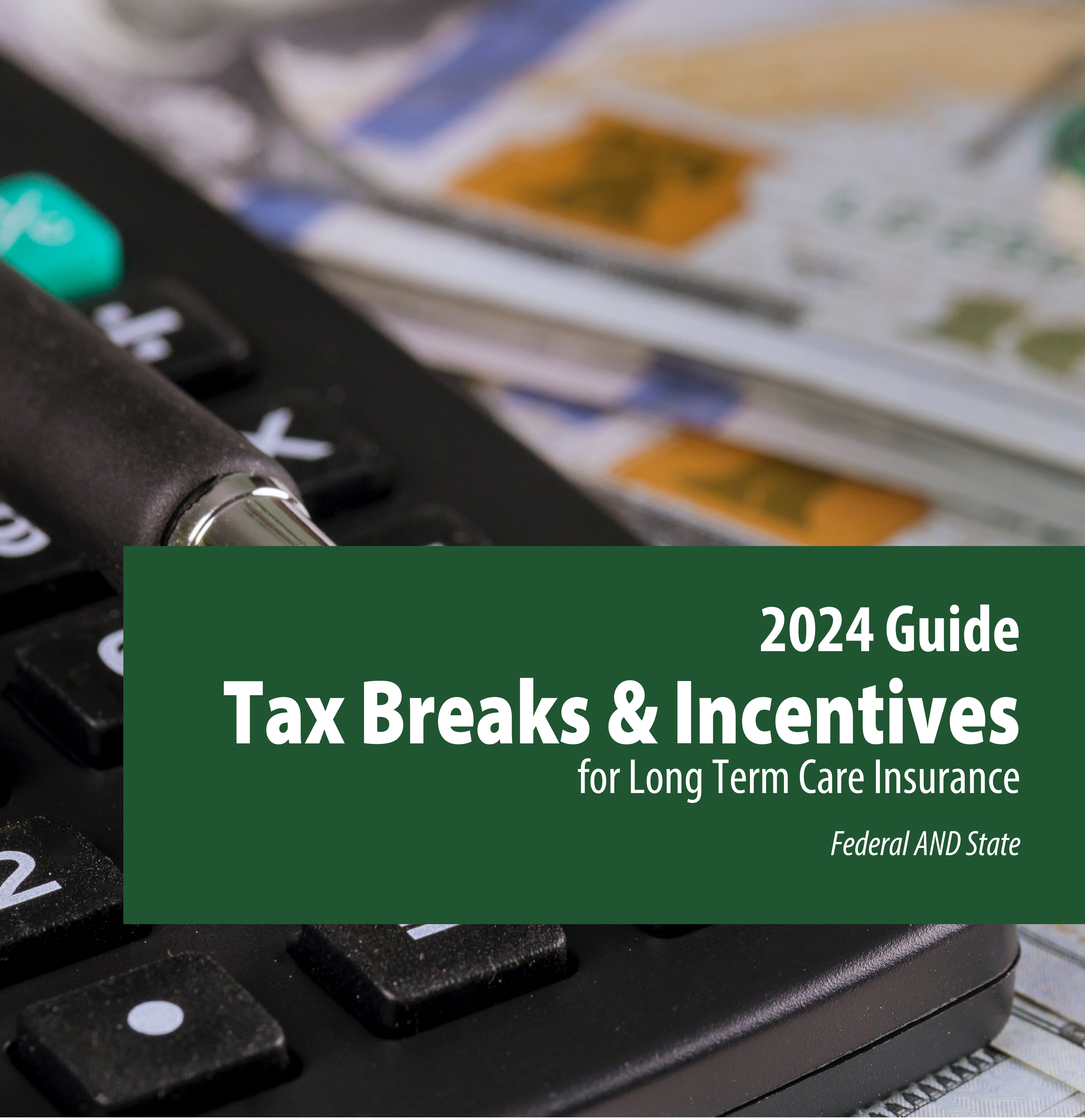

2024 Guide

Tax Breaks & Incentives

for Long Term Care Insurance

Federal AND State

Long-Term Care Consultants

A Bridge Over Troubled Waters

LTCCinc.com

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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. 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 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.[1]

If total medical expenses – including Eligible long term care insurance premium – exceed 7.5% of Adjusted Gross Income (AGI), the excess is deductible.[2]

TABLE 1: Individual Premium Deductibility Limits – 2024

Age at end of tax year	Max Eligible Premium Deduction
40 or under	$470
Over 40 but not greater than 50	$880
Over 50 but not greater than 60	$1,760
Over 60 but not greater than 70	$4,710
Over 70	$5,880

Note: The Eligible Premium limits were slightly decreased for tax year 2024.

1 IRS Proc. 2021-45
2 IRC Sec. 213 (f)

Please note that only Tax-Qualified long term care 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, long term care 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)

Long term care insurance premiums are an acceptable, tax-free, health care expense from an HSA, but only up to the age-based Eligible Premium limit (see Table 1), and only for Tax-Qualified policies.

Medical Savings Accounts (Archer MSAs)

Long term care insurance premiums are an acceptable expenditure.

Cafeteria Plan

Long term care insurance is not allowed in a pre-tax Section 125 (Cafeteria) Plan.[3] 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 Long Term Care Insurance

Employers (including non-profits) who pay some or all of a non-owner employee's long term care insurance premium may deduct the expense. In addition, the employer can also deduct the long term care premium paid for a spouse or other tax dependent of the employee.[4] There is no limit to 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.[5]

3 IRC Sec. 125 (f)(2)
4 IRC Secs. 213(a) and (d)
5 IRC Sec. 105 (b)

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Health Reimbursement Accounts (HRAs) or Health Reimbursement Arrangements (HRAs)
Long term care insurance premiums are an acceptable, tax-free, health care expense from an HRA, but only up to the age-based Eligible Premium limit (see Table 1), and only for Tax-Qualified policies.[6]

C-Corporation, or Entity with a 501 Trust
Shareholders (owners) who are also W-2 employees are treated for long term care 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.[7] 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 self-employed can deduct long term care 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. However, age-based Eligible Premium limits do apply.

Sole Proprietor[8]
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, spouse, dependent(s) can take up to the age-based Eligible Premium as a Self-Employed Health Insurance Deduction for each person covered. However, premium is not deductible for any month in which the owner or their spouse is eligible to participate in an employer subsidized plan.

Partnerships and LLCs[8]
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[8]
Shareholders who own more than 2% of the stock of a sub-S corporation are generally treated as partners for health and long term care insurance deductibility purposes. Individual long term care 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 long term care insurance premium paid in their AGI; however, they may deduct up to 100% of the age-based Eligible Premium amount, without regard to the 7.5% AGI threshold.

Taxation of Long Term Care 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.[9] 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 $410 (2024 amount; 2023 amount is $420).[10]

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 long term care insurance policies. In some cases, this allows existing policyholders to obtain long term care insurance protection with no out-of-pocket expense.

Required Coverage – WA State

In 2023, Washington began collecting taxes to fund a new social insurance program called WA Cares. Eligible workers who meet contribution requirements will earn lifetime access to a $36,500 pool of money (which may be adjusted for inflation) for long-term services and supports. Most employees are required to participate in WA Cares, though the choice is optional for the self-employed.[11]

Due to the small benefit, other limitations, exclusions and uncertainties attending the state's program, many experts recommend those who are paying into the program supplement the state's benefit.

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 sent you this booklet about which long term care planning options make the most sense for your situation.

6 IRC Sec. 106(d)
7 IRC Sec. 106(a)
8 IRC Sec. 162(1); IRC Sec. 213(d)(10)(A)
9 IRC Sec. 7702B(a)(1)
10 IRS Procedure 2022-38
11 https://wacaresfund.wa.gov/how-it-works

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State-by-state Overview of Incentives

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

The person who sent you this Guide can help answer your questions.

State	State Tax Incentive	Partnership Policies Available
Alabama	Deduction	Yes
Alaska	None	No
Arizona	Credit	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	Exclusion	Yes
Louisiana	None	Yes
Maine	Credit/Deduction	Yes
Maryland	Credit	Yes
Massachusetts	None	No
Michigan	None	Yes
Minnesota	Credit	Yes
Mississippi	Credit	No
Missouri	Deduction	Yes

State	State Tax Incentive	Partnership Policies Available
Montana	None	Yes
Nebraska	None	Yes
Nevada	None	Yes
New Hampshire	None	Yes
New Jersey	Deduction	Yes
New Mexico	Credit/Exemption	Yes
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	Deduction	Yes
Washington*	None	Yes
West Virginia	Deduction	Yes
Wisconsin	Deduction	Yes
Wyoming	None	Yes

* Washington state is the first U.S. state to require most employees to pay into a long term care fund. See Required Coverage, page 4.

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State Tax Incentives: Details

The following states have either income tax deductions or tax credits for individuals who purchase long term care insurance policies.

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

Arizona Long term care insurance premium is deductible from AZ gross income if not claiming itemized deductions.

Arkansas Long term care insurance premiums are included as unreimbursed medical expenses, subject to the federal deduction limits.

California Premiums for a qualified long term care insurance 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 long term care insurance premium per year per individual is allowed for LTCI policies which meet the District of Columbia's definition of long term care.

Hawaii Long term care insurance premiums are included as unreimbursed medical expenses, subject to the federal deduction limits.

Idaho Full amount of the premium paid by a taxpayer for a qualified long term care insurance policy meeting Idaho's definition of long term care insurance 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 Partnership policy which meets the definition of the Indiana Code is deductible.

Iowa As of 2023 long term care insurance premiums are 100% deductible for taxpayers age 65+ with net income less than $100,000.

Kentucky Amounts paid for long term care insurance are excluded from KY AGI.

Maine Deduction of full premium less any amount deducted for federal income tax purposes and by any long term care insurance premiums claimed as an itemized deduction pursuant to Maine statute.

Employers providing long term care 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 long term care insurance, 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 must 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 long term care insurance policy, with a maximum credit of $500. A credit is not permitted for 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 a long term care insurance policy that are non-reimbursed and not included in itemized deductions. Policy does NOT have to be tax qualified , and no cap on deductible premiums.

continued on next page

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New Jersey Long term care insurance 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 long term care insurance premiums paid for the taxpayer, spouse or dependents, if the insurance and unreimbursed medical care expenses equal $28,000 or more.

EXEMPTION: Long term care insurance 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 long term care insurance premium paid for a policy approved by the superintendent of insurance, with a cap on the total amount of the credit ($1,500), and a cap on the AGI one can earn and still qualify for the credit (below $250,000). Individuals 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 Maximum tax credit for a qualified North Dakota LTCI Partnership policy is $250 for each insured taxpayer and spouse.

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

Oklahoma Long term care insurance premiums deductible on state returns to extent deductible under federal law.

Oregon For policies issued after 1/1/00, tax credit to lessor of 15% of premium or $500. For individuals, dependents or parent, or for employees.

Virginia Taxpayers can take a deduction for long term care insurance premiums from federal Adjusted Gross Income to compute VA taxable income, but only if the taxpayer didn't deduct long term care insurance premiums for federal income tax purposes.

West Virginia Taxpayers can deduct from Federal AGI, for state tax purposes, the cost of a long term care insurance 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 long term care insurance premium in calculating WI taxable income, including long term care insurance premium spent for a spouse's policy, to the extent a deduction isn't taken federally. The amount of long term care insurance 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.* Our government has incentivized the purchase of long term care insurance by synchronizing these programs in a very particular way.

For every $1 in long term care 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 unique in their features.

*Medi-Cal in California, MassHealth in Massachusetts

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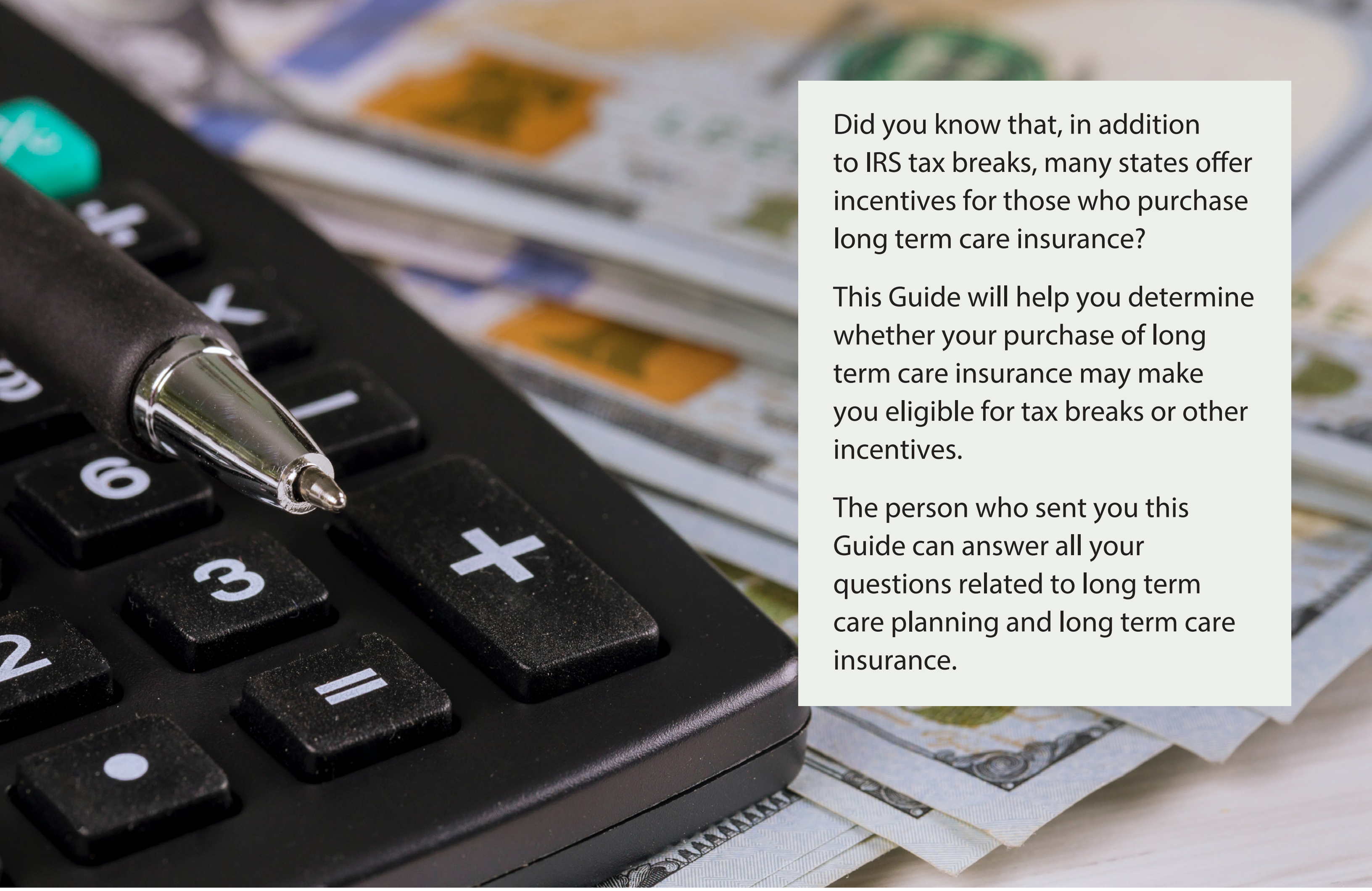

Did you know that, in addition to IRS tax breaks, many states offer incentives for those who purchase long term care insurance?

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 Guide can answer all your questions related to long term care planning and long term care insurance.

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