A Consumer Guide

Long Term Care Insurance

Tax-Guide

Long Term Care Tax Guide

- Federal Tax Deductions
- State Tax Deductions
- Partnership Programs

Revised Edition

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Long-Term Care Tax Guide 2023

Federal Tax Considerations:

1. **Federal Deductibility of Premiums:**
    - In general, premiums paid for qualified long-term care insurance policies may be tax-deductible as medical expenses. However, the deductible amount is subject to certain limits based on age.
2. **Age-Based Deductibility: 2023**
    - For the tax year 2023, the following annual limits apply:
        - Age 40 and under: $470
        - Age 41 to 50: $880
        - Age 51 to 60: $1,760
        - Age 61 to 70: $4,710
        - Age 71 and above: $5,880
3. **Age-Based Deductibility: 2024**
    - For the tax year 2024, the following annual limits apply:
        - Age 40 and under: $490
        - Age 41 to 50: $890
        - Age 51 to 60: $1,790
        - Age 61 to 70: $4,770
        - Age 71 and above: $5,960
4. **Max Per diem indemnity daily benefit for tax year** 2024 $417 per day or $12,470 month for claims paid in 2024.
5. **Medical Expense Deduction:**
    - Long-term care services and premiums paid for long-term care insurance can be included as part of the itemized deduction for medical expenses. However, the total medical expenses must exceed a certain percentage of your adjusted gross income (AGI) to be deductible.
6. **Deductions for Business Owners:**
    - Self-employed individuals and certain business owners may be able to deduct the full cost of long-term care insurance premiums without the age-based limits.

The details presented in the tax incentive chart below pertain to states that currently offer tax incentives for long-term care insurance. It is essential to note that this information reflects the state of tax incentives as of the chart's publication date and may not account for recent modifications in state legislation.

It's crucial to recognize that neither Prudential nor its financial professionals provide tax or legal advice. Please be aware that in several states, the computation of state taxable income originates from the Federal Adjusted Gross Income. Consequently, even if state statutes do not explicitly outline deductions for long-term care insurance, the federal benefit extends to the state level for self-employed individuals, partners, LLC shareholders, and S corporation shareholders owning more than 2%.

Archer MSAs and Long-Term Care Insurance Contracts Department of the Treasury Internal Revenue Service Go to www.irs.gov/Form8853 for instructions and the latest information. Attach to Form 1040, 1040-SR, or 1040-NR Download IRS FORM 8853

State and Local Tax Considerations:

Important Considerations:

- **Eligibility Criteria:**
    - Eligibility for state tax deductions and credits often depends on factors such as the taxpayer's age, income, and the type of long-term care insurance policy purchased.
- **Policy Qualifications:**
    - States may have specific requirements regarding the features of the long-term care insurance policy to qualify for deductions or credits.
- **Annual Limits:**
    - Some states impose annual limits on the amount of premiums eligible for deductions or credits.
- **Changes in Legislation:**
    - Tax laws are subject to change, and state legislatures may modify or introduce new incentives. It's essential to stay informed about any updates.

States	Tax Incentives	Description	State Partnership	Reciprocity
Alabama	Yes	Ala. Code §40-18-15; Reg. §810-3-15.26 The premiums paid for a long-term care insurance contract are deductible if the contract meets specific requirements	Yes	Yes
Alaska	NO	NA	Not Filed	---
Arizona	Yes	Arizona Code §43- 102 Allows some deductions as permitted on federal return for adjustment to gross income, i.e., deduction for self-employed, partner, MSA account, etc.	Yes	Yes

Arkansas	Yes	Reg. §1.26-51-423(a)(2) Long-term care insurance premiums may be deductible as medical expenses when such premiums are paid towards "qualified" long-term care insurance as defined under federal law. Reg. §1.26-51-423(a)(1) Self-employed can deduct 80% of premiums paid on schedule C for "qualified" long-term care insurance as defined under the federal law	Yes	Yes
California	Yes	Cal. Rev. & Tax Code §17201 California: Allows a deduction for long-term care insurance premiums, subject to certain limitations.	Original Partnership	No
Colorado	Yes	Col. Rev. Stat. §39-22-122 State income tax credit equal to 25% (up to $150 for couples) of long-term care insurance by individuals with income less than $50,000 ($100,000 for joint returns)	Yes	Yes
Connecticut	NO	NA	Original Partnership	Yes
DC	Yes	DC Official Code §47-1803.03 Deduction for premiums paid up to a maximum of $500 per year per individual, regardless of filing status		
Delaware	NO	NA	Yes	
Florida	NO	NA	Yes	Yes

Georgia	NO	NA	Yes	Yes
Hawaii	Yes	Haw. Rev. Stat. §235- 2.4 Establishes an individual state tax deduction for long-term care insurance premiums parallel to tax deductions allowed under federal law.	Yes	Yes
Idaho	Yes	Idaho Code §63-3022Q Allows an individual taxpayer to deduct 100% of the cost paid for long-term care insurance for themselves and dependents for taxable years beginning on or after January 1, 2004.	Yes	Yes
Illinois	NO	NA	Yes	Yes
Indiana	Yes	Ind. St. Ann. §6-3-1-3.5 Indiana offers a tax credit for long-term care insurance premiums, providing a percentage of the premiums paid as a credit against the taxpayer's liability.	Original Partnership	Yes
Iowa	Yes	Iowa: Admin. Code §701-40.48(422) Allows a deduction for premiums paid for long-term care insurance policies, with certain age-based limits.	Yes	Yes

Kansas	Yes	Kan. Stat. Ann. §79-32, 117(c)(xvi) Allows for a deduction of premium costs for qualified long-term care insurance up to a cap of $900 in 2009. Cap increases by $100 every year until it reaches $1,000 for years 2010 and after	Yes	Yes
Kentucky	Yes	KRS §141-010 Excludes from income tax any amounts paid for long-term care insurance	Yes	Yes
Louisiana	Yes	**Tax Deduction:** Louisiana allows individuals to deduct the premiums paid for qualifying long-term care insurance policies when calculating their state income tax. This deduction provides a financial incentive for residents to plan for their long-term care needs by purchasing insurance.	Yes	Yes

Maine	Yes	Me. Rev. St. 36 §5122(2)(L); 36 §2513; 36 §2525; 36 §5217-C A person paying premiums for a long-term care policy contract which is certified by the superintendent shall qualify for an income tax deduction under Title 36, section 5122. Insurance companies offering long-term care policies certified by the superintendent shall qualify for reduced tax on premiums collected under Title 36, section 2513. An employer providing long-term care benefits to employees may qualify for a tax credit provided by Title 36, section 2525 or 5217-C	Yes	Yes

Maryland	Yes	Md. Tax. Code §10-710 Tax credit for costs incurred by employers that provide long-term care insurance as part of an employee benefits package. Regulations describing tax credit for employer-provided LTC insurance. Employer may claim credit of 5% of their costs to provide LTC insurance, up to the lesser of $5,000 or $100 times the number of participating employees. Md. Tax. Code §10-718 Gives credit against state income tax for LTC premiums if covered by TQ LTC after July 1, 2000. Credit capped at $500. Can claim 100% of premium for self, spouse, parents or children, up to $500 cap.	Yes	Yes
Massachusetts	NO	NA	No	No
Michigan	NO	NA	Yes	Yes

Minnesota	Yes	Minn. St. §290.0672; §290.01(6) Minn. St. §290.0672; §290.01(6) Allows an individual tax credit for long-term care insurance premiums paid during the tax year. The credit is equal to the lesser of 25% of premiums paid to the extent not deducted in determining federal taxable income or $100. The maximum total credit allowed per year is $200 for married couples filing jointly and $100 for all other filers. Deduction also allowed to extent long-term care insurance costs are not used to claim credit.	Yes	Yes
Mississippi	Yes	Ms. Code. Ann,. §27-7-22.33 A taxpayer shall be allowed a nonrefundable credit against the income taxes imposed under this chapter in an amount equal to twenty-five percent (25%) of the premium costs paid during the taxable year for a qualified long-term care insurance policy with a maximum credit of $500. A credit is not permitted for any amounts that were deducted in arriving at taxable income.	No	No

Missouri	Yes	Mo. Rev. St. §135.096 Allows an individual tax deduction equal to 100% of premiums paid for qualified long-term care insurance which are non-reimbursed and are not included in an individual's itemized deductions.	Yes	Yes
Montana	Yes	Mont. Code. Ann. §15-30-121 Allows for a tax deduction on premiums paid for long-term care insurance coverage for the benefit of the taxpayer, or the taxpayer's parents or grandparents.	Yes	Yes
Nebraska	Yes	Ne. Rev. Stat. §77-2716 Allows a deduction for the amount of annual contributions made to a Nebraska Long-Term Care Savings Plan account with a participating financial institution. The maximum annual deductible contribution is $1,000 for a single, head-of-household, or married-filing-separate return, or $2,000 for a married-filingjoint return.	Yes	Yes
Nevada	NO	NA	Yes	Yes
New Hampshire	NO	NA	Yes	Yes

New Jersey	Yes	N.J. Stat. §54A:3-3 Allows a deduction for medical expenses, including long-term care premiums, only to the extent they exceed 2% of gross income	Yes	Yes
New Mexico	Yes	N.M. Stat. Ann. §7-2-35 Allows deduction for premiums paid as part of unreimbursed or uncompensated medical expenses. Deduction is limited based upon income level.	Yes	yes
New York	Yes	N.Y. Tax Law §606(aa) New York: Allows a deduction for long-term care insurance premiums and offers a credit for qualifying policies. Provides for a tax credit for 20% of premium payments made to a long-term care insurance policy, provided the policy is approved by the superintendent of insurance.	Original Partnership	Yes
North Carolina	Yes	N.C. G.S. §105-151.28(a) Subject to income limits based on Adjusted Gross Income (AGI), a credit is available equal to 15% of the premium costs for long-term care insurance. Maximum credit is $350 per year. Provision sunsets after 2013	Yes	Yes

North Dakota	Yes	N.D. Cent. Code §57-38-29.3 A credit against an individual's tax liability is provided for the amount of premiums paid during the year by the taxpayer for qualified long-term care partnership plan insurance coverage for the taxpayer and/or taxpayer's spouse. The maximum credit allowed in any year is $250 for each insured individual.	Yes	Yes
Ohio	Yes	Ohio. Rev. Stat. Ann. §5747.01(A)(11) Allows an individual tax deduction for the purchase of long-term care insurance.	Yes	Yes
Oklahoma	Yes	68 Okl. Stat. §2353 Allows same deduction for state purposes as allowed under federal law.	Yes	Yes
Oregon	Yes	Or. Rev. Stat. §315.610 Establishes an income tax credit of lesser of 15% or $500 of premiums paid by individual for long-term care insurance covering the individual or a dependent or parent. Allows employers a credit of $500 per employee for which long-term care insurance was purchased.	Yes	Yes

Pennsylvania	Yes	72 P.S. §7303 Contributions by individuals and employers to health savings accounts and medical savings accounts are deductible from personal income tax	Yes	Yes
Rhode Island	NO	NA	Yes	Yes
South Carolina	NO	NA	Yes	Yes
South Dakota	NO	NA	Yes	Yes
Tennessee	NO	NA	Yes	Yes
Texas	NO	NA	Yes	Yes
Utah	NO	NA	No	No
Vermont	NO	NA	No	No
Virginia	Yes	Va. Code. Ann. §58.1-322 Provides a deduction, from Federal Adjusted Gross Income in calculating Virginia taxable income, for long-term care insurance premiums for individuals who do not claim a similar deduction on their federal tax returns.	Yes	Yes
Washington	NO	NA	Yes	Yes

West Virginia	Yes	W. Va. Code §11-21-12c Allows taxpayers to deduct from Federal Adjusted Gross Income, for state tax purposes, the cost of premiums paid for qualified long-term care insurance purchased for the taxpayer, the taxpayer's spouse, the taxpayer's parent or other dependent, to the extent that such deduction is not allowed for federal income tax purposes.	Yes	Yes
Wisconsin	Yes	Wis. Stat. §71.05(6) Wisconsin provides a tax credit for long-term care insurance premiums paid by individuals who are 65 years of age or older. A subtraction from Federal Adjusted Gross Income is allowed when computing Wisconsin Adjusted Gross Income for the amount paid by a person for a long-term care insurance policy for themselves or their spouses.	Yes	Yes
Wyoming	NO	NA	Yes	Yes

Important Considerations:

1. **Policy Qualification:**
    - To qualify for tax deductions, the long-term care insurance policy must meet specific criteria outlined by the Internal Revenue Service (IRS). Make sure your policy meets these requirements.
2. **Changes in Tax Laws:**
    - Tax laws can change, so it's essential to stay informed about any updates that may impact the deductibility of long-term care insurance premiums.
3. **Professional Advice:**
    - Consult with a tax professional or financial advisor to ensure that you understand the tax implications of your long-term care insurance policy based on your individual circumstances and applicable tax laws.

What is required for a long-term care insurance policy to have tax favorable treatment under IRC Section 7702b?

IRC Section 7702B provides favorable tax treatment for qualified long-term care insurance contracts. To receive tax favorability under this section, a long-term care insurance policy must meet certain qualifications. Here are the key criteria:

1. **Qualified Long-Term Care Insurance Contract:**
    - The policy must be a qualified long-term care insurance contract as defined by the Internal Revenue Code (IRC). It should meet specific requirements outlined in Section 7702B.
2. **Eligible Individuals:**
    - The policy must provide coverage for qualified long-term care services for eligible individuals. Eligible individuals generally include those who are chronically ill and unable to perform at least two activities of daily living (ADLs) without substantial assistance or who have a severe cognitive impairment.
3. **Tax-Qualified Benefits:**
    - Benefits provided by the policy must be tax-qualified, meaning they are paid on a per diem or other periodic basis and are not based on reimbursing actual expenses incurred. The per diem or periodic limits are set by the IRS.
4. **No Cash Surrender Value:**
    - The policy must not offer a cash surrender value or other money that can be paid, assigned, pledged, or borrowed. This distinguishes long-term care insurance from life insurance policies.

5. **Inflation Protection:**
   - Policies issued after January 1, 1997, must include some level of inflation protection unless the policyholder declines the option. This ensures that the policy benefits keep pace with the rising costs of long-term care.
6. **Guaranteed Renewability:**
   - The policy must be guaranteed renewable, meaning the insurance company cannot cancel or refuse to renew the policy as long as the premiums are paid on time.
7. **Consumer Protection Standards:**
   - The policy must comply with certain consumer protection standards, including offering a nonforfeiture benefit, a grace period for late payments, and prohibitions on discrimination based on health status.
8. **Issued by a Qualified Insurance Company:**
   - The long-term care insurance policy must be issued by a qualified insurance company. Generally, this means an insurance company that is regulated by the state and meets specific financial stability requirements.

Meeting these qualifications allows policyholders to enjoy favorable tax treatment, such as the potential deductibility of premiums as medical expenses and the exclusion of qualified long-term care benefits from income. However, it's crucial for individuals considering long-term care insurance to carefully review policy provisions and consult with tax professionals to ensure compliance with the specific requirements of IRC Section 7702B.

CASE STUDY

The Smith Family's Long-Term Care Planning Journey

Background: John and Susan Smith, both in their early 60s, are a retired couple with a comfortable nest egg. They have three adult children, all living in different states. The Smiths have been diligent in their financial planning but recognize the potential impact of long-term care expenses on their retirement savings.

Decision to Purchase Long-Term Care Insurance (LTCI):

1. **Assessment of Financial Situation:**
   - The Smiths assess their financial situation and project potential long-term care costs. They consider the impact that a prolonged illness or disability could have on their retirement savings.
2. **Research and Consultation:**
   - The Smiths research long-term care options and consult with a financial advisor. They learn about the tax advantages offered by qualified long-term care insurance contracts under IRC Section 7702B.

3. **Policy Selection:**
    - The Smiths choose a long-term care insurance policy that meets the requirements of IRC Section 7702B. The policy provides coverage for a variety of long-term care services, including home health care, assisted living, and nursing home care.
4. **Inflation Protection:**
    - To address the potential impact of rising long-term care costs, the Smiths opt for a policy with inflation protection, ensuring that their benefits will keep pace with the increasing cost of care.
5. **Guaranteed Renewability:**
    - The chosen policy includes a guaranteed renewability feature, providing the Smiths with assurance that their coverage will remain in force as long as they continue to pay their premiums.

Receiving Benefits from the LTCI Policy:

1. **Triggering Events:**
    - Several years after purchasing the LTCI policy, Susan is diagnosed with a chronic health condition that requires long-term care. She meets the policy's criteria for eligibility, being unable to perform two activities of daily living without substantial assistance.
2. **Notification and Claim Filing:**
    - The Smiths contact the insurance company to notify them of Susan's health condition and initiate the claims process. They provide the necessary documentation, including medical records and a care plan.
3. **Assessment and Approval:**
    - The insurance company assesses Susan's eligibility for benefits based on the policy terms. Once approved, the policy starts providing benefits, covering the costs of Susan's home health care and necessary medical equipment.
4. **Tax Treatment of Premiums and Benefits:**
    - The Smiths consult with a tax professional to maximize the tax advantages of their LTCI policy. They learn that the premiums may be tax-deductible as medical expenses, subject to certain limitations. Additionally, the benefits received under the policy are generally tax-free.
5. **Peace of Mind and Financial Stability:**
    - The LTCI policy provides the Smiths with peace of mind, knowing that they can afford the necessary care for Susan without depleting their retirement savings. The tax advantages enhance the overall financial stability of their long-term care plan.

Key Takeaways:

- The Smiths' decision to purchase a qualified LTCI policy under IRC Section 7702B proves valuable when faced with a health-related crisis.
- The policy's features, including inflation protection and guaranteed renewability, contribute to the Smiths' confidence in their long-term care plan.
- Leveraging the tax advantages of the policy helps the Smiths manage their overall financial situation more effectively while ensuring quality care for Susan.
- Benefits received from the insurance policy are not included as income to the insured.

Note: This case study is fictional and for illustrative purposes only. Actual circumstances may vary, and decisions regarding long-term care should be made based on individual needs, preferences, and professional advice.

Selecting a Qualified Professional

Selecting a qualified insurance professional to help you navigate your long-term care insurance options is crucial for making informed decisions and choosing a policy that meets your needs. Here are key considerations when selecting an insurance professional:

1. **Licensing and Credentials:**
    - Ensure that the financial advisor is registered with the appropriate regulatory authorities. In the United States, for example, you can check the SEC's Investment Adviser Public Disclosure (IAPD) database or the Financial Industry Regulatory Authority (FINRA) BrokerCheck. Most states regulatory agencies or Departments of Insurance provide consumers with online licensing search capabilities to ensure the appropriate licenses are maintained, up-to-date and whether or not there outstanding consumer complaints, fines, suspensions or revocations. National Insurance Producer's Registry Look Up.
    - Look for industry certifications such as Certified Long-Term Care (CLTC), LTCP or Chartered Financial Consultant (ChFC), which indicate additional expertise in long-term care planning.
2. **Experience with Long-Term Care Insurance:**
    - Choose a professional with experience in the long-term care insurance market. Longevity in the industry often indicates a deeper understanding of the complexities of long-term care planning.
3. **Knowledge of State Partnership Programs:**
    - Given the specific features and regulations of State Partnership Long-Term Care Insurance, ensure that the insurance professional is well-versed in the details of your state's program.
    - They should be able to explain how the State Partnership Program works, including the asset protection benefits and how they interact with Medicaid.

4. **Client References and Reviews:**
    - Ask for references from clients who have purchased long-term care insurance through the professional. Hearing about others' experiences can provide insights into the agent's effectiveness and customer service.
5. **Independence and Product Options:**
    - Consider working with an independent insurance professional who can offer a variety of long-term care insurance products from different carriers. This allows for a more tailored approach to your specific needs and preferences.
6. **Communication Style:**
    - Choose an insurance professional who communicates clearly and is willing to take the time to answer your questions. Long-term care insurance is a significant financial decision, and you should feel comfortable with your agent.
7. **Financial Stability of Insurance Companies:**
    - Inquire about the financial stability and ratings of the insurance companies the professional represents. A financially stable company is more likely to fulfill its commitments over the long term.
8. **Fee Structure and Transparency:**
    - Understand the agent's fee structure. In many cases, insurance professionals are compensated by the insurance companies, but it's essential to have a clear understanding of any fees or commissions.
    - Transparency is crucial, and a reputable agent will be upfront about how they are compensated.
9. **Continuing Education:**
    - Long-term care insurance is a dynamic field with evolving products and regulations. Choose an insurance professional who invests in continuing education to stay up-to-date with industry changes.
10. **Alignment with Your Goals:**
    - Ensure that the insurance professional takes the time to understand your financial goals, concerns, and preferences. They should be able to recommend policies that align with your unique situation.

Before making any decisions, it's wise to meet with multiple insurance professionals, ask questions, and carefully review any proposed policies. A well-informed decision can help provide financial security in the event of long-term care needs.