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**Harmony Wealth
Strategies**

BUILDING AND SAFEGUARDING
YOUR FINANCIAL WORLD

Taxation and Long-Term Care Insurance (LTCI)





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Are long-term care insurance (LTCI) premiums tax deductible?

Since 1997, federal law has allowed you to deduct all or part of the premiums paid for qualified long-term care insurance (LTCI). Long-term care insurance policies issued before January 1, 1997, that met the long-term care insurance requirements of the state in which the contract was issued are automatically considered "qualified," unless they have been modified since January 1, 1997. Long-term care insurance policies issued on or after January 1, 1997, however, are only considered qualified for an income tax deduction if they meet certain federal standards.

What is a qualified long-term care insurance (LTCI) policy?

In particular, your LTCI contract issued on or after January 1, 1997 must:

- Provide only coverage of "qualified long-term care services"
- Be guaranteed renewable
- Not provide for a cash surrender value or for any other money that can be paid, assigned, pledged, or borrowed
- Provide that refunds (other than refunds upon termination of the contract) and dividends under the contract may be used only to reduce future premiums or to increase future benefits
- Not pay or reimburse expenses reimbursable under Medicare (unless Medicare is a secondary payer, or the contract makes per diem or other periodic payments without regard to expenses)

In addition, the policy must satisfy certain consumer protection provisions.

"Qualified long-term care services" may be defined as necessary, diagnostic, preventive, therapeutic, curing, treating, mitigating, and rehabilitative services, and maintenance or personal care services, which are required by a "chronically ill individual" and provided pursuant to a plan of care prescribed by a licensed health-care practitioner. You are considered to be chronically ill if you meet one of the following three standards:

- You are unable, without substantial help from another person, to perform at least two of the activities of daily living (ADLs) for at least 90 days. These ADLs are bathing, dressing, toileting, transferring, eating, and continence. A state may allow insurance companies to choose which five of the six ADLs to include or can require companies to use all six.
- You have a level of disability similar to the level of disability required under the first standard.
- You must need substantial supervision to protect your health and safety because you have a severe cognitive impairment.

To what extent may a deduction be taken on a qualified policy?

Currently, qualified LTCI premiums are deductible as medical expenses within the following limits (based on the taxpayer's age at the end of the tax year):

Age	Limit on Deduction (2019)	Limit on Deduction (2020)
40 or less	\$420	\$430
41-50	\$790	\$810
51-60	\$1,580	\$1,630
61-70	\$4,220	\$4,350
71 and older	\$5,270	\$5,430

The applicable limit on deduction should be added to your other deductible medical expenses. To claim a tax deduction, the total of your medical expenses must exceed 10 percent of your adjusted gross income.

Are long-term care insurance (LTCI) benefits taxable to you?

Benefits that you receive from a qualified LTCI policy are not taxable to you as income and are treated as excludable benefits received for personal injury and sickness to the extent that such benefits do not exceed a per diem limitation. However, benefits exceeding this per diem limitation are includable in income. The per diem limit is the excess (if any) of the greater of (1) \$380 per day, or (2) the costs incurred for qualified long-term care services provided for the insured for the period, over the aggregate payments received as reimbursements for qualified long-term care services for the period. Thus, if payments exceed the dollar



cap, the excess is excludable only to the extent of actual costs incurred for long-term care services.

Additionally, be aware that benefits received from a policy that is not a qualified LTCI policy might be taxable as income. For more information, contact an insurance professional.

What about long-term care insurance (LTCI) contracts issued prior to January 1, 1997?

Certain LTCI contracts issued prior to January 1, 1997, are grandfathered. A contract issued before 1997 is treated as a qualified LTCI contract if the contract met the LTCI requirements of the state in which the contract was issued. But note that a material change in a pre-1997 contract generally is considered the issuance of a new contract and will subject the contract to the new rules.

IMPORTANT DISCLOSURES

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