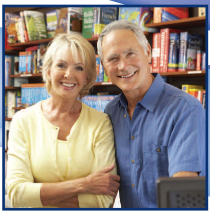

2012 Guide
Tax Breaks & Incentives
for Long Term Care Insurance

Federal AND State

Table of Contents

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 12).

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.

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.

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. If the total exceeds 7.5% of the taxpayer's Adjusted Gross Income (AGI), the premium may be deductible for taxpayers who itemize. (In 2013, the threshold rises to 10% for the medical expense deduction for those under age 65. The threshold rises for those age 65-plus in 2017.) 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.

Individual Premium Deductibility Limits: 2012	
Attained age before the close of the taxable year	Maximum deduction for year
40 or under	$350
Over 40 but not greater than 50	$660
Over 50 but not greater than 60	$1,310
Over 60 but not greater than 70	$3,500
Over 70	$4,370

Cafeteria Plan

LTCI is not allowed in a Section 125 Cafeteria Plan.

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 on prior page).

Medical Savings Accounts

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

Partnership

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 $310 (2012 amount).

Other Tax Incentives and Conclusion

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.

Strategies such as limited-pay policies can allow for maximum tax savings in some situations.

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.

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

State	State Tax Incentive	Partnership Policies Available
Alabama	Yes	Yes
Alaska	Yes	No
Arizona	No	Yes
Arkansas	Yes	Yes
California	Yes	Yes
Colorado	Yes	Yes
Connecticut	No	Yes
Delaware	No	No
DC	Yes	No
Florida	No	Yes
Georgia	No	Yes
Hawaii	Yes	No
Idaho	Yes	Yes
Illinois	No	No
Indiana	Yes	Yes
Iowa	Yes	Yes
Kansas	Yes	Yes
Kentucky	Yes	Yes

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

State	State Tax Incentive	Partnership Policies Available
Louisiana	No	Yes
Maine	Yes	Yes
Maryland	Yes	Yes
Massachusetts	No	No
Michigan	No	No
Minnesota	Yes	Yes
Mississippi	Yes	No
Missouri	Yes	Yes
Montana	Yes	Yes
Nebraska	Yes	Yes
Nevada	No	Yes
New Hampshire	No	Yes
New Jersey	Yes	Yes
New Mexico	Yes	No
New York	Yes	Yes
North Carolina	Yes	Yes
North Dakota	Yes	Yes
Ohio	Yes	Yes
Oklahoma	Yes	Yes
Oregon	Yes	Yes
Pennsylvania	No	Yes
Rhode Island	No	Yes

State	State Tax Incentive	Partnership Policies Available
South Carolina	No	Yes
South Dakota	No	Yes
Tennessee	No	Yes
Texas	No	Yes
Utah	No	No
Vermont	No	No
Virginia	Yes	Yes
Washington	No	No
West Virginia	Yes	Yes
Wisconsin	Yes	Yes
Wyoming	No	No

State Tax Incentives

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

Alabama Premiums are deductible as long as the contract meets specific requirements.

Alaska Premiums may be deductible as medical expenses when paid for a qualified LTCI contract. Self-employed can deduct 80% of premiums for qualified LTCI.

Arkansas Allows some deductions if permitted on federal return for adjustment to gross income

California Premiums for a qualified LTCI contract are deductible, with certain limitations.

Colorado Tax credit for 25% of total premiums paid during tax year, up to $150 for each policy. Credit available to taxpayers with federal taxable income <$50,000 (<$100,000 for joint returns).

District of Columbia Deduction for up to $500 LTCI premiums per year, per individual.

Hawaii Individual state income tax deduction for LTCI premiums parallel to tax deductions allowed federally.

Idaho Full amount of the premium paid by a taxpayer for LTCI for himself/herself and dependents is deductible.

Indiana Full amount of the premium paid by a taxpayer for LTCI for himself/herself and spouse is deductible.

Iowa LTCI premiums for nursing home long term health insurance are tax deductible to the extent that the services are eligible for the federal itemized deduction for medical and dental expenses.

Kansas Full amount of the premium paid for a qualified LTCI policy is tax deductible up to $1,000.

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

Kentucky Qualified LTCI premiums are excluded from income tax.

Maine Deduction of full premium for individual taxpayers for a contract which is certified by the superintendent. Employers providing LTC benefits to employees may qualify for a tax credit.

Maryland 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 for LTCI premiums equal to the lesser of 25% of premiums paid to the extent not deducted in determining federal taxable income, or $100. Maximum total credit for married couples is $200.

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.

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 Individual tax deduction of premiums paid for the taxpayer, his or her parents or grandparents.

Nebraska Individual tax deduction for contributions made to a Nebraska Long-Term Care Savings Plan account, to a maximum of $1,000 for a single, head-of-household, or married-filing-separate return, or $2,000 for a married-filing-joint return.

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

New Mexico LTCI premiums allowed under the deduction for unreimbursed or uncompensated medical expenses, limited based upon income level.

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 Carolina Through 2013, a tax credit equal to 15% of LTCI premium, subject to income limits based on AGI. Maximum credit $350/year.

North Dakota Tax credit for qualified LTCI premium for the taxpayer and his/her spouse. Maximum credit is $250 per insured.

Ohio Tax deduction for LTCI premium.

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.

Virginia Taxpayers take a deduction from Federal AGI for LTCI in calculating taxable income, as long as a similar deduction isn't taken on their federal tax return.

West Virginia Taxpayers can deduct from Federal AGI, for state tax purposes, the cost of qualified LTCI premiums paid 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 Qualified LTCI in calculating WI taxable income, including LTCI premium spent for a spouse's policy.

Partnership Policies

Partnership policies are designed to allow policyholders to receive Medicaid[1] long term care benefits once their LTCI polices are exhausted, while retaining assets that would otherwise need to be spent down. In general, Medicaid benefits are not available to people who have countable assets in excess of $2,000 (individual) or approximately $110,000 (couple).[2] The spend-down process refers to the process of spending money until those thresholds are reached. Claimants can often shelter some or all[3] of otherwise countable assets against the spend-down process thanks to their Partnership policy. Requirements for a policy to be deemed a Partnership policy may vary among states. Reciprocity issues also vary in terms of Partnership benefits for policyholders buying a Partnership policy in one state and eventually applying for Medicaid in a different state.

The benefits of procuring a Partnership policy depend on your financial situation and the policy design that you are considering. The person who gave you this booklet can provide details about a particular state's Partnership program, and help you make an informed decision regarding whether or not to consider a Partnership policy.

[1] Medi-Cal in California, MassHealth in Massachusetts

[2] Primary residence is not included in these numbers, and is subject to special rules.

[3] In NY, and IN effective 1/1/2012

First Edition
12/2011

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 in your state.

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