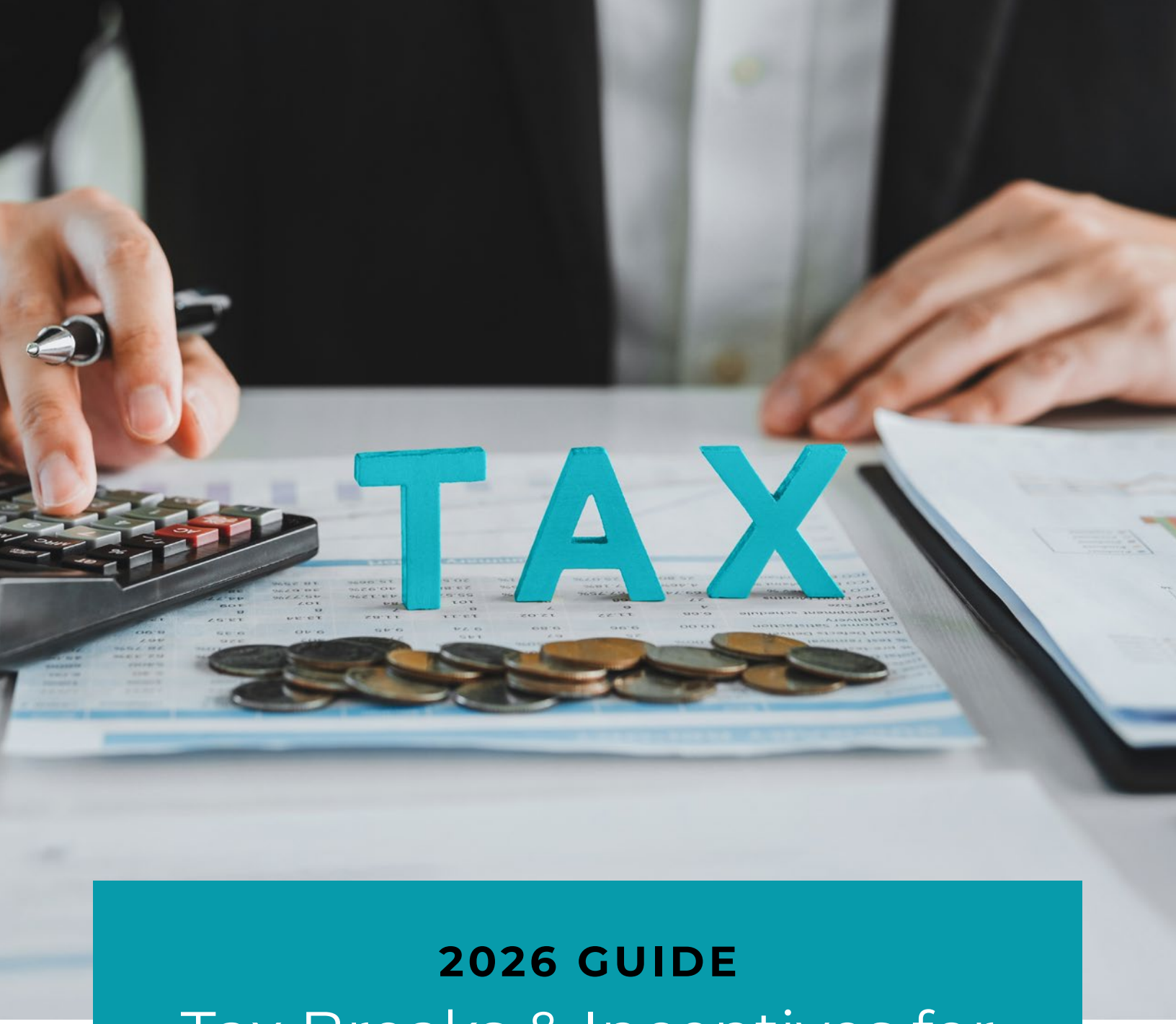


2026 GUIDE

Tax Breaks & Incentives for Long-Term Care Insurance

Federal and State

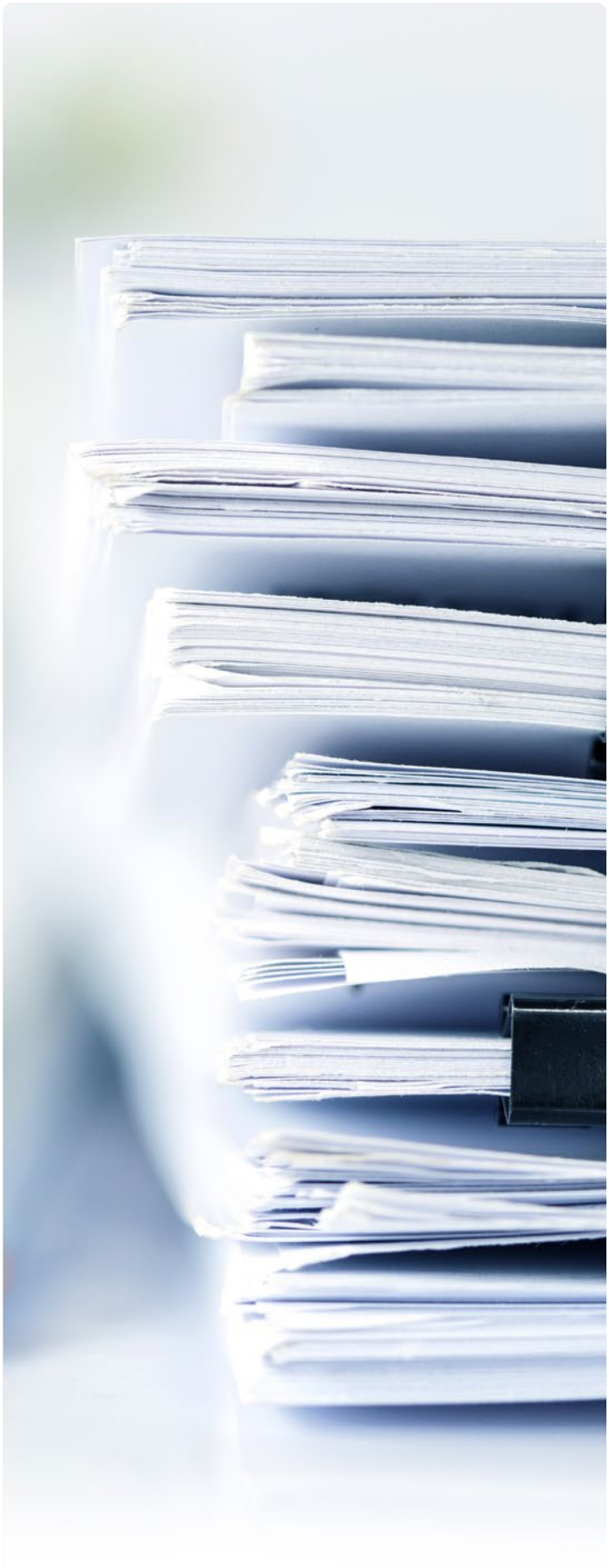


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Introduction

This guide is intended to help you understand what long-term care insurance (LTCI) 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:

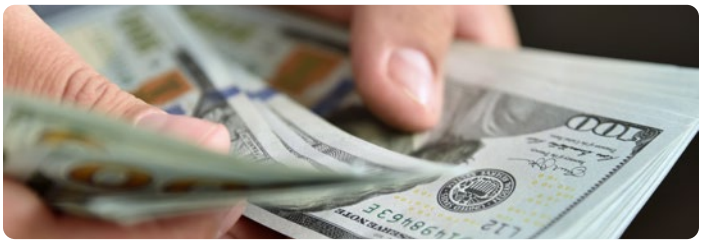
- State credits or deductions
- Asset-retention incentives via Partnership insurance policies (more information on page 9)

Disclaimer

The information within this guide is provided for informational purposes only and should not be construed as tax, insurance, or legal advice. Please consult your tax advisor, insurance professional, and/or attorney for advice regarding your specific circumstances.

Premiums Paid by an Individual

Long-term care insurance premiums can be itemized as a medical expense, but the amount of premium that can be itemized is limited based on age. This is called the Eligible Premium and is outlined on the following table.[1]



Individual Premium Deductibility Limits: 2025	
Age at End of Tax Year	Max. Eligible Premium Deduction
Age 40 or under	$500
Age 41 to 50	$930
Age 51-60	$1,860
Age 61-69	$4,960
Age 70 or older	$6,200

If total medical expenses, including the eligible LTCI premium, exceed 7.5% of Adjusted Gross Income (AGI), the excess is deductible.[2]

Please note that only LTCI, 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.

Heath Savings Account (HSA)

LTCI premiums are an acceptable, tax-free, healthcare expense from an HSA, but only up to the age-based Eligible Premium limit and only for tax-qualified policies.

Medical Savings Account (Archer MSA)

LTCI premiums are an acceptable expenditure.

Cafeteria Plan

LTCI 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 LTCI premium may deduct the expense. In addition, the employer can also deduct the long-term care insurance 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]

Health Reimbursement Account or Health Reimbursement Arrangement (HRA)

LTCI premiums are an acceptable, tax-free, healthcare expense from an HRA, but only up to the age-based Eligible Premium limit 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 LTCI as any other employee. All premiums paid for shareholders/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 nondiscriminatory 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 LTCI 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[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 can take up to the age-based Eligible Premium as a Self- Employed Health Insurance Deduction for each person covered.

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 LTCI 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 LTCI premium paid in their AGI, but 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

LTCI 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 $420 (2025 amount).[10]

Other Tax Incentives

While the decision whether 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 LTCI protection with no out-of-pocket expense.

Required Coverage – Washington State

The WA Cares Fund mandates a payroll tax for a limited LTCI benefit, and payroll deductions began July 2023. Please contact the professional who delivered you this guide for the latest details about the WA Cares Fund.

More Information

Information on each state is shown on pages 6-8. Be sure to read about Partnership policies on page 9. Consult with the specialist who sent you this booklet about which long-term care planning options make the most sense for your situation.

State-by-State Overview of Incentives

See explanation of state tax incentives on pages 7-8.

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	Yes
Indiana	Deduction	Yes
Iowa	Deduction	Yes
Kansas	None	Yes
Kentucky	Exclusion	Yes
Louisiana	Credit	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	Deduction	Yes
Nebraska	None	Yes
Nevada	None	Yes
New Hampshire	None	Yes
New Jersery	Deduction	Yes
New Mexico	Credit	Yes
New York	Credit	Yes
North Carolina	None	Yes
North Dakota	Credit	Yes
Ohio	Deduction	Yes
Oklahoma	None	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	Credit/ Deduction	Yes
Washington*	None	Yes
West Virginia	Deduction	Yes
Wisconsin	Deduction	Yes
Wyoming	None	Yes

**Washington state has enacted a nation-first payroll tax for long term care. See Required Coverage, page 5.*

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 LTCI are deductible.

Arkansas
LTCI 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
A tax credit for 25% of total premiums paid during tax year or $150 for each policy, whichever is less, is available. Credit is available to taxpayers with federal taxable income of less than $50,000 (less than $100,000 for joint returns). The policy must meet Colorado's definition of long-term care.

District of Columbia
A deduction of up to $500 on long-term care insurance premium per year per individual is allowed for LTCI policies that 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
The full amount of the premium paid by a taxpayer for a qualified LTCI 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 that meets the definition of the Indiana Code is deductible.

Iowa
Long-term care insurance premiums are 100% deductible.

Maine
There is a 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 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
A one-time taxpayer credit is available for self, spouse, parents, or children up to $500 based on eligible federally qualified LTCI 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
An individual state tax credit equal to the lesser of $100 or 25% of the amount paid for each owner of an eligible policy is available. Eligible policies must have benefits of at least $100,000. The maximum total credit is $200 annually on a joint return, or $100 for other filers. Any unused tax credit may not be carried forward to future tax years.

Mississippi
An individual tax credit equal to 25% of the premium is available for a qualified LTCI 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

An individual tax deduction is available for premiums paid for a long-term care insurance policy that are nonreimbursed and not included in itemized deductions. The policy does NOT have to be tax qualified.

Montana

Qualified LTCI premiums can either be totally deducted for the taxpayer, taxpayer's parents, grandparents, and dependents, or they can be used as part of a tax credit for qualifying individuals or families through Montana's Elderly Care Credit. Qualifying individuals or families can use both the deduction and the credit only if qualified LTCI premiums are not used as part of Elderly Care Credit calculations.

New Jersey

LTCI premiums are allowed under the deduction for medical expenses to the extent they exceed 2% of AGI.

New Mexico

Credit: Taxpayers aged 65 and older 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 aged 65 and older, if such expenses equal $28,000 or more.

New York

A tax credit is available 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. For example, an adult child could pay premium for parents and get a tax credit even if parents are not dependents. Tax credit is not refundable, but unused credits may be carried forward.

North Dakota

The 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 the taxpayer, spouse, and dependents, to the extent not already deducted or excluded in computing federal or Ohio AGI.

Oklahoma

LTCI premiums are deductible on state returns to the extent they are deductible under federal law.

Virginia

Taxpayers can take a deduction for long-term care insurance premiums from federal AGI to compute Virginia 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 a long-term care insurance policy as defined in the West Virginia Code, for the taxpayer, their spouse, parent, or other dependent, to the extent 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 Wisconsin 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.* Our government has incentivized the purchase of LTCI 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 that pre-dated the DRA, and these four "grandfathered" states are unique in their features.

**Medi-Cal in California, MassHealth in Massachusetts*

[1]IRS Proc. 2021-45

[2]IRC Sec. 213 (f)

[3]IRC Sec. 125 (f)(2)

[4]IRC Secs. 213(a) and (d)

[5]IRC Sec. 105 (b)

[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)

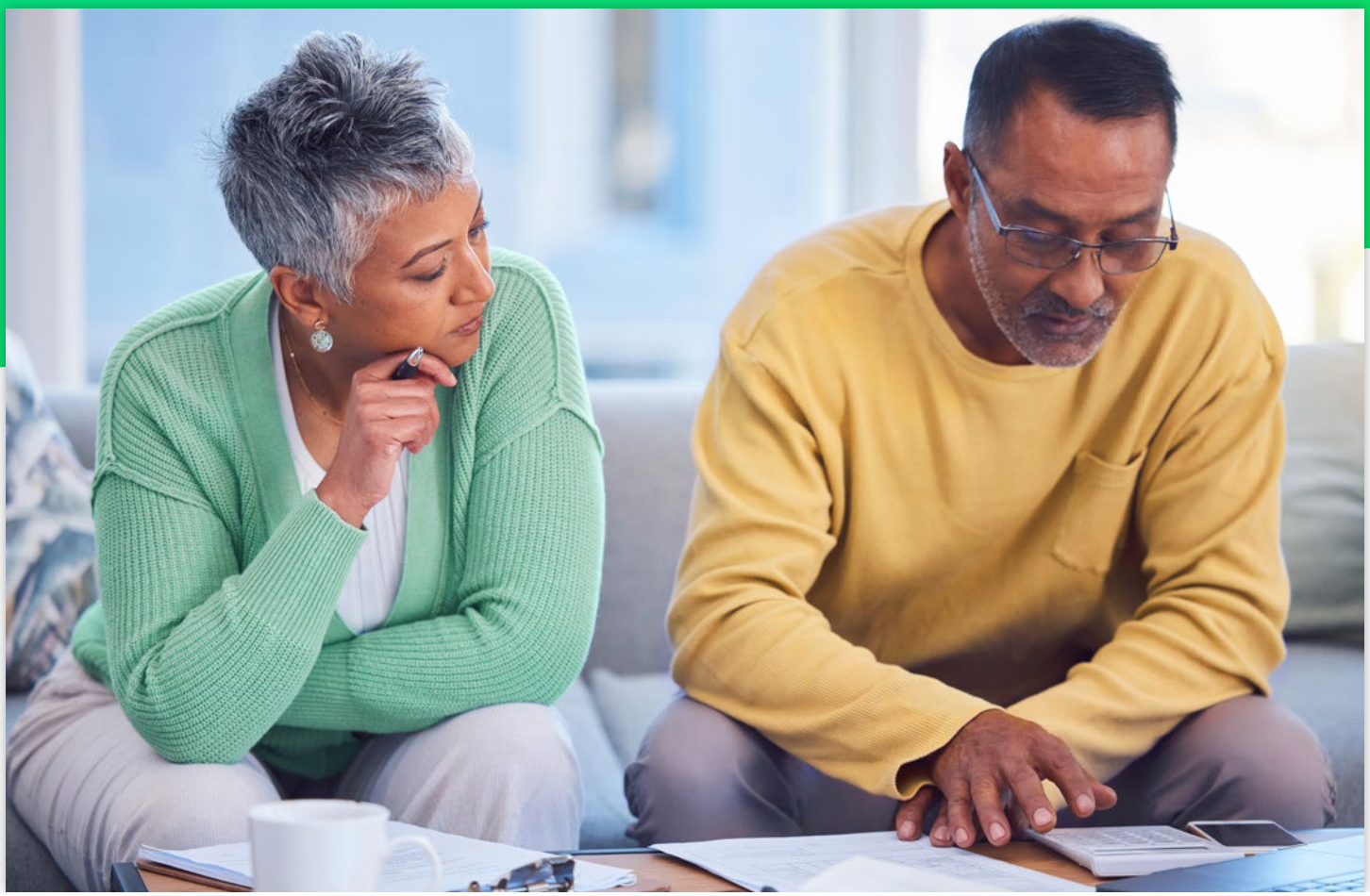
[10]IRS Procedure 2021-45

Did You Know...

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 trigger your eligibility for tax breaks or other incentives.

The person who sent you this guide can answer any questions related to long-term care planning and long-term care insurance.



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