Long Term Care – Taxes – The Government

By: Rob O'Dell

Yes, long-term care, taxes, and the government -- probably the three things that you love to think about now that the holidays are behind us!

As a fee-only wealth advisory group that does not sell insurance products, we often advise clients to purchase insurances as means of risk reduction. When it comes to property & casualty, umbrella, life and health insurance, clients implement our recommendations after sufficient and diligent research. And when it comes to purchasing traditional long-term care (LTC) insurance, we often hear colorful responses such as:

- I took care of my kids when they were young and they'll care for me when I'm old
- I'll call Dr. Korvorkian's successor
- I'll give all my assets to my spouse, divorce her or him, and go on Medicaid
- I'll just make sure I die without getting sick

Baby boomers find it difficult to commit to annual future premiums without knowing if they'll ever use the benefits. However, both the federal and many state governments have recognized the growing demand for senior health care and are taking steps to encourage tax payers to take action.

The late Senator Edward Kennedy took the first stab at this with his signature piece of legislation called the *Community Living Assistance Services and Support* (CLASS). But last year's *American Tax Relief Act of 2012* repealed it due to financial un-sustainability. Then along came a 15-member commission, appointed to determine the best ways to advise Congress as it prepares to deal with the looming long-term health care cost crisis. In September of 2013, the bipartisan commission reported a limited number of solutions, and it's unclear as to whether or not Congress will act upon them. Recommendation: do not hold your breath!

Tax Breaks for Traditional Long Term Care Insurance

In recent years, Congress, and some state governments, have made tax incentives for individuals who purchase individual tax-qualified long-term care insurance.

Qualified policies must be guaranteed renewable and cannot have cash value; most traditional long care insurance policies are tax-qualified.

Who is Eligible for Tax Benefits?

Individuals

Eligible individuals do not have employer provided LTC; do file Schedule A Itemized Deductions; do deduct a portion of the long-term care premium under Medical Expenses. As always, there are some catches:

1. The amount of premium eligible for deduction is based upon the taxpayer's age. The older the taxpayer, the more premium allowable for deduction. (See chart)
2. The Medical Expense Deduction on Schedule A is reduced by 7.5% of the taxpayer's Adjusted Gross Income. This may exclude policy owners with high income.

Age on Dec. 31, 2013	Amount you can treat as medical expense
40 or under	$360
41 to 50	$680
51 to 60	$1,360
61 to 70	$3,640
Over 70	$4,550

Self-Employed Deduction

Individuals with self-employed income have significantly greater tax benefits. Instead of writing it off on Schedule A, they can deduct 100% of the premium on line 29 of the front page of their 1040 as a health insurance deduction. This may provide extra incentive for baby boomers to consider starting an encore career or some type of part time work from home

Owners of C Corporations

This perhaps has the narrowest appeal, since small business typically elect to set up LLCs and S Corporations over C Corporations. But those with C Corporations, can purchase long-term care coverage through their businesses and those premiums are 100% deductible as business expenses. Another advantage is that C Corp owners can discriminate on who receives this benefit.

While it seems that traditional long-term care insurance may eventually go away, you can take advantage of these tax benefits while still available. If you fall into one of these tax benefit eligible categories, this may turn out to represent the easiest way to get coverage, for now, especially if you've neglected to plan for future LTC needs thus far.

Conclusion: Think of this time in your life as the time you grow wiser, not older. And, it's wise to take the tax breaks while they're still available to help you.