2025 Guide

Tax Breaks & Incentives

for Long Term Care Insurance

AMERICA'S LEADING RESOURCE FOR LONG TERM CARE INSURANCE

Introduction

This guide is intended to help you understand what 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.

Many states offer incentives for those who purchase long term care insurance. The two primary incentives are:

- state credits or deductions; and
- asset-retention incentives via Partnership insurance policies (more information on page 4).

Ask your tax advisor if your state and/or city offers tax incentives for long term care insurance.

Premiums Paid by an Individual

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

If total medical expenses – including Eligible long term care insurance premium – exceed 7.5% of Adjusted Gross Income (AGI), the excess is deductible.[2]

TABLE 1: Individual Premium Deductibility Limits – 2025

Age at end of tax year	Max Eligible Premium Deduction
40 or under	$480
Over 40 but not greater than 50	$900
Over 50 but not greater than 60	$1,800
Over 60 but not greater than 70	$4,810
Over 70	$6,020

1 IRS Proc. 2021-45
2 IRC Sec. 213 (f)

Please note that only Tax-Qualified long term care insurance – 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.

Health Savings Accounts (HSAs)

Long term care insurance premiums are an acceptable, tax-free, health care expense from an HSA, but only up to the age-based Eligible Premium limit (see Table 1), and only for Tax-Qualified policies.

Medical Savings Accounts (Archer MSAs)

Long term care insurance premiums are an acceptable expenditure.

Cafeteria Plan

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

3 IRC Sec. 125 (f)(2)
4 IRC Secs. 213(a) and (d)
5 IRC Sec. 105 (b)

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Health Reimbursement Accounts (HRAs) or Health Reimbursement Arrangements (HRAs)
Long term care insurance premiums are an acceptable, tax-free, health care expense from an HRA, but only up to the age-based Eligible Premium limit (see Table 1), 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 long term care insurance as any other employee. All premiums paid for shareholder/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 non-discriminatory 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 long term care insurance 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. However, age-based Eligible Premium limits do apply.

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, spouse, dependent(s) can take up to the age-based Eligible Premium as a Self-Employed Health Insurance Deduction for each person covered. However, premium is not deductible for any month in which the owner or their spouse is eligible to participate in an employer subsidized plan.

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 long term care insurance 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 long term care insurance premium paid in their AGI; however, 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

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; 2024 amount is $410).[10]

Other Tax Incentives

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.

The Pension Protection Act of 2006 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 long term care insurance protection with no out-of-pocket expense.

Required Coverage – WA State

In 2023, Washington began collecting taxes to fund a new social insurance program called WA Cares. Eligible workers who meet contribution requirements will earn lifetime access to a $36,500 pool of money (which may be adjusted for inflation) for long-term services and supports. Most employees are required to participate in WA Cares, though the choice is optional for the self-employed. There are four ways to be exempt from the program – see wacaresfund.wa.gov.

Due to the small benefit, other limitations, exclusions and uncertainties attending the state's program, many experts recommend those who are paying into the program supplement the state's benefit.

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 2022-38

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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 long term care insurance 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 which pre-dated the DRA; these four "grandfathered" states are unique in their features.

*Medi-Cal in California, MassHealth in Massachusetts

Did you know that long term care insurance offers significant tax advantages for many?

This Guide will help you determine whether your purchase of long term care insurance may make you eligible for tax breaks or other incentives.

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

Your tax advisor is your best resource for what tax incentives are available to you.

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