



Tax deduction threshold 7.5% to rise to 10%

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April 23, 2010

On March 23, 2010, President Obama signed into law H.R. 3590, the “Patient Protection and Affordable Care Act.” One week later, on March 30, the President signed into law H.R. 4872, the “Health Care and Education Reconciliation Act of 2010.” These two new laws will alter how consumers access health insurance, and among the many provisions that are still being evaluated, contained two tax-related changes closer to long-term care (LTC) insurance that we need to bring to your attention. It's important to note that they are based on the Act just passed, and may be subject to change before the implementation dates mentioned.

Increased threshold for itemized deduction for medical expenses

Individuals who have purchased a tax-qualified long-term care insurance policy are eligible to deduct a portion of the premiums paid up to age-based limits. The Act increases the threshold for this deduction, from 7.5 percent (7.5%) of Adjusted Gross Income (AGI) to 10 percent (10%) for regular federal income tax purposes. For most taxpayers, this change is effective for taxable years beginning after December 31, 2012. [Sec. 9013 of the Act/Sec. 213 of the Internal revenue Code]. Individuals age 65 and older (and their spouses), however, will be given more time for the change to affect them, and so are exempt from the increased threshold until 2016. Please note that individual state tax deductions for long-term care insurance premiums that are directly tied to the federal threshold would also be expected to change in line with the higher amount called for by the Act.

Health Savings Accounts (HSAs)

HSA distributions are tax-free if they are used to pay for qualified medical expenses, including long-term care insurance premiums, up to age-based limits. The additional tax on distributions from an HSA that are not used for qualified medical expenses is increased by the Act from 10 to 20 percent (and from 15 to 20 percent for Medical Savings Accounts) of the disbursed amount. The change will be effective for disbursements made during tax years starting after December 31, 2010. [Sec. 9004 of the Act/Sec. 223(f)(4)(A) of the Internal revenue Code]

Marketing materials

We will update all tax-related materials upon reprint. We will let you know once they are available.