

Long-term Care Insurance Income Tax Credit

What is the credit?

The Minnesota long-term care insurance credit offsets the cost of long-term care insurance premiums by providing a credit against state income tax liability. The maximum Minnesota credit is equal to the lesser of \$100 or 25 percent of the amount paid for each beneficiary. The maximum total credit is \$200 annually on a joint return or \$100 for individual filers.

This credit was enacted in 1997 and took effect in tax year 1999.

What is the rationale for this tax credit?

The Minnesota long-term care tax credit provides an incentive for Minnesotans to purchase long-term care insurance coverage. If more Minnesota residents purchase long-term care insurance, there may be a decrease in the cost to the state of providing for the long-term care of residents who are unable to afford long-term care services.

Is the credit refundable?

The Minnesota credit is a nonrefundable credit and may be used only to offset tax liability. If an individual qualifies for a credit that is greater than her or his tax liability, the excess will *not* be paid as a refund.

Who is eligible for the credit?

A Minnesota taxpayer who purchases insurance to provide long-term care coverage, such as nursing home or home care coverage, for him or herself or spouse is eligible for the credit. To qualify for the credit, the long-term care policy must:

- qualify for the federal itemized deduction for medical expenses, disregarding the 7.5 percent income test; and
- have a lifetime long-term care benefit limit of \$100,000 or more.

How is the credit calculated?

The Minnesota credit equals 25 percent of qualifying long-term care insurance premiums for one beneficiary, up to a maximum of \$100 for individuals and up to \$200 for married couples filing jointly who both have coverage. A taxpayer may claim only one policy for each qualified beneficiary. It is *not* necessary that the taxpayers filing jointly have separate policies or premiums. The amount of premiums used to calculate the credit must be reduced by any premiums claimed as a medical expense deduction on the taxpayer's federal return.

How many Minnesotans claim the credit?

For tax year 2008, 61,034 Minnesota returns claimed the credit. These claims represent about 2 percent of all state returns filed by Minnesotans.

Filers claim the credit on their Minnesota income tax return using Schedule M1LTI.

How much is paid out in credits?

In tax year 2008, Minnesotans claimed \$8.48 million of long-term care insurance credits. The average long-term care tax credit was \$139 in tax year 2008. The average credit exceeds the maximum credit of \$100 per qualified beneficiary because married couples filing joint returns may claim the maximum credit for both spouses (up to a total of \$200).

How does Minnesota compare with other states?

This table includes all states that offered a long-term care insurance tax credit in 2008, but not those states that offer a long-term care insurance tax deduction. Data on the number of claimants and cost by state is for 2008.

In addition to the states listed, Louisiana has enacted but not funded a 10 percent credit, Maine provides a credit to employers who provide coverage to employees, and New Mexico allows a refundable credit of \$2,800 for individuals age 65 or older with over \$28,000 in medical expenses, including long-term care premiums. North Dakota's credit will be increased to 100 percent of premiums, up to a maximum of \$250 in tax year 2009, when the state's long form is eliminated and the credit is made available to all filers.

	Maximum credit	Credit rate*	Number of returns claiming the credit	Cost to the state for the credit
Colorado	\$150	25%	Not available	Not available
Maryland¹	Varies by age: \$280-\$500	100%	5,491	\$3.07 million
Minnesota	\$100	25%	61,034	\$8.48 million
Mississippi	\$500	25%	1,843	\$0.77 million
Montana²	\$5,000	Varies by income: 20% to 30%	46	\$50,534
New York	None	20%	124,000	\$64 million
North Carolina	\$350	15%	29,255	\$6.05 million
North Dakota	\$100	25%	Not available	Not available
Oregon	\$500	15%	32,691	\$7.6 million
Virginia³	None	15%	4,070	\$1.1 million

* The credit rate is the percentage of premiums allowed as a credit.

¹ Maryland's credit can be claimed only once per person.

² Montana's tax credit is a credit for expenses related to care of elderly family members. Long-term care insurance premiums are a qualifying expense. Data for Montana includes credits for all qualifying expenses, including long-term care insurance premiums.

³ Virginia's credit applies only to the first 12 months of premiums paid.

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