IRS Issues Long-Term Care Premium Deductibility Limits for 2014

The Internal Revenue Service (IRS) is increasing the amount taxpayers can deduct from their 2014 taxes as a result of buying long-term care insurance.

Premiums for "qualified" long-term care insurance policies (see explanation below) are tax deductible to the extent that they, along with other unreimbursed medical expenses (including Medicare premiums), exceed 10 percent of the insured's adjusted gross income, or 7.5 percent for taxpayers 65 and older (through 2016).

These premiums -- what the policyholder pays the insurance company to keep the policy in force -- are deductible for the taxpayer, his or her spouse and other dependents. (If you are self-employed, the tax-deductibility rules are a little different: You can take the amount of the premium as a deduction as long as you made a net profit; your medical expenses do not have to exceed a certain percentage of your income.)

However, there is a limit on how large a premium can be deducted, depending on the age of the taxpayer at the end of the year. Following are the deductibility limits for 2014. Any premium amounts for the year above these limits are not considered to be a medical expense.

Attained age before the close of the taxable year	Maximum deduction for year
40 or less	$370
More than 40 but not more than 50	$700
More than 50 but not more than 60	$1,400
More than 60 but not more than 70	$3,720
More than 70	$4,660

Another change announced by the IRS involves benefits from per diem or indemnity policies, which pay a predetermined amount each day. These benefits are not included in income except amounts that exceed the beneficiary's total qualified long-term care expenses or $330 per day (for 2014), whichever is greater. (The 2013 limit was $320.)

What Is a "Qualified" Policy?

To be "qualified," policies issued on or after January 1, 1997, must adhere to certain requirements, among them that the policy must offer the consumer the options of "inflation" and "nonforfeiture" protection, although the consumer can choose not to purchase these features. Policies purchased before January 1, 1997, will be grandfathered and treated as "qualified" as long as they have been approved by the insurance commissioner of the state in which they are sold.