MN HOUSE RESEARCH

Long-Term Care Insurance Tax Credit

August 2019

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 the 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 10 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 2016, the Department of Revenue reports that about 63,000 Minnesota returns claimed the credit. This is about 2.2 percent of all state returns filed by Minnesotans.

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How much is paid out in credits?

In tax year 2016, Minnesotans claimed $8.91 million of long-term care credits. The average credit was $120 in tax year 2016. The average credit exceeds the maximum credit of $100 per qualified beneficiary because married couples filing joint returns may claim the credit for both spouses (up to a total of $200).

How does Minnesota compare with other states?

Many states—including Minnesota—allow taxpayers to deduct long-term care insurance premiums as part of the medical expense deduction. However, most states limit the deduction to medical expenses in excess of a certain percentage of adjusted gross income, meaning taxpayers without high medical expenses relative to their incomes cannot deduct their long-term care insurance premiums.

As of tax year 2018, at least seven states allowed specific deductions for long-term care insurance premiums (separate from the deduction for medical expenses). The states with deductions were Alabama, Indiana, New Jersey, Ohio, Virginia, West Virginia, and Wisconsin.

Six states including Minnesota allowed a tax credit for long-term care insurance premiums in 2018. Unless otherwise specified, data on the number of claimants and cost by state is for tax year 2016 and was provided by staff at state revenue departments and legislative offices.

	Maximum credit	Credit rate*	Returns claiming the credit	Cost to the state for the credit
Colorado[1]	$150	25%	15,178	$3.1 million
Maryland[2]	Varies by age: $410-$500	100%	3,690	$1.95 million
Minnesota	$100	25%	63,000	$8.7 million
Mississippi	$500	25%	Recent data unavailable; TY 2013: 3,374 returns; $1.5 million	
New York	None	20%	130,000	$87.9 million
North Dakota[3]	$500	100%	1,372	$0.56 million

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

[1] Colorado's credit is income-limited; the maximum for joint filers is $150 per spouse.

[2] Maryland's credit can be claimed only once per person.

[3] North Dakota's credit is limited to long-term care plans that meet consumer protection criteria and provide inflation protection; the maximum for single filers is $250.

In addition to the states listed, Montana allows a credit for expenses of individuals who pay for long-term care for elderly and disabled family members, including long-term care premiums. New Mexico allows a refundable credit for medical expenses, including long-term care premiums.

Some states offered credits in the past, but no longer offer the credits

North Carolina, Oregon, and Virginia previously offered long-term care credits for individuals, but they were repealed or sunset. Maine previously offered a credit to employers who provided coverage to employees; that credit was also repealed.

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