

Federal and State Income Tax Incentives for Private Long-Term Care Insurance

David Baer and Ellen O'Brien
AARP Public Policy Institute

Federal and State Income Tax Incentives for Private Long-Term Care Insurance

David Baer and Ellen O'Brien
AARP Public Policy Institute

AARP's Public Policy Institute informs and stimulates public debate on the issues we face as we age. Through research, analysis and dialogue with the nation's leading experts, PPI promotes development of sound, creative policies to address our common need for economic security, health care, and quality of life.

The views expressed herein are for information, debate, and discussion, and do not necessarily represent official policies of AARP.

#2009-19

November 2010

© 2010, AARP

Reprinting with permission only

AARP Public Policy Institute
601 E Street, NW, Washington, DC 20049
<http://www.aarp.org/ppi>

TABLE OF CONTENTS

INTRODUCTION.....	1
WHAT IS LONG-TERM CARE INSURANCE? WHO BUYS IT?	1
FEDERAL TAX INCENTIVES	4
The Itemized Medical Deduction.....	5
Value of the Itemized Medical Deduction to a Policyholder.....	7
Costs to the Federal Government.....	8
STATE TAX INCENTIVES.....	9
Structure of State Tax Incentives.....	10
Value of State Tax Incentives to Policyholders.....	14
Use of State Tax Incentives	16
Cost of State Tax Incentives	17
COMBINED VALUE OF FEDERAL AND STATE TAX INCENTIVES	18
ISSUES FOR POLICYMAKERS	19
CONCLUSION	20
REFERENCES.....	22
APPENDIX.....	24

List of Tables

TABLE 1.	Average Long-Term Care Insurance Premiums, By Age at Purchase, 2007	3
TABLE 2.	Share of People Ages 50+ with Long-Term Care Insurance, 2006 By Age and Family Income Quartile	4
TABLE 3.	Maximum Long-Term Care Insurance Premium Deductions in 2007.....	5
TABLE 4.	Share of Policyholders Who Claimed an Itemized Medical Deduction, 2006 By Age and Income Quartile	5
TABLE 5.	Structure of State Tax Incentives for Long-Term Care (LTC) Insurance, 2007.....	10
TABLE 6.	Long-Term Care Insurance Deductions and Credits, 2007	11
TABLE 7.	Design of State Tax Credits for Long-Term Care Insurance, 2007	13
TABLE 8.	State Tax Expenditures for Long-Term Care Insurance Incentives, 2005.....	17
TABLE A-1.	2007 Federal Marginal Income Tax Rates and Taxable Incomes	24
TABLE A-2.	State Income Tax Bases, Tax Year 2007	25
TABLE A-3.	Long-Term Care Insurance Income Tax Deductions and Credits in 2007.....	26
TABLE A-4.	State Income Tax Brackets and Marginal Income Tax Rates for Single Taxpayers, 2007	35
TABLE A-5.	State Long-Term Care Insurance Income Tax Benefits for a \$2,000 Premium, 2007	36
TABLE A-6.	State Long-Term Care Insurance Income Tax Benefits for a \$2,000 Premium, 2007	38
TABLE A-7.	Federal and State Long-Term Care Insurance Income Tax Benefits for Single Taxpayers Claiming a Federal Itemized Deduction for	40

INTRODUCTION

In health care reform and elsewhere, policymakers are looking for ways to increase the affordability of long-term care services and supports for individuals and families. Today, much of the burden falls to individuals who pay for services out of pocket and to family members who provide care. Public spending on long-term services and supports—primarily through the Medicaid program—is also substantial, but private long-term care insurance is relatively uncommon. To help make long-term care insurance more affordable and to encourage purchases, both federal and state governments provide tax subsidies for private long-term care insurance.

For most people in most states, the federal and state tax subsidies available for long-term care insurance are small or nonexistent. For some affluent older Americans, however, they can be substantial—providing a nearly 50 percent after-tax discount. Federal incentives are, for the most part, limited to people who itemize deductions and who have large medical expenses. States also provide income tax deductions, and a handful of states provide somewhat more generous subsidies for private long-term care insurance through tax credits. In those states, subsidies can reduce the after-tax price of long-term care insurance by 15 to 25 percent—even for non-federal itemizers. A key question for policy has been whether tax subsidies should be increased for modest- and middle-income people.

This report provides key background information for considering policy proposals to expand incentives. It describes federal and state tax subsidies for long-term care insurance, their value to taxpayers (by age and income), and, where possible, their cost to federal and state governments. The report concludes with a discussion of questions for policymakers, including whether tax subsidies are an effective way of incentivizing purchases, whether they are fair, and whether they are worth their cost.

WHAT IS LONG-TERM CARE INSURANCE? WHO BUYS IT?

Long-term care refers to the services and supports provided to people who need assistance with basic activities, such as bathing and dressing, because of chronic physical or mental illness or disabling conditions.¹ Long-term services and supports are provided in a variety of settings—in homes, in community settings such as adult day centers, and in institutional settings, such as nursing homes and assisted living facilities. Almost ten million people in the United States need long-term care services and supports. About 6.3 million of them are ages 65 and older.²

¹ Summer and Ihara, 2004, p. 1.

² Rogers and Komisar, 2003. A person is counted as needing long-term care if he or she requires another person's help with one or more activities of daily living (ADLs) or instrumental activities of daily living (IADLs). ADLs are fundamental tasks, defined here to include bathing, eating, dressing, using the toilet, getting in and out of a bed or chair, and getting around inside the home. IADLs are additional activities necessary for independence, such as preparing meals, managing money, managing medications, using the telephone, doing light housework, and shopping for groceries and other necessities.

Many people with long-term care needs rely on informal care provided by family members, but paid services—home care aides, adult day care, services provided in an assisted living facility or in a nursing home—are often needed to supplement or replace informal care. When paid services are needed, long-term care can be very costly. In 2009, a year of care in a nursing home cost \$74,208 on average across the country.³ Services provided at home can also become expensive. As a result, extended needs for care are likely to be financially catastrophic for most middle-income older people.

There are just a few options for financing long-term care. Private long-term care insurance is one option. Public programs are another—including Medicaid, the health care program for poor and low-income Americans; and Medicare, the federal health insurance program that covers most of the elderly and millions of nonelderly people with disabilities.

Medicaid provides assistance with the cost of care, but Medicaid is not insurance. Medicaid's assistance with long-term care costs is available only to those who are poor or who become poor paying for care. People who need long-term care must use nearly all of their savings and apply most of their income toward the cost of care before Medicaid is available. Although many older Americans believe that Medicare pays for long-term care, including extended care in a nursing home, it does not. Medicare generally provides short-term assistance with post-acute care services, including nursing home care and home health care, for people with medical needs for that care. As a result of the limitations in Medicare and Medicaid, out-of-pocket spending accounts for a substantial share of total long-term care spending.

In the United States in 2005, \$206.6 billion was spent on long-term care. Medicaid accounted for nearly half of that spending (49 percent), followed by Medicare (20 percent), and spending by individuals and families out of pocket (18 percent). Overall, private insurance (which in these data include both health insurance and long-term care insurance) accounted for just 7 percent of national spending on long-term care.⁴ (See figure 1.) Although informal, or unpaid, care is not reflected in national data on long-term care expenditures, the value of that contribution is substantial—an estimated \$375 billion in 2007 (or nearly four times Medicaid long-term care spending that year).⁵

About seven million people had long-term care insurance in 2005.⁶ Long-term care insurance usually provides fixed daily payments toward the cost of care in a nursing home, and, under most policies currently sold, home care and care in assisted living facilities. Policy features vary widely and purchasers have a number of decisions to make when they choose a policy, including how much inflation protection to buy, the nature of the benefits, duration of coverage, and waiting periods before payments will be made.⁷

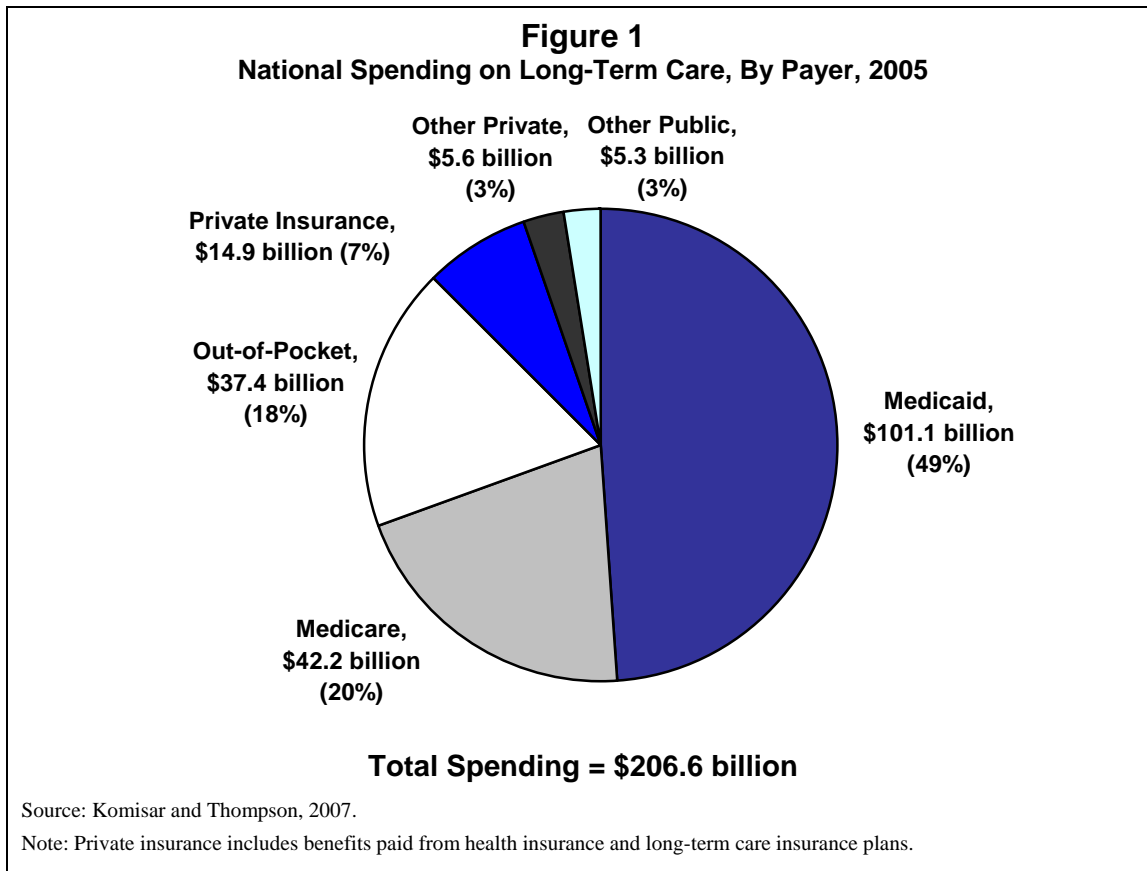
³ Genworth Financial, 2009.

⁴ Komisar and Thompson, 2007.

⁵ Houser and Gibson, 2008.

⁶ America's Health Insurance Plans, 2007, p. 11.

⁷ Merlis, 2003; and Burns, 2006.



For the elderly, who may be most interested in purchasing long-term care insurance, coverage can be expensive. People who bought long-term care insurance in 2007 paid an average annual premium of \$2,207; purchasers ages 70 and older paid \$3,026 on average, while purchasers ages 40 to 49 paid \$1,781 (see table 1). These averages, however, mask wide variations in costs based on the benefits selected. Comprehensive lifetime insurance coverage that provides adequate benefits that maintain their value over time (i.e., with adequate inflation protection) can be far more costly.⁸

Cost is not the only barrier to purchase, however. Especially at older ages, some people will not qualify for long-term care insurance because of preexisting conditions. Many

Age Group	Average Annual Premium
All ages	\$2,207
Under age 40	\$881
40 to 49	\$1,781
50 to 59	\$1,982
60 to 64	\$2,249
65 to 69	\$2,539
70 and older	\$3,026

Source: National Clearinghouse for Long-Term Care Information, http://www.longtermcare.gov/LTC/Main_Site/Paying_LTC/Private_Programs/LTC_Insurance/index.aspx.

⁸ Kassner and Walker, 2009.

younger people are reluctant to buy long-term care insurance because they do not know what their risks will be 20 or 30 years later.⁹

As the market was developing, sales of long-term care insurance policies grew rapidly in the early 1990s—by about 20 percent per year—but sales slowed to about 10 percent per year in the early 2000s.¹⁰ Despite this growth, only 12 percent of people ages 50 and older had long-term care insurance in 2006 (table 2). Older, high-income people are more likely to have a long-term care insurance policy. A quarter of people ages 65 and above in the top quartile of income earners (with annual incomes in excess of \$81,300) held long-term care insurance in 2006 (see table 2).

Age	Bottom Quartile \$21,248 or less	Second Quartile >\$21,248 to \$42,700	Third Quartile >\$42,700 to \$81,300	Top Quartile More than \$81,300	All Incomes
50 and older	5%	11%	13%	18%	12%
50 to 64	5%	7%	9%	16%	10%
65 and older	6%	14%	19%	25%	14%
65 to 74	6%	13%	18%	24%	15%
75 and older	5%	15%	22%	27%	13%

Source: AARP Public Policy Institute estimates based on 2006 data from the Health and Retirement Study.

Although long-term care insurance plays a very limited role in long-term care financing today, many ask whether its role can be bigger in the future and what it might take to make that happen. The rest of this report examines tax incentives that are intended to promote the purchase of long-term care insurance. Examples are provided to illustrate the impact of existing federal and state tax subsidies for long-term care insurance, and key issues for policymakers are highlighted at the end.

FEDERAL TAX INCENTIVES

The main way taxpayers receive federal tax benefits for long-term care insurance is by taking an itemized deduction for medical expenses, which can include private long-term care insurance premiums. Other federal incentives are available to the self-employed, to people with employer-paid long-term care insurance, and to people with Health Savings Accounts.¹¹ These tax subsidies can be worth more than the itemized deduction to policyholders who are eligible for them, but they reach many fewer long-term care policyholders than the itemized deduction.

⁹ Burns, 2006.

¹⁰ Ibid.

¹¹ This report does not discuss contributions to Medical Savings Accounts (MSAs) as a tax deduction for long-term care insurance premiums because they are less common than Health Savings Accounts (only 750,000 enrollees are allowed by law). Health Savings Accounts were established in 2003 to replace MSAs. MSAs still exist for people who already own them.

THE ITEMIZED MEDICAL DEDUCTION

Taxpayers can itemize unreimbursed medical expenses—including long-term care insurance premiums—that exceed 7.5 percent of their federal adjusted gross income (AGI). Premiums paid on tax-qualified long-term care insurance policies can be treated as medical expenses for purposes of the itemized medical deduction.¹² In 2007, the maximum deductible amounts (which are increased annually and indexed to the medical care component of the consumer price index) ranged from a low of \$290 for people under age 41 to a high of \$3,680 for people ages 71 and above (see table 3). Because any amount paid for long-term care insurance can be deducted only to the extent that total medical expenses exceed 7.5 percent of federal adjusted gross income, the deduction is available only to people with high medical expenses relative to their income.

Taxpayer's Age	2007
Under 41	\$290
41 to 50	\$550
51 to 60	\$1,110
61 to 70	\$2,950
71 and Older	\$3,680

Source: Internal Revenue Service, <http://www.irs.gov/formspubs/article/0,,id=177999,00.html>

Many people with long-term care insurance do not benefit from the federal itemized medical deduction. Although the large majority (89 percent) of people ages 65 and above with private long-term care insurance filed a federal tax return in 2006, only about a third (36 percent) claimed an itemized deduction for medical expenses.¹³ (See table 4.) The barriers are significant: A long-term care insurance policyholder has to have taxable income, very high medical expenses, and be able to itemize (rather than take the standard deduction).

Age	Income Quartile				All Incomes
	Bottom Quartile \$21,248 or less	Second Quartile >\$21,248 to \$42,700	Third Quartile >\$42,700 to \$81,300	Top Quartile More than \$81,300	
50 and older	24%	34%	38%	27%	31%
50 to 64	33%	21%	32%	22%	25%
65 and older	20%	38%	42%	36%	36%
65 to 74	25%	34%	35%	31%	33%
75 and older	16%	41%	53%	46%	41%

Source: AARP Public Policy Institute estimates based on 2006 data from the Health and Retirement Study.

Older policyholders are more likely than younger policyholders to claim the deduction. In 2006, 41 percent of policyholders ages 75 and above claimed the deduction, compared to 25 percent of those ages 50 to 64. Rates of claiming were highest among the oldest and most affluent. Forty-six percent of policyholders ages 75 and above with an annual income of more than \$81,300 claimed an itemized medical deduction.

¹² The tax treatment for qualified long-term care services and long-term care insurance contracts was clarified in the Health Insurance Portability and Accountability Act of 1996, P.L. 104-191, which included standards that policies sold in 1997 and later must meet to qualify for tax subsidies. Nearly all policies sold today are tax qualified.

¹³ AARP Public Policy Institute (PPI) estimates from the 2006 Health and Retirement Study.

Other Federal Tax Incentives

In addition to the itemized deduction, people with long-term care insurance can receive tax subsidies through the exclusion for employer-paid long-term care insurance, a deduction for the self-employed, and a deduction for contributions to Health Savings Accounts. These incentives are potentially more valuable than the itemized deduction to long-term care policyholders, but, for various reasons, they have a very limited reach. Like the itemized medical deduction, these other federal tax benefits are more valuable to higher-income than lower-income taxpayers, because the value of deductions and exclusions rises with tax rates.

Exclusion for Employer-paid Long-Term Care Insurance. Employer contributions toward qualified long-term care insurance premiums can be excluded—without limit—from employees' taxable income. These contributions are also excluded from the wage base of employees for determining their payroll (Social Security and Medicare) taxes. The exclusion, like the itemized deduction, is more valuable to higher-income people. However, very few employees are offered the opportunity to purchase long-term care insurance (12 percent of private sector workers in 2007), and very few employers offering long-term care insurance to their employees make a contribution toward its cost.¹⁴ According to one survey of 43 employers that offered long-term care insurance, just 6 percent contributed to their employees' long-term care insurance premiums.¹⁵

In contrast to the current treatment of employees' premium contributions for employer-sponsored health insurance, employees cannot, under current law, pay their share of premiums for employer-sponsored long-term care insurance on a pre-tax basis—out of cafeteria plans or Flexible Spending Accounts.

Deduction for the Self-Employed. Self-employed taxpayers can deduct their qualified long-term care insurance premiums from gross income (as part of the self-employed health insurance tax deduction) up to the maximum amounts (see table 3). They must pay payroll taxes on these amounts, however. To qualify for this deduction, taxpayers must first meet various requirements.¹⁶ Altogether, nearly four million self-employed workers could potentially qualify for this deduction in 2007 (3.8 million tax returns claimed the self-employed health insurance deduction in 2007),¹⁷ but it is unlikely that more than a slim minority of the self-employed have long-term care insurance.

¹⁴ U.S. Department of Labor, 2007.

¹⁵ Lutzky, Corea, and Alecxih, 2000.

¹⁶ First, taxpayers must meet at least one of the following requirements: (1) be a self-employed person with a net profit, (2) be a shareholder owning more than 2 percent of the outstanding stock of an S corporation with wages from the corporation reported on Federal Form W-2, or (3) be a partner with net earnings from self-employment reported on Federal Schedule K-1. Second, the insurance plan must generally be established under the taxpayer's business. Third, taxpayers cannot claim this deduction if they were qualified to participate in any subsidized health plan or long-term care plan maintained by their employer or their spouse's employer. Fourth, the total deduction cannot exceed the net profit and any other earned income from the business under which the insurance plan is established minus the deductions taken for certain retirement plans and for one-half the self-employment tax. See Lyke and Whittaker, 2008, p. 4.

¹⁷ Internal Revenue Service, Statistics of Income Division, July 2009. See <http://www.irs.gov/pub/irs-soi/07in14ar.xls>.

Health Savings Account Deduction. Certain taxpayers with high-deductible health plans can establish Health Savings Accounts. Workers and their employers can make contributions to these accounts (subject to annual limits). Employee contributions are deducted from gross income; employer contributions may be excluded from gross income, and earnings on the accounts are not taxed. Funds can be withdrawn tax free to pay for qualified medical expenses, which can include long-term care insurance premiums and long-term care services.¹⁸ Only 8 percent of private sector workers were offered Health Savings Accounts in March 2007.¹⁹

VALUE OF THE ITEMIZED MEDICAL DEDUCTION TO A POLICYHOLDER

The value of the deduction to federal tax filers with long-term care insurance depends on what they paid for insurance, their age, and their marginal income tax rate. Because of age-based limits on the amount that can be deducted, taxpayers with long-term care insurance may not be able to deduct the full amount of the premium even if expenses including premiums exceed 7.5 percent of AGI.

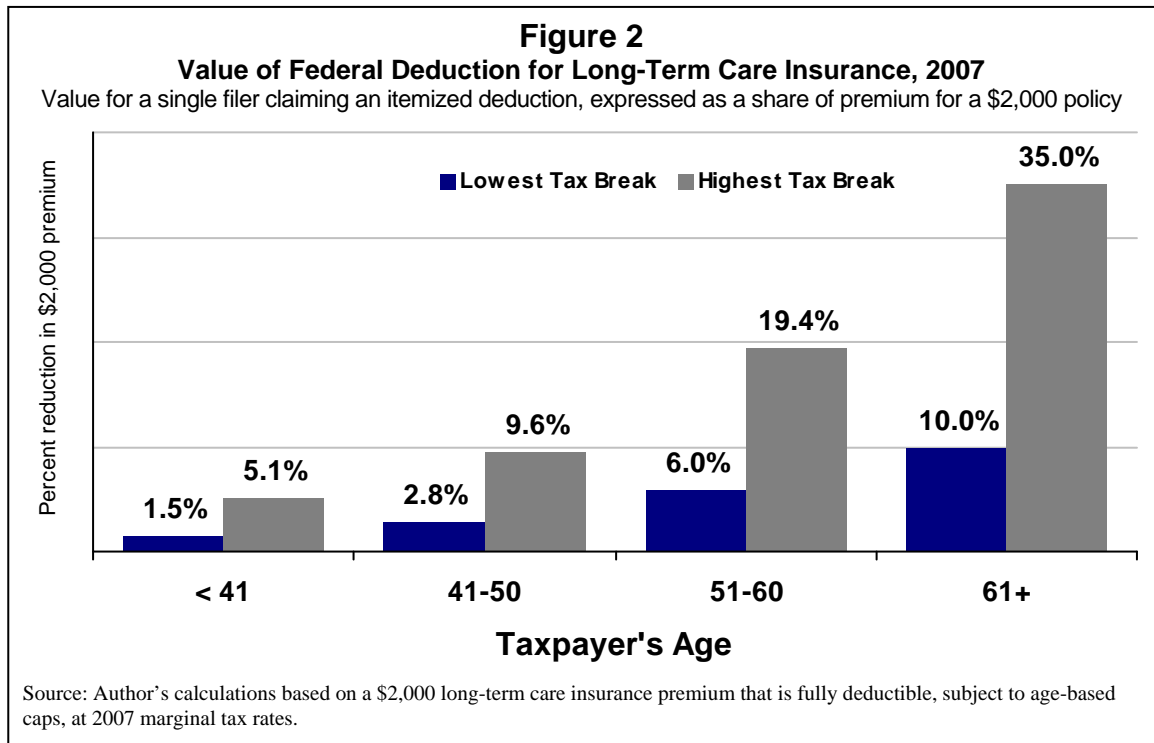
In general, income tax deductions are worth more to higher-income than lower-income tax filers. The value of federal income tax deductions varies depending on a tax filer's marginal tax rate, which ranged from 10 percent to 35 percent in 2007. Therefore, for the same long-term care insurance premium, higher-income taxpayers see a greater reduction in their after-tax price than do lower-income taxpayers. (Additional detail on federal marginal income tax rates is provided in appendix table A-1.)

Consider taxpayers at different income levels paying an annual premium of \$2,000 for long-term care insurance in 2007 (see figure 2). Since the \$2,000 premium falls below the maximum allowed deduction of \$2,950, taxpayers ages 61 and older can deduct the full amount of their premium (assuming they itemize and meet the 7.5 percent threshold). A \$2,000 deduction reduces the cost of long-term care insurance by \$700 for a very high income taxpayer facing a 35 percent marginal rate ($\$2,000 \times 0.35 = \700). In contrast, for a 61-year-old with a modest taxable income of \$25,000 and a marginal rate of 15 percent, the federal subsidy would reduce the after-tax price by just \$300 ($\$2,000 \times 0.15 = \300). Those facing the lowest marginal rate of 10 percent could reduce their after-tax premium by just \$200. Policyholders with modest incomes who do not have taxable income or do not itemize medical expenses would not receive any federal subsidy toward their long-term care insurance premiums.

In addition, because of the age caps, older taxpayers receive larger subsidies than younger taxpayers paying the same premium. Assuming they itemize and can meet the 7.5 percent threshold for the deduction of medical expenses, a 40-year-old policyholder can deduct just \$290 in insurance premiums, while a 61-year-old policyholder can deduct the full \$2,000 premium. Assuming they both face a marginal rate of 35 percent, the subsidy reduces the older taxpayer's premium by 35 percent and reduces the younger taxpayers' premium by just 5.1 percent (see figure 2). However, the reason that the caps are higher for older taxpayers is

¹⁸ The minimum annual deductible for a high-deductible health plan in 2007 is \$1,100 (individuals) and \$2,200 (family). The maximum annual deductible and annual out-of-pocket expenses allowed under a high-deductible health plan in 2007 is \$5,500 (individuals) and \$11,000 (family).

¹⁹ U.S. Department of Labor, 2007.



that older taxpayers pay higher premiums for the same coverage than do younger purchasers, because they are more likely to use long-term care benefits. Thus, an older taxpayer may be allowed to deduct more but still face a higher after-tax cost for premiums. Moreover, younger purchasers may not receive any tax subsidy simply because they are less likely to have high medical expenses relative to their income.

COSTS TO THE FEDERAL GOVERNMENT

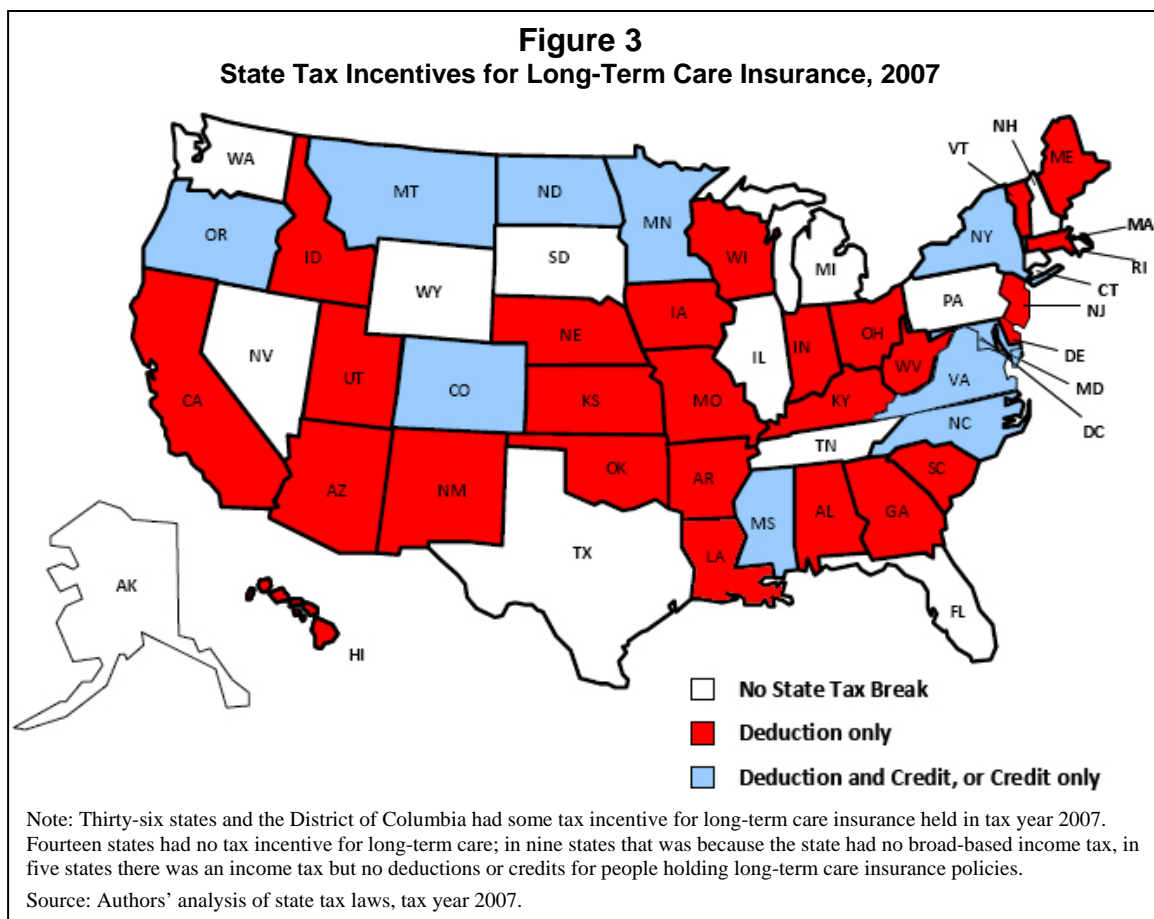
There are no readily available data on what tax incentives for private long-term care insurance cost the federal government. This information is not available because taxpayers report only total medical expenses to the Internal Revenue Service (IRS); they do not report the composition of these expenses. For 2007, the Joint Committee on Taxation (JCT), using IRS data as the basis, estimates that the revenue loss from the overall itemized medical deduction was \$8.4 billion. Similarly, because of the way the information is reported to the IRS, the cost of the tax subsidy for employer-paid long-term care insurance alone is not available. However, the JCT estimates that the federal income tax expenditure for employer-sponsored health and long-term care insurance was \$105.7 billion in 2007.²⁰ The federal income tax expenditure for private long-term care insurance undoubtedly accounts for a very small share of these totals.

²⁰ The federal income tax expenditure is reported by the Joint Committee on Taxation at <http://www.jct.gov/s-3-07.pdf>. There is an additional federal payroll tax (Social Security and Medicare) revenue loss of roughly \$77 billion in 2006 (and states, of course, lose income tax revenue as well). For estimates of the total federal and state tax expenditure, see Selden and Gray, 2006.

STATE TAX INCENTIVES

Many people with long-term care insurance receive no federal tax subsidies—because they do not claim an itemized deduction or fit into one of the other narrow categories through which tax subsidies are provided at the federal level. But almost all people who claim a federal itemized medical deduction get an additional tax benefit when they file their state income taxes. And in most states with broad-based income taxes, tax filers can receive a modest subsidy for long-term care insurance when they file a state income tax return, *even if they did not qualify* for a federal itemized deduction. Thus, in many states, state tax subsidies for private long-term care insurance have a broader reach—more policyholders are eligible—but the size of the tax benefit provided at the state level is still relatively small, generally smaller than the federal tax benefit.

Specifically, in 36 states and the District of Columbia, people with long-term care insurance may qualify for a state subsidy (including the federal itemized deduction that is carried from the federal return). In 14 states, people who purchase long-term care insurance receive no state subsidy. In 9 of those 14 states, there is no broad-based income tax; in the other 5 states there is no state subsidy because the states neither carry through the federal itemized deduction nor offer any unique state tax benefits (see figure 3).



STRUCTURE OF STATE TAX INCENTIVES

States structure their tax incentives for long-term care insurance in different ways. Some build on the federal itemization only, allowing federal itemizers a reduction of their state taxes. Other states expand on the federal deduction by extending state subsidies to a potentially larger pool of policyholders (see table 5). In 2007, 26 states and the District of Columbia provided income tax subsidies for long-term care insurance from the federal itemized medical deduction; 20 states and the District of Columbia offered a unique state deduction, and 9 states offered nonrefundable tax credits (see table 6). (See appendix table A-2 for a description of state income tax bases and appendix table A-3 for a detailed description of the long-term care tax subsidies available in each state.) States offer these tax benefits in various combinations. For example, eight states and the District of Columbia allow taxpayers to carry through the itemized deduction from the federal return and provide a unique state deduction (see table 5).

Tax Treatment of LTC Insurance	Number	States
States with no broad-based income tax	9	Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, Wyoming
States with broad-based income taxes (41 + DC)		
No state tax break for LTC insurance	5	Connecticut, Illinois, Massachusetts, Michigan, Pennsylvania
Carry through federal deduction only	10	Arkansas, California, Delaware, Georgia, Hawaii, Louisiana, Oklahoma, Rhode Island, South Carolina, Vermont
Unique deduction only	9	Alabama, Arizona, Indiana, Kentucky, Montana, New Jersey, Ohio, West Virginia, Wisconsin
Carry through federal deduction + unique deduction	9	District of Columbia, Idaho, Iowa, Kansas, Maine, Missouri, Nebraska, New Mexico, Utah
Carry through federal deduction + unique credit	5	Colorado, Maryland, Minnesota, Mississippi, North Carolina
Carry through federal deduction + unique deduction + unique credit	3	North Dakota, Oregon, Virginia
Unique credit only	1	New York
Total: States with some tax incentives for LTC insurance	36 + DC	

Source: Authors' analysis of state tax laws.

Note: Louisiana taxpayers can only claim up to 42.5% of long-term care insurance premiums that are itemized on the federal return. Tax credits are limited in Maryland, Virginia, and North Dakota. In Maryland the tax credit can be claimed in only one year. Virginia taxpayers can claim the credit only for the first 12 months of a taxpayer's insurance policy. In North Dakota, the long-term care insurance tax credit may be claimed only on Form ND-2. Form ND-1, used by nearly all taxpayers, provides for fewer deductions and credits, but uses lower rates than Form ND-2. Both Utah and North Dakota have recently eliminated their tax incentives for long-term care insurance, Utah for tax year 2008 and North Dakota for tax year 2009.

Table 6			
Long-Term Care Insurance Deductions and Credits, 2007			
State	Federal Itemized Deductions	Unique State Tax Deduction	Unique State Tax Credit
Alabama		✓	
Arizona		✓	
Arkansas	✓		
California	✓		
Colorado	✓		✓
Connecticut			
Delaware	✓		
District of Columbia	✓	✓	
Georgia	✓		
Hawaii	✓		
Idaho	✓	✓	
Illinois			
Indiana		✓	
Iowa	✓	✓	
Kansas	✓	✓	
Kentucky		✓	
Louisiana	✓		
Maine	✓	✓	
Maryland	✓		✓
Massachusetts			
Michigan			
Minnesota	✓		✓
Mississippi	✓		✓
Missouri	✓	✓	
Montana		✓	
Nebraska	✓	✓	
New Jersey		✓	
New Mexico	✓	✓	
New York			✓
North Carolina	✓		✓
North Dakota	✓	✓	✓
Ohio		✓	
Oklahoma	✓		
Oregon	✓	✓	✓
Pennsylvania			
Rhode Island	✓		
South Carolina	✓		
Utah	✓	✓	
Vermont	✓		
Virginia	✓	✓	✓
West Virginia		✓	
Wisconsin		✓	
Total	26 and DC	20 and DC	9

Source: Authors' telephone survey of state legislative offices, departments of revenue, comptrollers' offices, and treasury offices, and authors' analysis of 2007 state income tax forms and instructions.

Note: Louisiana taxpayers can only claim up to 42.5% of long-term care insurance premiums that are itemized on the federal return. Both Utah and North Dakota have recently eliminated their tax incentives for long-term care insurance, Utah for tax year 2008 and North Dakota for tax year 2009.

Carry through the federal deduction. Taxpayers in 26 states and the District of Columbia who claim the federal itemized deduction on their federal return will also receive this deduction on their state return.²¹ (See table 6.) Medical expenses on the state return must exceed 7.5 percent of federal adjusted gross income (or, in two states, state adjusted gross income) in order to qualify for the deduction.²²

Allow a unique state deduction. Twenty states and the District of Columbia provide a unique long-term care insurance deduction (see table 6). State tax deductions for long-term care insurance tend to be structured differently than the federal deduction—with the result that taxpayers are more likely to be eligible to receive them. Most states with deductions do not limit by age the amount of a long-term care insurance premium that can be deducted, do not require tax filers to itemize in order to claim the deduction (instead, they allow a deduction from gross income), and do not limit deductibility to catastrophic amounts (expenses do not have to reach a threshold level to qualify for a state deduction). Of states with tax deductions, only four (Alabama, Arizona, Montana, and Oregon) require taxpayers to itemize their long-term care insurance deductions. Only Arizona, New Jersey, and Oregon offer tax incentives that are subject to the federal age caps for long-term care insurance.

However, low marginal income tax rates tend to limit the value of the deduction at the state level. State tax deductions generally cannot reduce long-term insurance costs by more than 10 percent. In 2007, states with broad-based income taxes had marginal income tax rates ranging from a low of 3 percent in Illinois to a high of 12 percent in North Dakota. (See appendix table A-4 for marginal income tax rates by state.)

Provide a tax credit. Nine states offer nonrefundable tax credits for long-term care insurance, either alone or in addition to tax deductions (Colorado, Maryland, Minnesota, Mississippi, New York, North Carolina, North Dakota, Oregon, and Virginia).²³ Tax credits for long-term care insurance are a relatively recent phenomenon. Tax credits were adopted in Minnesota in 1997, in Oregon in 1999, and in Mississippi in 2007.²⁴ New York implemented its credit in 2002 and doubled it, from 10 percent to 20 percent, in 2004.²⁵

²¹ The federal itemized medical deduction automatically flows to the state tax return in eight states because the state income tax base is linked to federal taxable income (Colorado, Idaho, Minnesota, North Carolina, North Dakota, Oregon, South Carolina, and Vermont). (See appendix table A-2 for more information on the state income tax base.) In addition, many states allow taxpayers to claim the federal itemized deduction as a separate state deduction even though their income tax base is not directly linked to federal taxable income. Louisiana taxpayers can only claim up to 42.5% of long-term care insurance premiums that are itemized on the federal return.

²² Arkansas and Hawaii allow long-term insurance premiums to be an itemized deduction only if total medical and dental expenses exceed 7.5 percent of the states' adjusted gross income.

²³ We did not include the Montana and New Mexico tax credits since they are not designed for the general population (see appendix table A-4).

²⁴ The Minnesota tax credit law was passed in 1997 and became effective in 1999. See <http://www.house.leg.state.mn.us/hrd/pubs/ss/ssltcare.htm>. The Oregon law was passed in 1999 with the tax credit available beginning in tax year 2000. See <http://www.leg.state.or.us/99reg/measures/hb2000.dir/hb2080.en.html>. The Mississippi law was passed in 2007 and became effective that year. See <http://billstatus.ls.state.ms.us/2007/pdf/history/SB/SB2337.htm>.

²⁵ New York State Insurance Department, "Basics of Long-Term Care," section on tax savings, <http://www.ins.state.ny.us/Intmcare.htm#Intm8a>.

These states generally allow tax filers with long-term care insurance to claim a credit equal to a fixed percentage of the premium—ranging from 15 to 25 percent (see table 7). Credits are available to policyholders of all ages, but are capped at fairly low dollar levels (e.g., \$100 to \$150) in a number of these states, limiting the value of the credit to many filers.

State	Size of Credit	Dollar Cap	Income Limits?	Refundable?
Colorado	25%	\$150	Yes	No
Minnesota	25%	\$100	No	No
Mississippi	25%	\$500	No	No
New York	20%	None	No	No*
North Carolina	15%	\$350	Yes	No
North Dakota	25%	\$100	No	No
Oregon	15%	\$500	No	No
Maryland	Flat, age-based	\$280/\$500	No	No
Virginia	15%	None	No	No

Source: Authors' analysis of state tax laws, tax year 2007.

Notes: Maryland's tax credit is good only for one tax year; the higher credit goes to people ages 41 and above; the lower credit to people under age 41. In New York, any unused credit can be carried forward to future tax years.²⁶

North Dakota taxpayers have to claim their long-term care insurance tax credit on the rarely used Form ND-2, which has higher marginal tax rates than the more popular ND-1 Form. North Dakota eliminated Form ND-2, and with it the tax credit, in 2009. Virginia taxpayers can claim the credit only for the first 12 months of a taxpayer's insurance policy.

Credits are also limited by the size of a policyholder's tax liability. In each of these states, credits are nonrefundable and thus can only be used to reduce the amount of taxes owed (see box 1). This has the effect of limiting the value of the tax subsidy for low- and moderate-income policyholders (with little or no tax liability), but it also helps limit government expenditures. For example, New York tax filers claimed \$84.6 million in tax credits for long-term care insurance in 2005, but only \$47.3 million was actually allowed because the credits are nonrefundable and taxpayers did not have sufficient tax liability to offset the entire amount of credits.²⁷ In New York, excess amounts of credit not used to offset a current year tax liability may be carried over for five years.

Box 1. What Is a Nonrefundable Tax Credit Worth?

Nonrefundable tax credits directly reduce a taxpayer's tax liability by the credit amount, and are therefore worth more than tax deductions of the same amount. For example, if a taxpayer deducts \$1,000 from his or her taxable income at a marginal tax rate of 25 percent, the value of the deduction equals \$250. If a taxpayer gets a tax credit for \$1,000 of long-term care insurance premiums, the credit is worth \$1,000. But the amount of a nonrefundable tax credit is limited by a taxpayer's liability. If a taxpayer has an income tax liability of \$400 and wants to claim a credit for \$2,000 in insurance premiums, he or she can claim only up to a \$400 credit.

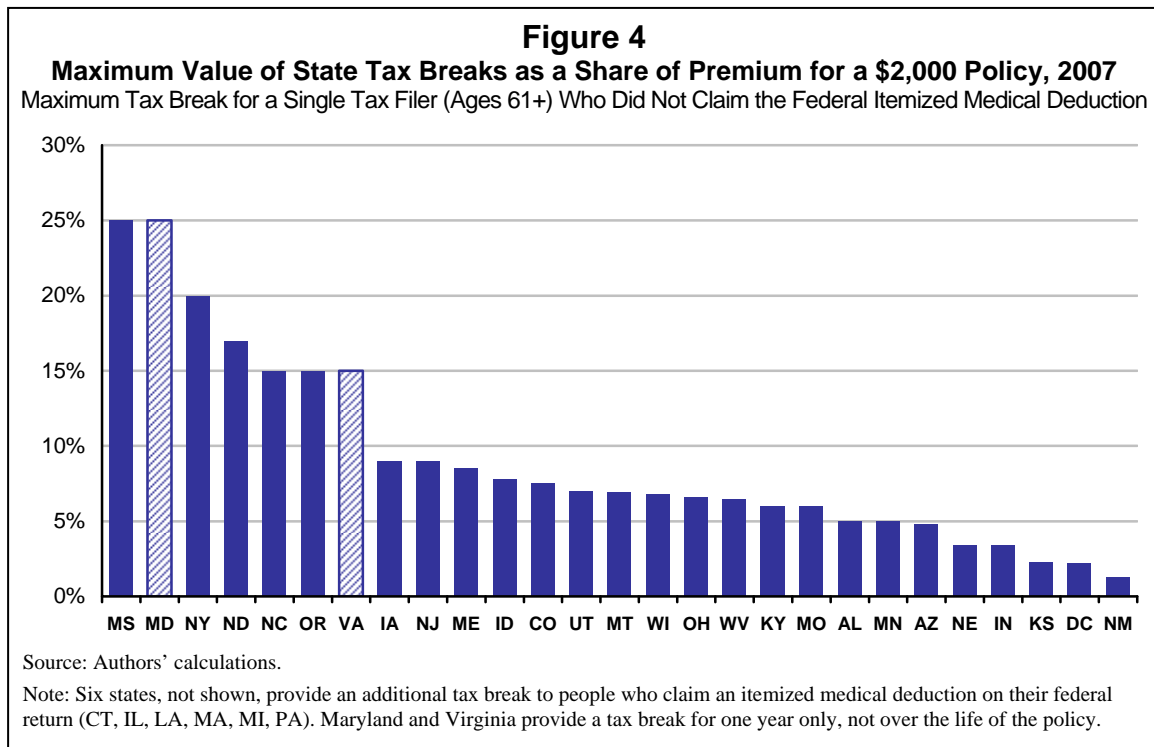
²⁶ Ibid.

²⁷ New York State Department of Taxation and Finance, 2008, p. 50.

VALUE OF STATE TAX INCENTIVES TO POLICYHOLDERS

In most states, tax incentives can modestly reduce the after-tax price of a policy. The effect of state subsidies varies depending on the premium long-term care policyholders pay, whether they itemize on the federal return, and their age and income. Here, we provide an example to illustrate how state tax benefits affect the after-tax premium for policyholders paying a \$2,000 annual premium. The value of the tax subsidy is shown first for policyholders who do not itemize medical expenses on their federal return and then for policyholders who do.

Figure 4 shows what the highest tax subsidy would be, by state, for a single tax filer age 61 or above who pays a \$2,000 premium for long-term care insurance but does not claim a federal itemized deduction. The tax break is very modest in most states—about 5 to 10 percent—but in a handful of states with a relatively generous tax credit (or relatively high marginal income tax rates), the state tax benefit for non-federal itemizers can as high as 20 to 25 percent. The seven states offering the highest tax subsidies (to people who did not itemize on their federal return) are tax credit states (Maryland, Mississippi, New York, North Carolina, North Dakota, Oregon, and Virginia). (Appendix table A-5 provides values for taxpayers who did not claim the federal itemized tax deduction for long-term care insurance premiums.)



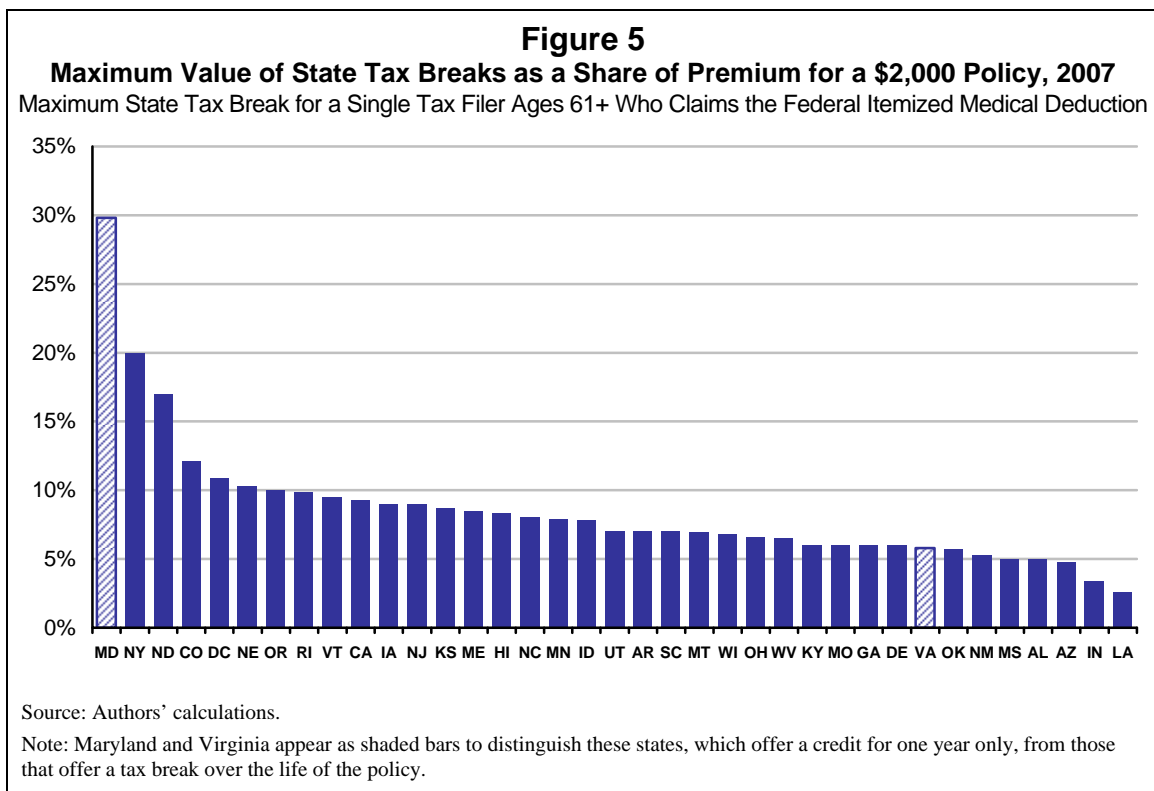
The amounts shown in figure 4 are the maximum possible subsidies for a policyholder with a \$2,000 premium. Some policyholders will qualify for much lower state tax subsidies (e.g., those paying low marginal rates in states with deductions only), and some, including people without an income tax liability, will not get any state subsidy. In Maine, for example, among those qualifying for a subsidy, a non-federal itemizer's tax subsidy can range from 2 percent of the \$2,000 premium to 8.5 percent, depending upon the taxpayer's marginal rate.

While the amounts shown in figure 4 are the maximum possible subsidies for a policyholder with a \$2,000 premium, dollar caps limit the value of the tax credit for people paying higher

premiums in several states. For example, in Mississippi, a policyholder paying an annual premium of \$3,000 cannot claim the full 25 percent credit (\$750) but is limited to a \$500 credit worth 17 percent of the premium—still a sizable discount.

For long-term care policyholders who are able to claim the federal itemized medical deduction, state tax incentives are generally in the range of 5 to 10 percent, with a handful of states providing a state subsidy (for a \$2,000 premium) in the range of 10 to 20 percent. These relatively large state subsidies are available in tax credit states (e.g., Maryland [for a single year only] and New York), states with relatively high marginal rates (e.g., the District of Columbia), states that allow taxpayers to deduct the same premium twice (e.g., Kansas and the District of Columbia), and states that offer a deduction and tax credit (North Dakota and Colorado). (See figure 5.) In North Dakota, the largest state tax benefit (17 percent) goes to people who take both the state’s deduction as well as the tax credit.

The state ranking of tax incentives for long-term care insurance changes when incentives are evaluated for taxpayers ages 61 and older who did not claim the federal itemized deduction (figure 4) rather than those who did claim it (figure 5). For example, Mississippi ranks among the top five most generous states for taxpayers who did not claim the federal itemized deduction but ranks among the least generous states for taxpayers who did claim it. The primary reason for this relates to how state tax incentives are related to federal itemized deductions (see box 2).



Box 2. The Interaction between Federal and State Tax Incentives—A Few Examples: Idaho, Mississippi, Kansas

Taxpayers whose deductions are limited by the federal age cap may be able to deduct the rest of their premium on their state return; taxpayers cannot typically take a double deduction. In states with a unique (uncapped) deduction, people who did not itemize on their federal return can deduct the full amount of the premium. Idaho, for example, offers two deductions for long-term care insurance: an itemized tax deduction that carries through from the federal to the state return and a separate deduction from gross income. If a 50-year-old Idaho taxpayer pays \$1,000 in insurance premiums, he or she can claim only \$550 as an itemized deduction on the federal tax return because of the federal age caps (see table 3). That taxpayer could then claim the amount of premium that was not already deducted (\$1,000 minus \$550, or \$450) as a separate tax deduction on state taxes. Idaho taxpayers can thus deduct the entire insurance premium for state tax purposes.

The same principle holds in states with tax credits. For example, a 50-year-old Mississippi taxpayer with a \$2,000 annual long-term care insurance premium claims a federal itemized medical deduction of \$550 for his or her insurance. On the Mississippi tax return, that taxpayer would first claim a tax deduction of \$550 for the federal itemized medical deduction plus a 25 percent tax credit on the amount of the premium that was not claimed on the federal return for a state credit of \$363 (i.e., $0.25 \times (\$2,000 - \$550) = \$363$). On the other hand, a 61-year-old Mississippi taxpayer with the same insurance premium is eligible to claim a federal itemized medical deduction on the entire \$2,000 insurance premium. Thus, on the state return he or she can benefit only from a \$2,000 tax deduction for the federal itemized medical deduction and not from the tax credit, since the premium was already claimed on the federal return.

Some states do allow taxpayers to take a double deduction. Generally, as discussed above, taxpayers cannot claim a tax subsidy twice for the same premium—claiming on their state taxes premium amounts that were already carried over from the federal return. Kansas is an exception. Kansas taxpayers can first claim a deduction for whatever amount they claimed as a federal itemized deduction. In addition, Kansas taxpayers can deduct up to \$700 in premiums. Policyholders in the District of Columbia, Colorado, Nebraska, and North Dakota may also benefit, to some extent, from a double subsidy for the same premium amount.

USE OF STATE TAX INCENTIVES

Even though many states provide tax incentives for long-term care insurance, many taxpayers might not be taking advantage of them. For example, 288,991 long-term care policies were held in New York in 2006, but the long-term care insurance tax credit was claimed on only 142,272 New York returns in that year (only a portion of which received a credit that offset tax liability). Similarly, there were about 135,920 long-term care insurance policies held in Wisconsin in 2006,²⁸ but the long-term care tax deduction was claimed on only 43,500 Wisconsin returns. Some older policyholders may have little or

²⁸ U.S. Government Accountability Office, 2008.

no taxable income or income tax liability (because most states do not tax Social Security benefits and exempt at least part of pension income from taxable income).²⁹ However, many seniors with long-term care insurance and sufficient tax liability are likely to benefit from state long-term care tax incentives and may not be aware that they can claim a tax subsidy or may confront other barriers to doing so. For example, the tax credit in North Dakota in 2007 was tied to a form that relatively few filers use.

COST OF STATE TAX INCENTIVES

Some state data are available on how much revenue is lost because of unique state tax credits or tax deductions for private long-term care insurance. Of the 14 states that provided data to the authors on their tax expenditures, the total revenue loss per state varied widely, from a high of \$47.3 million in New York to a low of \$71,000 in North Dakota (see table 8). These incentives cost states anywhere from \$620 to \$38 per tax return.

State	Type of Tax Incentive	Tax Expenditure (in thousands \$)	Number of Returns Claiming LTC Insurance Tax Incentives	Tax Expenditure per Return Claiming LTC Insurance Tax Incentives (\$)
Maryland	Credit	5,250	8,470	620
New York	Credit	47,300	125,384	377
Colorado	Credit	4,000	19,038	213
Wisconsin	Deduction	5,800	35,000	166
North Dakota	Credit	70	506	141
Maine	Deduction	1,800	14,409	125
Minnesota	Credit	6,500	54,633	119
Idaho	Deduction	920	8,693	106
Virginia	Deduction	6,550	63,800	103
Alabama	Deduction	2,200	25,850	85
Indiana	Deduction	770	9,856	79
Montana	Deduction	810	10,624	76
Missouri	Deduction	3,900	68,847	57
Kansas	Deduction	750	20,164	38

Source: Authors' calculation based on data collected in phone interviews with state departments of revenue.
 Note: Colorado calculations are based on 2006 data. Maryland's tax credit, which is capped at \$500, can only be claimed for one year. Montana calculations refer to the long-term care insurance tax deduction for full-time resident returns. North Dakota's calculations are based on its tax credit and not on its tax deduction because data were only available for the tax credit. For Virginia, calculations are based on the state's long-term care insurance tax deduction because its credit did not exist in tax year 2005.

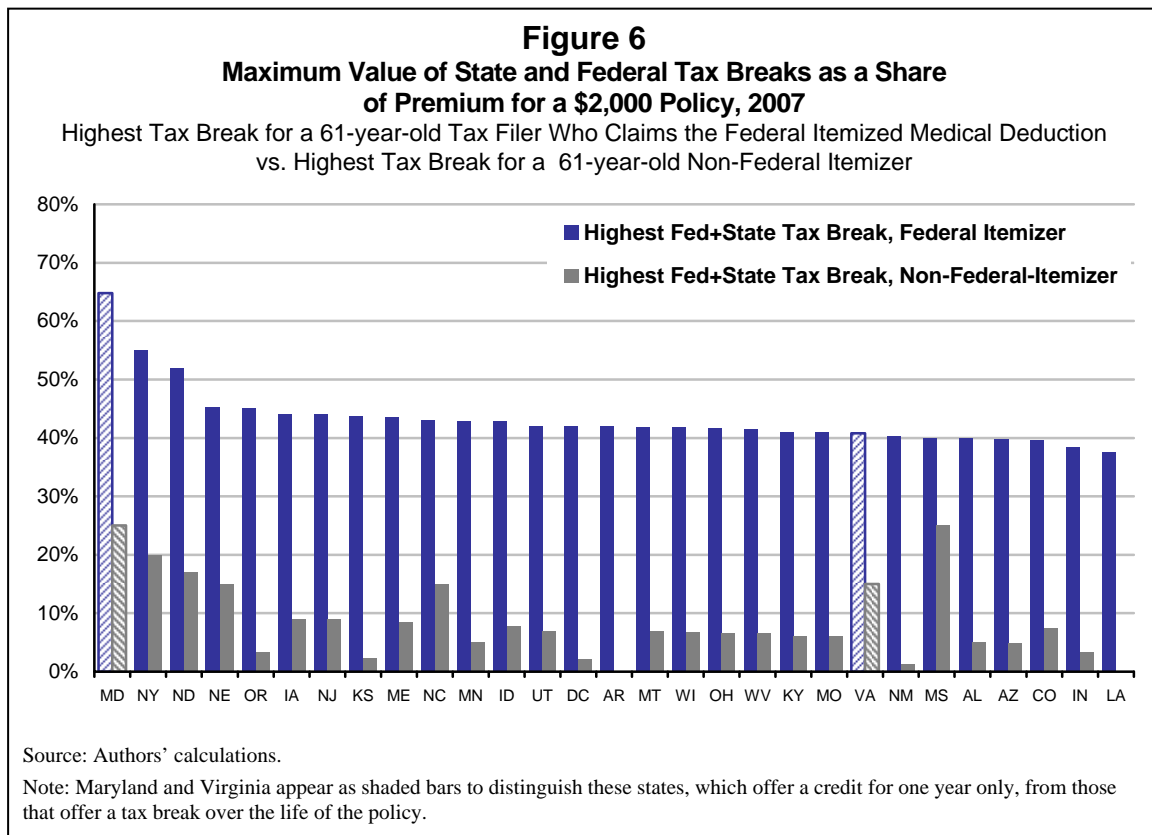
The wide variation in the cost per return largely reflects differences in how states structure their tax incentives, rather than differences across states in insurance premiums paid. The states with the highest expenditure per return (e.g., Maryland, New York, and Colorado) provide tax credits rather than tax deductions.

²⁹ Baer, 2007.

COMBINED VALUE OF FEDERAL AND STATE TAX INCENTIVES

Together, federal and state tax incentives provide a significant after-tax discount to some long-term care policyholders, and no discount—or a very modest discount—to others. State tax incentives provide an extra boost to many policyholders who claim the federal itemized deduction. And in most states, it is possible for policyholders who do not claim the federal itemized deduction to get some state tax relief for their annual premium.

Using the same example of single taxpayers paying a \$2,000 long-term care insurance premium, the combined federal and state income tax incentive for taxpayers who claim a federal itemized tax deduction is shown in figure 6. This analysis shows that the largest federal-state subsidies are available to older people in the highest marginal income tax brackets who can itemize their medical expenses. A high-income policyholder age 61 or above with a \$2,000 policy could qualify for a 35 percent federal discount plus an additional 5 to 10 percent in most states, for a total federal-state tax subsidy in the range of 40 to 45 percent.



However, to achieve these high savings, older taxpayers must have relatively high taxable incomes and medical and long-term care expenses. Only taxpayers with taxable incomes of at least \$349,700 faced the highest marginal federal tax rate of 35 percent in 2007. (See appendix table A-1.) Though the tax law allows for potentially high tax incentives for long-term care insurance, very few older taxpayers actually benefit from them. For example, in tax year 2006, only 2 percent of single taxpayers ages 65 and older had federal adjusted gross

incomes of \$200,000 or more; of those single taxpayers, 9 percent claimed medical expenses as an itemized deduction.³⁰

A 61-year-old policyholder paying a \$2,000 premium who does not claim a federal itemized deduction qualifies for a lower tax subsidy, in the range of 5 to 10 percent, but credits in states like Mississippi, New York, Oregon, and North Carolina help close the gap between itemizers and nonitemizers. In these states, credits reduce the after-tax price by as much as 15 to 25 percent (see figure 6).

Predictably, because older taxpayers are allowed higher maximum deductions of long-term care premiums than younger taxpayers, they receive larger tax incentives. In addition, those with the largest tax incentives for each age category are generally those with higher incomes. (Additional detail on tax subsidies by age is provided in appendix tables A-6 and A-7.)

ISSUES FOR POLICYMAKERS

Several bills introduced in the U.S. Congress in recent years seek to expand existing federal subsidies for long-term care insurance (see box 3). Perhaps most significant is the push to allow employees to exclude amounts paid for long-term care premiums from income and payroll taxes, which advocates contend would significantly expand employer offerings and purchases at

Box 3. Tax Subsidies for Private Long-Term Care Insurance: Bills Introduced in the U.S. Congress in 2009

The **Empowered at Home Act of 2009** (S. 434) would expand Medicaid's home- and community-based services, provide a tax credit for caregivers, and phase in a full deduction for long-term care insurance premiums.³¹

The **Long-Term Care and Retirement Security Act of 2009** (H.R. 897) would allow a tax deduction from gross income for long-term care insurance premiums, and would include long-term care insurance premiums in employee benefit cafeteria plans and Flexible Spending Accounts.³²

The **Long-Term Care Family Accessibility Act** (S. 94) would provide a nonrefundable tax credit for long-term care insurance premiums of 50 percent of the first \$4,000 of premiums paid for long-term care insurance coverage of a taxpayer or a taxpayer's family member or dependent.³³

The **Long-Term Care Affordability and Security Act of 2007** (H.R. 2096/S. 702) would allow long-term care insurance to be offered under cafeteria plans and Flexible Spending Accounts and would provide additional consumer protections for long-term care insurance.³⁴

³⁰ IRS, Statistics of Income Division, Special Tabulation of Tax Year 2006 Individual Complete File, August 2008.

³¹ Empowered at Home Act of 2009 (S. 434), http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:s434is.txt.pdf.

³² Long-Term Care and Retirement Security Act of 2009 (H.R. 897), http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:h897ih.txt.pdf.

³³ Long-Term Care Family Accessibility Act (S. 94), http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:s94is.txt.pdf.

³⁴ Long-Term Care Affordability and Security Act of 2007 (H.R. 2096/S. 702), http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:s702is.txt.pdf.

younger ages, when insurance is more affordable. Efforts to expand tax incentives for long-term care insurance also continue at the state level. In early 2009, state legislators in Montana held a hearing on a bill to provide a new \$150 tax credit.³⁵ In 2008, North Carolina reinstated a tax subsidy that had previously been repealed. However, other states, faced with deficits, may be considering eliminating certain tax benefits, including those for private long-term care insurance.

As policymakers consider expanding tax subsidies for private long-term care insurance, several important questions arise: Do the tax breaks incentivize purchases, or merely reward those who would have purchased without the subsidy? Can more effective tax subsidies improve the overall performance of the market for long-term care insurance? Is the tax code the most effective way to expand the market for long-term care insurance? Are current (and proposed) tax benefits worth their cost? How fair are the existing tax breaks? Do tax breaks for affluent purchasers of long-term care insurance need to be balanced with programs that target middle- and lower-income people—people with care needs and their caregivers—for whom insurance is not appropriate or not available? Especially in light of the current interest in expanding tax subsidies for employer-sponsored long-term care insurance, policymakers should focus on whether those subsidies are needed to incentivize purchases and how they can be designed to be fair to middle-income purchasers.

Economic research has focused mostly on the question of whether tax breaks incentivize purchases. A small number of empirical studies have examined whether or not tax subsidies for long-term care insurance have increased sales, with authors arriving at different conclusions. At least one recent study concludes that state subsidies did increase take-up (raising the share of people ages 50 to 69 with insurance by 2.8 percentage points, or 30 percent), but mostly among people with high wealth who were unlikely otherwise to have used Medicaid.³⁶ The author concluded that the size of the tax subsidy may be less important than the overall signal that the government subsidy sends to potential purchasers. Other studies report very small or negligible effects and suggest that other factors, such as levels of household income expectations of family support, have more influence on long-term care insurance purchases than do tax incentives.³⁷

CONCLUSION

Most people ages 50 and older who purchase long-term care insurance do not receive federal tax subsidies, because they do not have income tax liability (especially retired persons), because they do not itemize deductions, or because their medical expenses do not exceed the 7.5 percent of AGI threshold. Moreover, many older taxpayers are less likely to have sufficient taxable income on their state income tax return than on their federal return because most states do not tax Social Security benefits and exempt at least

³⁵ Goda, 2009.

³⁶ Ibid.

³⁷ Nixon, 2007; and Courtemanche and He, 2007.

part of pension income from taxable income, resulting in fewer eligible older taxpayers claiming long-term care insurance tax subsidies.³⁸

Those policyholders who do benefit from federal tax subsidies tend to be older and affluent. In recent years, as states have expanded subsidies for long-term care insurance, a number have developed subsidies with broader reach. Relying on deductions for the most part, the states allow a greater share of premiums to be deducted—allowing deductions from gross income without age caps. Several states, including New York and Mississippi, offer a tax credit that can directly reduce state taxes owed.

Federal policymakers should consider whether federal tax subsidies are worth their cost and whether subsidies would be better targeted to middle-income people who are most likely, in the absence of private insurance, to end up on Medicaid. State policymakers need to make the same assessment of whether tax subsidies are worth the expenditures, but state policymakers thinking about expanding subsidies for long-term care insurance should consider tax credits if they are concerned about providing a more effective subsidy to increase the affordability of premiums for middle-income, and not just higher-income, people.

³⁸ Baer, 2007.

REFERENCES

- America's Health Insurance Plans (AHIP). "Long-Term Care Insurance in 2002." Washington, DC: AHIP, 2004. http://www.ahipresearch.org/pdfs/18_LTC2002.pdf.
- AHIP. "Who Buys Long-Term Care Insurance: A 15 Year Study of Buyers and Non-Buyers, 1990–2005." Washington, DC: AHIP, 2007. <http://www.ahip.org/content/default.aspx?bc=39|341|328|21022>.
- Baer, David. *State Taxation of Social Security and Pensions in 2006*. Washington, DC: AARP Public Policy Institute, 2007.
- Brown, Jeffrey R., and Amy Finkelstein. "The Interaction of Public and Private Insurance: Medicaid and the Long-Term Care Insurance Market," *American Economic Review*, vol. 98(3), pages 1083–1102, 2008.
- Burns, Bonnie. "Comparing Private Long-Term Care Insurance Policies: Bewildering Choices for Consumers." Washington, DC: AARP Public Policy Institute, 2006. http://www.aarp.org/research/ppi/ltc/ltc-ins/articles/2006_13_ltc.html.
- Congressional Budget Office. "Financing Long-Term Care for the Elderly." 2004. <http://www.cbo.gov/doc.cfm?index=5400&type=0>.
- Courtemanche, Charles, and Daifeng He. "Tax Incentives and the Decision to Purchase Long-Term Care Insurance." St. Louis: Washington University, 2007. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1012969.
- Genworth Financial. *Genworth Financial 2009 Cost of Care Survey*. 2009. http://www.genworth.com/content/products/long_term_care/long_term_care/cost_of_care.html.
- Goda, Gopi Shah. "Do Tax Subsidies for Private Insurance Reduce Medicaid Costs? Evidence from the Market for Long-Term Care Insurance." 2009. <http://people.rwj.harvard.edu/~ggoda/statetaxincentivesforltci.pdf>.
- Houser, Ari N., and Mary Jo Gibson. "Valuing the Invaluable: The Economic Value of Family Caregiving, 2008." Washington, DC: AARP Public Policy Institute, 2008. http://www.aarp.org/research/housing-mobility/caregiving/i13_caregiving.html.
- Joint Committee on Taxation. *Tax Expenditures for Health Care*. JCX-66-08, July 30, 2008. <http://www.jct.gov/publications.html?func=startdown&id=1193>.
- Kassner, Enid, and Lina Walker. "Long-Term Care Insurance." Fact Sheet. Washington, DC: AARP Public Policy Institute, 2009. <http://assets.aarp.org/rgcenter/ppi/ltc/fs159.pdf>.
- Komisar, Harriet L., and Lee Shirey Thompson. *National Spending for Long-Term Care*. Washington, DC: Georgetown University Health Policy Institute, February 2007. <http://ltc.georgetown.edu/pdfs/natspendfeb07.pdf>.

- Lutzky, Steven, John Corea, and Lisa Alecxih. "A Survey of Employers Offering Group Long-Term Care Insurance to Their Employees." Washington, DC: U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, 2000. <http://www.aspe.hhs.gov/search/daltcp/Reports/ltcinsfr.htm#section1>.
- Lyke, Bob, and Julie M. Whittaker. "Tax Benefits for Health Insurance and Expenses: Overview of Current Law and Legislation." CRS Report to Congress. Washington, DC: Congressional Research Service, 2008. www.allhealth.org/BriefingMaterials/RL33505-1358.pdf.
- Merlis, Mark. "Private Long-Term Care Insurance: Who Should Buy It and What Should They Buy?" Washington, D.C.: Kaiser Family Foundation, 2003. <http://www.kff.org/insurance/6072-index.cfm>.
- New York State Department of Taxation and Finance. *Annual Report on New York State Tax Expenditures*, 2008. <http://www.budget.state.ny.us/pubs/archive/fy0809archive/eBudget0809/fy0809ter/taxExpenditure.pdf>.
- Nixon, David. "State Tax Subsidies to Encourage Long-Term Care Insurance." Public Policy Center, University of Hawaii at Manoa, presented at the annual conference of the Midwest Political Science Association, 2007. http://www.allacademic.com/meta/p_mla_apa_research_citation/1/9/8/5/8/p198586_index.html.
- Rogers, Susan and Harriet Komisar. "Who Needs Long-Term Care?" Fact Sheet. Washington, DC: Georgetown University Health Policy Institute, 2003. <http://ltc.georgetown.edu/pdfs/whois.pdf>.
- Selden, Thomas M., and Bradley M. Gray. "Tax Subsidies for Employment-Related Health Insurance: Estimates for 2006." *Health Affairs* 25, no. 6 (2006): 1568–1579. <http://content.healthaffairs.org/cgi/content/abstract/25/6/1568>.
- Summer, Laura, and Emily Ihara. "State-Funded Home and Community-Based Service Programs for Older People." Washington, DC: AARP Public Policy Institute, 2004. http://www.aarp.org/research/ppi/ltc/hcbs/articles/statefunded_home_and_communitybased_service_progra.html.
- U.S. Department of Labor. *National Compensation Survey: Employee Benefits in Private Industry*. Washington, DC: Bureau of Labor Statistics, 2007. www.bls.gov/ncs/ebs/sp/ebsm0006.pdf.
- U.S. Government Accountability Office (GAO). "Long-Term Care Insurance Oversight of Rate Setting and Claims Settlement Practices." GAO-08-712. Washington, DC: GAO, 2008. www.gao.gov/new.items/d08712.pdf.

APPENDIX

Table A-1			
2007 Federal Marginal Income Tax Rates and Taxable Incomes			
Rate Structure, by filing status			
Single		Married, Filing Jointly or Qualifying Widow(er)	
Taxable Income	Rate	Taxable Income	Rate
First \$7,825	10%	First \$15,650	10%
\$7,825–\$31,850	15%	\$15,650–\$63,700	15%
\$31,850–\$77,100	25%	\$63,700–\$128,500	25%
\$77,100–\$160,850	28%	\$128,500–\$195,850	28%
\$160,850–\$349,700	33%	\$195,850–\$349,700	33%
\$349,700 and over	35%	\$349,700 and over	35%

Source: Internal Revenue Service, <http://www.irs.gov/formspubs/article/0,,id=164272,00.html>.

Table A-2	
State Income Tax Bases, Tax Year 2007	
State	Starting Tax Base
Alabama	Own Tax Base
Arizona	Federal Adjusted Gross Income (AGI)
Arkansas	Own Tax Base
California	Federal AGI
Colorado	Federal Taxable Income
Connecticut	Federal AGI
Delaware	Federal AGI
District of Columbia	Federal AGI
Georgia	Federal AGI
Hawaii	Federal AGI
Idaho	Federal Taxable Income
Illinois	Federal AGI
Indiana	Federal AGI
Iowa	Federal AGI
Kansas	Federal AGI
Kentucky	Federal AGI
Louisiana	Federal AGI
Maine	Federal AGI
Maryland	Federal AGI
Massachusetts	Own Tax Base
Michigan	Federal AGI
Minnesota	Federal Taxable Income
Mississippi	Own Tax Base
Missouri	Federal AGI
Montana	Federal AGI
Nebraska	Federal AGI
New Jersey	Own Tax Base
New Mexico	Federal AGI
New York	Federal AGI
North Carolina	Federal Taxable Income
North Dakota	Federal Taxable Income
Ohio	Federal AGI
Oklahoma	Federal AGI
Oregon	Federal Taxable Income
Pennsylvania	Own Tax Base
Rhode Island	Federal AGI
South Carolina	Federal Taxable Income
Utah	Federal AGI
Vermont	Federal Taxable Income
Virginia	Federal AGI
West Virginia	Federal AGI
Wisconsin	Federal AGI

Source: Telephone survey of state legislative offices, state departments of revenue, state comptrollers' offices, and state treasury offices.

Note: AGI = adjusted gross income.

Table A-3 Long-Term Care Insurance Income Tax Deductions and Credits in 2007		
State	Tax Deductions	Tax Credits
Alabama	Taxpayers can fully deduct qualified long-term care insurance premiums as an itemized deduction.	None
Arizona	The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to Health Savings Accounts (HSAs) are carried forward to the state return. Taxpayers can also claim long-term care insurance premiums as an itemized deduction without meeting the requirement that medical and dental expenses exceed 7.5% of federal AGI. However, the amount that can be deducted is subject to the same limits based on age as in the federal provision (see table 3).	None
Arkansas	Deductions from federal gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return. Taxpayers can claim long-term care insurance premiums as an itemized deduction on their state return if their total medical and dental expenses exceed 7.5% of Arkansas adjusted gross income.	None
California	The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return. Taxpayers can claim long-term care insurance premiums that are itemized on their federal return as an itemized deduction on their state return.	None
Colorado	The tax base is federal taxable income; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs and itemized medical expenses are carried forward to the state return.	Eligible taxpayers can claim a nonrefundable tax credit of 25% of their insurance premiums up to \$150 per policy. Taxpayers must have federal taxable income of less than \$50,000 (single filers and married, filing jointly for one insurance policy) or \$100,000 (married, filing jointly for two insurance policies) to qualify for the credit.
Connecticut	The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.	None

Table A-3 (continued)		
Long-Term Care Insurance Income Tax Deductions and Credits in 2007		
State	Tax Deductions	Tax Credits
Delaware	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p> <p>Taxpayers can claim long-term care insurance premiums that are itemized on their federal return as an itemized deduction on their state return.</p>	None
District of Columbia	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the DC return.</p> <p>Taxpayers can claim long-term care insurance premiums that are itemized on their federal return as an itemized deduction on their DC return.</p> <p>Furthermore, taxpayers can deduct up to an additional \$500 per person in long-term care insurance premiums.</p>	None
Georgia	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p> <p>Taxpayers can claim long-term care insurance premiums that are itemized on their federal return as an itemized deduction on their state return.</p>	None
Hawaii	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p> <p>Taxpayers can claim long-term care insurance premiums as an itemized deduction on their state return, if their total medical and dental expenses exceed 7.5% of Hawaii adjusted gross income.</p>	None
Idaho	<p>The tax base is federal taxable income; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs and itemized medical expenses are carried forward to the state return.</p> <p>Taxpayers may deduct the amount they paid for long-term care insurance premiums that were not otherwise deducted on the federal return.</p>	None
Illinois	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p>	None

Table A-3 (continued)		
Long-Term Care Insurance Income Tax Deductions and Credits in 2007		
State	Tax Deductions	Tax Credits
Indiana	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p> <p>Taxpayers and their spouses may deduct the amount of long-term care insurance premiums paid for Indiana Partnership long-term care insurance minus any claim that was already taken for the self-employed health insurance deduction on the federal return.</p>	None
Iowa	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p> <p>Taxpayers can claim long-term care insurance premiums that are itemized on their federal return as an itemized deduction on their state return.</p> <p>In addition, taxpayers may deduct the amount they paid for long-term care insurance premiums that were not itemized on the federal return.</p>	None
Kansas	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p> <p>Taxpayers can claim long-term care insurance premiums that are itemized on their federal return as an itemized deduction on their state return.</p> <p>Furthermore, taxpayers can deduct up to an additional \$700 (\$1,400 for married couples) in long-term care insurance premiums.</p>	None
Kentucky	<p>Deductions from federal gross income for contributions to HSAs are carried forward to the state return.</p> <p>Taxpayers can deduct long-term care insurance premiums from Kentucky gross income.</p>	None
Louisiana	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p> <p>Taxpayers can only claim 42.5% of excess federal itemized deductions (defined as federal itemized deductions minus the federal standard deduction) as a deduction on the state return. Therefore, taxpayers can only claim up to 42.5% of long-term care insurance premiums that are itemized on the federal return.</p>	None

Table A-3 (continued)		
Long-Term Care Insurance Income Tax Deductions and Credits in 2007		
State	Tax Deductions	Tax Credits
Maine	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return. Taxpayers benefit from the same amount of long-term care insurance premiums that are itemized on the federal return.</p> <p>Taxpayers can also deduct long-term care insurance premiums if the policy meets the federal definition of long-term care insurance contracts (IRC section 7702B[b]) and must be certified by the Maine Bureau of Insurance. Any premiums claimed as a deduction must be reduced by any premiums claimed as a Maine itemized deduction.</p>	None
Maryland	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return. Taxpayers benefit from the same amount of long-term care insurance premiums that are itemized on the federal return.</p>	<p>Taxpayers can claim a tax credit up to \$280 (under age 41) or \$500 (ages 41 and older) for long-term care insurance premiums. The credit can only be claimed for one tax year, and the insured cannot have been covered by long-term care insurance before July 1, 2000.</p>
Massachusetts	<p>Deductions from federal gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p>	None
Michigan	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p>	None
Minnesota	<p>The tax base is federal taxable income; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs and itemized medical expenses are carried forward to the state return.</p>	<p>Taxpayers can claim a 25% tax credit for long-term care insurance premiums up to \$100 per person. Their insurance policy must have a lifetime long-term care benefit limit of \$100,000 or more. The credit does not apply to premiums already claimed as a federal itemized deduction.</p>
Mississippi	<p>Deductions from federal gross income for insurance purchased by self-employed taxpayers are carried forward to the state return.</p> <p>Taxpayers can claim long-term care insurance premiums that are itemized on their federal return as an itemized deduction on their state return.</p>	<p>Taxpayers can claim a nonrefundable 25% tax credit up to \$500 for long-term care insurance premiums. The tax credit does not apply to any insurance premiums that were itemized at the federal level.</p>

Table A-3 (continued)		
Long-Term Care Insurance Income Tax Deductions and Credits in 2007		
State	Tax Deductions	Tax Credits
Missouri	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p> <p>Taxpayers can claim long-term care insurance premiums that are itemized on their federal return as an itemized deduction on their state return.</p> <p>Taxpayers may also deduct the amount they paid for long-term care insurance premiums that were not otherwise deducted on the federal return.</p>	None
Montana	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p> <p>Taxpayers can fully deduct qualified long-term care insurance premiums as an itemized deduction. However, these premiums cannot be deducted elsewhere on the Montana return in calculating Montana adjusted gross income. In addition, these premiums cannot be considered as qualified elderly expenses when claiming the elderly care credit.</p>	<p>The tax credit only applies to long-term care insurance paid for qualifying family members. Qualifying family members must be ages 65+ or disabled, and their income must be \$15,000 or less (unmarried person) or \$30,000 or less (married person).</p> <p>Taxpayers whose income is \$55,000 or less (one family member) or \$60,000 or less (two or more family members) qualify for the credit. Tax credits equal 20% to 30% of insurance costs (depending on income) up to a maximum credit of \$5,000 (one family member) or \$10,000 (two or more family members).</p>
Nebraska	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p> <p>Taxpayers can claim long-term care insurance premiums that are itemized on their federal return as an itemized deduction on their state return.</p> <p>Taxpayers can receive a tax deduction up to \$1,000 (single) or \$2,000 (married, filing jointly) for contributions towards long-term care expenses (including insurance premiums) as part of a long-term care savings plan. Taxpayers can make tax-free withdrawals from the long-term care savings plan for long-term care insurance premiums.</p>	None

Table A-3 (continued)		
Long-Term Care Insurance Income Tax Deductions and Credits in 2007		
State	Tax Deductions	Tax Credits
New Jersey	<p>Taxpayers can subtract medical and dental expenses (including long-term care insurance premiums) that are in excess of 2% of their New Jersey gross income.</p> <p>Taxpayers can claim a self-employed health insurance deduction (including long-term care insurance premiums) similar to the federal deduction.</p>	None
New Mexico	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p> <p>Taxpayers can claim long-term care insurance premiums that are itemized on their federal return as an itemized deduction on their state return.</p> <p>Taxpayers can also deduct from 10% (adjusted gross income over \$35,000 for singles or \$70,000 for married couples filing jointly) to 25% (adjusted gross income of \$15,000 or less for singles or \$30,000 or less for married couples filing jointly) of unreimbursed and uncompensated medical care expenses (including long-term care insurance premiums and long-term care services). These expenses cannot be deducted if they were already itemized on the federal return.</p>	<p>Taxpayers ages 65 or older (either spouse is 65 or older) whose medical care expenses (including long-term care insurance premiums and services) equal \$28,000 or more can claim an additional \$3,000 exemption as well as a \$2,800 refundable tax credit. These medical care expenses can include expenses that were itemized on the federal return.</p>
New York	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p>	<p>Taxpayers can claim a long-term care insurance nonrefundable credit equal to 20% of the premiums.</p>
North Carolina	<p>The tax base is federal taxable income; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs and itemized medical expenses are carried forward to the state return.</p>	<p>Taxpayers whose adjusted gross incomes are less than \$60,000 (single) or \$100,000 (married, filing jointly) are eligible for a nonrefundable tax credit equal to 15% of the premiums up to \$350 for each policy. The credit is limited to those expenses for which a federal tax deduction has not been claimed. In addition, no credit is allowed for premium payments that were excluded from taxable wages.</p>

Table A-3 (continued)		
Long-Term Care Insurance Income Tax Deductions and Credits in 2007		
State	Tax Deductions	Tax Credits
North Dakota	<p>The tax base is federal taxable income; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs and itemized medical expenses are carried forward to the state return.</p> <p>On North Dakota income tax Form ND-2, taxpayers can deduct medical expenses (including long-term care insurance premiums) that are not allowed on the federal return as an itemized deduction because of the 7.5% of AGI limitation. Most taxpayers use Form ND-1 because ND-1 has lower marginal tax rates than ND-2. Form ND-2, along with this medical expense deduction, will no longer be available in tax year 2009.</p>	<p>On North Dakota income tax Form ND-2, taxpayers can claim a nonrefundable tax credit equal to 25% of long-term care insurance premiums or \$100 times the number of qualifying persons covered by the policy (whichever is less).</p> <p>Form ND-2, along with the long-term care insurance credit, will no longer be available in tax year 2009.</p>
Ohio	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p> <p>Taxpayers can deduct unreimbursed long-term care insurance premiums as long as they were not already claimed as deductions on the federal return for calculating federal adjusted gross income.</p>	None
Oklahoma	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p> <p>Taxpayers can claim long-term care insurance premiums that are itemized on their federal return as an itemized deduction on their state return.</p>	None
Oregon	<p>The tax base is federal taxable income; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs and itemized medical expenses are carried forward to the state return. However, any long-term care insurance premiums that were itemized on the federal return must be added back to Oregon taxable income if taxpayers claim the 15% Oregon long-term care insurance premium credit.</p> <p>In addition to receiving an itemized deduction for medical and dental expenses, taxpayers ages 62 and older can also claim medical and dental expenses that were less than 7.5% of federal adjusted gross income.</p>	<p>Taxpayers may claim a nonrefundable tax credit for 15% of their long-term care insurance premiums or \$500 (whichever is less). Only policies issued in 2000 or later qualify for this credit. Any long-term care insurance premiums that were itemized on the federal return must be added back to Oregon taxable income if taxpayers claim the 15% Oregon long-term care insurance premium credit.</p>
Pennsylvania	<p>Taxpayers can claim a deduction for long-term care insurance premiums based on the federal deduction for HSAs.</p>	None

Table A-3 (continued)		
Long-Term Care Insurance Income Tax Deductions and Credits in 2007		
State	Tax Deductions	Tax Credits
Rhode Island	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p> <p>Taxpayers can claim long-term care insurance premiums that are itemized on their federal return as an itemized deduction on their state return.</p>	None
South Carolina	<p>The tax base is federal taxable income; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs and itemized medical expenses are carried forward to the state return.</p>	None
Utah	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p> <p>Taxpayers can claim long-term care insurance premiums that are itemized on their federal return as an itemized deduction on their state return.</p> <p>Taxpayers may deduct long-term care insurance premiums as long as they have not been deducted on the federal return. This deduction will be unavailable starting in tax year 2008.</p>	None
Vermont	<p>The tax base is federal taxable income; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs and itemized medical expenses are carried forward to the state return.</p>	None
Virginia	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p> <p>Taxpayers can claim long-term care insurance premiums that are itemized on their federal return as an itemized deduction on their state return.</p> <p>Taxpayers can also deduct long-term care insurance premiums as long as they have not been already deducted on the federal return.</p>	<p>Taxpayers can claim a nonrefundable 15% long-term care insurance credit.</p> <p>Taxpayers cannot claim more premiums than what they paid during the first 12 months of the insurance policy.</p> <p>Generally, the credit can only be claimed for one tax year, and taxpayers can only claim the credit for policies that started on or after 2006. If taxpayers claim the credit, they cannot take the long-term care insurance deduction.</p>

Table A-3 (continued)		
Long-Term Care Insurance Income Tax Deductions and Credits in 2007		
State	Tax Deductions	Tax Credits
West Virginia	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p> <p>Long-term care insurance premiums can also be deducted as long as they have not been deducted in the calculation of federal adjusted gross income.</p>	None
Wisconsin	<p>The tax base is federal AGI; therefore, deductions from gross income for insurance purchased by self-employed taxpayers and contributions to HSAs are carried forward to the state return.</p>	None
<p>Source: Telephone survey of state legislative offices, state departments of revenue, state comptrollers' offices, and state treasury offices.</p> <p>Note: AGI = adjusted gross income; HSA = Health Savings Account.</p>		

State	Taxable Income Brackets		Income Tax Rates	
	Low	High	Low	High
Alabama	First \$500	Over \$3,000	2.0%	5.0%
Arizona	First \$10,000	Over \$150,000	2.73%	4.79%
Arkansas	First \$3,699	Over \$30,099	1.0%	7.0%
California	First \$6,827	Over \$44,814	1.0%	9.3%
Colorado	All Income	All Income	4.63%	4.63%
Connecticut	First \$10,000	Over \$10,000	3.0%	5.0%
Delaware	First \$2,000	Over \$60,000	0.0%	5.95%
District of Columbia	First \$10,000	Over \$40,000	4.5%	8.7%
Georgia	First \$750	Over \$7,000	1.0%	6.0%
Hawaii	First \$2,400	Over \$48,000	1.4%	8.25%
Idaho	First \$1,237	Over \$24,735	1.6%	7.8%
Illinois	All Income	All Income	3.0%	3.0%
Indiana	All Income	All Income	3.4%	3.4%
Iowa	First \$1,343	Over \$60,434	0.36%	8.98%
Kansas	First \$15,000	Over \$30,000	3.5%	6.45%
Kentucky	First \$3,000	Over \$75,000	2.0%	6.0%
Louisiana	First \$12,500	Over \$25,000	2.0%	6.0%
Maine	First \$4,750	Over \$18,949	2.0%	8.5%
Maryland	First \$1,000	Over \$3,000	2.0%	4.75%
Massachusetts*	All Income	All Income	5.3%*	5.3%*
Michigan	All Income	All Income	4.01%	4.01%
Minnesota	First \$21,310	Over \$69,990	5.35%	7.85%
Mississippi	First \$5,000	Over \$10,000	3.0%	5.0%
Missouri	First \$1,000	Over \$9,000	1.5%	6.0%
Montana	First \$2,500	Over \$14,899	1.0%	6.9%
Nebraska	First \$2,400	Over \$27,000	2.56%	6.84%
New Jersey	First \$20,000	Over \$500,000	1.4%	8.97%
New Mexico	First \$5,500	Over \$16,000	1.7%	5.3%
New York	First \$8,000	Over \$20,000	4.0%	6.85%
North Carolina	First \$12,750	Over \$120,000	6.0%	8.0%
North Dakota	First \$3,000	Over \$50,000	2.67%	12.0%
Ohio	First \$5,000	Over \$200,000	0.649%	6.555%
Oklahoma	First \$1,000	Over \$8,699	0.5%	5.65%
Oregon	First \$2,850	Over \$7,150	5.0%	9.0%
Pennsylvania	All Income	All Income	3.07%	3.07%
Rhode Island	First \$31,850	Over \$349,700	3.75%	9.9%
South Carolina	First \$2,570	Over \$12,850	2.5%	7.0%
Utah	First \$1,000	Over \$5,500	2.3%	6.98%
Vermont	First \$31,850	Over \$349,700	3.6%	9.5%
Virginia	First \$3,000	Over \$17,000	2.0%	5.75%
West Virginia	First \$10,000	Over \$60,000	3.0%	6.5%
Wisconsin	First \$9,510	Over \$142,650	4.6%	6.75%

* Notes: The above marginal tax rates exclude local income taxes. **Massachusetts:** Earned income, interest, dividends, and long-term capital gains (not collectible assets and those assets held for more than one year) are taxed at 5.3%. Short-term capital gains and long-term capital gains from the sale of collectibles are taxed at 12%.

Table A-5		
State Long-Term Care Insurance Income Tax Benefits for a \$2,000 Premium, 2007		
Single Taxpayers Who Did Not Claim a Federal Itemized Deduction for Long-Term Care Insurance		
State	Lowest Tax Benefit (percent)	Highest Tax Benefit (percent)
Mississippi*	25.0	25.0
New York*	20.0	20.0
North Carolina*	0.0	15.0
Oregon*	15.0	15.0
Virginia*	2.0	15.0
Maryland*	0.0	14.0 to 25.0
Iowa	0.4	9.0
Maine	2.0	8.5
Idaho	1.6	7.8
Colorado*	0.0	7.5
Utah	2.3	7.0
Montana	1.0	6.9
Wisconsin	4.6	6.8
North Dakota*	5.4 to 7.7	6.7 to 17.0
Ohio	0.6	6.6
West Virginia	3.0	6.5
Kentucky	2.0	6.0
Missouri	1.5	6.0
Alabama	2.0	5.0
Minnesota*	5.0	5.0
Nebraska	1.3	3.4
Indiana	3.4	3.4
Kansas	1.2	2.3
District of Columbia	1.1	2.2
New Mexico	0.2	0.4 to 0.8
New Jersey	0.0	1.3 to 9.0
Arizona	0.4 to 2.7	0.7 to 4.8
Arkansas	0.0	0.0
California	0.0	0.0
Connecticut	0.0	0.0
Delaware	0.0	0.0
Georgia	0.0	0.0
Hawaii	0.0	0.0
Illinois	0.0	0.0
Louisiana	0.0	0.0
Massachusetts	0.0	0.0
Michigan	0.0	0.0
Oklahoma	0.0	0.0
Pennsylvania	0.0	0.0
Rhode Island	0.0	0.0
South Carolina	0.0	0.0
Vermont	0.0	0.0

Table A-5 (continued)
State Long-Term Care Insurance Income Tax Benefits for a \$2,000 Premium, 2007
Single Taxpayers Who Did Not Claim a Federal Itemized Deduction for Long-Term Care Insurance

Notes: Tax benefits are based on a single taxpayer paying a \$2,000 annual insurance premium. Income tax benefits equal the tax reduction as a percentage of the premium. For example, a \$400 income tax reduction for a \$2,000 premium translates into a 20% benefit. With the exceptions of Arizona, Colorado, Maryland, New Jersey, New Mexico, North Carolina and North Dakota, the lowest and highest tax benefits only represent the range of tax benefits for persons in different marginal tax rate brackets. The calculations assume that taxpayers have sufficient taxable income or tax liability to utilize the full value of the allowable deduction or credit. With the exception of New Mexico, where more than one value is reported, the lower value is for younger taxpayers, and the higher value is for older taxpayers.

*Bolded states provide tax credits for long-term care insurance. Oregon, Virginia, and North Dakota provide a deduction and a credit.

Tax benefits equal the lowest or highest marginal tax rates times the \$2,000 premium amount for Alabama, Idaho, Indiana, Iowa, Kentucky, Maine, Missouri, Montana, Ohio, Utah, West Virginia, and Wisconsin.

Arizona: Tax benefits equal 2.73% (the lowest marginal tax rate) or 4.79% (the highest marginal tax rate) times the allowable premium deductions (up to the \$2,000 premium amount) based on the federal caps for long-term care insurance (see table 3).

Colorado: The lowest tax benefits equal \$0 for those whose income federal taxable income equals \$50,000 or more. The highest tax benefits equal the maximum tax credit of \$150 for those whose federal taxable income is less than \$50,000.

District of Columbia: Tax benefits equal 4.5% (the lowest marginal tax rate) or 8.7% (the highest marginal tax rate) times \$500 (the maximum deduction allowed).

Kansas: Tax benefits equal 3.5% (lowest marginal tax rate) or 6.45% (highest marginal tax rate) times \$700 (the maximum deduction allowed).

Maryland: The lowest tax benefits equal \$0 for those who cannot claim the tax credit. For eligible taxpayers who did not yet claim the tax benefit, the tax credit equals \$280 (under age 41) or \$500 (ages 41 and older). Taxpayers cannot claim the tax credits for more than one tax year.

Minnesota: Tax benefits equal \$100 (based on a 25% tax credit up to \$100 per person).

Mississippi: Tax benefits equal \$500 based on a 25% tax credit (25% of \$2,000) with a \$500 cap.

Nebraska: Tax benefits equal 2.56% (lowest marginal tax rate) or 6.84% (highest marginal tax rate) times \$1,000 (the maximum deduction allowed).

New Jersey: The lowest tax benefits equal \$0 for those whose medical and dental expenses were less than 2% of their New Jersey adjusted gross income; the highest tax benefits equal 8.97% (the highest marginal tax rate) times the allowed deductions (up to the \$2,000 premium amount based on the federal caps for long-term care insurance; see table 3).

New Mexico: The lowest tax benefits equal 10% of the \$2,000 insurance premium times 1.7% (the lowest marginal tax rate); the highest tax benefits equal 25% of the \$2,000 insurance premium times 3.2% (the second highest marginal tax rate).

New York: Tax benefits equal 20% of the \$2,000 insurance premium.

North Carolina: The lowest tax benefits equal \$0 (for those whose adjusted gross income equals \$60,000 or more); the highest tax benefits equal 15% of the \$2,000 insurance premium. The 15% tax credit cannot exceed \$350 per insurance policy.

North Dakota: Taxpayers have to claim their long-term care insurance on Form ND-2, which most taxpayers do not use because that form has lower marginal tax rates than Form ND-1. In addition to the nonrefundable tax credit of up to \$100 per qualifying person, North Dakota taxpayers can deduct long-term care insurance premiums as an itemized deduction up to the federal caps for long-term care insurance premiums (see table 3).

Tax benefits equal the \$100 tax credit plus 2.67% (the lowest marginal tax rate) or 12.0% (the highest marginal tax rate) times the allowed deductions (up to the \$2,000 premium) based on the federal caps.

Oregon: Tax benefits equal 15% of the \$2,000 insurance premium based on a 15% tax credit that cannot exceed \$500.

Virginia: The lowest tax benefits equal 2.0% (the lowest marginal tax rate) times the \$2,000 insurance premium; the highest tax benefits equal 15% of the \$2,000 premium based on a 15% tax credit. Taxpayers cannot claim more than the first 12 months on their insurance policy for the tax credit. In addition, if taxpayers claim the tax credit, they cannot claim the insurance deduction.

Table A-6								
State Long-Term Care Insurance Income Tax Benefits for a \$2,000 Premium, 2007								
Single Taxpayers Claiming a Federal Itemized Deduction for Long-Term Care Insurance								
State	Under Age 41		Ages 41 to 50		Ages 51 to 60		Ages 61+	
	Lowest Tax Benefit (percent)	Highest Tax Benefit (percent)	Lowest Tax Benefit (percent)	Highest Tax Benefit (percent)	Lowest Tax Benefit (percent)	Highest Tax Benefit (percent)	Lowest Tax Benefit (percent)	Highest Tax Benefit (percent)
Mississippi*	21.8	22.1	19.0	19.5	12.8	13.9	3.0	5.0
New York*	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Maryland*	0.3	14.7	0.6	26.3	1.1	27.6	2.0	29.8
Oregon*	13.7	14.3	12.5	13.6	10.0	12.2	6.0	10.0
North Carolina*	1.1	13.8	2.1	12.8	4.3	10.6	7.8	8.0
Virginia*	2.0	13.7	2.0	12.5	2.0	9.9	2.0	5.8
Iowa	0.4	9.0	0.4	9.0	0.4	9.0	0.4	9.0
Maine	2.0	8.5	2.0	8.5	2.0	8.5	2.0	8.5
Colorado*	0.7	8.2	1.3	8.8	2.6	10.1	4.6	12.1
Idaho	1.6	7.8	1.6	7.8	1.6	7.8	1.6	7.8
Utah	2.3	7.0	2.3	7.0	2.3	7.0	2.3	7.0
Montana	1.0	6.9	1.0	6.9	1.0	6.9	1.0	6.9
Wisconsin	4.6	6.8	4.6	6.8	4.6	6.8	4.6	6.8
North Dakota*	5.4	6.7	5.7	8.3	6.5	11.7	7.7	17.0
Ohio	0.6	6.6	0.6	6.6	0.6	6.6	0.6	6.6
West Virginia	3.0	6.5	3.0	6.5	3.0	6.5	3.0	6.5
Minnesota*	5.8	6.1	6.5	7.2	8.0	9.4	5.4	7.9
Kentucky	2.0	6.0	2.0	6.0	2.0	6.0	2.0	6.0
Missouri	1.5	6.0	1.5	6.0	1.5	6.0	1.5	6.0
Alabama	2.0	5.0	2.0	5.0	2.0	5.0	2.0	5.0
Nebraska	1.7	4.4	2.0	5.3	2.7	7.2	3.8	10.3
District of Columbia	1.8	3.4	2.4	4.6	3.6	7.0	5.6	10.9
Indiana	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Kansas	1.7	3.2	2.2	4.0	3.2	5.8	4.7	8.7
New Mexico	0.4	1.1	0.6	1.5	1.0	2.1	1.7	5.3
Rhode Island	0.5	1.4	1.0	2.7	2.1	5.5	3.8	9.9
Vermont	0.5	1.4	1.0	2.6	2.0	5.3	3.6	9.5
California	0.1	1.3	0.3	2.6	0.6	5.2	1.0	9.3
New Jersey	0.2	1.3	0.4	2.5	0.8	5.0	1.4	9.0
Hawaii	0.2	1.2	0.4	2.3	0.8	4.6	1.4	8.3
Arkansas	0.1	1.0	0.3	1.9	0.6	3.9	1.0	7.0
South Carolina	0.4	1.0	0.7	1.9	1.4	3.9	2.5	7.0
Georgia	0.1	0.9	0.3	1.7	0.6	3.3	1.0	6.0
Delaware	0.0	0.9	0.0	1.6	0.0	3.3	0.0	6.0
Oklahoma	0.1	0.8	0.1	1.6	0.3	3.1	0.5	5.7
Arizona	0.4	0.7	0.8	1.3	1.5	2.7	2.7	4.8
Louisiana	0.1	0.4	0.2	0.7	0.5	1.4	0.9	2.6
Connecticut	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Illinois	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Massachusetts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Michigan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pennsylvania	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table A-6 (continued)
State Long-Term Care Insurance Income Tax Benefits for a \$2,000 Premium, 2007
 Single Taxpayers Claiming a Federal Itemized Deduction for Long-Term Care Insurance

Notes: Tax benefits are based on a single taxpayer paying a \$2,000 annual insurance premium. Income tax benefits equal the tax reduction as a percentage of the premium. For example, a \$400 income tax reduction for a \$2,000 premium translates into a 20% benefit. With the exceptions of Colorado, Maryland, New Mexico, North Carolina and Virginia, the lowest and highest tax benefits only represent the range of tax benefits for persons in different marginal tax rate and age brackets. The calculations assume that the taxpayer has sufficient taxable income or tax liability to utilize the full value of the allowable deduction or credit. Where more than one value is reported, the lower value is for younger taxpayers, and the higher value is for older taxpayers.

*Bolded states provide tax credits for long-term care insurance. Oregon, Virginia, and North Dakota provide a deduction and a credit.

Montana's calculations are based only on its tax deduction.

Tax benefits equal the lowest or highest marginal tax rates times the \$2,000 premium amount for Alabama, Idaho, Indiana, Iowa, Kentucky, Maine, Missouri, Montana, Ohio, Utah, West Virginia, and Wisconsin.

Tax benefits for Arizona, Arkansas, California, Delaware, Georgia, Hawaii, New Jersey, Oklahoma, Rhode Island, South Carolina, and Vermont equal the lowest or highest marginal tax rates times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3).

Colorado: The lowest tax benefits equal 4.63% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3). The highest tax benefits equal the maximum tax credit of \$150 plus 4.63% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction for those whose federal taxable income is less than \$50,000.

District of Columbia: The lowest tax benefits equal 4.5% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3) plus 4.5% times \$500; the highest tax benefits equal 8.7% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus 8.7% times \$500.

Kansas: The lowest tax benefits equal 3.5% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3) plus 3.5% times \$700; the highest tax benefits equal 6.45% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus 6.45% times \$700.

Maryland: The lowest tax benefit equals 2.0% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3). The highest tax benefit equals 4.75% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus the tax credit of \$280 (under age 41) or \$500 (ages 41 and older). Taxpayers cannot claim the tax credits for more than one tax year.

Minnesota: Tax benefits equal 5.35% (lowest tax benefit) or 7.85% (highest tax benefit) times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3) plus the \$100 tax credit; however, the tax credit only applies to the premium amount that was not claimed as a federal itemized deduction. Persons ages 61 and older received no tax credit since the entire premium was already claimed as a federal itemized deduction.

Mississippi: Tax benefit equals 3.0% (lowest tax benefit) or 5.0% (highest tax benefit) times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3) plus 25% of the premium amount that was not claimed as a federal itemized deduction. Persons ages 61 and older received no tax credit since the entire premium was already claimed as a federal itemized deduction.

Nebraska: Tax benefits equal the 2.56% (lowest tax benefit) or 6.84% (highest tax benefit) times \$1,000 (the maximum deduction allowed) plus 2.56% (lowest tax benefit) or 6.84% (highest tax benefit) times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3).

New Mexico: The lowest tax benefits equal 1.7% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3) plus 1.7% times 10% of the \$2,000 insurance premium that was not already claimed as a federal itemized deduction. The highest tax benefits equal 3.2% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus 3.2% times 25% of the \$2,000 insurance premium that was not already claimed as a federal itemized deduction.

New York: Tax benefits equal 20% of the \$2,000 insurance premium.

North Carolina: The lowest tax benefits equal 7.75% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3). The highest tax benefits equal 7.0% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus 15% of the premium amount that was not claimed as a federal itemized deduction. The 15% tax credit only applies to taxpayers whose adjusted gross income is less than \$60,000. Persons ages 61 and older received no tax credit since the entire premium was already claimed as a federal itemized deduction.

North Dakota: Taxpayers have to claim their long-term care insurance on Form ND-2, which most taxpayers do not use because that form has lower marginal tax rates than Form ND-1. In addition to the nonrefundable tax credit of up to \$100 per qualifying person, North Dakota taxpayers can deduct long-term care insurance premiums as an itemized deduction up to the federal caps for long-term care insurance premiums that vary by age (see table 3).

The lowest tax benefits equal the \$100 tax credit plus 2.67% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3); the highest tax benefits equal the \$100 tax credit plus 12.0% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction.

Oregon: The lowest tax benefits equal 15% of the \$2,000 premium minus 9.0% of the premium that was claimed as a federal itemized deduction (see table 3). The highest tax benefits equal 15% of the \$2,000 minus 5.0% of the premium claimed as a federal itemized deduction.

Virginia: The lowest tax benefits equal 2.0% times the \$2,000 premium; the highest tax benefits equal 5.75% times the premium allowed as a federal itemized deduction (see table 3) plus 15% of the premium that was not claimed as a federal itemized deduction. Taxpayers cannot claim more than the first 12 months on their insurance policy for the tax credit.

Table A-7								
Federal and State Long-Term Care Insurance Income Tax Benefits for Single Taxpayers Claiming a Federal Itemized Deduction for Long-Term Care Insurance in Tax Year 2007 (percent)								
State	Under Age 41		Ages 41 to 50		Ages 51 to 60		Ages 61+	
	Lowest Tax Benefit (percent)	Highest Tax Benefit (percent)	Lowest Tax Benefit (percent)	Highest Tax Benefit (percent)	Lowest Tax Benefit (percent)	Highest Tax Benefit (percent)	Lowest Tax Benefit (percent)	Highest Tax Benefit (percent)
Mississippi*	23.3	27.2	21.7	29.2	18.3	33.4	13.0	40.0
New York*	21.5	25.1	22.8	29.7	25.6	39.5	30.0	55.0
Maryland*	1.7	19.8	3.3	36.0	6.7	47.1	12.0	64.8
Oregon*	15.1	19.4	15.3	23.3	15.6	31.7	16.0	45.0
Virginia*	3.5	18.8	4.8	22.1	7.6	29.3	12.0	40.8
North Carolina*	6.2	15.3	11.8	15.6	16.5	30.0	17.8	43.0
Iowa	1.8	14.1	3.1	18.6	5.9	28.4	10.4	44.0
Maine	3.5	13.6	4.8	18.2	7.6	28.0	12.0	43.5
Idaho	3.1	12.9	4.4	17.5	7.2	27.3	11.6	42.8
Utah	3.8	12.1	5.1	16.6	7.9	26.4	12.3	42.0
Montana	2.5	12.0	3.8	16.6	6.6	26.4	11.0	41.9
Wisconsin	6.1	11.9	7.4	16.4	10.2	26.2	14.6	41.8
North Dakota*	6.8	11.8	8.5	18.0	12.0	31.1	17.7	52.0
Colorado*	4.3	11.8	8.2	15.7	15.6	24.0	22.1	39.6
Ohio	2.1	11.7	3.4	16.2	6.2	26.0	10.6	41.6
West Virginia	4.5	11.6	5.8	16.2	8.6	26.0	13.0	41.5
Minnesota*	7.2	11.2	9.2	16.8	13.5	28.8	15.4	42.9
Kentucky	3.5	11.1	4.8	15.7	7.6	25.5	12.0	41.0
Missouri	3.0	11.1	4.3	15.7	7.1	25.5	11.5	41.0
Alabama	3.5	10.1	4.8	14.7	7.6	24.5	12.0	40.0
Nebraska	3.1	9.5	4.7	15.0	8.3	26.7	13.8	45.3
District of Columbia	3.2	8.5	5.1	14.2	9.2	26.5	15.6	42.0
Indiana	4.9	8.5	6.2	13.1	9.0	22.9	13.4	38.4
Kansas	3.2	8.3	4.9	13.7	8.7	25.3	14.7	43.7
New Mexico	1.8	6.2	3.3	11.1	6.6	21.6	11.7	40.3
Rhode Island	2.0	6.5	3.8	12.4	7.6	24.9	13.8	44.9
Vermont	2.0	6.5	3.7	12.3	7.5	24.7	13.6	44.5
California	1.6	6.4	3.0	12.2	6.1	24.6	11.0	44.3
New Jersey	1.7	6.4	3.1	12.1	6.3	24.4	11.4	44.0
Hawaii	1.7	6.3	3.1	10.4	6.3	24.0	11.4	43.3
Arkansas	1.6	6.1	3.0	11.6	6.1	23.3	11.0	42.0
South Carolina	1.8	6.1	3.4	11.6	6.9	23.3	12.5	42.0
Georgia	1.6	6.0	3.0	10.2	6.1	22.8	11.0	41.0

Table A-7 (continued)								
Federal and State Long-Term Care Insurance Income Tax Benefits for Single Taxpayers Claiming a Federal Itemized Deduction for Long-Term Care Insurance in Tax Year 2007 (percent)								
State	Under Age 41		Ages 41 to 50		Ages 51 to 60		Ages 61+	
	Lowest Tax Benefit (percent)	Highest Tax Benefit (percent)	Lowest Tax Benefit (percent)	Highest Tax Benefit (percent)	Lowest Tax Benefit (percent)	Highest Tax Benefit (percent)	Lowest Tax Benefit (percent)	Highest Tax Benefit (percent)
Delaware	1.5	6.0	2.8	11.3	5.6	22.8	10.0	41.0
Oklahoma	1.5	5.9	2.9	11.2	5.8	22.6	10.5	40.7
Arizona	1.8	5.8	3.5	11.0	7.1	22.1	12.7	39.8
Louisiana	1.6	5.5	3.0	10.4	6.0	20.9	10.9	37.6
Connecticut	1.5	5.1	2.8	9.7	5.6	19.5	10.0	35.0
Illinois	1.5	5.1	2.8	9.7	5.6	19.5	10.0	35.0
Louisiana	1.5	5.5	2.9	10.4	5.8	20.9	10.4	37.6
Massachusetts	1.5	5.1	2.8	9.7	5.6	19.5	10.0	35.0
Michigan	1.5	5.1	2.8	9.7	5.6	19.5	10.0	35.0
Pennsylvania	1.5	5.1	2.8	9.7	5.6	19.5	10.0	35.0

Notes: Tax benefits are based on a single taxpayer paying a \$2,000 annual insurance premium. Tax benefits are based on a single taxpayer paying a \$2,000 annual insurance premium. Income tax benefits equal the tax reduction as a percentage of the premium. For example, a \$400 income tax reduction for a \$2,000 premium translates into a 20% benefit. With the exceptions of Colorado, Maryland, New Mexico, North Carolina and Virginia, the lowest and highest tax benefits only represent the range of tax benefits for persons in different marginal tax rate and age brackets. The calculations assume that the taxpayer has sufficient taxable income or tax liability to utilize the full value of the allowable deduction or credit. Where more than one value is reported, the lower value is for younger taxpayers, and the higher value is for older taxpayers.

*Bolded states provide tax credits for long-term care insurance. Oregon, Virginia, and North Dakota provide a deduction and a credit.

Tax benefits equal the lowest or highest marginal state tax rates times the \$2,000 premium amount for Alabama, Idaho, Indiana, Iowa, Kentucky, Maine, Missouri, Montana, Ohio, Utah, West Virginia, and Wisconsin plus 10% (lowest tax benefits) or 35% (highest tax benefits) of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3).

Tax benefits for Arizona, Arkansas, California, Delaware, Georgia, Hawaii, New Jersey, Oklahoma, Rhode Island, South Carolina, and Vermont equal the lowest or highest marginal state tax rates times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3) plus 10% (lowest tax benefits) or 35% (highest tax benefits) of the \$2,000 premium allowed as a federal itemized deduction.

Connecticut, Illinois, Massachusetts, Michigan, and Pennsylvania taxpayers do not receive any state tax benefits, but they do receive federal tax benefits equal to 10% (lowest tax benefits) or 35% (highest tax benefits) times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3).

Colorado: The lowest tax benefits for ages 50 and under equals 4.63% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3) plus 25% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction. The lowest tax benefits for ages 51 and older equals 4.63% times the premium amount allowed as a federal itemized deduction plus 10% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus the \$150 state tax credit.

The highest tax benefits for ages 60 and under equal 4.63% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus 25% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus the \$150 state tax credit. The highest tax benefits for ages 61 and older equal 4.63% times the \$2,000 premium plus 35% times the \$2,000 premium.

District of Columbia: The lowest tax benefits equal 4.5% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3) plus 4.5% times \$500 plus 10% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction. The highest tax benefits equal 8.7% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus 8.7% times \$500 plus 35% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction.

Kansas: The lowest tax benefits equal 3.5% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3) plus 3.5% times \$700 plus 10% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction. The highest tax benefits equal 6.45% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus 6.45% times \$700 plus 35% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction.

Maryland: The lowest tax benefits equal 2.0% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3) plus 10% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction. The highest tax benefits equal 4.75% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus the tax credit of \$280 (under age 41) or \$500 (ages 41 and older) plus 35% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction. Taxpayers cannot claim the state tax credits for more than one tax year.

Minnesota: The lowest tax benefits for ages 60 and under equal 5.35% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3) plus the \$100 tax credit plus 10% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction. The lowest tax benefits for ages 61 and older equal 5.35% times the premium allowed as a federal itemized deduction plus \$200 (10% of the \$2,000 premium).

The highest tax benefits for ages 60 and under equal 7.85% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus the \$100 tax credit plus 35% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus the \$100 tax credit. The highest tax benefits for ages 61 and older equal 7.85% times the \$2,000 premium plus \$700 (35% of the \$2,000 premium).

Mississippi: The lowest tax benefits equal 3.0% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3) plus 25% of the premium amount that was not claimed as a federal itemized deduction plus 10% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction. The highest tax benefits equal 5.0% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3) plus 25% of the premium amount that was not claimed as a federal itemized deduction plus 35% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction.

Nebraska: The lowest tax benefits equal 2.56% times \$1,000 (the maximum deduction allowed) plus 2.56% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3) plus 10% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction. The highest tax benefits equal 6.84% times \$1,000 (the maximum deduction allowed) plus 6.84% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus 35% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction.

New Mexico: The lowest tax benefits equal 1.7% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3) plus 1.7% times 10% of the \$2,000 insurance premium that was not already claimed as a federal itemized deduction plus 10% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction. The highest tax benefits equal 3.2% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus 3.2% times 25% of the \$2,000 insurance premium that was not already claimed as a federal itemized deduction plus 35% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction.

New York: Tax benefits equal 20% of the \$2,000 insurance premium plus 10% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (lowest tax benefits) or 35% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (highest tax benefits).

North Carolina: For persons ages 50 and under, the lowest tax benefits equal 7.75% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3) plus 25% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction. For ages 51 to 60, the lowest tax benefits equal 7.75% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus 15% of the premium amount that was not claimed as a federal itemized deduction plus 10% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction. For ages 61 and older, the lowest tax benefits equal 7.75% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus 10% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction.

For persons ages 50 and under, the highest tax benefits equal 7.0% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus 10% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus 15% of the premium amount that was not claimed as a federal itemized deduction. For ages 51 to 60, the highest tax benefits equal 7.0% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus 15% of the premium amount that was not claimed as a federal itemized deduction plus 25% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction. For ages 61 and older, the highest tax benefits equal 8.0% times the \$2,000 premium plus 35% of the \$2,000 premium.

North Dakota: Taxpayers have to claim their long-term care insurance on Form ND-2, which most taxpayers do not use because that form has lower marginal tax rates than Form ND-1. In addition to the nonrefundable tax credit of up to \$100 per qualifying person, North Dakota taxpayers can deduct long-term care insurance premiums as an itemized deduction up to the federal caps for long-term care insurance premiums that vary by age (see table 3).

The lowest tax benefits equal the \$100 tax credit plus 2.67% times the premium up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3) plus 10% times the premium up to the \$2,000 premium amount) allowed as a federal itemized deduction. The highest tax benefits equal the \$100 tax credit plus 12.0% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus 35% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction.

Oregon: The lowest tax benefits equal 15% of the \$2,000 premium minus 9.0% of the premium (up to the \$2,000 premium amount) that was claimed as a federal itemized deduction (see table 3) plus 10% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction. The highest tax benefits equal 15% of the \$2,000 minus 5.0% of the premium (up to the \$2,000 premium amount) that was claimed as a federal itemized deduction plus 35% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction.

Virginia: The lowest tax benefits equal 2.0% times the \$2,000 premium plus 10% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction (see table 3). The highest tax benefits equal 5.75% times the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction plus 15% of the \$2,000 premium that was not claimed as a federal itemized deduction plus 35% of the premium (up to the \$2,000 premium amount) allowed as a federal itemized deduction. Taxpayers cannot claim more than the first 12 months on their insurance policy for the tax credit.