Deduct Expenses for Long-Term Care on Your Tax Return

The IRS allows some limited tax breaks on medical expenses and insurance premiums related to long-term care.

by: **Rocky Mengle**
March 23, 2021

The staggering costs of long-term care can wreak havoc on your retirement savings. According to the U.S. Department of Health and Human Services, about 27% of Americans turning 65 this year will incur at least $100,000 in long-term-care costs, while nearly 18% will require care costing more than $250,000. That's a hard pill for most seniors to swallow.

But if you require long-term care, you may be able to deduct a portion of the costs on your tax return. If you purchased a long-term-care insurance policy to cover the costs, you may be able to deduct a portion of your premium payments, too. Since retirement planning includes long-term care, it's important to understand how these tax deductions can help offset overall costs.

Long-term-care costs. You can deduct unreimbursed costs for long-term care as a medical expense if certain requirements are met. This includes eligible expenses for in-home, assisted living and nursing-home services.

First, the long-term care must be medically necessary. It may include preventive, therapeutic, treating, rehabilitative, personal care or other services. (See **IRS Publication 502** for a full list of qualifying services.) The cost of meals and lodging at an assisted-living facility or nursing home is included if the main reason for being there is to get qualified medical care.

The care must also be for a chronically ill person and provided under a care plan prescribed by a licensed health care practitioner. A person is "chronically ill" if he or she can't perform at least two activities of daily living—such as eating, bathing or dressing—without help for at least 90 days. This condition must be certified in writing within the last year. Anyone with a severe cognitive impairment, such as dementia, is also considered chronically ill if supervision is needed to protect his or her health and safety.

To claim the deduction, you must itemize deductions on your tax return, which fewer people do since the standard deduction was nearly doubled by the 2017 tax reform law. Plus, itemized deductions for medical expenses are only allowed to the extent they exceed 7.5% of your adjusted gross income.

An adult child can claim a medical expense deduction on his own tax return for the cost of a parent's care if he can claim the parent as a dependent.

Insurance premiums. The tax code also permits a limited deduction for certain long-term-care insurance premiums. Like the deduction for long-term-care services, this is an itemized deduction for medical expenses. As a result, only premiums exceeding the 7.5% of AGI threshold are deductible. (The self-employed may be able to deduct premiums paid for long-term-care insurance as an adjustment to income without having to itemize.)

The insurance policy itself must also meet certain requirements for the premiums to be deductible. For instance, it can only cover long-term-care services. This limitation means the deduction "only applies to traditional long-term-care policies"—not "hybrid" policies that combine life insurance with long-term-care benefits, says Jesse Slome, executive director of the **American Association for Long-Term Care Insurance**.

The deduction has an age-related cap. For 2021, the cap is $5,640 if you're older than 70, $4,520 if you're 61 to 70, and $1,690 if you're 51 to 60. (For those 41 to 50, it's $850, and for 40 or younger, it's $450.)

Impact Increases With Age

These deductions are typically not useful for people in their fifties or sixties. But Slome says the deductions can be valuable for people in their seventies and older.

Why? For one thing, income tends to drop in retirement, so the deductions can have a greater overall impact on tax liability. As you age, you’re also more likely to have medical expenses exceeding 7.5% of AGI—IRS data shows two-thirds of all medical-expense deductions are claimed by seniors. Those deductions could push your total itemized deductions past the standard deduction amount. The chances of satisfying the medical necessity requirements for the care costs deduction also increase with age, and the cap for the premiums deduction levels off after age 70.