Income Tax Topics: Long-Term Care Insurance Credit

COLORADO
Department of Revenue
Taxation Division

A long-term care insurance credit is allowed to Colorado residents who purchase or make payments for a long-term care insurance policy and whose federal taxable income does not exceed applicable thresholds. The amount of the credit is generally equal to 25% of the amount paid for the policy during the tax year, but the credit cannot exceed $150 per policy.

This publication is designed to provide general guidance regarding the long-term care insurance credit and to supplement guidance provided in the Colorado Individual Income Tax Guide. Nothing in this publication modifies or is intended to modify the requirements of Colorado's statutes and regulations. Taxpayers are encouraged to consult their tax advisors for guidance regarding specific situations.

Qualifying taxpayers

The credit is allowed to resident individuals who purchase or pay for a qualifying long-term care insurance policy during the tax year and whose income does not exceed the applicable limit.

Residency requirement

A taxpayer can claim the credit only if they were a Colorado resident when they purchased or paid premiums for a long-term care insurance policy. Part-year residents may claim the credit only if they purchased or paid premiums for a policy during that part of the year that they were a Colorado resident. Taxpayers cannot claim a credit for any expense incurred in purchasing or making payment on a policy while they were not a resident of Colorado.

Income limits

Resident individuals may claim the credit only if their federal taxable income for the tax year is below the applicable limit shown below.

Federal taxable income limits

Filing status and qualifying policies	*Federal taxable income limit*
Individuals filing a single return	$50,000
Two individuals filing a joint return claiming the credit for one policy	$50,000
Two individuals filing a joint return claiming the credit for two policies or for a joint policy that covers each individual separately	$100,000

Qualifying expenses

The credit is allowed for expenses incurred by the taxpayer in purchasing or making a payment upon a policy of long-term care insurance for the taxpayer or their spouse, including the taxpayer's partner in a civil union. Taxpayers may not claim a credit for any payments made for any other type of insurance policy or for any policyholder other than themselves or their spouse.

Qualifying long-term care insurance policies

For the purpose of the credit, the terms "long-term care insurance," "policy," and "qualified long-term care insurance contract" are all defined in section 10-19-103, C.R.S. A general summary of each is provided below.

Policy

A policy is any policy, contract, subscriber agreement, rider, or endorsement delivered or issued for delivery in Colorado.

Long-term care insurance

Long-term care insurance is any insurance policy or rider advertised, marketed, offered, or designed to provide coverage for not less than 12 consecutive months for each covered person. It must cover one or more necessary or medically necessary diagnostic, preventive, therapeutic, rehabilitative, maintenance, or personal care services provided in a setting other than an acute care unit of a hospital.

Long-term care insurance may also come in any of the following forms:

- group and individual annuities and life insurance policies or riders that provide directly or that supplement long-term care insurance;
- qualified long-term care insurance contracts, described later in this publication; and
- any policy or rider that provides for payment of benefits based upon cognitive impairment or the loss of functional capacity.

Long-term care insurance may be issued by any of the following:

- insurers;
- fraternal benefit societies;
- nonprofit hospital, medical-surgical, and health service corporations;
- prepaid health plans;
- health maintenance organizations;
- or any similar organizations to the extent they are otherwise authorized to issue life or health insurance.

Qualified long-term care insurance contracts

In general, a qualified long-term care insurance contract is an individual or group insurance contract that meets the federal income tax requirements in 26 U.S.C. § 7702B(b) of the Internal Revenue Code. See IRS Publication 502, Medical and Dental Expenses and section 10-19-103(8), C.R.S., for additional information.

Non-qualifying policies

Several insurance policies that provide for long-term care or for services similar to long-term care do not qualify for the credit. Taxpayers cannot claim the credit for any life insurance policy for which all of the following conditions apply:

- the policy accelerates the death benefit specifically for one or more of the qualifying events of terminal illness, medical conditions requiring extraordinary medical intervention, or permanent institutional confinement;
- the policy provides the option of a lump-sum payment for those benefits; and
- neither the benefits nor the eligibility for the benefits of the policy is conditioned upon the receipt of long-term care.

Taxpayers also cannot claim the credit for any insurance policy which is offered primarily to provide any of the following:

- basic Medicare supplement coverage;
- basic hospital expense coverage;
- basic medical-surgical expense coverage;
- hospital confinement indemnity coverage;
- major medical expense coverage;
- disability income or related asset protection coverage;
- accident-only coverage;
- specified disease or specified accident coverage; or
- limited-benefit health coverage.

Credit calculation and limitations

The credit is generally equal to 25% of the total amount paid by the taxpayer during the tax year in purchasing or making payments for a long-term care insurance policy. However, the total credit that can be claimed for a single policy each year is limited to $150.

Two individuals that file a joint return can claim credits for no more than two policies per tax year. A joint policy that covers each spouse in a joint return separately is treated as a single policy for the purpose of the credit. In any case, the credit that can be claimed for a single policy is limited to $150.

The credit a taxpayer claims cannot exceed the total Colorado income tax liability for the tax year. If the otherwise allowable credit exceeds the taxpayer's tax, the unused portion of the credit cannot be refunded or carried forward or carried back to another tax year.

Example #1

Chris and Lindsay's federal taxable income on their joint return is $46,000, making them eligible to claim a credit. They pay $1,200 during the tax year for a joint long-term care insurance policy. They can claim a credit of $150 for the joint policy ($1,200 x 25% = $300, but the credit is limited to $150 per policy).

Example #2

Robin and Shannon's federal taxable income on their joint return is $68,000, making them eligible to claim credits for two policies or for a joint policy that covers them each separately. They have two separate long-term care insurance policies that cover each of them individually. During the tax year, they pay $900 for Robin's individual policy and $500 for Shannon's individual policy. They can claim a $150 credit for Robin's policy ($900 x 25% = $225, but the credit is limited to $150 per policy) and a $125 credit for Shannon's policy ($500 x 25% = $125).

Claiming the credit

Taxpayers must complete and submit an Individual Credit Schedule (DR 0104CR) with their Colorado Individual Income Tax Return (DR 0104) to claim the credit. They must also submit a year-end statement showing payments made for each long-term care insurance policy during the tax year. Taxpayers may submit the year-end statement either along with their return or by using the E-Filer Attachment function online at Colorado.gov/RevenueOnline.

Additional resources

The following is a list of statutes, regulations, forms, and guidance pertaining to the long-term care insurance credit. This list is not, and is not intended to be, an exhaustive list of authorities that govern the tax treatment of every situation. Individuals and businesses with specific questions should consult their tax advisors.

Statutes and regulations

- § 39-22-122. Long-term care insurance credit.

Forms and guidance

- Tax.Colorado.gov
- Colorado Individual Income Tax Guide
- Individual Income Tax Return (DR 0104)
- Individual Credit Schedule (DR 0104CR)
- IRS Publication 502, Medical and Dental Expenses