COLORADO
Department of Revenue
Taxation Division

FYI
For Your Information

Income 37: Long-Term Care Insurance Credit

A long-term care insurance credit is available 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 cannot exceed $150 per policy.

As used in this FYI, the term "spouse" includes partners in a civil union formed under Colorado law.

WHO CAN CLAIM THE LONG-TERM CARE INSURANCE CREDIT?

To qualify for the long-term care insurance credit, a taxpayer must (1) be a Colorado resident, (2) purchase or pay for a long-term care insurance policy for themselves or their spouse, and (3) not have income in excess of applicable limitations.

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. The credit cannot be claimed for any insurance policy purchased or payment made while the taxpayer was not a resident of Colorado.

Payment requirement

A taxpayer may claim the credit only if they incurred an expense during the tax year in purchasing or making a payment for a long-term care insurance policy for either themselves or their spouse. Taxpayers may not claim a credit for any payments made for any other type of insurance policy (such as a life insurance policy) or for any policyholder other than themselves or their spouse.

Income limitation

A taxpayer may claim the credit only if their federal taxable income for the tax year (line 1 of their Colorado Individual Income Tax Return - DR 0104) is below the applicable limitation, detailed in the following table:

Federal taxable income limitations

Filing status	Credit claim for...	Federal taxable income limitation
Single	...a policy covering the individual taxpayer	$50,000
Joint	...a policy covering **one** of the individual taxpayers included in the joint return	$50,000
Joint	...two policies or a joint policy that covers each individual taxpayer separately	$100,000

QUALIFYING LONG-TERM CARE INSURANCE POLICIES

The credit is allowed for any policy advertised, marketed, or offered as long-term care insurance that provides coverage for not less than 12 consecutive months for each covered person for 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 includes group and individual annuities and life insurance policies or riders that provide directly or that supplement long-term care insurance.

Long-term care insurance also includes a 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:

- 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

The credit is allowed for qualified long-term care insurance contracts that meet **all** of the following conditions:

- The only insurance protection provided under the contract is coverage of qualified long-term care services.
- Generally, the contract does not pay or reimburse expenses incurred for services or items that would be reimbursed under Medicare, except where Medicare is a secondary payer, or the contract makes per diem or other periodic payments without regard to the expenses.
- The contract is guaranteed renewable.
- The contract does not provide for a cash surrender value or other money that can be paid, assigned, pledged as collateral for a loan, or borrowed.
- The contract provides that refunds, other than cash refunds issued in the event of death of the insured or a complete surrender or cancellation of the contract, and policyholder dividends or similar amounts under the contract must be used to reduce future premiums or increase future benefits.
- The contract meets the consumer protection provisions established by federal law.

INSURANCE POLICIES THAT DO NOT QUALIFY FOR THE CREDIT

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:

1) 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 **and**
2) the policy provides the option of a lump-sum payment for those benefits **and**
3) 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 CALCUALTIONS AND LIMITATIONS

The credit is 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, except that 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.

> **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).

The credit amount claimed cannot exceed the total Colorado income tax liability for the tax year. The unused portion of the credit cannot be carried forward or carried back to another tax year and will not be refunded.

CLAIMING THE CREDIT

To claim the long-term care insurance credit, a taxpayer must file a Colorado Individual Income Tax Return (Form 104), along with an Individual Credit Schedule (Form 104CR). Taxpayers claiming the credit must also submit a year-end statement showing payments made for each long-term care insurance policy during the tax year. The required documents may be submitted electronically through the E-Filer Attachment function of Revenue Online at *Colorado.gov/RevenueOnline* or as an attachment to a paper return.

The Department may request additional documentation or disallow a credit claim if the required documentation is not submitted at the time of filing. Under Colorado law, taxpayers are afforded an opportunity to protest any disallowance of the credit and provide additional documentation in support of the credit claim.

ADDITIONAL RESOURCES

- *Colorado statutes and regulations*
  - § 39-22-122, C.R.S. Long-term care insurance credit.
  - §§ 10-19-103(5) and (8), C.R.S. - defining "long-term care insurance" and "qualified long-term care insurance contract"
  - House Bill 99-1246 - establishing the credit
  - House Bill 01-1364 - clarifying that the credit allowed for joint filers
  - House Bill 07-1039 - expanding the definition of "long-term care insurance" to include "qualified long-term care insurance contracts"
  - §§ 14-15-107(2) and 117, C.R.S. - defining the term "spouse" to include partners in a civil union and determining taxable income jointly for partners in a civil union who file a joint federal return
- *Colorado forms, publications, and guidance*
  - Form 104CR - Individual Credit Schedule
- *Federal code and regulations*
  - 26 U.S.C. § 7702B(b). Qualified long-term care insurance contract

---