HASHEM and SIMMS, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

George K. Hashem, CPA *Tyler W. Simms, CPA*

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Dear Client,

This letter is designed to provide you with general information regarding the potential deductibility of premiums paid on long-term care insurance policies insuring you, or in certain case, family members who are your dependents. Since the popularity of these policies has grown in recent years based on the increased costs of medical care expenses, you may also find this information helpful in deciding whether to purchase a long-term care insurance contract.

In general, you may deduct certain health insurance premiums as qualified medical expenses, including premiums paid on long-term care insurance. Long-term care insurance is private insurance (as opposed to government-subsidized programs like Medicare) that you or a family member may have acquired after completing an application and medical underwriting process. It is designed to provide coverage for the costs of various nursing home, medical and/or other care services that you may incur should you become incapacitated or disabled.

Premiums paid on long-term care insurance contracts will qualify as deductible medical expenses if several requirements are met. First, the insurance must only cover the costs of "long-term care services," which are necessary diagnostic, preventive, therapeutic, curing, treating, mitigating, rehabilitative, maintenance or other personal care services that are required by a chronically ill individual and are prescribed by a doctor or other licensed health care practitioner. For these purposes, "chronically ill" means an individual who:

(1) is unable to perform, for a 90-day period or more, at least two out of any five specified "daily living activities" (such as eating, toileting, transferring, bathing, dressing and continence) due to a loss of functional capacity, or

(2) require substantial supervision to protect his or her health and safety because of severe cognitive impairment such as Alzheimer's, severe dementia, etc.

In addition, the long-term care insurance policy must meet the requirements of a "qualified long-term care insurance contract." To satisfy these requirements, the policy must only cover qualified long-term care services provided to a chronically ill individual (as described above), must be guaranteed renewable and must provide specified consumer protection provisions. In addition, the policy must not provide for the reimbursement of expenses covered by Medicare, provide a cash surrender value or distribute premium refunds, policy dividends or similar payments to the policyholder. Any such payments must be applied under the contract to reduce future premiums or increase future benefits. The rule does not apply to refunds made because of the death of the insured or upon a complete surrender or cancellation of the contract, although the refund cannot exceed the total premium paid under the contract,

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276 Newport Road, The Gallery Suite 218, New London, NH 03257 (603) 526-6809 FAX (603)526-6908

The amount you may deduct as "eligible long-term care insurance premiums" depends on the age of the insured and the year of the deduction, since the deductible dollar amounts are adjusted annually to account for inflation. In 2007, the deduction limits are $290 for insureds age 40 and younger, $550 for insureds age 41 to 50, $1,110 for insureds age 51 to 60, $2,950 for insureds age 61 to 70, and $3,680 for insureds over age 70. The deduction applies "per individual," which means that spouses of a married couple filing jointly who are both age 65 may each deduct $2,950 ($5,900 in total). In 2008, the deduction limits are $310 for insureds age 40 and younger, $580 for insureds age 41 to 50, $1,150 for insureds age 51-60, $3,080 for insureds age 61-70, and $3,850 for insureds over age 70.

Also, if you pay eligible long-term care insurance premiums for a parent, grandparent or other family member whom you report or who otherwise qualifies as your dependent, you may include such premium in calculating your deductible medical expenses.

Note that individuals take the deduction for eligible long-term care premiums as part of their total deductible medical expenses. Medical expenses are deductible only to the extent they exceed 7.5% of your adjusted gross income ("AGI"). Thus, if your AGI in a given tax year is $100,000, you may deduct medical expenses only in excess of $7,500.

I hope this letter answers some of your questions regarding long-term care insurance contracts. If you have additional questions regarding the deductibility of long-term care premiums or other medical expenses, please do not hesitate to contact us.

Sincerely,

George K Hashem

Tyler W Simms