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The Tax Mess Deepens



Epic failure in Washington is causing epic uncertainty for taxpayers.

How can individual taxpayers cope with this chaos? Here are our best suggestions for moves to make before the end of the year as well as longer-term issues to consider.

Medical and miscellaneous deductions.

A wide variety of unreimbursed medical expenses are deductible—from out-of-pocket insurance premiums to mileage to remediation for special-needs students—but only above 7.5% of a taxpayer's adjusted gross income (10% for AMT payers). Some taxpayers "bunch" deductions into one year, when possible, to jump this hurdle. For a list of qualified expenses, see IRS Publication 502, Medical and Dental Expenses.

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In addition to traditional out-of-pocket insurance premiums, premiums for tax qualified long term care insurance are deductible for federal income tax purposes. Without the addition of tax qualified long term care insurance premiums, clearing the 7.5% hurdle can be difficult. With the addition of tax qualified long term care insurance premiums, clearing the 7.5% can be much easier.

Check to see if you are also eligible for state income tax deductions or credits. For example, the State of New York offers a 20% tax credit on long term care insurance premiums. Verify your long term care insurance policy is tax qualified before taking any tax deductions or tax credit.

Paying for your long term care insurance policy on a limited pay basis, such as payments over 10 years or payments through age 65, versus a lifetime pay basis provides a number of benefits:

1. Freedom from payments during retirement, when incomes often decline
2. Reduced probability of rate increases, as rate increases do not affect policyholders no longer making payments
3. Increased probability of clearing the 7.5% hurdle, as annual payments are higher on a limited pay basis versus a lifetime pay basis

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