1998

Department of the Treasury
Internal Revenue Service

Instructions for Form 8853

Medical Savings Accounts and Long-Term Care Insurance Contracts

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Purpose of Form

Use Form 8853 to report general information about newly established medical savings accounts (MSAs), to figure your MSA deduction, and to figure your taxable distributions from MSAs. Also use the form to report taxable payments from long-term care (LTC) insurance contracts and any taxable accelerated death benefits you received.

Attach Form 8853 to Form 1040 and file both by the due date for your Form 1040 (including extensions).

Who Must File

You **MUST** file Form 8853 if any of the following apply:

- You (or your spouse, if married filing jointly) established a new MSA for 1998 (even if the contributions to the MSA were made by an employer).
- You (or your spouse, if married filing jointly) had an MSA to which contributions were made for 1998 (whether by you or by an employer) or from which distributions were received during 1998.
- You acquired an interest in an MSA because of the death of the account holder. See **Treatment of MSA After Death of Account Holder** on page 5 for more details.
- You (or your spouse, if married filing jointly) were a policyholder who received payments made on a per diem or other periodic basis under an LTC insurance contract or received any accelerated death benefits from a life insurance policy that were made on a per diem or other periodic basis during 1998. See the instructions for Section B, which begin on page 5, for more details.

Specific Instructions

Name and Social Security Number (SSN). Enter your name(s) and SSN as shown on your tax return.

If you and your spouse each have an MSA and you are filing a joint tax return, enter both your name and your spouse's name as they are shown on your tax return. Enter the SSN that is shown first on your return.

Section A—Medical Savings Accounts (MSAs)

Eligible Individual

To be eligible for an MSA, you must be an employee of a small employer or be self-employed. You must also have a high deductible health plan (HDHP) that meets all of the requirements outlined below, and have no other health insurance coverage except permitted coverage. You must be an eligible individual on the first day of a given month to get an MSA deduction for that month.

Small Employer

A small employer is an employer who had an average of 50 or fewer employees during either of the last 2 calendar years. Special rules apply for new employers, consolidated groups, and certain employers who have added employees. See section 220(c)(4) for more information.

Medical Savings Account

An MSA is a tax-exempt trust or custodial account set up in the United States exclusively for paying the qualified medical expenses of the account holder or the account holder's spouse or dependent(s) in conjunction with an HDHP.

Qualified Medical Expenses

In general, qualified medical expenses for MSA purposes are the types of unreimbursed medical expenses that could otherwise be deducted on line 1 of Schedule A (Form 1040). See the Schedule A (Form 1040) instructions and **Pub. 502,** Medical and Dental Expenses. **However,** you cannot treat insurance premiums as qualified medical expenses, **unless** the premiums are for the following types of insurance:

- Long-term care (LTC) insurance (see the Section B instructions, which begin on page 5),
- Health care continuation coverage, or
- Health care coverage while an individual is receiving unemployment compensation under Federal or state law.

High Deductible Health Plan (HDHP)

An HDHP is a health plan that has the following limits:

	Self-only coverage	Family coverage
Minimum annual deductible	$1,500	$3,000
Maximum annual deductible	$2,250	$4,500
Maximum annual out-of-pocket expenses	$3,000	$5,500

Other Permitted Health Insurance

If you have an MSA, you (or your spouse, if you have family coverage) may not have any other health insurance coverage (other than an HDHP).

Exception. You may have additional insurance that provides benefits only for:

1. Accidents,
2. Disability,
3. Dental care,
4. Vision care,
5. Long-term care,
6. Liabilities under workers' compensation laws, tort liabilities, or liabilities arising from the ownership or use of property,
7. A specific disease or illness, or
8. A fixed amount per day (or other period) of hospitalization.

Part I—General Information

Complete this part if you (or your spouse, if married filing jointly) established a new MSA for 1998 (even if the contributions to the MSA were made by an employer). On lines 1a through 2c, enter general information about your MSA coverage and report whether you are a previously uninsured account holder. Lines 1a through 1c refer to you while lines 2a through 2c refer to your spouse (if married filing jointly).

Lines 1a and 2a

Check the "Yes" box on line 1a and/or line 2a, as applicable, if you established a new MSA for 1998. Also check the "Yes" box if you set up an MSA account for 1998 during the period from 1/1/99 through 4/15/99.

Lines 1b and 2b

Before answering the questions on lines 1b and 2b, please read the following definition carefully:

Previously Uninsured Account Holder

If an account holder has **self-only coverage** under an HDHP and did not have any health plan coverage at any time during the 6-month period before coverage under the HDHP began, the account holder is considered previously uninsured. In addition, for the account holder to be considered as previously uninsured, the HDHP coverage must not have begun before July 1, 1996.

If an account holder has **family coverage** under an HDHP and neither the account holder nor the account holder's spouse had any health plan coverage at any time during the 6-month period before coverage under the HDHP began, the account holder is considered previously uninsured. In addition, for the account holder to be considered as previously uninsured, the HDHP coverage must not have begun before July 1, 1996.

In determining whether an account holder is considered previously uninsured, disregard any health plan coverage that would be permitted in addition to the HDHP. See **Other Permitted Health Insurance** on page 1.

Line 1c

If during the year you were covered by both an HDHP with self-only coverage and an HDHP with family coverage, indicate which plan was in effect longer during the year.

Line 2c

If you are filing a joint return and your spouse was covered by both an HDHP with self-only coverage and an HDHP with family coverage, indicate which plan was in effect longer during the year.

Part II—MSA Contributions and Deductions

Use Part II to figure:

1. Your MSA deduction (and, if applicable, any excess contributions you made).

2. Any excess contributions made by an employer. See **Excess Contributions An Employer Makes** on page 4 for details.

Figuring Your MSA Deduction

An eligible individual (see definition on page 1) is generally allowed to deduct contributions to an MSA within the following limits:

1. Limit based on annual deductible (line 5), and

2. Limit based on compensation (line 6).

However, employer contributions (see definition in the instructions for **Lines 3a and 3b** below) to an MSA may prevent you from making deductible contributions. In addition, if you or your spouse made any additional contributions (i.e., contributions that are in addition to any employer contributions), you may have to pay an additional tax (see **Excess Contributions You Make** on page 4 for details).

Employer Contributions to an MSA

The following rules apply:

1. If an employer made contributions to your MSA, you are not entitled to a deduction.

2. If you and your spouse are covered under an HDHP with family coverage, employer contributions to either of your MSAs prevents either spouse from making deductible contributions to his or her MSA.

3. If you and your spouse each have MSAs and you are each covered under separate HDHPs with self-only coverage and one of you received employer contributions to his or her MSA, the other is allowed to make deductible contributions to his or her MSA.

The following examples illustrate these rules:

Example 1. Your employer maintains an HDHP with family coverage. Your employer does not contribute to your MSA. However, your spouse (who is covered under the HDHP maintained by your employer) has an employer that contributes to his or her MSA. You are not allowed to deduct contributions to your MSA because of the employer contribution to your spouse's MSA.

Example 2. Your employer maintains an HDHP with self-only coverage. Your spouse's employer maintains an HDHP with self-only coverage. Your employer contributes to your MSA. No employer contributions are made to your spouse's MSA. Your spouse may deduct contributions to his or her MSA. This is not prevented by your employer's contribution to your MSA.

How To Complete Part II

Complete lines 3a through 7 as instructed on the form unless one of the following applies to you:

1. If employer contributions to an MSA prevent you from taking a deduction for amounts you contributed to your MSA (see above), complete Part II as follows:

a. Complete lines 3a, 3b, and 4.

b. Skip lines 5 and 6.

c. Enter -0- on line 7.

d. If you entered an amount greater than zero on line 4, go to **Excess Contributions You Make** on page 4.

Also, see **Excess Contributions An Employer Makes** on page 4.

2. If you and your spouse have more than one MSA between you, complete lines 3a through 7 as follows:

- If either spouse has an HDHP with family coverage, complete lines 3a through 7 once (i.e., complete them jointly for both spouses at the same time) based on the **Family Coverage** rules discussed on page 4.
- If neither spouse has an HDHP with family coverage, complete lines 3a through 7 separately for each spouse that has an HDHP with self-only coverage based upon the **Self-Only Coverage** rules discussed in the **Line 5 Limitation Chart Instructions** below.

If both spouses have HDHPs with self-only coverage, check the box in the heading for Part II and then complete a separate Part II for each spouse. For each spouse, use a separate Form 8853 and write "Statement" across the top. On this statement Form 8853, fill in the spouse's name and complete Part II for that spouse. Attach these statement Forms 8853 to the controlling Form 8853 (the combined Form 8853 for both spouses). Then, add the totals for lines 3b, 4, and 7 from the two separate statement Forms 8853 and enter those totals on the respective lines of the controlling Form 8853. Do not complete lines 3a, 5, and 6 of the controlling Form 8853.

Lines 3a and 3b

Employer Contributions

Employer contributions include any amount that an employer contributes to any MSA of you or your spouse for 1998. Any such contributions should be shown in box 13 of Form W-2 with code R.

See **Excess Contributions An Employer Makes** on page 4 for additional information.

Line 4

Enter MSA contributions that you made for 1998, including those made from 1/1/99 through 4/15/99 that were for 1998. Do not include amounts rolled over from another MSA. See **Rollovers** on page 4 for definition.

Line 5

Use the chart and the worksheet on page 3 to figure your limitation.

Work through the chart for each specified date in the worksheet. Enter the resulting dollar amount from the chart on the corresponding line next to the specified date on the worksheet.

Tip: *If your eligibility or coverage did not change from one specified date to the next, you do not have to work through the chart for that second specified date (i.e., you can enter the same number you entered for the previous specified date).*

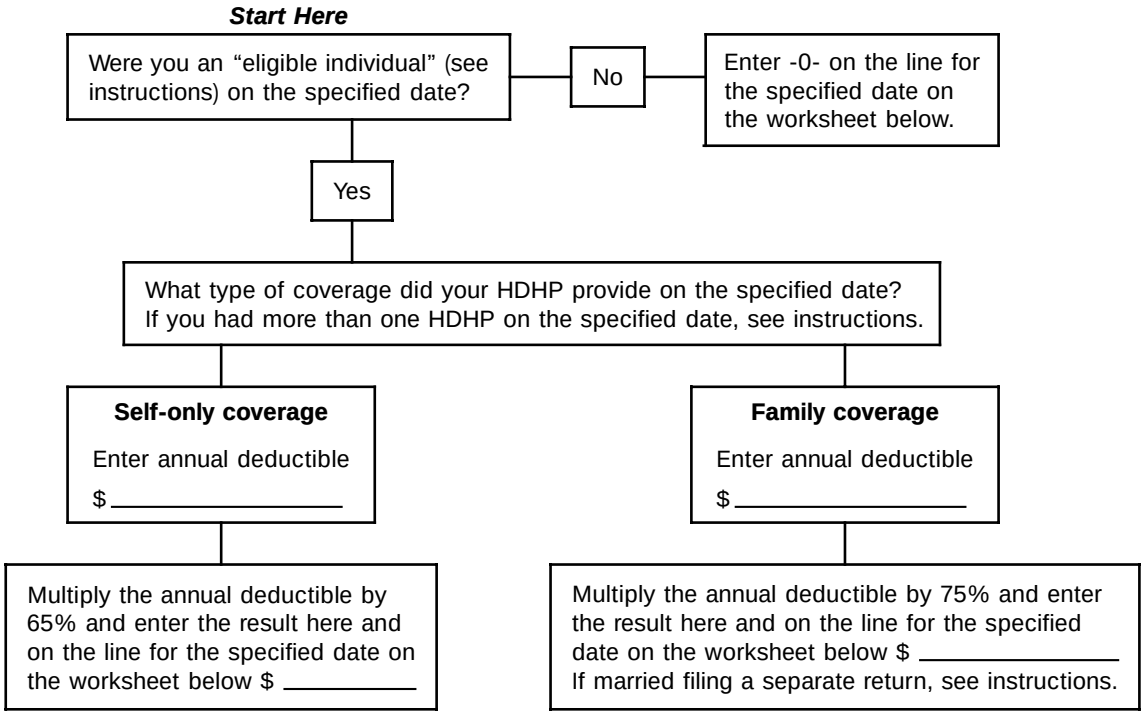
Line 5 Limitation Chart Instructions

Type of Coverage of Your HDHP on the Specified Date. If you (and your spouse, if married filing jointly) have more than one HDHP on the specified date and one of the plans is an HDHP with family coverage, use the **Family Coverage** rules on page 4 and disregard any plan(s) you (and your spouse, if married filing jointly) may have with self-only coverage.

Self-Only Coverage. Enter the annual deductible. This amount must be at least $1,500 but no more than $2,250.

Line 5 Limitation Chart

Go through this chart for each specified date listed in the worksheet below.
See the line 5 instructions for more information.



Line 5 Limitation Worksheet

(Keep for your records)

Specified date	**Amount from chart above**
January 1, 1998	
February 1, 1998	
March 1, 1998	
April 1, 1998	
May 1, 1998	
June 1, 1998	
July 1, 1998	
August 1, 1998	
September 1, 1998	
October 1, 1998	
November 1, 1998	
December 1, 1998	
Total	

Limitation. Divide the total by 12. Enter the result here and on line 5 of the form

Multiply the annual deductible by 65% and enter the result on the worksheet.

Family Coverage. Enter the annual deductible. This amount must be at least $3,000 but no more than $4,500.

Multiply the annual deductible by 75% and enter the result on the worksheet. If married filing a separate return, enter only 50% of the result on the worksheet. However, if you and your spouse have agreed to divide the result in a manner other than 50% to each spouse, enter your percentage of the result on the worksheet.

Line 6

Compensation

Compensation includes wages, salaries, professional fees, and other pay you receive for services you perform. It also includes sales commissions, commissions on insurance premiums, pay based on a percentage of profit, tips, and bonuses. Generally, these amounts are included on the Form(s) W-2 you receive from your employer(s). Compensation also includes net earnings from self-employment, but only for a trade or business in which your personal services are a material income-producing factor. Generally, this amount is shown on the Schedule SE (Form 1040) you complete for your business or farm.

Compensation does not include any amounts received as a pension or annuity and does not include any amount received as deferred compensation.

Line 7

If you (or your employer) contributed more to your MSA than is allowable, you may have to pay a tax on excess contributions. Compute your excess contributions using the instructions below and carry the result over to Part VI of **Form 5329,** Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts, and MSAs, to figure the additional tax.

Excess Contributions You Make

To figure your excess contributions, subtract your deductible contributions limit (line 7) from your actual contributions (line 4). Do not include any rollover contributions in figuring your excess contributions.

However, you can withdraw some or all of your excess contributions for 1998 and they will not be taxed as an excess contribution if:

- You make the withdrawal by the due date (including extensions) of your 1998 income tax return,
- You do not claim a deduction for the amount of the contribution withdrawn, and
- You also withdraw from your MSA any income earned on the withdrawn contributions.

Do not include the withdrawn contributions as excess contributions on Form 5329, line 22.

You **must** include the income earned on the excess contributions withdrawn before the due date of your income tax return as gross income for the year in which you made the contribution. Report the income (but not the withdrawn contributions) on the "other income" line of Form 1040 (line 21 of the 1998 Form 1040).

Excess Contributions An Employer Makes

If you have employer contributions in excess of your contributions limit, you may have to pay an additional tax. This is most likely to happen if you and your spouse were having employer contributions made to MSAs from different employers simultaneously. Figure this additional tax on a separate worksheet that duplicates lines 4 through 7 of the form. DO NOT ATTACH THIS WORKSHEET TO YOUR RETURN.

Line 4. If you (and your spouse, if married filing jointly) have only one HDHP between you, enter the amount from line 3b. Otherwise, enter the employer contributions to MSAs that pertain to the HDHP for which you are figuring the excess employer contribution.

Lines 5 through 7. Complete these lines using the instructions given previously.

Finally, subtract line 7 from the employer contributions you entered on line 4. If the result is greater than zero, you are subject to the 6% additional tax on excess contributions and you must include the result on line 22 of Form 5329. If it was not already included in income on your Form W-2, you must also add it to your income on the "other income" line of Form 1040 (line 21 of the 1998 Form 1040).

However, you can withdraw some or all of the employer excess contributions for 1998 and they will not be taxed as an excess contribution if:

- You make the withdrawal by the due date (including extensions) of your 1998 income tax return,
- You do not claim an exclusion from income for the amount of the contribution withdrawn, and
- You also withdraw from your MSA any income earned on the withdrawn contributions.

Do not include the withdrawn contributions as excess contributions on Form 5329, line 22.

You **must** include the income earned on the contributions withdrawn before the due date of your income tax return on Form 1040 for the year in which the employer made the contribution. Report the income on line 21 of Form 1040.

Note: *If you had one MSA, your spouse had one MSA, and both MSAs were based on HDHPs with self-only coverage, and neither employer's contribution exceeded the contribution limit for the MSA to which it was contributed, you are not subject to the additional tax for excess employer contributions.*

Part III—MSA Distributions

Line 8a

Enter the total MSA distributions you and your spouse received from all MSAs during 1998. These amounts should be shown in box 1 of the Form(s) 1099-MSA you and your spouse received from your trustee(s).

Line 8b

Enter any excess contributions (and the earnings on those excess contributions) included on line 8a that were withdrawn by the due date of your return. See **Excess Contributions You Make** earlier for details.

If any of the distributions you received in 1998 were rolled over, see the instructions below.

Rollovers

A rollover is a tax-free distribution (withdrawal) of assets from one MSA that is reinvested in another. The rollover rules that apply to MSAs are the same as those that apply to IRAs. Generally, you must complete the rollover within 60 days following the distribution to qualify it for tax-free treatment. Get **Pub. 590,** Individual Retirement Arrangements (IRAs), for more details and additional requirements regarding rollovers.

Note: *If you instruct the trustee of your MSA to transfer funds directly to another MSA, the transfer is **not** considered a rollover. Do not include the amount transferred in income or deduct the amount transferred as a contribution. Also, do not include it as a distribution on line 8a.*

Line 9

In general, include on line 9 all distributions received in 1998 from all MSAs to the extent the distributions were used for the qualified medical expenses (see the definition on page 1) of the account holder and his or her spouse or dependents. However, if a contribution was made to an MSA in 1998 (by you or your employer), do not include on line 9 withdrawals from that MSA if the individual for whom the expenses were incurred was not covered by an HDHP or was covered by a plan that was not an HDHP (other than the exceptions noted previously) at the time the expenses were incurred.

Example. In 1998, you were covered by an HDHP with self-only coverage and your spouse was covered by a health plan that was not an HDHP. You made contributions to an MSA for 1998. You cannot include on line 9 withdrawals made from the MSA to pay your spouse's medical expenses incurred in 1998 because your spouse was covered by a plan that was not an HDHP.

Caution: *You may not take a deduction on Schedule A (Form 1040) for any amount you include on line 9.*

Line 11a

Check the box on line 11a if the account holder who received the distribution from an MSA in 1998 met any of the "exceptions to the 15% tax" (defined below).

Exceptions to 15% Tax

The 15% tax does not apply if the distribution is made after the account holder—

- Dies,
- Becomes disabled (as defined in section 72(m)(7)), or
- Attains age 65.

Example 1. You turned age 66 during the year and had no MSA during the year. Your wife turned age 63 during the year and received a taxable distribution from her MSA. You do NOT check the box on line 11a in this case because your spouse (the account holder) did not meet the age exception.

Example 2. Both you and your spouse received taxable distributions from your MSAs in 1998. You were age 65 at the time you received your distributions and your spouse was age 63 when he or she received the distributions. Check the box on line 11a because you met an exception to the 15% tax. However, the 15% tax still applies to your spouse's distributions.

Example 3. You turned age 65 during the year. You received taxable distributions both before and after you turned age 65. Check the box on line 11a because you met an exception to the 15% tax. However, the 15% tax still applies to the distributions you received before you turned age 65.

Treatment of MSA After Death of Account Holder

If the account holder's surviving spouse is the designated beneficiary, the MSA is treated as if the surviving spouse were the account holder and the surviving spouse completes Form 8853 as if the MSA were his or hers.

In all other cases, the account ceases to be an MSA as of the date of death of the account holder. If you acquire the account holder's interest in the MSA, complete Form 8853 as follows:

1. Write "Death of MSA account holder" across the top of Form 8853.

2. Write the name(s) shown on YOUR tax return and YOUR SSN in the spaces provided at the top of the form.

3. Skip Parts I and II.

4. Complete Part III as follows:

a. On line 8a, enter the fair market value of the assets in the MSA as of the date of death of the account holder.

b. On line 9, enter all qualified medical expenses incurred by the account holder before the date of death and paid by you within 1 year of the date of death.

c. Complete the remainder of Part III as instructed on the form, but note that the balance distributed is not subject to the 15% tax.

Report any earnings on the account after the original account holder's date of death as income on the beneficiary's tax return.

Deemed Distributions From MSAs

The following situations result in deemed distributions from your MSA:

1. If you or any of your beneficiaries at any time during 1998 engaged in any transaction prohibited by section 4975 with respect to any of your MSAs, your account ceases to be an MSA as of January 1, 1998, and you must include the fair market value of all assets in the account as of January 1, 1998, on line 8a.

2. If you, at any time during 1998, used any portion of any of your MSAs as security for a loan, you must include the fair market value of the assets used as security for the loan as income on Form 1040, line 21.

Section B—Long-Term Care (LTC) Insurance Contracts

See **Filing Requirements for Section B** on page 6.

Definitions

Policyholder

The policyholder is the person who owns the proceeds of the LTC insurance contract, life insurance contract, or viatical settlement. This person is required to report the income for tax purposes, regardless of whether the payment is assigned to a third party or parties. The policyholder may be the insured individual. In the case of a group contract, the certificate holder is considered to be the policyholder.

LTC Insurance Contract

In general, amounts paid under a **qualified** LTC insurance contract are excluded from your income. However, if you receive per diem payments (defined below), the amount you may exclude is limited.

A contract issued after December 31, 1996, is a qualified LTC insurance contract if it meets the requirements of section 7702B, including the requirement that the insured must be a chronically ill individual (defined below). A contract issued before January 1, 1997, generally is treated as a qualified LTC insurance contract if it met state law requirements for LTC insurance contracts and it has not been materially changed.

Per Diem Payments

Per diem payments are those made on a periodic basis without regard to the actual expenses incurred during the period to which the payments relate. (Box 3 of Form 1099-LTC should show whether payments under a qualified LTC insurance contract are per diem payments.)

Chronically Ill Individual

A chronically ill individual is someone who has been certified (at least annually) by a licensed health care practitioner as—

1. Being unable to perform without substantial assistance from another individual at least two activities of daily living (ADLs) (eating, toileting, transferring, bathing, dressing, and continence) for at least 90 days due to a loss of functional capacity; or

2. Requiring substantial supervision to protect the individual from threats to health and safety due to severe cognitive impairment.

Accelerated Death Benefits

Generally, amounts paid as accelerated death benefits under a life insurance contract or under certain viatical settlements are fully excludable from your gross income if the insured is a terminally ill individual (defined below). Generally, accelerated death benefits paid with respect to an insured individual who is chronically ill (defined above) are excludable from your gross income to the same extent as they would be under a qualified LTC insurance contract.

Lines 12a and 12b

Enter the name and SSN of the insured individual (i.e., the person on account of whose illness benefits are paid either under an LTC insurance contract or as accelerated death benefits).

Line 13

Special rules apply in determining the amount of taxable payments if other individuals also received per diem payments either under a qualified LTC insurance contract or as accelerated death benefits with respect to the insured listed on line 12a of the form. See **Multiple Payees** on page 7 for details.

Line 14

Terminally Ill Individual

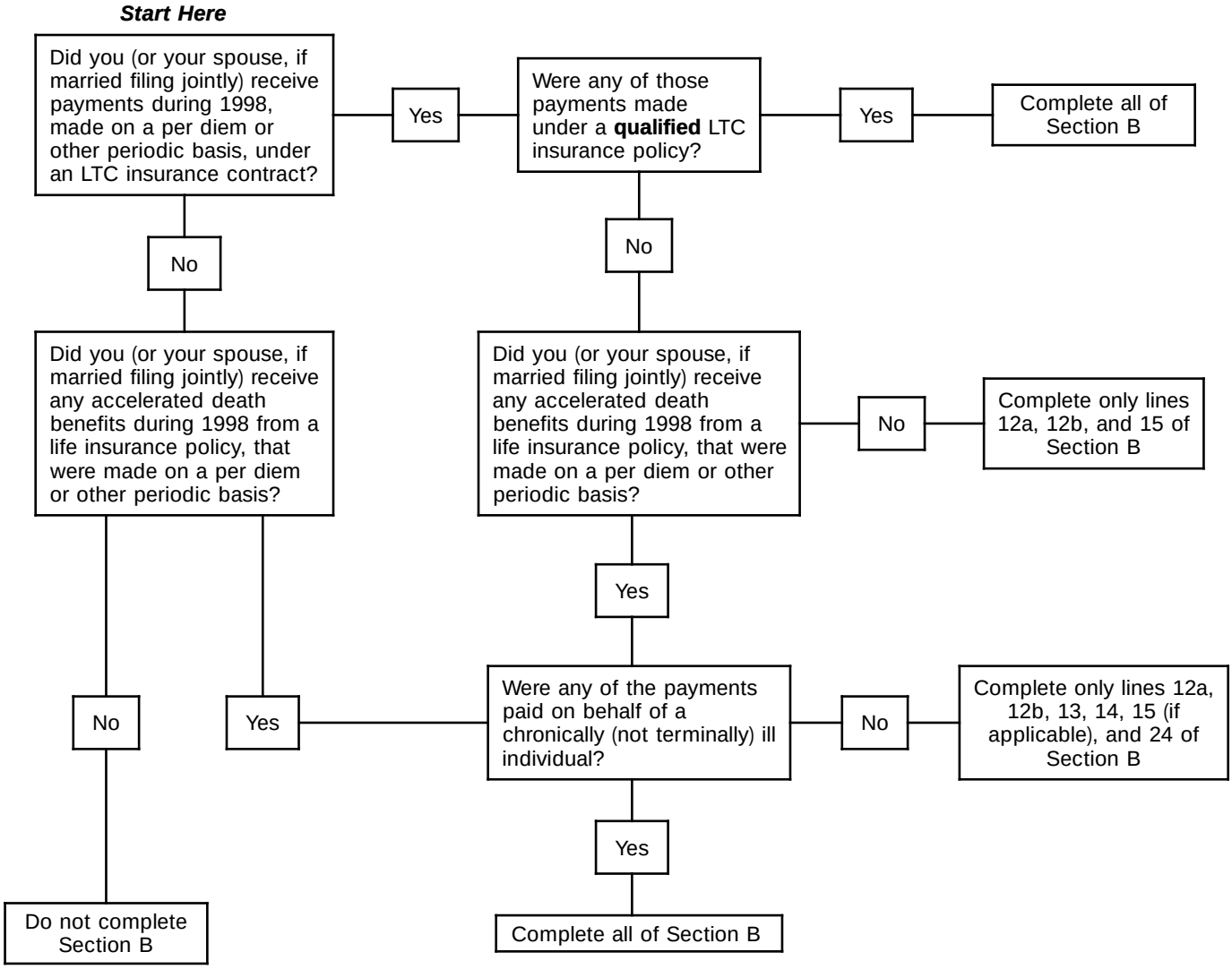
A terminally ill individual is any individual who has been certified by a physician as having an illness or physical condition that can reasonably be expected to result in death within 24 months after the date of the certification.

Line 16

Caution: *If you have more than one LTC period, you must separately calculate the taxable amount of the payments received during each LTC period. (For this purpose, you may wish to duplicate Section B of Form 8853 and complete lines 16 through 24 once for each LTC period.) The sum of the separately calculated taxable amounts is reported on line 24 of the controlling Section B that you attach to your return. See the instructions for line 19 for information regarding the LTC period.*

Filing Requirements for Section B

Go through this chart for each insured person on account of whom you received payments.



Line 17

Enter the accelerated death benefits you received. These amounts should be shown in box 2 of all Forms 1099-LTC that you received with respect to the insured listed on line 12a of Form 8853. Only include amounts you received while the insured was a chronically ill individual. Do not include amounts you received while the insured was a terminally ill individual. For example, if the insured was redesignated from chronically ill to terminally ill during 1998, include on line 17 only payments **received before** the date the insured was certified as terminally ill.

Line 19

The number of days in your LTC period depends on which method you choose to define the LTC period. Generally, you may choose either the **Contract Period** method or the **Equal Payment Rate** method. However, special rules apply if persons in addition to yourself received per diem payments during 1998 either under a qualified LTC insurance contract or as accelerated death benefits with respect to the insured listed on line 12a of this form. See **Multiple Payees** on page 7 for details.

Method 1—Contract Period

You may choose as the LTC period the same period the insurance company uses under the contract to compute the benefits it pays to you. For example, your LTC period is 1 day if the qualified LTC insurance contract computes benefits on a daily basis. In that case, figure your per diem limitation and taxable payments on a daily basis.

Caution: *If you choose this method for defining the LTC period(s) and different LTC insurance contracts for the same insured use different contract periods, then all such LTC contracts must be treated as computing benefits on a daily basis. Therefore, each LTC period consists of 1 day.*

Method 2—Equal Payment Rate

You may choose as your LTC period the period during which the payment rate the insurance company uses to compute the benefits it pays you does not vary. For example, you would have two LTC periods if the qualified LTC insurance contract computes per diem payments at the rate of $165 per day from February 1, 1998, through May 31, 1998, and then at a rate of $185 per day from June 1, 1998, through December 31, 1998. The first LTC period is 120 days (from February 1 through May 31) and the second LTC period is 214 days (from June 1 through December 31).

You may choose this method even if you have multiple qualified LTC insurance contracts. For example, you have one LTC period if you have one qualified LTC insurance contract that computes per

diem payments at the rate of $100 per day from March 1, 1998, through December 31, 1998, and you have a second qualified LTC insurance contract that computes per diem amounts at the rate of $1,500 per month from March 1, 1998, through December 31, 1998, because each payment rate does not vary during the LTC period.

However, you would have two LTC periods if the facts were the same as above except that the second qualified LTC insurance contract did not begin making per diem payments until May 1, 1998. The first LTC period is 61 days (from March 1 through April 30) and the second LTC period is 245 days (from May 1 through December 31).

Line 20

Qualified LTC services are necessary diagnostic, preventive, therapeutic, curing, treating, mitigating, and rehabilitative services, and maintenance or personal care services, that are required by a chronically ill individual (defined on page 5) and are provided pursuant to a plan of care prescribed by a licensed health care practitioner.

Line 22

Enter the reimbursements you received or **expect to receive** through insurance or otherwise for qualified LTC services provided for the insured for LTC periods during 1998. For example, include amounts from boxes 1 and 2 of Form 1099-LTC that you received with respect to the insured listed on line 12a of Form 8853 but only if the amounts were paid specifically to reimburse expenses actually incurred for qualified LTC services. Box 3 of Form 1099-LTC should indicate whether payments made under a qualified LTC insurance contract were made on a reimbursement basis.

Caution: *Do not include on line 22 any reimbursements for qualified LTC services you received under a contract issued before August 1, 1996. However, you must include reimbursements if the contract was exchanged or modified after August 1, 1996, to increase per diem payments or reimbursements.*

Multiple Payees

If you checked the "Yes" boxes on both lines 13 and 14 and the **only** payments you received during the year were accelerated death benefits because the insured was terminally ill, skip lines 15 through 23 and enter zero on line 24. See page 5 for the definition of **Terminally Ill Individual.**

In all other cases in which you checked the "Yes" box on line 13, attach a statement duplicating lines 16 through 24 of the form. This attachment should show the **aggregate computation** for **all** persons who received during 1998, with respect to the insured listed on line 12a of the form, per diem payments either under a qualified LTC insurance contract or as accelerated death benefits because the individual was chronically ill. All such persons must use the same LTC period (determined either under the **Contract Period** method or **Equal Payment Rate** method discussed on page 6) to make the aggregate computation. If all the recipients of payments cannot agree on which LTC period to use, the **Contract Period** method must be used.

After completing the attachment showing the aggregate computation, you must determine your share of the per diem limitation and the taxable payments. If you are the insured listed on line 12a, the per diem limitation is allocated first to you to the extent of the total payments you received. (If you own a policy on which your spouse is the insured or vice versa, and you file a joint return, the per diem limitation is allocated first to you and your spouse to the extent of payments either of you received.)

After the allocation to the insured payee is made, any remaining limitation is allocated among other policyholders pro rata based on the amounts they received during 1998. The amount of the per diem limitation and the taxable payments allocated to the policyholder filing this form should be entered on lines 23 and 24. **Lines 19 through 22 must be left blank.**

Example 1

Elsie was a chronically ill individual throughout 1998. In 1998, Elsie received 12 monthly payments on a per diem basis from a qualified LTC insurance contract that were computed at a rate of $2,000 per month ($24,000 total). Elsie also incurred expenses for qualified LTC services of $100 per day ($36,500) and was reimbursed for one-half of those expenses ($18,250). Elsie uses the equal payment rate method to determine her LTC period and, therefore, has a single benefit period for 1998 (January 1–December 31). Elsie completes lines 18 through 24 of Form 8853 as follows:

Line	
18	$24,000 ($2,000 x 12 mos.)
19	$65,700 ($180 x 365 days)
20	$36,500 ($100 x 365 days)
21	$65,700
22	$18,250 ($50 x 365 days)
23	$47,450
24	$ -0-

Example 2

The facts are the same as in Example 1, except that Elsie's son, Sam, and daughter, Deborah, also each own a qualified LTC insurance contract under which Elsie is the insured individual. Neither Sam nor Deborah incurred any costs for qualified LTC services provided for Elsie during 1998. Additionally, neither Sam nor Deborah received any per diem payments from January 1, 1998, through June 30, 1998. However, from July 1, 1998, through December 31, 1998, Sam received per diem payments of $16,200 that were computed at the rate of $2,700 per month. In addition, from July 1, 1998, through December 31, 1998, Deborah received per diem payments of $10,800 that were computed at the rate of $1,800 per month. Elsie, Sam, and Deborah agree to use the equal payment rate method to determine their LTC periods.

There are two LTC periods. The first is 181 days (from January 1 through June 30) during which the per diem payments were $2,000 per month. The second is 184 days (from July 1 through December 31) during which the per diem payments were $6,500 per month ($2,000 per month under Elsie's contract + $2,700 per month under Sam's contract + $1,800 per month under Deborah's contract).

An aggregate computation must be completed for the second period and attached to Elsie, Sam, and Deborah's respective forms.

Step 1: Complete the computation statement for the first LTC period:

Line	
18	$12,000 ($2,000 x 6 mos.)
19	$32,580 ($180 x 181 days)
20	$18,100 ($100 x 181 days)
21	$32,580
22	$9,050 ($50 x 181 days)
23	$23,530
24	$ -0-

Step 2: Complete the **Aggregate Computation Statement** for the second period as follows.

Line	
18	$39,000 ($6,500 x 6 mos.)
19	$33,120 ($180 x 184 days)
20	$18,400 ($100 x 184 days)
21	$33,120
22	$9,200 ($50 x 184 days)
23	$23,920
24	$15,080

Step 3: Allocate the aggregate computation statement's per diem limitation (i.e., the $23,920 on line 23) among Elsie, Sam, and Deborah.

Because Elsie is the insured, the per diem limitation is allocated first to her to the extent of the per diem payments she received during the second LTC period in the year ($12,000). The remaining per diem limitation of $11,920 (i.e., the total per diem limitation of $23,920 less the $12,000 allocated to Elsie) is allocated between Sam and Deborah pro rata based on the amounts each received:

Allocation ratio to Sam: Sam receives 60% of the remaining limitation because the $16,200 he received during the second LTC period equals 60% of

$27,000 received by both Sam and Deborah during the second LTC period.

Allocation ratio to Deborah: Deborah receives 40% of the remaining limitation because the $10,800 she received during the second LTC period equals 40% of $27,000 received by both Sam and Deborah during the second LTC period.

Step 4: Elsie, Sam, and Deborah each complete Form 8853 individually as follows.

Elsie's Form 8853:

Line	1st LTC Period	2nd LTC Period	Form 8853
18	$12,000	$12,000	$24,000
23	$23,530	$12,000	$35,530
24	$ -0-	$ -0-	$ -0-

Sam's Form 8853:

Line	1st LTC Period	2nd LTC Period	Form 8853
18	$ -0-	$16,200	$16,200
23	$ -0-	$7,152	$7,152
24	$ -0-	$9,048	$9,048

Deborah's Form 8853:

Line	1st LTC Period	2nd LTC Period	Form 8853
18	$ -0-	$10,800	$10,800
23	$ -0-	$4,768	$4,768
24	$ -0-	$6,032	$6,032

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