



Instructions for Form 8853

Archer MSAs 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 Archer MSA contributions (including employer contributions);
- Figure your Archer MSA deduction;
- Report distributions from Archer MSAs or Medicare+Choice MSAs;
- Report taxable payments from long-term care (LTC) insurance contracts; or
- Report taxable accelerated death benefits from a life insurance policy.

Additional information. See **Pub. 969**, Medical Savings Accounts (MSAs), for more details on MSAs.

Who Must File

You **must** file Form 8853 if any of the following apply.

- You (or your employer) made contributions for 2003 to your Archer MSA.
- You are filing a joint return and your spouse (or his or her employer) made contributions for 2003 to your spouse's Archer MSA.
- You (or your spouse, if filing jointly) received Archer MSA or Medicare+Choice MSA distributions in 2003.
- You acquired an interest in an Archer MSA or a Medicare+Choice MSA because of the death of the account holder. See **Death of Account Holder** on this page.
- You (or your spouse, if filing jointly) were a policyholder who received payments under an LTC insurance contract or received any accelerated death benefits from a life insurance policy on a per diem or other periodic basis in 2003. See the instructions for Section C, beginning on page 5.

Specific Instructions

Name and Social Security Number (SSN). Enter your name(s) and SSN as shown on your tax return. If filing jointly and both you and your spouse each have an Archer MSA or each have a Medicare+Choice MSA, enter the SSN shown first on your tax return.

Section A—Archer MSAs

Eligible Individual

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

Small Employer

A small employer is generally an employer who had an average of 50 or fewer employees during either of the last 2 calendar years. See Pub. 969 for details.

Archer MSA

An Archer MSA is a medical savings account set up 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

Generally, qualified medical expenses for Archer MSA purposes are unreimbursed medical expenses that could otherwise be deducted on Schedule A (Form 1040). See the Schedule A instructions and **Pub. 502**, Medical and Dental Expenses (Including the Health Coverage Tax Credit). However, you **may not** treat insurance premiums as qualified medical expenses **unless** the premiums are for:

- Long-term care (LTC) insurance,
- Health care continuation coverage, or
- Health care coverage while receiving unemployment compensation under Federal or state law.

High Deductible Health Plan

An HDHP is a health plan that meets the following requirements.

	Self-only coverage	Family coverage
Minimum annual deductible	\$1,700	\$3,350
Maximum annual deductible	\$2,500	\$5,050
Maximum annual out-of-pocket expenses (other than for premiums)	\$3,350	\$6,150

Other Health Insurance

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

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

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

Disabled

An individual generally is considered disabled if he or she is unable to engage in any substantial gainful activity due to a physical or mental impairment which can be expected to result in death or to continue indefinitely.

Death of Account Holder

If the account holder's surviving spouse is the designated beneficiary, the Archer MSA is treated as if the surviving spouse were the account holder. The surviving spouse completes Form 8853 as though the Archer MSA belonged to him or her.

If the designated beneficiary is not the account holder's surviving spouse, the account ceases to be an Archer MSA as of the date of death. The beneficiary completes Form 8853 as follows.

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

- Write the name(s) shown on your tax return and your SSN in the spaces provided at the top of the form and skip Part II.
- On line 8a, enter the fair market value of the Archer MSA as of the date of death.
- On line 9, enter qualified medical expenses incurred by the account holder before the date of death that you paid within 1 year after the date of death.
- Complete the rest of Part III.

The distribution is not subject to the additional 15% tax. Report any earnings on the account after the date of death as income on your tax return.

Deemed Distributions From Archer MSAs

The following situations result in deemed distributions from your Archer MSA.

- You or any of your beneficiaries engaged in any transaction prohibited by section 4975 with respect to any of your Archer MSAs, at any time in 2003. Your account ceases to be an Archer MSA as of January 1, 2003, and you must include the fair market value of all assets in the account as of January 1, 2003, on line 8a.
- You used any portion of any of your Archer MSAs as security for a loan at any time in 2003. You must include the fair market value of the assets used as security for the loan as income on Form 1040, line 21.

Part I—General Information

Complete this part if contributions were made for 2003 by:

- You (or your employer) to your Archer MSA or
- Your spouse (or his or her employer) to your spouse's Archer MSA (if you are filing a joint return).

Lines 1a and 2a

Check "Yes" on line 1a if you or your employer made contributions to your Archer MSA for 2003, including contributions for 2003 made from January 1, 2004, through April 15, 2004. Otherwise, check the "No" box on line 1a.

Check "Yes" on line 2a if you are filing a joint return and your spouse (or your spouse's employer) made contributions to your spouse's Archer MSA for 2003, including contributions for 2003 made from January 1, 2004, through April 15, 2004. Otherwise, check the "No" box on line 2a.

Lines 1b and 2b

Check "Yes" on line 1b or 2b **only** if the account holder is considered **previously uninsured**.

An account holder is considered previously uninsured if (a) the HDHP

coverage began after June 30, 1996, and (b) the 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.
- **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.

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

Lines 1c and 2c

If covered by a self-only HDHP and a family HDHP, indicate which plan was in effect longer during the year.

Part II—Archer MSA Contributions and Deductions

Use Part II to figure:

- Your Archer MSA deduction,
- Any excess contributions you made, and
- Any excess contributions made by an employer (see **Excess Employer Contributions** on page 4).

Figuring Your Archer MSA Deduction

The amount you may deduct for Archer MSA contributions is limited by:

- The applicable portion of the policy's annual deductible (line 5) and
- Your compensation from the employer maintaining the HDHP (line 6).

Any employer contributions made to your Archer MSA prevent you from making deductible contributions. See **Employer Contributions to an Archer MSA** below. Also, if you or your spouse made contributions in addition to any employer contributions, you may have to pay an additional tax. See **Excess Contributions You Make** on page 4.

You cannot deduct any contributions you made after you became eligible for Medicare benefits. Also, you cannot deduct contributions if you can be claimed as a dependent on someone else's 2003 tax return.

Employer Contributions to an Archer MSA

If an employer made contributions to your Archer MSA, you are not entitled to a deduction. If you and your spouse are covered under an HDHP with family coverage and an employer made contributions to either of your Archer MSAs, neither you nor your spouse are

allowed to make deductible contributions to an Archer MSA. If you and your spouse each have an Archer MSA with self-only coverage and only one of you received employer contributions to an Archer MSA, the other spouse is allowed to make deductible contributions to an Archer MSA.

How To Complete Part II

Complete lines 3a through 7 as instructed on the form unless 1 or 2 below applies.

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

- Complete lines 3a through 4.
- Skip lines 5 and 6.
- Enter -0- on line 7.
- If line 4 is more than zero, see **Excess Contributions You Make** on page 4.

2. If you and your spouse have more than one Archer MSA, complete Part II as follows.

- If either spouse has an HDHP with family coverage, you both are treated as having only the family coverage plan. Disregard any plans with self-only coverage.
- If both spouses have HDHPs with family coverage, you both are treated as having only the family coverage plan with the lowest annual deductible.

c. If both spouses have HDHPs with self-only coverage, complete a separate Form 8853, Section A, Part II, for each spouse. Write "statement" across the top of each Form 8853, fill in the name and SSN, and complete Part II. Next, add lines 3b, 4, and 7 from the two statement Forms 8853 and enter those totals on the respective lines of the controlling Form 8853 (the combined Form 8853 for both spouses). Do not complete lines 3a, 5, and 6 of the controlling Form 8853. Attach the two statement Forms 8853 to your tax return after the controlling Form 8853.

Lines 3a and 3b

Employer Contributions

Employer contributions include any amount an employer contributes to any Archer MSA for you or your spouse for 2003. These contributions should be shown in box 12 of Form W-2 with code R. If your employer made excess contributions, you may have to report the excess as income. See **Excess Employer Contributions** on page 4 for details.

Line 4

Do not include amounts rolled over from another Archer MSA. See **Rollovers** on page 4.

Line 5

Go through the chart at the top of the **Line 5 Limitation Chart and Worksheet** on this page for each month of 2003. Enter the result on the worksheet next to the corresponding month.

TIP *If eligibility and coverage of both you and your spouse did not change from one month to the next, enter the same number you entered for the previous month. If eligibility and coverage did not change during the entire year, figure the number for January only, and enter this amount on line 5 of Form 8853.*

More than one HDHP. If you and your spouse had more than one HDHP on the first of the month and one of the plans provides family coverage, use the **Family coverage** rules on the chart and disregard any plans with self-only coverage. If you and your spouse both have HDHPs with family coverage on the first of the month, you both are treated as having only the family coverage plan with the lowest annual deductible.

Married filing separately. If you have an HDHP with family coverage and are married filing separately, enter only 37.5% (.375) (one-half of 75%) of the annual deductible on the worksheet; or, if you and your spouse agree to divide the 75% of the annual deductible in a different manner, enter your share.

Line 6

Compensation

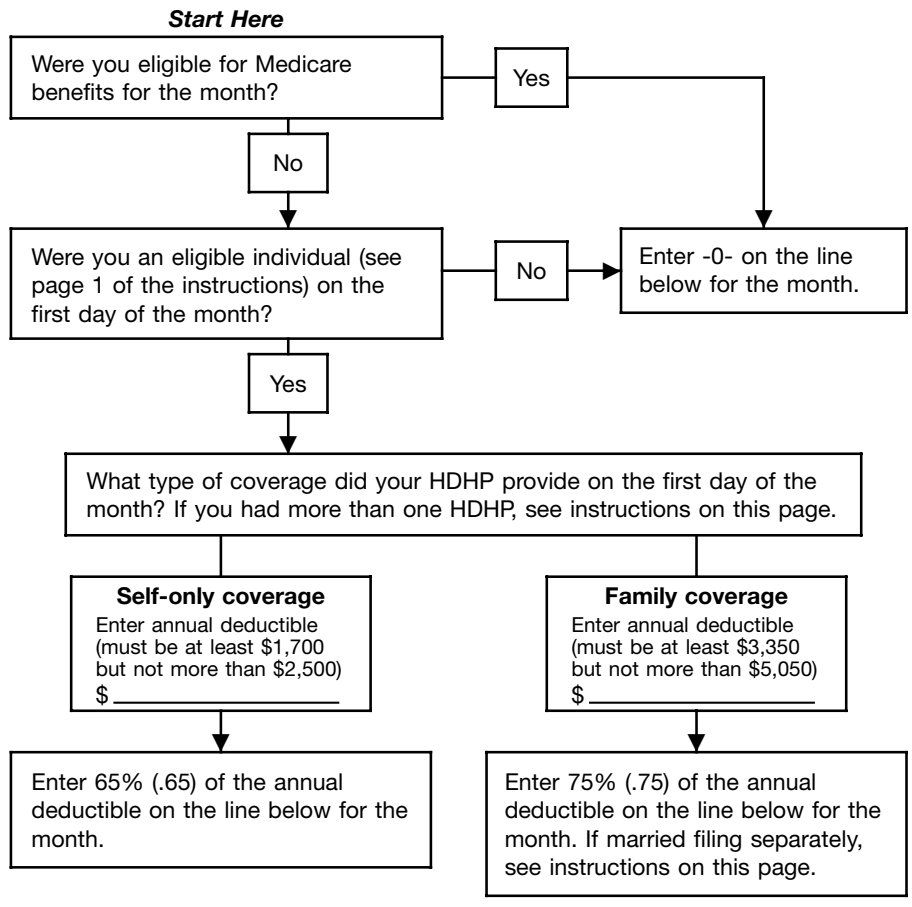
Compensation includes wages, salaries, professional fees, and other pay you receive for services you perform. It also includes sales commissions, commissions on insurance premiums, pay based on a percentage of profits, tips, and bonuses. Generally, these amounts are included on the Form(s) W-2 you receive 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 Archer MSA than is allowable, you may have to pay a tax on the excess contributions. Figure the excess contributions using the instructions on page 4. See **Form 5329**, Additional Taxes on Qualified Plans

Line 5 Limitation Chart and Worksheet

Go through this chart for each month of 2003. See the instructions for line 5 on this page. (Keep for your records)



Month in 2003	Amount from chart above
January	_____
February	_____
March	_____
April	_____
May	_____
June	_____
July	_____
August	_____
September	_____
October	_____
November	_____
December	_____
Total for all months	_____
Limitation. Divide the total by 12. Enter here and on line 5	_____

(Including IRAs) and Other Tax-Favored Accounts, to figure the additional tax.

Excess Contributions You Make

To figure your excess contributions, subtract your deductible contributions (line 7) from your actual contributions (line 4). However, you may withdraw some or all of your excess contributions for 2003 and they will be treated as if they had not been contributed if:

- You make the withdrawal by the due date, including extensions, of your 2003 tax return,
- You do not claim a deduction for the amount of the withdrawn contributions, and
- You also withdraw any income earned on the withdrawn contributions and include the earnings in “other income” on your tax return for the year you withdraw the contributions and earnings.

Excess Employer Contributions

Excess employer contributions are the excess, if any, of your employer’s contributions over the **smaller** of (a) your limitation on line 5 or (b) your compensation from the employer(s) who maintained your HDHP (line 6). If the excess was not included in income on Form W-2, you must report it as “other income” on your tax return. However, you may withdraw some or all of the excess employer contributions for 2003 and they will be treated as if they had not been contributed if:

- You make the withdrawal by the due date, including extensions, of your 2003 tax return,
- You do not claim an exclusion from income for the amount of the withdrawn contributions, and
- You also withdraw any income earned on the withdrawn contributions and include the earnings in “other income” on your tax return for the year you withdraw the contributions and earnings.

Note: *If you timely filed your return without withdrawing the excess contributions, you may still make the withdrawal no later than 6 months after the due date of your tax return, excluding extensions. If you do, file an amended return with “Filed pursuant to section 301.9100-2” written at the top. Include an explanation of the withdrawal. Make all necessary changes on the amended return (for example, if you reported the contributions as excess contributions on your original return, include an amended Form 5329 reflecting that the withdrawn contributions are no longer treated as having been contributed).*

Part III—Archer MSA Distributions

Line 8a

Enter the total distributions you and your spouse received in 2003 from all Archer MSAs. These amounts should be shown in box 1 of Form 1099-MSA.

Line 8b

Include on line 8b any distributions you received in 2003 that were rolled over. See **Rollovers** below. Also include any excess contributions (and the earnings on those excess contributions) included on line 8a that were withdrawn by the due date, including extensions, of your return. See the instructions for line 7 beginning on page 3.

Rollovers

A rollover is a tax-free distribution (withdrawal) of assets from one Archer MSA that is reinvested in another. Generally, you must complete the rollover within 60 days following the distribution. See **Pub. 590**, Individual Retirement Arrangements (IRAs), for more details and additional requirements regarding rollovers.

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

Line 9

In general, include on line 9 distributions from all Archer MSAs in 2003 that were used for the qualified medical expenses (see page 1) of the account holder and his or her spouse or dependents. However, if a contribution was made to an Archer MSA in 2003 (by you or your employer), do not include on line 9 withdrawals from an Archer 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 listed on page 1) at the time the expenses were incurred.

Example. In 2003, 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 Archer MSA for 2003. You may not include on line 9 withdrawals made from the Archer MSA to pay your spouse’s medical expenses incurred in 2003 because your spouse was covered by a plan that was not an HDHP.



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

Lines 11a and 11b

Additional 15% Tax

Archer MSA distributions included in income (line 10) are subject to an additional 15% tax unless an exception applies. If any of the following exceptions apply to any of the distributions included on line 10, check the box on line 11a. Enter on line 11b only 15% (.15) of any amount included on line 10 that does **not** meet any of the exceptions.

Exceptions to the Additional 15% Tax

The additional 15% tax does not apply to distributions made on or after the date that the account holder—

- Dies,
- Becomes disabled (see page 1), or
- Turns age 65.

Example 1. You turned age 66 during the year and had no Archer MSA during the year. Your spouse turned age 63 during the year and received a distribution from an Archer MSA that is included in income. You **do not** check the box on line 11a because your spouse (the account holder) did not meet the age exception for the distribution. You enter 15% of the amount from line 10 on line 11b.

Example 2. Both you and your spouse received distributions from your Archer MSAs in 2003 that are included in income. You were age 65 at the time you received the distributions and your spouse was age 63 when he or she received the distributions. You check the box on line 11a because the additional 15% tax does not apply to the distributions you received (because you met the age exception). However, the additional 15% tax does apply to your spouse’s distributions. You enter on line 11b only 15% of the amount of your spouse’s distributions included in line 10.

Example 3. You turned age 65 during the year. You received distributions that are included in income both before and after you turned age 65. You check the box on line 11a because the additional 15% tax does not apply to the distributions you received after you turned age 65. However, the additional 15% tax does apply to the distributions you received before you turned age 65. You enter on line 11b, 15% of the amount of these distributions included in line 10.

Section B— Medicare+Choice MSA Distributions

Complete Section B if you (or your spouse, if filing jointly) received distributions from a Medicare+Choice MSA in 2003. If both you and your spouse received distributions, complete a

separate Form 8853, Section B, for each spouse. Write "statement" across the top of each Form 8853, fill in the name and SSN, and complete Section B. Next, add lines 12, 13, 14, and 15b from the two statement Forms 8853 and enter those totals on the respective lines of the controlling Form 8853 (the combined Form 8853 for both spouses). If either spouse checked the box on line 15a of the statement Form 8853, check the box on the controlling Form 8853. Attach the two statement Forms 8853 to your tax return after the controlling Form 8853.

Medicare+Choice MSA

A Medicare+Choice MSA is an Archer MSA designated as a Medicare+Choice MSA to be used solely to pay the qualified medical expenses of the account holder. To be eligible for a Medicare+Choice MSA, you must be eligible for Medicare and have a HDHP that meets the Medicare guidelines. Contributions to the account may be made only by Medicare. The contributions and any earnings, while in the account, are not taxable to the account holder. A distribution used exclusively to pay for the qualified medical expenses of the account holder is not taxable. Distributions that are not used for qualified medical expenses of the account holder are included in income and also may be subject to a penalty.

Death of Account Holder

If the account holder's surviving spouse is the designated beneficiary, the Medicare+Choice MSA is treated as a regular Archer MSA (not a Medicare+Choice MSA) of the surviving spouse for distribution purposes. Follow the instructions in Section A for **Death of Account Holder** beginning on page 1.

If the designated beneficiary is not the account holder's surviving spouse, the account ceases to be an MSA as of the

date of death. The beneficiary completes Form 8853 as follows.

- Write "Death of Medicare+Choice MSA account holder" across the top of Form 8853.
- Write the name(s) shown on your tax return and your SSN in the spaces provided at the top of the form. Skip Section A.
- On line 12, enter the fair market value of the Medicare+Choice MSA as of the date of death.
- On line 13, enter qualified medical expenses incurred by the account holder before the date of death that you paid within 1 year after the date of death.
- Complete the rest of Section B.

The distribution is not subject to the additional 50% tax. Report any earnings on the account after the date of death as income on your tax return.

Line 12

Enter the total distributions you received in 2003 from all Medicare+Choice MSAs. These amounts should be shown in box 1 of Form 1099-MSA. This amount should not include any erroneous contributions made by Medicare (or any earnings on the erroneous contributions) or any amounts from a trustee-to-trustee transfer from one Medicare+Choice MSA to another Medicare+Choice MSA of the same account holder.

Line 13

Enter the total distributions from all Medicare+Choice MSAs in 2003 that were used for your qualified medical expenses (see page 1).



You may not take a deduction on Schedule A (Form 1040) for any amount you include on line 13.

Lines 15a and 15b

Additional 50% Tax

Medicare+Choice MSA distributions included in income (line 14) may be

subject to an additional 50% tax unless one of the following exceptions applies.

Exceptions to the Additional 50% Tax

The additional 50% tax does not apply to distributions made on or after the date that the account holder—

- Dies or
 - Becomes disabled (see page 1).
- If either of the exceptions applies to **any** of the distributions included on line 14, check the box on line 15a. Next, if either of the exceptions applies to **all** the distributions included on line 14, enter zero on line 15b. Otherwise, complete the worksheet below to figure the amount of the additional 50% tax to enter on line 15b.

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

See **Filing Requirements for Section C** 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 and also may be the insured individual. The policyholder is required to report the income, even if payment is assigned to a third party or parties. In the case of a group contract, the certificate holder is considered to be the policyholder.

Qualified LTC Insurance Contract

A qualified LTC insurance contract is a contract issued:

- After December 31, 1996, that meets the requirements of section 7702B, including the requirement that the insured must be a chronically ill individual (defined on page 6) or

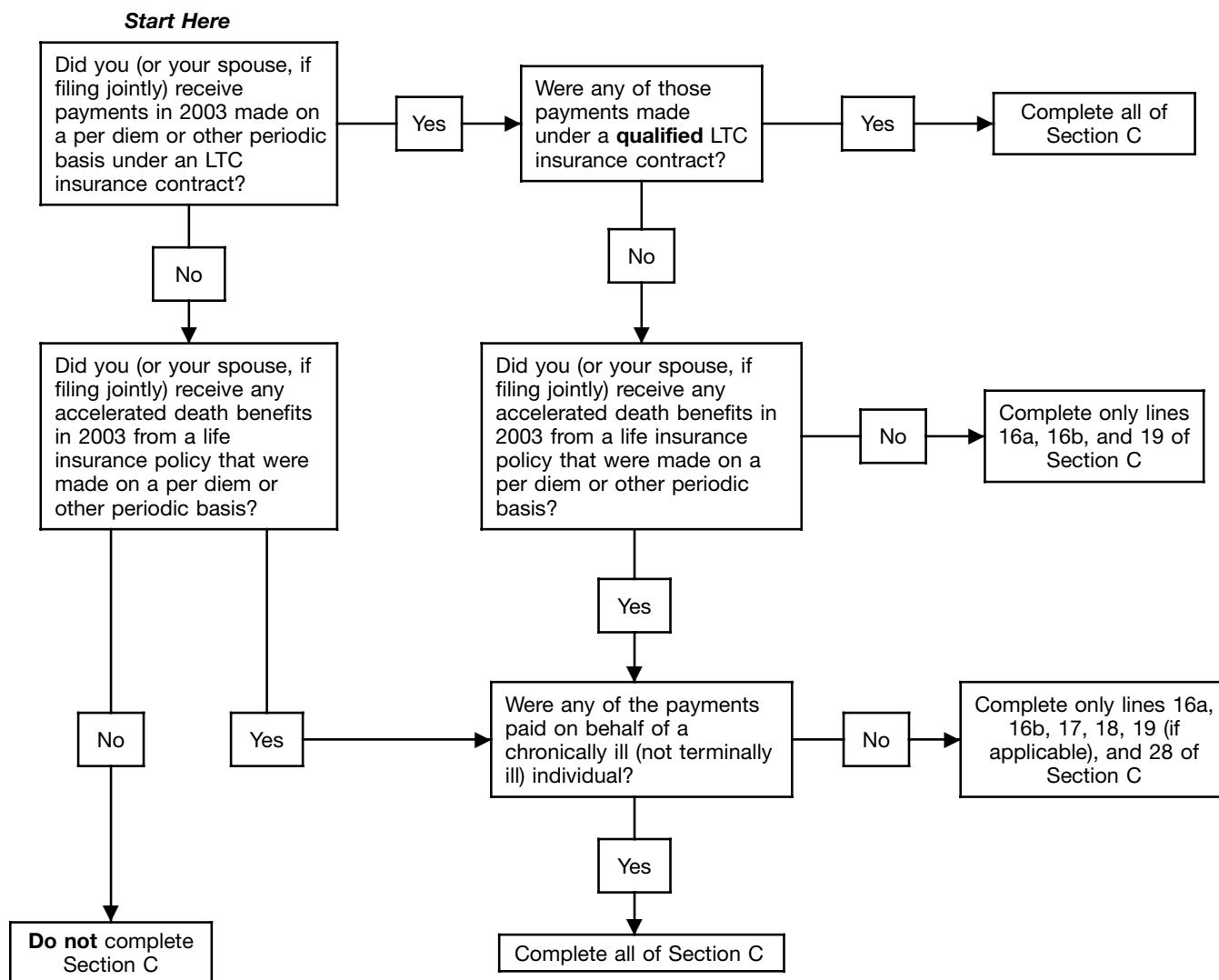
Additional 50% Tax Worksheet—Line 15b

(Keep for your records)

1. Enter the total distributions included on Form 8853, line 14, that do not meet either of the exceptions to the additional 50% tax	1. _____
2. Did you have a Medicare+Choice MSA on December 31, 2002? <input type="checkbox"/> No. Enter the amount from line 1 on line 6 below and go to line 7. <input type="checkbox"/> Yes. Enter the value of your Medicare+Choice MSA on December 31, 2002	2. _____
3. Enter the amount of the annual deductible for your HDHP policy on January 1, 2003	3. _____
4. Multiply line 3 by 60% (.60)	4. _____
5. Subtract line 4 from line 2. If zero or less, enter -0-	5. _____
6. Subtract line 5 from line 1. If zero or less, enter -0-	6. _____
7. Enter one-half of line 6 here and on Form 8853, line 15b	7. _____

Filing Requirements for Section C

Go through this chart for each insured person for whom you received long-term care (LTC) payments.
See **Definitions** beginning on page 5.



- Before January 1, 1997, that met state law requirements for LTC insurance contracts at the time the contract was issued and has not been changed materially.

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.

Per Diem Payments

Per diem payments are payments of a fixed amount made on a periodic basis without regard to actual expenses incurred. Box 3 of Form 1099-LTC should indicate whether payments were 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—

- Being unable to perform at least two activities of daily living (ADLs) (eating, toileting, transferring, bathing, dressing, and continence), without substantial assistance from another individual, for at least 90 days, due to a loss of functional capacity or
- 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 next). Accelerated death benefits paid with respect to an insured individual who is chronically ill generally are excludable from your gross income to the same extent as they would be under a qualified LTC insurance contract.

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 may reasonably be expected to result in death within 24 months.

Line 17

Special rules apply in determining the taxable payments if other individuals received per diem payments under a qualified LTC insurance contract or as accelerated death benefits with respect to

the insured listed on line 16a. See **Multiple Payees** on this page for details.

Line 20



If you have more than one LTC period, you must separately calculate the taxable amount of the payments received during each LTC period. To do this, complete lines 20 through 28 on separate sections C for each LTC period. Enter the total on line 28 from each separate Section C on the Form 8853 that you attach to your tax return. See the instructions for line 23 on this page for the LTC period.

Line 21

Enter the total accelerated death benefits you received with respect to the insured listed on line 16a. These amounts generally are shown in box 2 of Form 1099-LTC. Include only 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. If the insured was redesignated from chronically ill to terminally ill in 2003, only include on line 21 payments received **before** the insured was certified as terminally ill.

Line 23

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 other persons also received per diem payments in 2003 under a qualified LTC insurance contract or as accelerated death benefits with respect to the insured listed on line 16a. See **Multiple Payees** on this page for details.

Method 1—Contract Period

Under this method your LTC period is the same period as that used by the insurance company under the contract to compute the benefits it pays you. For example, if the insurance company computes your benefits on a daily basis, your LTC period is 1 day.



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.

Method 2—Equal Payment Rate

Under this method, your LTC period is the period during which the insurance company uses the same payment rate to compute your benefits. For example, you have two LTC periods if the insurance contract computes payments at a rate of

\$175 per day from March 1, 2003, through May 31, 2003, and then at a rate of \$195 per day from June 1, 2003, through December 31, 2003. The first LTC period is 92 days (from March 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 more than one qualified LTC insurance contract covering the same period. For example, you have one insurance contract that pays \$100 per day from March 1, 2003, through December 31, 2003, and you have a second insurance contract that pays \$1,500 per month from March 1, 2003, through December 31, 2003. You have one LTC period because each payment rate does not vary during the LTC period of March 1 through December 31. However, you have two LTC periods if the facts are the same except that the second insurance contract did not begin making payments until May 1, 2003. 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 24

Qualified LTC services are necessary diagnostic, preventive, therapeutic, curing, treating, mitigating, and rehabilitative services, and maintenance or personal care services required to treat a chronically ill individual under a plan of care prescribed by a licensed health care practitioner.

Line 26

Enter the reimbursements you received or **expect to receive** through insurance or otherwise for qualified LTC services provided for the insured for LTC periods in 2003. Box 3 of Form 1099-LTC should indicate whether the payments were made on a reimbursement basis.



Generally, do not include on line 26 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 July 31, 1996, to increase per diem payments or reimbursements.

Multiple Payees

If you checked "Yes" on lines 17 and 18 and the **only** payments you received were accelerated death benefits that were paid because the insured was terminally ill, skip lines 19 through 27 and enter zero on line 28.

In all other cases in which you checked "Yes" on line 17, attach a statement duplicating lines 20 through 28 of the form. This attachment should show the **aggregate computation** for all

persons who received per diem payments under a qualified LTC insurance contract or as accelerated death benefits because the insured was chronically ill. Each person must use the same LTC period. If all the recipients of payments do not agree on which LTC period to use, the contract period method must be used.

After completing the attachment, determine your share of the per diem limitation and any taxable payments. The per diem limitation is allocated first to the insured to the extent of the total payments the insured received. If the insured files a joint return and the insured's spouse is one of the policyholders, the per diem limitation is allocated first to them to the extent of the payments they both received. Any remaining limitation is allocated among the other policyholders pro rata based on the payments they received in 2003.

Enter your share of the per diem limitation and the taxable payments on lines 27 and 28. **Leave lines 23 through 26 blank.**

Example 1

Mrs. Smith was chronically ill throughout 2003 and received 12 monthly payments on a per diem basis from a qualified LTC insurance contract. She was paid \$2,000 per month (\$24,000 total). Mrs. Smith incurred expenses for qualified LTC services of \$100 per day (\$36,500) and was reimbursed for one-half of those expenses (\$18,250). She uses the equal payment rate method and therefore has a single benefit period for 2003 (January 1–December 31). Mrs. Smith completes lines 22 through 28 of Form 8853 as follows.

Line	Amount
22	\$24,000 (\$2,000 x 12 mos.)
23	\$80,300 (\$220 x 365 days)
24	\$36,500 (\$100 x 365 days)
25	\$80,300
26	\$18,250 (\$50 x 365 days)
27	\$62,050
28	\$-0-

Example 2

The facts are the same as in Example 1, except Mrs. Smith's son, Sam, and daughter, Deborah, each also own a qualified LTC insurance contract under which Mrs. Smith is the insured. Neither Sam nor Deborah incurred any costs for qualified LTC services for Mrs. Smith in 2003. From July 1, 2003, through December 31, 2003, Sam received per diem payments of \$2,700 per month (\$16,200 total) and Deborah received per

diem payments of \$1,800 per month (\$10,800 total). Mrs. Smith, 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 aggregate per diem payments were \$6,500 per month (\$2,000 under Mrs. Smith's contract + \$2,700 under Sam's contract + \$1,800 under Deborah's contract).

An aggregate statement must be completed for the second LTC period and attached to Mrs. Smith's, Sam's, and Deborah's forms.

Step 1. They complete a statement for Mrs. Smith for the first LTC period as follows.

Line	Amount
22	\$12,000 (\$2,000 x 6 mos.)
23	\$39,820 (\$220 x 181 days)
24	\$18,100 (\$100 x 181 days)
25	\$39,820
26	\$9,050 (\$50 x 181 days)
27	\$30,770
28	\$-0-

Step 2. They complete the aggregate statement for the second LTC period as follows.

Line	Amount
22	\$39,000 (\$6,500 x 6 mos.)
23	\$40,480 (\$220 x 184 days)
24	\$18,400 (\$100 x 184 days)
25	\$40,480
26	\$9,200 (\$50 x 184 days)
27	\$31,280
28	\$7,720

Step 3. They allocate the aggregate per diem limitation of \$31,280 on line 27

among Mrs. Smith, Sam, and Deborah. Because Mrs. Smith 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 (\$12,000). The remaining per diem limitation of \$19,280 is allocated between Sam and Deborah.

Allocation ratio to Sam: 60% of the remaining limitation is allocated to Sam because the \$16,200 he received during the second LTC period is 60% of the \$27,000 received by both Sam and Deborah during the second LTC period.

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

Step 4. Mrs. Smith, Sam, and Deborah each complete Form 8853 as follows.

Mrs. Smith's Form 8853:

Line	1st LTC Period	2nd LTC Period	Form 8853
22	\$12,000	\$12,000	\$24,000
27	\$30,770	\$12,000	\$42,770
28	\$-0-	\$-0-	\$-0-

Sam's Form 8853:

Line	1st LTC Period	2nd LTC Period	Form 8853
22	\$-0-	\$16,200	\$16,200
27	\$-0-	\$11,568	\$11,568
28	\$-0-	\$4,632	\$4,632

Deborah's Form 8853:

Line	1st LTC Period	2nd LTC Period	Form 8853
22	\$-0-	\$10,800	\$10,800
27	\$-0-	\$7,712	\$7,712
28	\$-0-	\$3,088	\$3,088

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Recordkeeping	1 hr., 31 min.
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Preparing the form	1 hr., 42 min.
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