2017 Instructions for Form 8853

Department of the Treasury
Internal Revenue Service

Archer MSAs and Long-Term Care Insurance Contracts

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

Future Developments

For the latest information about developments related to Form 8853 and its instructions, such as legislation enacted after they were published, go to *IRS.gov/Form8853*.

General Instructions

CAUTION *After December 31, 2007, contributions can't be made to an Archer Medical Savings Account for you, unless:*

- *You were an active Archer MSA participant for any tax year ending before January 1, 2008, or*
- *You became an active Archer MSA participant for a tax year ending after December 31, 2007, because of coverage under a high deductible health plan (HDHP) of an Archer MSA participating employer.*

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 Advantage 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, Health Savings Accounts and Other Tax-Favored Health Plans, for more details on MSAs.

Who Must File

You must file Form 8853 if any of the following applies.

- You (or your employer) made contributions for 2017 to your Archer MSA.
- You are filing a joint return and your spouse (or his or her employer) made contributions for 2017 to your spouse's Archer MSA.
- You (or your spouse, if filing jointly) acquired an interest in an Archer MSA or a Medicare Advantage MSA because of the death of the account holder. See *Death of Account Holder*, later.
- 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 2017. See the instructions for Section C, later.
- You (or your spouse, if filing jointly) received Archer MSA or Medicare Advantage MSA distributions in 2017.

CAUTION *If you (or your spouse, if filing jointly) received Archer MSA or Medicare Advantage MSA distributions in 2017, you must file Form 8853 with Form 1040 or 1040NR even if you have no taxable income or any other reason for filing Form 1040 or 1040NR.*

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 Advantage MSA, enter the SSN shown first on your tax return.

Section A—Archer MSAs

Eligible Individual

To be eligible for an Archer MSA, you (or your spouse) must be an employee of a small employer or be self-employed. You (or your spouse) must be covered under an HDHP and have no other health coverage except permitted coverage. You must not be enrolled in Medicare and can't be claimed as a dependent on someone else's 2017 tax return. 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

Generally, an Archer MSA is a medical savings account set up exclusively for paying the qualified medical expenses of the account holder.

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 Instructions for Schedule A (Form 1040), Itemized Deductions and Pub. 502, Medical and Dental Expenses. Qualified medical expenses are those incurred by the account holder or the account holder's spouse or dependent(s). Only prescribed medicines or drugs (including over-the-counter medicines and drugs that are prescribed) and insulin (even if purchased without a prescription) for the account holder or the account holder's spouse or dependent(s), are qualified medical expenses. See the instructions for Line 7, later. You can't treat insurance premiums as qualified medical expenses unless the premiums are for:

- 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	$2,250	$4,500
Maximum annual deductible	$3,350	$6,750
Maximum annual out-of-pocket expenses (other than for premiums)	$4,500	$8,250

Other Health Coverage

If you have an Archer MSA, you (and your spouse, if you have family coverage) can't have any health coverage other than an HDHP. However, your spouse can have health coverage other than an HDHP if you aren't covered by that plan.

Exceptions. You can have additional insurance that provides benefits only for:

- 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.

You can also have coverage (either through insurance or otherwise) for accidents, disability, dental care, vision care, or long-term care.

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 isn't the account holder's surviving spouse, or there is no designated beneficiary, the account ceases to be an Archer MSA as of the date of death. The beneficiary completes Form 8853 as follows.

- Enter “Death of Archer MSA account holder” across the top of Form 8853.
- Enter the name(s) shown on the beneficiary's tax return and the beneficiary's SSN in the spaces provided at the top of the form and skip Part I.
- On lines 6a and 6c, enter the fair market value of the Archer MSA as of the date of death.

- On line 7, for a beneficiary other than the estate, 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 II.

If the account holder's estate is the beneficiary, the fair market value of the Archer MSA as of the date of death is included in the account holder's final income tax return. Complete Form 8853 as described above, except you should complete Part I, if applicable.

The transfer isn't subject to the additional 20% tax. Report any earnings on the account after the date of death as income on your tax return.

Note. If, during the tax year, you are the beneficiary of two or more Archer MSAs or you are a beneficiary of an Archer MSA and you have your own Archer MSA, you must complete a separate Form 8853 for each Medicare Advantage MSA. Enter "statement" at the top of each Form 8853 and complete the form as instructed. Next, complete a controlling Form 8853, combining the amounts shown on each of the statement Forms 8853. Attach the statements to your paper tax return after the controlling Form 8853.

Deemed Distributions From Archer MSAs

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

- You engaged in any transaction prohibited by section 4975 with respect to any of your Archer MSAs, at any time in 2017. Your account ceases to be an Archer MSA as of January 1, 2017, and you must include the fair market value of all assets in the account as of January 1, 2017, on line 6a.
- You used any portion of any of your Archer MSAs as security for a loan at any time in 2017. You must include the fair market value of the assets used as security for the loan as income on Form 1040, line 21; or Form 1040NR, line 21.

Any deemed distribution won't be treated as used to pay qualified medical expenses. Generally, these distributions are subject to the additional 20% tax.

Part I—Archer MSA Contributions and Deductions

Use Part I to figure:

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

Figuring Your Archer MSA Deduction

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

- The applicable portion of the HDHP's annual deductible (line 3), and
- Your compensation from the employer maintaining the HDHP (line 4).

Any employer contributions made to your Archer MSA prevent you from making deductible contributions. See *Employer Contributions to an Archer MSA*, later. 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*, later.

You can't deduct any contributions you made after you became enrolled in Medicare. Also, you can't deduct contributions if you can be claimed as a dependent on someone else's 2017 tax return.

Employer Contributions to an Archer MSA

If an employer made contributions to your Archer MSA, you aren't 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 is allowed to make deductible contributions to an Archer MSA. If you and your spouse both have an HDHP 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 I

Complete lines 1 through 5 as instructed on the form unless 1 or 2, next, 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 I as follows.
   a. Complete lines 1 and 2.
   b. Skip lines 3 and 4.
   c. Enter -0- on line 5.
   d. If line 2 is more than zero, see *Excess Contributions You Make*, later.
2. If you and your spouse have more than one Archer MSA, complete Part I as follows.
   a. 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.
   b. 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 I, for each spouse. Enter "statement" across the top of each Form 8853, fill in the name and SSN, and complete Part I. Next, add lines 1, 2, and 5 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). Don't complete lines 3 and 4 of the controlling Form 8853. Attach the two statement Forms 8853 to your paper tax return after the controlling Form 8853.

Line 1

Employer Contributions

Employer contributions include any amount an employer contributes to any Archer MSA for you or your spouse for 2017. 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*, later, for details.

Line 2

Include on line 2 contributions you made to your Archer MSA in 2017. Also include those contributions made from January 1, 2018, through April 17, 2018, that were for 2017. Don't include amounts rolled over from another Archer MSA. See *Rollovers*, later.

Line 3

Go through the chart at the top of the *Line 3 Limitation Chart and Worksheet* for each month of 2017. Enter the result on the worksheet next to the corresponding month. Enter the amount from the last line of the worksheet on line 3.

TIP *If eligibility and coverage for both you and your spouse didn't change from one month to the next, enter the same number you entered for the previous month. If eligibility and coverage didn't change during the entire year, figure the number for January only, and enter this amount on Form 8853, line 3.*

More than one HDHP. If you and your spouse had more than one HDHP on the first day 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 day 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% (0.375) (one-half of 75%) of the annual deductible for each month 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 4

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. This is your income from self-employment minus expenses (including the deductible part of self-employment tax). Compensation doesn't include any amounts received as a pension or annuity and doesn't include any amount received as deferred compensation.

Line 5

If you (or your employer) contributed more to your Archer MSA than is allowable, you may have to pay an additional tax on the excess contributions. Figure the excess contributions using the following instructions. See Form 5329, Additional Taxes on Qualified Plans (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 5) from your actual contributions (line 2). However, you can withdraw some or all of your excess contributions for 2017 and they will be treated as if they hadn't been contributed if:

- You make the withdrawal by the due date, including extensions, of your 2017 tax return (but see the Note under *Excess Employer Contributions*),
- You don't 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 3, or (b) your compensation from the employer(s) who maintained your HDHP (line 4). If the excess wasn't included in income on Form W-2, you must report it as "Other income" on your tax return. However, you can withdraw some or all of the excess employer contributions for 2017 and they will be treated as if they hadn't been contributed if:

- You make the withdrawal by the due date, including extensions, of your 2017 tax return (but see the Note, later),
- You don't 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 can 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).

Deducting an Excess Contribution in a Later Year

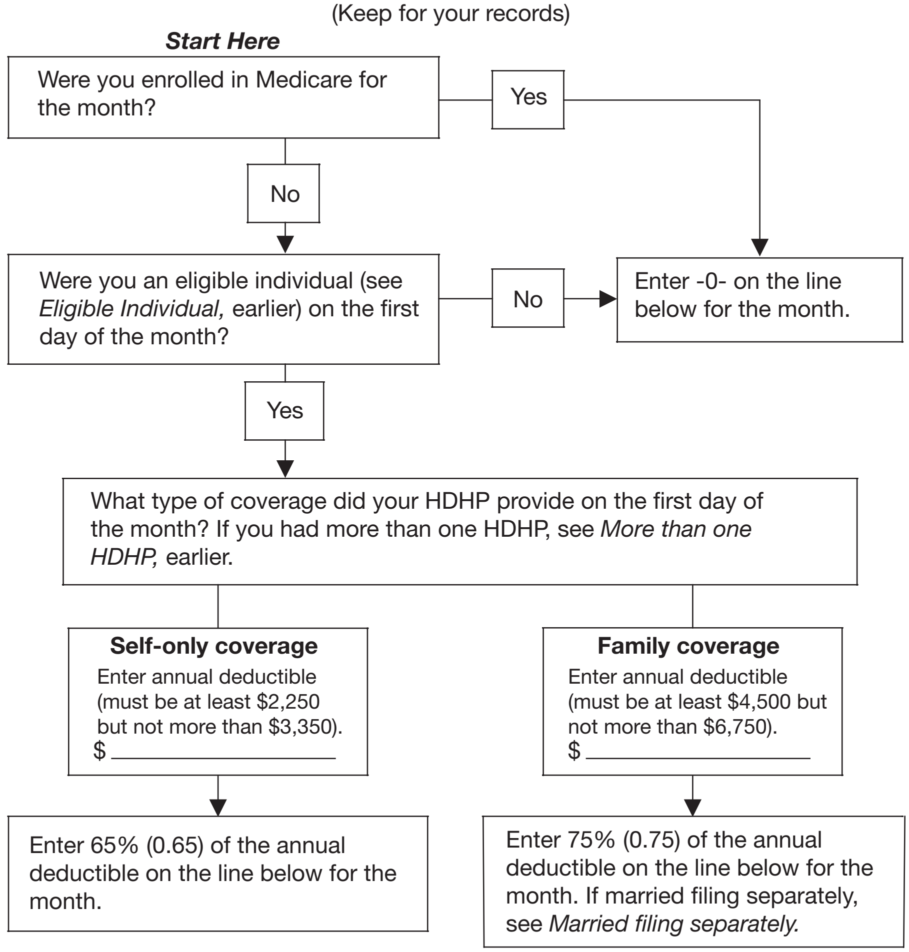
You may be able to deduct excess contributions for previous years that are still in your Archer MSA. The excess contribution you can deduct in the current year is the lesser of the following two amounts.

- Your maximum Archer MSA contribution limit for the year minus any amounts contributed to your Archer MSA for the year.
- The total excess contributions in your Archer MSA at the beginning of the year.

Any excess contribution remaining at the end of a tax year is subject to the additional tax. See Form 5329.

Line 3 Limitation Chart and Worksheet

Go through this chart for each month of 2017.
See the instructions for line 3.
(Keep for your records)



Month in 2017	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 3	

Part II—Archer MSA Distributions

Line 6a

Enter the total distributions you and your spouse received in 2017 from all Archer MSAs. These amounts should be shown in box 1 of Form 1099-SA.

Line 6b

Include on line 6b any distributions you received in 2017 that were rolled over. See *Rollovers*, later. Also include any excess contributions (and the earnings on those excess contributions) included on line 6a that were withdrawn by the due date, including extensions, of your return. See the instructions for line 5, earlier.

Rollovers

A rollover is a tax-free distribution (withdrawal) of assets from one Archer MSA that is reinvested in another Archer MSA or a health savings account (HSA) of the same account holder. Generally, you must complete the rollover within 60 days following the distribution. An Archer MSA and an HSA can receive only one rollover contribution in a 1-year period. See Pub. 590-A, Contributions to 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 the trustee of another of your Archer MSAs, the transfer isn't considered a rollover. There is no limit on the number of these transfers. Don't include the amount transferred in income, deduct it as a contribution, or include it as a distribution on line 6a.

Line 7

In general, include on line 7 distributions from all Archer MSAs in 2017 that were used for the qualified medical expenses (see *Qualified Medical Expenses*, earlier) of:

1. Yourself and your spouse.
2. All dependents you claim on your tax return.
3. Any person you could have claimed as a dependent on your return except that:
   a. The person filed a joint return,
   b. The person had gross income of $4,050 or more, or
   c. You, or your spouse if filing jointly, could be claimed as a dependent on someone else's return.

TIP *For this purpose, a child of parents that are divorced, separated, or living apart for the last 6 months of the calendar year is treated as the dependent of both parents whether or not the custodial parent releases the claim to the child's exemption.*

However, if you or your employer made a contribution to your Archer MSA in 2017 and you used withdrawals to pay expenses for an individual who wasn't covered by an HDHP or was covered by a plan that wasn't an HDHP (other than the exceptions listed in *Other Health Coverage*, earlier) at the time the expenses were incurred, then you shouldn't include those withdrawals on line 7.

Example. In 2017, you were covered by an HDHP with self-only coverage and your spouse was covered by a health plan that wasn't an HDHP. You made contributions to an Archer MSA for 2017. You can't include on line 7 withdrawals made from the Archer MSA to pay your spouse's medical expenses incurred in 2017 because your spouse was covered by a plan that wasn't an HDHP.

CAUTION *You can't take a deduction on Schedule A (Form 1040 or 1040NR) for any amount you include on line 7.*

Lines 9a and 9b

Additional 20% Tax

Archer MSA distributions included in income (line 8) are subject to an additional 20% tax unless one of the following exceptions applies.

Exceptions to the Additional 20% Tax

The additional 20% tax doesn't apply to distributions made after the date that the account holder—

- Dies,
- Becomes disabled (see *Disabled*, earlier), or
- Turns age 65.

If any of the exceptions applies to any of the distributions included on line 8, check the box on line 9a. Enter on line 9b only 20% (0.20) of any amount included on line 8 that doesn't meet any of the exceptions.

Example 1. You turned age 66 in 2017 and had no Archer MSA during 2017. Your spouse turned age 63 in 2017 and received a distribution from an Archer MSA that is included in income. Don't check the box on line 9a because your spouse (the account holder) didn't meet the age exception for the distribution. Enter 20% of the amount from line 8 on line 9b.

Example 2. Both you and your spouse received distributions from your Archer MSAs in 2017 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. Check the box on line 9a because the additional 20% tax doesn't apply to the distributions you received (because you met the age exception). However, the additional 20% tax does apply to your spouse's distributions. Enter on line 9b only 20% of the amount of your spouse's distributions included in line 8.

Example 3. You turned age 65 in 2017. You received distributions that are included in income both before and after you turned age 65. Check the box on line 9a because the additional 20% tax doesn't apply to the distributions made after the date you turned age 65. However, the additional 20% tax does apply to the distributions made on or before the date you turned age 65. Enter on line 9b, 20% of the amount of these distributions included in line 8.

Section B—Medicare Advantage MSA Distributions

Complete Section B if you (or your spouse, if filing jointly) received distributions from a Medicare Advantage MSA in 2017. If both you and your spouse received distributions, complete a separate Form 8853, Section B, for each spouse. Enter "statement" across the top of each Form 8853, fill in the name and SSN, and complete Section B. Next, add lines 10, 11, 12, and 13b 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 13a of the statement Form 8853, check the box on the controlling Form 8853. Attach the two statement Forms 8853 to your paper tax return after the controlling Form 8853.

CAUTION *If you (or your spouse, if filing jointly) received distributions from a Medicare Advantage MSA in 2017, you must file Form 8853 with a Form 1040 or 1040NR even if you have no taxable income or any other reason for filing Form 1040 or 1040NR.*

Medicare Advantage MSA

A Medicare Advantage MSA is an Archer MSA designated as a Medicare Advantage MSA to be used solely to pay the qualified medical expenses of the account holder. To be eligible for a Medicare Advantage MSA, you must be enrolled in Medicare and have an HDHP that meets the Medicare guidelines. Contributions to the account can be made only by Medicare. The contributions and any earnings, while in the account, aren't taxable to the account holder. A distribution used exclusively to pay for the qualified medical expenses of the account holder isn't taxable. Distributions that aren't 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 Advantage MSA is treated as a regular Archer MSA (not a Medicare Advantage MSA) of the surviving spouse for distribution purposes. Follow the instructions in Section A for *Death of Account Holder*, earlier.

If the designated beneficiary isn't the account holder's surviving spouse, or there is no designated beneficiary, the account ceases to be an MSA as of the date of death. The beneficiary completes Form 8853 as follows.

- Enter "Death of Medicare Advantage MSA account holder" across the top of Form 8853.
- Enter the name(s) shown on the beneficiary's tax return and the beneficiary's SSN in the spaces provided at the top of the form. Skip Section A.
- On line 10, enter the fair market value of the Medicare Advantage MSA as of the date of death.
- On line 11, for a beneficiary other than the estate, 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.

Additional 50% Tax Worksheet—Line 13b

Keep for Your Records

1.	Enter the total distributions included on Form 8853, line 12, that don't meet either of the exceptions to the additional 50% tax		1.
2.	Did you have a Medicare Advantage MSA on December 31, 2016?		
	☐ **No.** STOP Enter one-half of line 1 on Form 8853, line 13b		
	☐ **Yes.** Enter the value of your Medicare Advantage MSA on December 31, 2016	2.	
3.	Enter the amount of the annual deductible for your HDHP policy on January 1, 2017 . . . 3.		
4.	Multiply line 3 by 60% (0.60)	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 13b		7.

If the account holder's estate is the beneficiary, the fair market value of the Medicare Advantage MSA as of the date of death is included in the account holder's final income tax return.

The transfer isn't subject to the additional 50% tax. The beneficiary should report any earnings on the account after the date of death as income on the beneficiary's tax return.

Note. If, during the tax year, you are the beneficiary of two or more Medicare Advantage MSAs or you are a beneficiary of a Medicare Advantage MSA and you have your own Medicare Advantage MSA, you must complete a separate Form 8853 for each MSA. Enter "statement" at the top of each Form 8853 and complete the form as instructed. Next, complete a controlling Form 8853, combining the amounts shown on each of the statement Forms 8853. Attach the statements to your paper tax return after the controlling Form 8853.

Line 10

Enter the total distributions you received in 2017 from all Medicare Advantage MSAs. These amounts should be shown in box 1 of Form 1099-SA. This amount shouldn't 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 Advantage MSA to another Medicare Advantage MSA of the same account holder.

Line 11

Enter the total distributions from all Medicare Advantage MSAs in 2017 that were used only for the account holder's qualified medical expenses (see Qualified Medical Expenses, earlier).

CAUTION *You can't take a deduction on Schedule A (Form 1040 or 1040NR) for any amount you include on line 11.*

Lines 13a and 13b

Additional 50% Tax

Medicare Advantage MSA distributions included in income (line 12) 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 doesn't apply to distributions made on or after the date that the account holder—

- Dies, or
- Becomes disabled (see Disabled, earlier).

If either of the exceptions applies to any of the distributions included on line 12, check the box on line 13a. Next, if either of the exceptions applies to all the distributions included on line 12, enter -0- on line 13b. Otherwise, complete the Additional 50% Tax Worksheet—Line 13b to figure the amount of the additional 50% tax to enter on line 13b.

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

See Filing Requirements for Section C, later.

For more information, see Pub. 502.

Definitions

Policyholder

The policyholder is the person who owns the proceeds of the LTC insurance contract, life insurance contract, or viatical settlement, and also can 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 later), or
- Before January 1, 1997, that met state law requirements for LTC insurance contracts at the time when and in the state where the contract was issued and hasn't 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 next), the amount you can 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 (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. An individual must have been certified within the past twelve months as meeting this condition.

Accelerated Death Benefits

Generally, amounts paid as accelerated death benefits under a life insurance contract or for the sale or assignment of any portion of the death benefit as part of a viatical settlement, are fully excludable from your gross income if the insured is a Terminally Ill Individual (defined later). 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

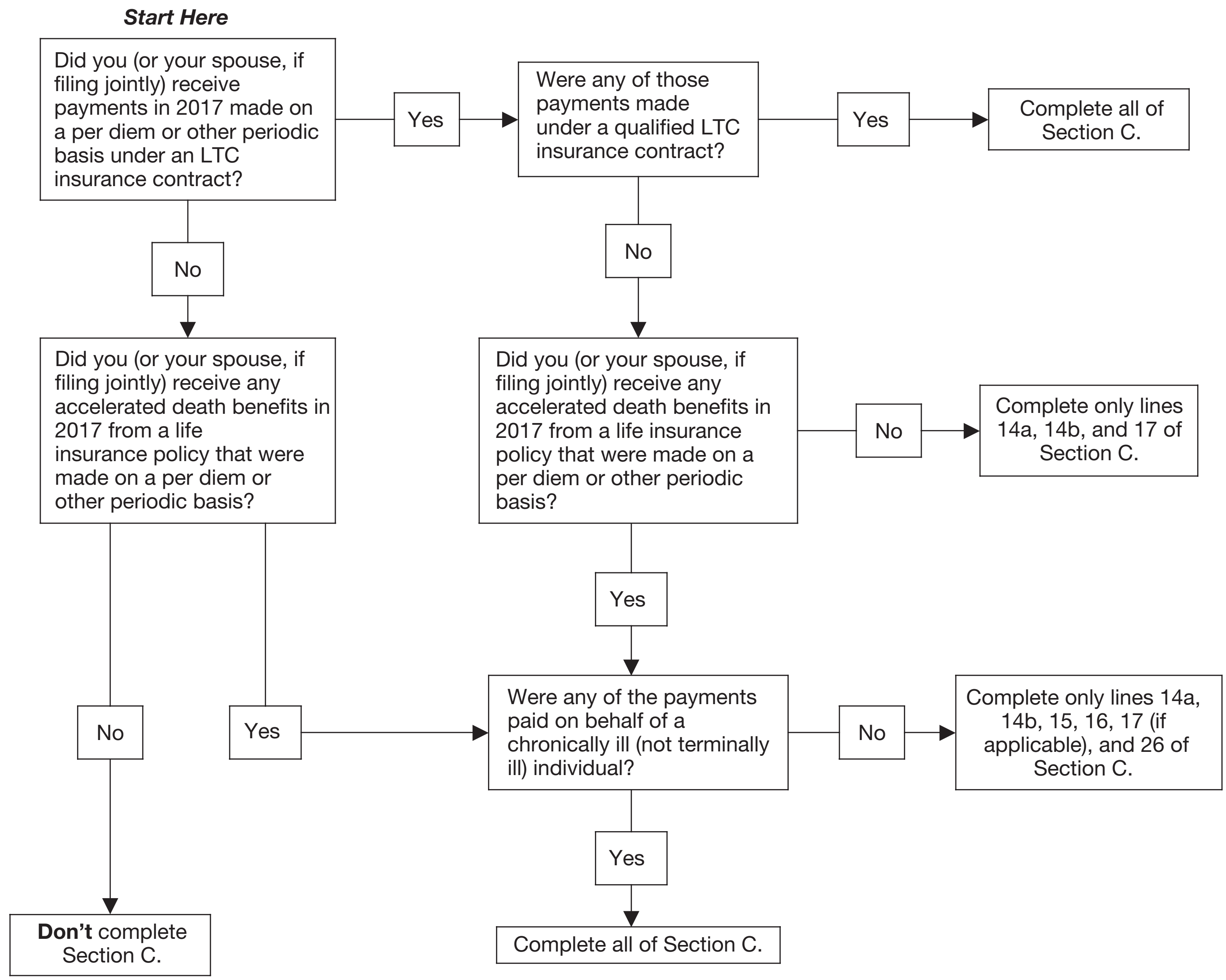
A terminally ill individual is any individual who has been certified by a physician as having an illness or physical condition that can reasonably be expected to result in death within 24 months of the date of certification.

Line 15

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 14a. See Multiple Payees, later, for details.

Filing Requirements for Section C

*Go through this chart for each insured person for whom you received long-term care (LTC) payments. See **Definitions,** earlier.*



Line 18

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 18 through 26 on separate Sections C for each LTC period. Enter the total on line 26 from each separate Section C on the Form 8853 that you attach to your paper tax return. See the instructions for line 21 for the LTC period.

Line 19

Enter the total accelerated death benefits you received with respect to the insured listed on line 14a. 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. Don't include amounts you received while the insured was a terminally ill individual. If the insured was redesignated from chronically ill to terminally ill in 2017, only include on line 19 payments received before the insured was certified as terminally ill.

Line 21

The number of days in your LTC period depends on which method you choose to define the LTC period. Generally, you can 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 2017 under a qualified LTC insurance contract or as accelerated death benefits with respect to the insured listed on line 14a. See Multiple Payees, later, 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, 2017, through May 31, 2017, and then at a rate of $195 per day from June 1, 2017, through December 31, 2017. 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 can 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, 2017, through December 31, 2017, and you have a second insurance contract that pays $1,500 per month from March 1, 2017, through December 31, 2017. You have one LTC period because each payment rate doesn't 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 didn't begin making payments until May 1, 2017. 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 22

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 24

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 2017. Box 3 of Form 1099-LTC should indicate whether the payments were made on a reimbursement basis.

CAUTION *Generally, don't include on line 24 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 15 and 16 and the only payments you received were accelerated death benefits that were paid because the insured was terminally ill, skip lines 17 through 25 and enter -0- on line 26.

In all other cases in which you checked "Yes" on line 15, attach a statement duplicating lines 18 through 26 of the form. This statement 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 don't agree on which LTC period to use, the contract period method must be used.

After completing the statement, 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 2017. The statement showing the aggregate computation must be attached to the Form 8853 for each person who received a payment.

Enter your share of the per diem limitation and the taxable payments on lines 25 and 26 of your individual Form 8853. Leave lines 21 through 24 blank.

Example 1

Ann was chronically ill throughout 2017 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). Ann incurred expenses for qualified LTC services of $150 per day ($54,750) and was reimbursed for one-half of those expenses ($27,375). She uses the equal payment rate method and therefore has a single benefit period for 2017 (January 1–December 31). Ann completes Form 8853, lines 20 through 26, as follows.

Line	Amount
20	$24,000 ($2,000 x 12 mos.)
21	$131,400 ($360* x 365 days)
22	$54,750 ($150 x 365 days)
23	$131,400
24	$27,375 ($75 x 365 days)
25	$104,025
26	$ -0-

*$360 is the 2017 per diem limit for periodic payments received under a qualified LTC insurance contract. See Rev. Proc. 2016-55, sec. 3.55.

Example 2

The facts are the same as in Example 1, except Ann's son, Sam, and daughter, Joy, each also own a qualified LTC insurance contract under which Ann is the insured. Neither Sam nor Joy incurred any costs for qualified LTC services for Ann in 2017. From July 1, 2017, through December 31, 2017, Sam received per diem payments of $4,000 per month ($24,000 total) and Joy received per diem payments of $3,000 per month ($18,000 total). Ann, Sam, and Joy agree to use the equal payment rate method to determine their LTC periods.

There are two LTC periods. The first is 181 days (January 1–June 30) during which the per diem payments were $2,000 per month. The second is 184 days (July 1–December 31) during which the aggregate per diem payments were $9,000 per month ($2,000 under Ann's contract + $4,000 under Sam's contract + $3,000 under Joy's contract).

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

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

Line	Amount
20	$12,000 ($2,000 x 6 mos.)
21	$65,160 ($360 x 181 days)
22	$27,150 ($150 x 181 days)
23	$65,160
24	$13,575 ($75 x 181 days)
25	$51,585
26	$ -0-

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

Line	Amount
20	$54,000 ($9,000 x 6 mos.)
21	$66,240 ($360 x 184 days)
22	$27,600 ($150 x 184 days)
23	$66,240
24	$13,800 ($75 x 184 days)
25	$52,440
26	$1,560

Step 3. They allocate the aggregate per diem limitation of $52,440 on line 25 among Ann, Sam, and Joy. Because Ann 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 $40,440 is allocated between Sam and Joy.

Allocation ratio to Sam: 57% of the remaining limitation ($23,051) is allocated to Sam because the $24,000 he received during the second LTC period is 57% of the $42,000 received by both Sam and Joy during the second LTC period.

Allocation ratio to Joy: 43% of the remaining limitation ($17,389) is allocated to Joy because the $18,000 she received during the second LTC period is 43% of the $42,000 received by both Sam and Joy during the second LTC period.

Step 4. Ann, Sam, and Joy each complete Form 8853 as follows.

Ann's Form 8853:

Line	1st LTC Period	2nd LTC Period	Form 8853
20	$12,000	$12,000	$24,000
25	$51,585	$12,000	$63,585
26	$ -0-	$ -0-	$ -0-

Sam's Form 8853:

Line	1st LTC Period	2nd LTC Period	Form 8853
20	$ -0-	$24,000	$24,000
25	$ -0-	$23,051	$23,051
26	$ -0-	$ 949	$ 949

Joy's Form 8853

Line	1st LTC Period	2nd LTC Period	Form 8853
20	$ -0-	$18,000	$18,000
25	$ -0-	$17,389	$17,389
26	$ -0-	$ 611	$ 611