

# Tax Deductibility of Long-Term Care Insurance Premiums

These are some guidelines to the deductibility of long-term care insurance premiums. You may want to consult your tax advisor before you make any decisions about deducting your long-term care insurance premiums.

## Individual

LTC insurance premiums are considered a medical expense. The amount of the premium treated as medical expense is limited to the "Eligible Premium", per Internal Revenue Code 213(d), based on the age of the insured individual, in the following chart:



Table A

Age of insured before the close of the year	2008 Eligible Premium Deduction
Ages 40 or less	\$310
Ages 41 to 50	\$580
Ages 51 to 60	\$1,150
Ages 61 to 70	\$3,080
Ages over 70	\$3,850

For people who itemize tax deductions, medical expenses are deductible to the extent they exceed 7.5% of adjusted gross income (AGI).

### Example:

A 59 year-old individual owns a long-term care policy with an annual premium of \$2,400. The deductible component is the amount of eligible premium (\$1,150). Medical expenses of \$5,940 (includes the \$1,150 of eligible LTC insurance premium). Adjusted gross income is \$55,000.

Eligible Premium Deduction (EPD) \$1,150 (Table A)

Medical Expenses = \$5,940 (Including Eligible LTC premium)

7.5% of AGI = \$4,125 ( \$55,000 x 7.5%)

Allowable Deduction for Medical Expenses = \$1,815 (\$5,940-\$4,125) Total Deduction = \$1,815

In this example, \$1,290 of the LTC insurance premium that exceeds the "eligible premium" as determined in Table A is not deductible as a medical expense.

If an individual purchases qualified long-term care insurance on behalf of a parent who is not a dependent, he or she is not entitled to a medical expense deduction.

A dependent is generally someone for whom at least 50 % of the support is provided by a taxpayer.

## Self-employed

A self-employed individual in 2008 can deduct 100% of his/her out-of-pocket *health insurance premiums* (not 100% of the out-of-pocket *medical expenses*) in arriving at their Adjusted Gross Income (AGI). [IRC 162(l)]. The full 100% is available whether or not the individual itemizes deductions. In the case of a tax-qualified LTC insurance policy, the 100% self-employed deduction is limited to the "eligible premium" (Table A). The deduction amount includes eligible premiums paid for spouses and dependents. [IRC 162(l)]

Table B

Year	Deductible Percentage
2004 and after	100%

### Example:

The percentage of medical expenses that is deductible, for tax-qualified long-term care insurance, by self-employed persons, without regard to the 7.5% floor is as follows:

A self-employed 62-year-old owns a Tax-Qualified long-term care insurance policy with an annual premium of \$2,750. The age based eligible premium is \$3,080. As a self-employed person, he can deduct 100% of the eligible premium, of \$3,080.

### Self-employed Deduction

$$\$3,080 \times 100\% = \$3,080 \text{ ( Eligible Premium } \times \text{ Eligible Deductible \% )}$$

The portion of premium of the LTC insurance premium that exceeds the eligible amount, is not deductible as a medical expense.

## Partnerships S-Corporation/

## Limited Liability Company

Partners in partnership and members of a Limited Liability Company that is taxed as a partnership are self-employed. The partnership or LLC pays the premium. The partner or member includes the premium in their income, but may deduct 100% of the eligible premium. [IRC 162(1): Rev. Rul. 91-26]

### Example:

#### Partner A - 50% partner

A 59-year old owns a Tax-qualified long-term care insurance policy with an annual

premium of \$1,800

### **Self-employed Deduction (Step 1)**

$\$1,150 \times 100\% = \$1,150$  [Eligible LTC Premium (Table A) x 100%]

### **Adjusted Gross Income (AGI)**

$\$55,000 - \$1,150 = \$53,890$

All long-term care insurance benefits paid to the policyholder will be income tax free.

## Subchapter C

When a Business purchases a Tax-Qualified Long-Term Care insurance policy on any of its employees, the employee's spouse or dependents, as a part of an accident and health employee benefit plan, the corporation is entitled to the full deduction as a business expense on the entire premiums paid. [IRC(a)]. The deduction is not limited to the "eligible premium" component. The entire amount paid by the Business is excluded from the employee's gross income, even if the premium exceeds eligible premium [IRC 106, 7702b, 104(a)(3)]. This exclusion applies to shareholder/ employees in a subchapter C Corporation and to shareholders in an Subchapter S Corporation who owns 2% or less of the corporation.

The purchase of a tax-qualified long-term care insurance policy is not subject to any nondiscrimination rules, thus allowing an employer to be selective in the classification of employees it elects to cover ( i.e., a select group of officers/individuals).

### Example

A Subchapter C Corporation purchases a Tax-qualified Long-term care insurance policy on one of its employees who is 52 years old.

Premium Paid by C Corporation: \$2,250

C-Corporation tax deduction: \$2,250

Excluded from taxable income of the employee: \$2,250

Benefits paid out under a employer-purchased qualified LTC insurance policy will be excluded from the employee's gross income and therefore non-taxable.

## Cafeteria Plans & Medical Spending Accounts

Qualified Long-Term Care insurance **cannot** be purchased with pre-tax dollars under an employee-provided cafeteria plan. Also, tax-qualified premiums **cannot** be reimbursed under a flexible spending account.

**HSA's as a part of the 2003 Medicare Bill allow premiums to be pre-tax in 2005 and any year thereafter**

## State Tax Incentives

Some States have adopted tax incentives to give residents either a tax-deduction or tax credits for purchasing SCC Brokerage

long-term care insurance. Here is a list of [State Tax Incentives](#)

**Remember:** Consult your tax advisor before deducting any insurance premiums. Here is a copy of the [2007 Publication 535 Business Expenses](#) that explains deductibility of long-term care premiums.