CLTC® 2019 Tax Summary
Tax-Qualified Long-Term Care Insurance (LTCI)

Type of Taxpayer	Premium Deduction (Traditional Policies)

Individual taxpayer who does NOT itemize

No deduction.

Individual taxpayer who itemizes deductions

(Schedule A)

Treated as accident and health insurance. *IRC §7702B(a)(1)*

Limited to <u>lesser of</u> actual premium paid <u>or</u> eligible LTCI premium.
IRC §§213(d)(1)(D), 213(d)(10)

Eligible LTC premium in 2019 (indexed):

Attained age in tax year	Deductible premium limit
Age 40 or less	$ 420
Age 41 – 50	$ 790
Age 51 – 60	$1,580
Age 61 – 70	$4,220
Age 71 and older	$5,270

Medical expense deduction is allowable to extent that such expenses (including payment of Eligible LTCI premium) exceed 10% of AGI
IRC §§213(a), 213(f)

HSA & Archer MSA

Eligible LTCI premium is a qualified medical expense. *IRC §213(d)(1)(D)*

Employee (W-2)

(NON-owner)

Premium paid by <u>employee</u> (e.g., "voluntary" or payroll deduction):

- May NOT be paid through pre-tax cafeteria plan. *IRC §125(f)*
- May NOT be paid through FSA or similar arrangement. *IRC §106(c)*
- Deductible by employee who itemizes (subject to limitations above)

Premium paid by <u>employer</u> (ANY business type):

- Employer provided LTCI treated as accident and health plan. *IRC §7702B(a)(3)*
- Deductible by employer - NOT limited to Eligible premium (subject to reasonable compensation). May also include spouse and other eligible tax dependents. *IRC §162(a)*
- Total premium excluded from employee's income (NOT limited to Eligible premium). Not subject to FICA, etc. *IRC §106(a)*
- Benefits remain tax-free. (See column to right)

C-Corporation Shareholder / Employee (with W-2)

- Including PCs and LLCs taxed as a C

Treated as employee. (See above)

(NOTE that premiums may NOT reduce or be allocated against any individual's compensation in any form; the premiums must be a true corporate expense.)

"Self-employed" business owners:

- Sole Proprietor
- Partner
- S-Corporation >2% shareholder/employee (W-2)
- Member of a LLC or PC taxed as any of above

NOTE: Limited Liability Corporation (LLC) is a legal, not tax, entity – based on how the entity files.

Eligible for Self-Employed Health Insurance Deduction, which is taken "above-the-line" on Line 29 of IRS Form 1040 (2017). May also include spouse or other eligible tax dependents. *IRC §162(l)*

Limited to lesser of actual premium paid or Eligible LTCI premium.
IRC §§213(d)(1)(D), 213(d)(10)

Eligible LTCI premium in 2019 (indexed):

Attained age in tax year	Deductible premium limit
Age 40 or less	$ 420
Age 41 – 50	$ 790
Age 51 – 60	$1,580
Age 61 – 70	$4,220
Age 71 and older	$5,270

Deduction is NOT limited to 7.5% of AGI threshold.

Taxation of Benefits

Reimbursement benefits are not included in income.
IRC§§104(a)(3), 7702B(a)(2)

Per diem (or indemnity) benefits are not included in income except amounts that exceed the <u>greater of</u>:

- $370 per day (2019 indexed), <u>or</u>
- Total qualified LTC expenses.

IRC §§104(a)(3), 7702B(a)(2), 7702B(d)

Return of premium (non-forfeiture) benefits:

- Available only upon total surrender or death.
- May not be borrowed or pledged.
- Included in gross income to extent of any deduction or exclusion allowed with respect to premium.

IRC §7702B(b)(2)(C)

<u>Linked-Benefit LTCI</u>

LTC benefits paid from a Tax-Qualified (7702B) annuity or life insurance "linked benefit" plan are tax-free as noted above.
IRC§7702B(e)

Cash surrenders from a LTCI linked-benefit plan that paid LTCI benefits may have a reduced cost-basis.
IRC§72(e)(11)

Premium payments for annuity or life insurance linked-benefit LTCI plans are NOT deductible. (Separate TQ LTCI continuation rider premiums may be deductible.)

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