

# Long Term Care Insurance Premium Deductibility Quick Reference Guide<sup>1</sup>

PREMIUM PAYER	CIRCUMSTANCE	DEDUCTIBILITY
<b>Individual Taxpayer</b>	Individual (who itemizes deductions) and pays premiums for self and spouse.	Adds eligible premiums (see explanation and chart on reverse) to other unreimbursed medical expenses and may deduct amount in excess of 7.5% of AGI.
<b>All Business Types</b>	Employer pays premiums for non-owner employees and spouses (includes S Corporation employees with a 2% or less ownership interest).	Employer may be able to deduct up to 100% of premiums (if total compensation is "reasonable"). Premiums paid by employer not included in employee's taxable income.
<b>Sole Proprietor</b>	Sole proprietor pays premiums for self and spouse.	Deducts eligible long term care insurance premium (see explanation and chart on reverse). <sup>2</sup>
<b>Partnership</b> (as well as Limited Liability Company taxed as partnership)	Partnership pays premiums for partner and spouse.	Premiums attributed to each partner/member included in their income. Partner/member deducts eligible long term care insurance premium (see explanation and chart on reverse). <sup>3</sup>
<b>C Corporation</b> (as well as Limited Liability Company taxed as corporation)	C Corporation pays premiums for owner who is employee and spouse.	C Corporation may be able to deduct up to 100% of premium expense (if total compensation is "reasonable"). Premiums paid by employer not included in owner/employee's taxable income (see explanation on reverse).
<b>S Corporation</b>	S Corporation pays premiums for greater than 2% shareholder and spouse.	Premiums attributed to each greater than 2% shareholder included in their income. Greater than 2% shareholder deducts eligible long term care insurance premium (see explanation and chart on reverse). <sup>3</sup>

<sup>1</sup> Premiums paid for life insurance policies or annuity contracts that have tax-qualified long term care insurance riders are not deductible as accident and health insurance premiums.

<sup>2</sup> IRC Sec. 162(l)(1)(B).

<sup>3</sup> IRC Sec. 162(l)(1)(B), Rev. Rul. 91-26, 1991-15 I.R.B. 23

Long Term Care Insurance products underwritten by Genworth Life Insurance Company of New York, Administrative Office: Richmond, VA. This material only discusses the federal income tax treatment of long term care insurance. Consult with a qualified tax advisor for advice on including Long Term Care Insurance in compensation and benefits planning.

## 2012 Long Term Care Insurance Premium Age-Based Deduction Limits

AGE	AMOUNT DEDUCTIBLE <sup>1</sup>
40 or under	\$350
41 through 50	\$660
51 through 60	\$1,310
61 through 70	\$3,500
71 and above	\$4,370

<sup>1</sup>IRC Sec. 213(d)(10)(A), Rev. Proc. 2011-52

The age-based limits are indexed annually (to nearest \$10) to increases in the medical care cost category of the Consumer Price Index.

Only "eligible" long term care insurance premiums are deductible medical expenses (Internal Revenue Code (IRC) Sec. 213(d)). Eligible premiums are the lesser of actual premiums paid or the age-based limits shown above. Unreimbursed medical expenses may be deducted only to the extent they exceed 7.5% of the taxpayer's AGI.

Self-employed persons may generally deduct eligible premiums paid for them by their business without regard to the 7.5% of taxpayer's adjusted gross income threshold for deductibility of medical expenses. This may include a sole proprietor, a partner in a general partnership, a greater than 2% shareholder in an S Corporation, or member in an LLC not taxed as a C Corporation.

References under the "Circumstance" column to "Employer" and "Employee" refer to long term care insurance premiums paid in the employment context as an employee benefit.

LTCI may be offered as an individual policy or a group certificate. Benefits paid under tax-qualified LTCI are treated as reimbursements for medical care, and are excluded from income (IRC §105(b)). There is no limit on this exclusion for benefits that reimburse for actual long term care expenses incurred. Some companies offer coverage that pays a per diem amount for long term care expenses. Benefits paid as a "per diem" that do not exceed a daily per diem limit are federal income tax free. For 2012, this limit is \$310 (IRC §7702B(d)).

It is not clear whether a plan may discriminate when paying LTCI premiums in favor of C Corporation owner/employees as a class of participants defined solely by ownership status. Employers must consult with their legal and tax advisors to ensure that a proposed plan providing LTCI benefits does not violate any nondiscrimination requirements.

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