LTC Consumer
Your Resource for Long Term Care Planning

TAX GUIDE

2020 EDITION

INDIVIDUALS

Current tax laws allow for the deduction of either the actual premium or the eligible premium paid on a tax-qualified long-term care insurance policy.

• Actual premium is the actual amount of premium paid
• Eligible premium is an amount determined annually by the federal government based on the medical care components of the Consumer Price Index and the age of the policyholder

If your combined medical expenses (tax-qualified LTCI and other medical expenses) exceed 7.5% of your Adjusted Gross Income (AGI), you may be eligible for a deduction. Any portion of LTCI premiums outside of the eligible premiums listed below cannot be includable as a medical expense.[2]

ELIGIBLE PREMIUM GUIDELINES		
Age before the close of the taxable year:	2019 LTCI Eligible Premium	2020 LTCI Eligible Premium
40 and under	$420	$430
41-50	$790	$810
51-60	$1,580	$1,630
61-70	$4,220	$4,350
71 and over	$5,270	$5,430

YOUR LTCI BENEFITS ARE INTENDED TO BE TAX-FREE
As long as the benefits you receive from your tax-qualified LTCI policy do not exceed the greater of your qualified long term care daily expenses *or* the per-day limitation of $380 (2020 limit), your benefits should be tax-free.[3]

SECTION 125 CAFETERIA PLAN
Long term care insurance is not allowed in a cafeteria plan.

SELF-EMPLOYED
A self-employed individual (or sole-proprietor) can deduct 100% of the owners tax-qualified premiums based on the age-based limits explained in the chart above. Additionally, a self-employed business may be able to deduct the premiums paid for their employees as a business expense. It is not necessary for a self-employed individual to meet the threshold of AGI that is required for an individual.

LIMITED LIABILITY COMPANY
The employer-paid portion of long term care premium for employees of an LLC is deductible as a general business expense. The members of an LLC are taxed as self-employed individuals (see above for guidelines). The LTCI premiums that are paid by the corporation are to be included in member's AGI, but may deduct up to 100% of the age-based Eligible Premium amount listed in the table on page one of this guide.

SUBCHAPTER-S CORPORATION
Sub S corporation members who own more than 2% of the Corporation[4] are taxed as self-employed individuals. The long term care premium must be included in their income and reported on their K-1. The premium is, however, are deductible up to 100% of the age-based Eligible Premium amount listed on page one of this guide and should be included in member's AGI.

C-CORPORATION
All tax-qualified premiums paid for by the employer for their employees is entitled to be 100% deducted as a business expense on total premiums paid. This deduction is not limited to the age-based Eligible Premium amounts listed on page one of this guide.

The LTCI premiums that are paid by the corporation are not to be included in the employee's income. The benefits received by the employee from their employer paid tax-qualified LTCI plan are non-taxable and are therefore not included in the employee's AGI.[5]

PARTNERSHIP POLICIES

Partnership policies are tax-qualified plans that, by federal law, contain certain consumer protections and must provide inflation protection benefits for purchasers so that benefits keep up with the cost of inflation over time. The long term care partnership program provides an alternative to spending down or transferring benefits by forming a partnership between Medicaid and private long term care insurers. Once private insurance benefits are used, special Medicaid eligibility rules are applied if additional coverage is necessary. This is to help incentivize the purchase of long term care insurance.

Partnership policies have certain requirements so not all states offer them. Please check with your state department of insurance or review our map to see if your state has a plan available. Please also note that special agent training is required to sell partnership qualified plans, so it is important to speak to a long term care specialist when considering the purchase of long term care insurance.

Disclaimer: This document does not constitute legal or tax advice and should not be construed as tax or insurance advice. It was neither written nor intended for use by any taxpayer for the purpose of avoiding penalties, and it cannot be so used. Please speak with your tax advisor or long term care insurance specialist in regard to a particular situation.

[1] A tax-qualified policy is based on the guidelines defined by the Health Insurance Portability and Accountability Act of 1996 (HIPAA).
[2] Allowable deductions are set by the Internal Revenue Code (IRC) section 213(d)(10).
[3] The 2020 per diem limitation for tax-free benefits is set by IRC section 7702B.
[4] IRC1372 provides that a more than 2% shareholder/employee is generally treated as a partner in a partnership, rather than as an employee, for the purposes of the tax treatment of fringe benefits. The deduction hinges on the more than 2% shareholder/employee being treated as a partner and self-employed by participating in a plan in which the employer pays the policy's premiums [IRC162(l); Rev. Rul. 91-26].
[5] IRC 7702B, 104(a)(3) and 105.