

Tax Treatment of Qualified LTCi Policies

Tax Deductible Premiums

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

Eligible Premium Guidelines for 2021	
At age:	You can deduct:
40 and younger	$450
41-50	$850
51-60	$1,690
61-70	$4,520
71 and older	$5,640

Source: IRS Revenue Procedure 2020-45

Tax-Free Benefits

The benefits paid by a tax-qualified long-term care insurance policy are intended to be tax free as long as they do not exceed the greater of:

- Qualified long-term care daily expenses, or
- The per-day limitation, which is $400 in 2021

Source: Section 7702B of the Internal Revenue Code (IRC)

Deductible Out-of-Pocket Expenses

Generally, any long-term care expense paid out-of-pocket may be claimed as a medical deduction on a federal income tax return. The only exception is payment for home care provided by a family member who is not a licensed health-care professional.

State Tax Deductions

Currently a number of states offer tax deductions and/or credits for people who purchase tax-qualified long-term care policies. These state deductions and credits are in addition to those offered by the federal government.

Tax Advantages for Individuals and Businesses

For Individuals	**Eligible premium** may be claimed as a medical expense in 2021 as long as: • Combined medical expenses exceed 7.5 percent* of adjusted gross income, and • Deductions are itemized on the federal income tax return *Percentage may be subject to change.
For Self-Employed Business Owners Sole Proprietor | Partnership | LLC | S Corporation	**Eligible premium** may be tax deductible when the business purchases long-term care insurance policies for: • Owner • Owner's Spouse and dependents **Actual premium** may be tax deductible when the business purchases long-term care insurance policies for: • Employees • Employee's spouse and dependents
For Owners of C Corporations	**Actual premium** may be tax deductible when the business purchases long-term care insurance policies for: • Owner/Employee's* spouse and dependents • Employees • Employee's spouse and dependents *The officers and owners of C Corporations may be employees, which means premium paid by the corporation for tax-qualified LTCi (QLTC) policies may be deductible by the corporation and not taxable to the employees if the contributions are made pursuant to an employee benefit plan. If the QLTC employee benefit plan is insured, it need not conform to non-discrimination rules and may be available only to a select class of employees (IRC Section 106). The corporation must be able to show that the plan covers owner-employees as employees and not as owners. QLTC coverage may not use salary reduction dollars to pay its premium contribution. If premiums are paid in advance, such as in a short-pay situation, the amount and timing of the deduction currently is unclear. The client should consult a tax advisor.