Business Tax Treatment Of "Standalone" Long Term Care Premiums

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Included in this article are two charts of the income tax treatment of "standalone" long term care (LTC) premiums for certain business owners and non-owner key executives. As you will see, the tax treatment for both the business entity and the insured are very favorable in many situations.

Sometimes the deduction for standalone LTC is limited to only part of the premium for certain business owners who are classified as self-employed under IRC Section 162(l). This partial deduction is determined by the indexed table of IRC Section 213(d)(10). These partial deduction rules apply to S corporation owners, LLC owners and sole proprietors.

IRC Section 213(d)(10) Limits

Chart 1
Indexed Eligible LTC Premium Deduction For Self-Employed Business Owners
*[IRC Section 162(l)…IRC Section 213(d)(10)]**

Attained age of insured close of taxable year:	2013	2014
40 or less	$360	$370
41–50	680	700
51–60	1,360	1,400
61–70	3,640	3,720
71-plus	4,550	4,660

** For S corporations (more than 2 percent shareholder), LLC members, sole proprietors, partners. Also see IRC Section 1372(b) for S corporation stock attribution rules regarding spousal employees of S corporation shareholders.*

**Take appropriate deduction from table above on Line 29 of Form 1040 U.S. Income Tax return as the self-employed health insurance deduction.*

**The per diem dollar limit under IRC Section 7702B(d)(4) increases from $320 for 2013 to $330 for 2014.*

Other situations allow a deduction of the full standalone LTC premium for the business entity. Those rules apply to C corporation owners and qualified personal service corporation (QPSC) owners. In all cases, any standalone LTC policy claim benefits actually received are income tax-free.

Here are the typical legal business entities and corresponding tax forms for IRS reporting purposes that would reflect the business taxation of standalone LTC:

- C corporation (Form 1120)
- QPSC (Form 1120)
- S corporation (Form 1120S and K-1 "pass-through" to Form 1040)
- Partnerships and LLCs (Form 1065 and K-1 "pass-through" to Form 1040)
- Sole proprietor (Schedule C of Form 1040)
- Section 501(c) tax exempt organization (Form 990)

Business Tax Treatment of Standalone LTC Premiums (see chart 2 on page 19)

The idea is to use the cash flow of the business entity to fund LTC premiums for a personally owned standalone LTC policy that may be an annual pay-qualified LTC contract. The contract may or may not have a return of premium (ROP) option. The contract may or may not have inflation adjustable benefits. Finally, the contract may be subject to premium increases depending on claims experience of the carrier, interest rates in the economy and other actuarial factors.

Nevertheless, the ability to use the business checkbook to pay LTC premiums for a personal benefit plan can be the deciding factor to purchase the standalone LTC product as opposed to using the

Chart 2
Business Tax Treatment of Standalone LTC Insurance

Under the current tax laws, business owners could benefit from a qualified standalone long term care insurance policy. We have listed a few examples below. As always you should consult your own tax advisor or attorney about these and other related tax issues.

Business Type	Situation	Business Tax Benefit	Personal Tax Benefit
C Corporation *(Form 1120)*	Business pays the premium	100 percent of premium is deductible	Premium not considered taxable income; Benefits are tax-free
Qualified Personal Service Corporation *(Form 1120)*	Business pays the premium	100 percent of premium is deductible	Premium not considered taxable income; Benefits are tax-free
S Corporation *(Form 1120 S)*	Business pays the premium for non-shareholder employees	100 percent of premium is deductible	Premium not considered taxable income; Benefits are tax-free
	Business pays the premium for shareholder-employee who owns more than 2 percent interest of S corp	Shareholder-employee may deduct only age eligible premium[1]	Premium included in shareholder-employee's gross income; Benefits are tax-free
Partnerships & LLCs[2] *(Form 1065)*	Business pays the premium for non-partner employees	100 percent of premium is deductible	Premium not considered taxable income; Benefits are tax-free
	Business pays the premium for partners or LLC owners	Partner may deduct only age eligible premium[1]	Premium included in partner's gross income; Benefits are tax-free
Sole Proprietor *(Form 1040–Schedule C)*	Business pays the premium for a sole proprietor	Sole proprietor may deduct only age eligible premium[1]	Premium included in sole proprietor's gross income; Benefits are tax-free
Section 501(c) Tax-Exempt Organization *(Form 990)*	Organization pays the premium	Organization is non-profit and pays no taxes	Premium not considered taxable income; Benefits are tax-free

1 The amount of premium treated as a medical expense as defined in Section 213(d)(1) and Section 213(d)(10) of the Internal Revenue Code. Eligible premiums are based on age and are adjusted for inflation annually. Section 162(l) provides special rules for deductibility of health insurance premiums for self-employed individuals on Form 1040 U.S. Income Tax return.

2 LLC owners are considered to be partners for income tax purposes under the Internal Revenue Code.

personal checkbook to pay premiums.

Client Profile:

Your clients are successful C corporation, QPSC, S corporation and LLC business owners and professionals. These clients wish to provide LTC insurance benefits to offset any LTC expenses that may accrue based on costs of extended care.

Key Phrases to Use with Your Business Owner Client for Standalone LTC:

- Use your business checkbook to transfer the risk of long term care costs to an insurance carrier at the low present value cost of "pennies on the dollar."
- LTC premium payments are either fully tax deductible or partially tax deductible as a business expense depending on tax status of your business (C corporation, QPSC, S corporation, LLC).
- Premiums paid from business cash flow are either fully tax free to you or only partially taxable to you depending on tax status of your business (C corporation, QPSC, S corporation, LLC).
- Tax-free LTC benefit payments to you to offset actual extended care costs.
- The plan can be offered selectively to you and your non-owner key executives without covering any other employees.

There are a number of different ways LTC coverage can be funded with different types of policies other than a standalone LTC contract. LTC coverage can also be funded via: a) a "linked-benefit" single premium or limited premium combo life insurance–LTC product; b) an annual premium no-lapse UL or indexed UL policy with a "reimbursement" type of LTC rider; c) an annual premium no-lapse UL or indexed UL policy with an "indemnity" type of LTC rider.

However, business cash flow used to fund personally owned linked-benefit combo life–LTC products or reimbursement or indemnity riders on a universal life base policy are defined as life insurance contracts for tax purposes and will be considered to be taxable bonus compensation under IRC Section 162. As such, the annual premium will be deductible to the business as current compensation paid and fully taxable to the policyowner as current compensation received. Nevertheless, any LTC benefit claims paid from LTC riders of these types of UL life insurance products will be income tax-free.