

Tax Deductibility of Long-Term Care Insurance Premium An Opportunity for the Business Owner

Between the ages of 45 and 65, many individuals have experienced a care need in their family. They understand the emotional, physical and financial challenges connected with caregiving. For those who have a business, and who have been accumulating retirement assets that they want to preserve for retirement, the IRS Tax Code offers an opportunity to pay premium for Long-Term Care insurance and deduct it as a business expense.

Due to HIPAA in 1996, C-Corporations are permitted to deduct the full premium paid for selected employees, without attributing the premium to the employee as income. Thus, the C-Corp can create a plan just for a key executive or owner/employee, and their spouse. Benefits paid out by the policy are received tax free.

This opportunity is also available to S-Corporations, Partnerships and Sole Proprietors. However, these entities must attribute the premium as income to the employee. The employee (and spouse) may then deduct the premium pursuant to IRC Section 213 as an above the line self-employed deduction on line 29 of Form 1040.

IRC Section 213 limits the amount eligible for deduction based on the age of the insured:

Age	2017 Limit Per Insured
40	\$ 410
41-50	\$ 770
51-60	\$1,530
61-70	\$4,090
71+	\$5,110

This is far superior to an individual who would have to itemize the deduction as a medical expense which is limited to the extent it exceeds 10 percent of the taxpayer's Adjusted Gross Income.

Bottom line: a business owner, even if it is a small business, is much better advised to pay the LTC premium through the business, deduct it, pass the premium amount through as income if not a C-Corp, and deduct the maximum eligible amount as a self-employed business expense. If it is a C-Corp, we are in tax heaven.

As always, consult with tax professionals about individual circumstances, as tax situations may be unique. State and local tax rules may differ.

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