

LONG-TERM CARE INSURANCE

TAX DEDUCTIBILITY



Do your clients own long-term care (LTC) insurance? Or are they considering purchasing a new plan? If so, they should be informed of the potential tax advantages of LTC insurance. A surprising number of policyholders have the ability to deduct premiums, and those insured also find that the premium amount that can be deducted increases each year. A big reason is that more and more buyers of LTC insurance also own Health Savings Accounts (HSAs) and can pay premiums with pre-tax dollars.

When discussing tax advantages, it's important to focus on "tax-qualified" LTC insurance. Tax-qualified LTC insurance was codified by the IRS in 1996 as part of the original HIPAA legislation. Under Section 7702B, LTC plans that meet certain requirements are considered tax-qualified. Almost 100% of current standalone LTC insurance policies sold are tax-qualified, and many riders on life insurance plans are tax-qualified as well.

ADVANTAGES OF TAX-QUALIFIED LONG-TERM CARE INSURANCE

- Benefits are received tax-free. Actual LTC expenses reimbursed by a LTC insurance plan are tax free to the policyholder with no daily limit. For those who own "cash" LTC plans, any additional non-medical benefit above \$410 daily would be taxed like income. However, this \$410 "per diem" limit also typically increases each year.
- Employers can deduct premiums like health insurance. If a C-Corporation is buying coverage, they can deduct 100% of premiums paid. Self-employed, 2% owners of S-Corporations, and partners of partnerships can also deduct LTC premiums paid by their companies up to a certain age-based level (shown below). They can also deduct premiums for spouses as well.
- Individuals can only deduct premiums up to age-based limits to the extent they exceed 7.5% of adjusted gross income (AGI), as premiums are considered medical expenses.
- People with HSAs can pay premiums with funds from their account. Since LTC is not available as a pre-tax cafeteria benefit, using HSA funds works well for voluntary employer offerings in which the insurer bills the employee directly, and then the employee directs the HSA to pay the insurance company for premiums.
- 1035 Exchanges allows holders of life insurance and non-qualified annuities to allow exchange all or a portion of their contracts for LTC insurance. For example, someone could use these rules to purchase a single premium Life/LTC plan, which can result in tax-free benefits.
- Certain states offer state tax incentives. As an example, New York offers a 20% credit for premiums paid during the taxable year for qualified LTC insurance.

Amount allowed as medical expense (per person) in 2024

Age 40 or under: \$470
 Age 41 to 50: \$880
 Age 51 to 60: \$1,760
 Age 61 to 70: \$4,710
 Age 71 and older: \$5,880
 Per Diem Max: \$410

Source: IRS Revenue Procedure: 2022-38

