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LTC Premiums & Federal Taxes 2008

LTC PREMIUMS: FEDERAL TAX CONSIDERATIONS for 2008

by John B. Linvill, Jr., CSA ~ Revised April 2008

For a W-2 employee: LTC premiums can be treated as a medical expense under the 7.5% of adjusted gross income calculation. Below is a table of the amount of premiums qualifying as medical expenses for 2008. This is often referred to as the eligible long term premium. These age dollar amounts are revised each year based upon the Medical Consumer Price Index.

Attained age before the close of the taxable year determines the amount of premium that is deductible at the end of each year.

- Age 40 or younger can deduct $310 per policy
- Ages 41-50 can deduct $580
- Ages 51-60 can deduct $1,150
- Ages 61-70 can deduct $3,080
- Over 70 can deduct $3,850

Self-Employed: LTC premiums are treated as health insurance. The definition of self-employed includes sole proprietorships, partnerships, greater than “2% shareholders” of S-Corporations and LLCs.

C- Corporations: Premiums for LTC policies of owners, spouses and all employees are fully deductible. Employer paid LTC insurance premium is excludable from the employee’s gross income and any benefits received are tax-free.

Partnerships, S-Corps and LLCs: Premiums for partners or owners (greater than 2% shareholders) are subject to the same rules as for the self-employed. Premium payments for (less than) 2% shareholders and employees are 100% deductible as a reasonable and necessary business expense, similar to health insurance. Employer paid long term care insurance is excludable from the employee’s gross income and the benefits are received tax-free.

The purpose of this article is to give general information on long term care premium tax treatment. This article should not be considered tax advice.

Please consult with your tax accountant for overall guidance and interpretation of the regulations.

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Inflation calculations are based upon current economic statistics and estimates for the Philadelphia area.