

Income Tax Deductions for HIPAA Tax-Qualified Long Term Care Insurance

Type of Taxpayer	Premium Deductions	Taxation of Benefits																																																
Does Not Itemize	No deduction ¹ except for Health Savings Account owners. See HSA below.	<u>Reimbursement benefits</u> for qualified long term care services are not taxed.																																																
Individual Taxpayer Who Itemizes Deductions	<p>Treated as medical insurance premiums.⁹</p> <p>Limited to the lesser of the actual premium paid or the amount per person from an age-related table of maximum deductible premiums. Table is adjusted annually for inflation. For given years, the maximum deduction per person is:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Age</th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> <th>2013</th> <th>2014</th> </tr> </thead> <tbody> <tr> <td>40 or younger</td> <td>310</td> <td>320</td> <td>330</td> <td>340</td> <td>350</td> <td>360</td> <td>370</td> </tr> <tr> <td>41 - 50</td> <td>580</td> <td>600</td> <td>620</td> <td>640</td> <td>660</td> <td>680</td> <td>700</td> </tr> <tr> <td>51 - 60</td> <td>1,150</td> <td>1,190</td> <td>1,230</td> <td>1,270</td> <td>1,310</td> <td>1,360</td> <td>1,400</td> </tr> <tr> <td>61 - 70</td> <td>3,080</td> <td>3,180</td> <td>3,290</td> <td>3,390</td> <td>3,500</td> <td>3,640</td> <td>3,720</td> </tr> <tr> <td>71 and older</td> <td>3,850</td> <td>3,980</td> <td>4,110</td> <td>4,240</td> <td>4,370</td> <td>4,550</td> <td>4,660</td> </tr> </tbody> </table> <p>Premium deduction is effective to the extent that the deductible premium above added to taxpayer paid medical premiums and deductible out-of-pocket medical expenses exceeds 7.5% of the taxpayers Adjusted Gross Income (AGI).</p>	Age	2008	2009	2010	2011	2012	2013	2014	40 or younger	310	320	330	340	350	360	370	41 - 50	580	600	620	640	660	680	700	51 - 60	1,150	1,190	1,230	1,270	1,310	1,360	1,400	61 - 70	3,080	3,180	3,290	3,390	3,500	3,640	3,720	71 and older	3,850	3,980	4,110	4,240	4,370	4,550	4,660	<p>Per Diem or Indemnity benefits are not taxed except those benefits that exceed the greater of:^{5, 6, 7}</p> <ul style="list-style-type: none"> • Total qualified long term care services charged or, • \$330 per day in 2014, \$320 per day in 2013, adjusted each year for inflation. <p>Nonforfeiture Benefit (return of premium benefit):</p> <ul style="list-style-type: none"> • Available only upon total surrender or death¹⁰. • May not be borrowed or pledged. • Subject to estate tax • Taxable at death to the extent premiums are deducted.¹⁰ • Taxable upon policy surrender to the extent premiums were deducted.¹⁰
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401K Plans	May <u>not</u> be paid through 401K retirement accounts. ¹¹																																																	
IRA Owners	Individual Retirement Accounts may <u>not</u> be used to pay LTCI premiums.																																																	
HSA (and MSA) Owner	May pay Tax Qualified LTCI premiums from a <u>Health Savings Account</u> (HSA).																																																	
Section 125 Plans	LTCI premiums become <u>taxable</u> to employee if paid through Section 125 plan. ¹¹ But, HSA may be funded through 125 plan and LTCI premiums paid from HSA.																																																	
HRA Participant	If Employer <u>Health Reimbursement Plan</u> permits, TQ premiums may be allowed.																																																	
Employees (Non-Owners)	<ul style="list-style-type: none"> • Premiums paid by employees deductible by employee who itemizes as an individual taxpayer • Deductible by employer^{2, 9} • Not taxable to employee^{8, 9} • Not limited to the age-related-cap maximum deduction • Applies to both Individual policies and group insurance. 																																																	
C Corporation Owner	If an employee, treated as any employee. ⁴ If a non-employee, treated as dividend.																																																	
Other Business Owner-Employees	<p>May be treated as a business expense for medical insurance premiums.¹²</p> <p>Limited to the lesser of the actual premium or the amount on an age-related table of maximum deductible premiums which are adjusted annually for inflation:¹³</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Age</th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> <th>2013</th> <th>2014</th> </tr> </thead> <tbody> <tr> <td>40 or younger</td> <td>310</td> <td>320</td> <td>330</td> <td>340</td> <td>350</td> <td>360</td> <td>370</td> </tr> <tr> <td>41 - 50</td> <td>580</td> <td>600</td> <td>620</td> <td>640</td> <td>660</td> <td>680</td> <td>700</td> </tr> <tr> <td>51 - 60</td> <td>1,150</td> <td>1,190</td> <td>1,230</td> <td>1,270</td> <td>1,310</td> <td>1,360</td> <td>1,400</td> </tr> <tr> <td>61 - 70</td> <td>3,080</td> <td>3,180</td> <td>3,290</td> <td>3,390</td> <td>3,500</td> <td>3,640</td> <td>3,720</td> </tr> <tr> <td>71 and older</td> <td>3,850</td> <td>3,980</td> <td>4,110</td> <td>4,240</td> <td>4,370</td> <td>4,550</td> <td>4,660</td> </tr> </tbody> </table>	Age	2008	2009	2010	2011	2012	2013	2014	40 or younger	310	320	330	340	350	360	370	41 - 50	580	600	620	640	660	680	700	51 - 60	1,150	1,190	1,230	1,270	1,310	1,360	1,400	61 - 70	3,080	3,180	3,290	3,390	3,500	3,640	3,720	71 and older	3,850	3,980	4,110	4,240	4,370	4,550	4,660	<p><i>NOTE: This document refers only to the tax treatment of Tax Qualified Long Term Care Insurance Policies under the Health Insurance Portability and Accountability Act.</i></p> <p><i>The tax treatment of Non-Qualified Long Term Care Insurance policy benefits and premiums is unknown.</i></p>
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Individual Gifts	Annual gift tax exemption increased by the amount of qualified premium gifted. ¹⁴																																																	

The information provided herein is not intended as legal or tax advice. Consult with an attorney, accountant or tax advisor regarding the tax implications of long term care insurance premiums and benefits.

¹ HIPAA 1996, P.L. 104-49L	⁴ IRC Sec. 106(a)	⁷ IRC Sec. 104(a)(3)	¹⁰ Sec. 7702B(b)(2)(C)	¹³ IRC Sec. 213(d)(10)(B)
² IRC Sec. 7702B(a)(3)	⁵ IRC Sec. 7702B(a)(2)	⁸ IRC Sec. 213(d)(1)	¹¹ IRC Sec. 125(f)	¹⁴ IRC Sec. 2503(e)(2)(B)
³ IRC Sec. 105(b)	⁶ IRC Sec. 7702B(d)	⁹ IRC Sec. 7702B(a)(1)	¹² IRC Sec. 162(l)	