

**2016 Federal Tax Summary
Tax-Qualified Long-Term Care Insurance (LTCI)**

| Type of Taxpayer | Deduction of Premiums | Taxation of Benefits | | | | | | | | | | | | |
|---|---|---|------------------------|----------------|-------|---------|-------|---------|--------|---------|--------|------------------|--------|---|
| Individual taxpayer who does not itemize deductions | No premium deduction available. | Reimbursement benefits are not included in income. <i>IRC §§104(a)(3), 7702B(a)(2)</i> | | | | | | | | | | | | |
| Individual taxpayer who itemizes deductions | <ul style="list-style-type: none"> ▪ Treated as accident and health insurance. <i>IRC §7702B(a)(1)</i> ▪ Deduction is limited to the lesser of actual premium paid or eligible LTCI premium amounts. <i>IRC §§213(d)(1)(D), 213(d)(10)</i> <p align="center">Eligible LTCI premium in 2016:</p> <table border="1" data-bbox="479 527 1161 800"> <thead> <tr> <th>Attained Age in Tax Year</th> <th>Limitation on Premiums</th> </tr> </thead> <tbody> <tr> <td>Age 40 or less</td> <td>\$390</td> </tr> <tr> <td>41 – 50</td> <td>\$730</td> </tr> <tr> <td>51 – 60</td> <td>\$1460</td> </tr> <tr> <td>61 – 70</td> <td>\$3900</td> </tr> <tr> <td>Age 71 and older</td> <td>\$4870</td> </tr> </tbody> </table> <ul style="list-style-type: none"> ▪ Medical expense deduction is allowable to extent that such expenses, including payment of eligible LTCI premium, exceed 10% of adjusted gross income or 7.5 percent for taxpayers 65 and older through 2016. (AGI). <i>IRC §213(d)(10)</i>. Please review code to determine income eligibility and phase-in period. | Attained Age in Tax Year | Limitation on Premiums | Age 40 or less | \$390 | 41 – 50 | \$730 | 51 – 60 | \$1460 | 61 – 70 | \$3900 | Age 71 and older | \$4870 | <p>Per diem or indemnity benefits are not included in income except those amounts that exceed the greater of:</p> <ul style="list-style-type: none"> ▪ Total qualified LTC expenses, or ▪ \$340 per day in 2016 <i>IRC §§7702B(d)(4), 7702B(a)(2), 7702B(d)</i> |
| Attained Age in Tax Year | Limitation on Premiums | | | | | | | | | | | | | |
| Age 40 or less | \$390 | | | | | | | | | | | | | |
| 41 – 50 | \$730 | | | | | | | | | | | | | |
| 51 – 60 | \$1460 | | | | | | | | | | | | | |
| 61 – 70 | \$3900 | | | | | | | | | | | | | |
| Age 71 and older | \$4870 | | | | | | | | | | | | | |
| MSA and HSA | Eligible LTCI premium is qualified medical expense. <i>IRC §213(d)(1)(D)</i> | | | | | | | | | | | | | |
| Employee (non-owner) | <p>Premiums paid by employee:</p> <ul style="list-style-type: none"> ▪ Deductible by employee who itemizes, subject to limitations above. ▪ May not be paid through cafeteria plan. <i>IRC §125(f)</i> ▪ May not be paid through FSA or similar arrangement. <i>IRC §106(c)</i> <p>Premiums paid by employer:</p> <ul style="list-style-type: none"> ▪ Employer provided LTCI treated as accident and health plan. <i>IRC §7702B(a)(3)</i> ▪ Deductible by employer, subject to reasonable compensation. <i>IRC §162(a)</i>. ▪ Total, not eligible, LTCI premium paid is excluded from employee's income. <i>IRC §106(a)</i> | <p>Non-forfeiture benefit (return of premium benefit):</p> <ul style="list-style-type: none"> ▪ Available only upon total surrender or death. ▪ May not be borrowed or pledged. ▪ Included in gross income to extent of any deduction or exclusion allowed with respect to premium. <i>IRC §7702B(b)(2)(C)</i> | | | | | | | | | | | | |
| C-Corporation (shareholder/employee with W-2) | Treated as employee. (See Employee above.) | | | | | | | | | | | | | |
| <p>Other business owners:</p> <ul style="list-style-type: none"> ▪ Sole proprietor ▪ S-Corporation (greater than 2% shareholder with W-2) ▪ Partnership any % <p>Limited Liability Corporation (LLC) is a legal entity and not a tax filing. How does the entity file taxes?</p> | <ul style="list-style-type: none"> ▪ Eligible for Self-Employed health insurance deduction, which is taken "above the line" on Line 29 of IRS Form 1040. <i>IRC §162(f)</i>. ▪ Limited to lesser of actual premium paid or eligible LTCI premium. <i>IRC §§213(d)(1)(D), 213(d)(10)</i>. ▪ Deduction is not limited to 10% of AGI threshold outlined above. | <p>NOTE: This document is only a summary of the tax treatment of qualified long-term care insurance. The summary is not to be interpreted as specific legal or tax advice.</p> | | | | | | | | | | | | |

