



# 2018 TAX SUMMARY

## Individual Pays LTCi Premium



### Itemizes Deductions (Schedule A)

- Treated as Accident and Health Insurance<sup>15</sup>
- Medical expense deduction is allowable to extent that such expenses (including payment of qualified LTCi premium) exceed 7.5% of AGI<sup>6, 10</sup>
- Limited to the lesser of actual premium paid or Eligible Long Term Care Premiums<sup>8, 9</sup>

### Does Not Itemize Deductions (or does not have unreimbursed medical expenses in excess of 7.5% of AGI)

- May pay TQ LTCi premium from a Health Savings Account; Eligible Long Term Care Premiums are a qualified medical expense<sup>8, 12</sup>
- May pay TQ LTCi premium from an Archer MSA; Eligible Long Term Care Premiums are a qualified medical expense<sup>8, 11</sup>

## EssentialLTC

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Refer to [State Variation Listing](#) for product availability.

# C-Corp Pays LTCi Premium

(including PCs and LLCs taxed as a C-Corp)



## Owners/Employees/Spouses - Deductible by Employer<sup>15, 17</sup>

- Applies to both individual policies and group insurance<sup>4, 7</sup>
- Employer provided LTCi treated as accident and health plan<sup>17</sup>
- Deductible by employer - not limited to Eligible Long Term Care Premiums limitation<sup>4, 17</sup>
- Subject to reasonable compensation<sup>4, 17</sup>
- May also include spouse and eligible tax dependents<sup>4</sup>
- Total premium excluded from employee's income - not limited to Eligible Long Term Care Premiums limitation<sup>2, 17</sup>
- Total premium is not subject to FICA<sup>14</sup>

## Self-Employed

Business owners, Sole Proprietor, Partners - Partnerships and Limited Liability Partnerships (LLP), S-Corporation >2% shareholder/employee (W-2), or member of LLC or PC (taxed as any of the preceding) pays LTCi premium

### Owners

- May be treated as a business expense for medical insurance premiums<sup>5</sup>
- Eligible for 'above the line' Self-Employed Health Insurance Deduction (line 29 of IRS Form 1040 (2018))<sup>5</sup>
- May also include spouse and eligible tax dependents<sup>5</sup>
- Deduction is not limited to 7.5% of AGI threshold<sup>5</sup>
- Limited to the lesser of actual premium paid or Eligible Long Term Care Premiums<sup>8, 9</sup>

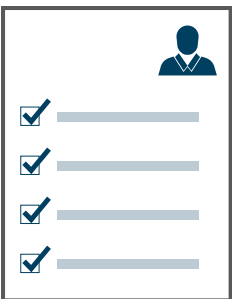
### Employees/Spouses

- Same as C-Corp Employees/Spouses

## 2018 Eligible Long Term Care Premiums<sup>9</sup>

Amount paid during a taxable year for any qualified Long Term Care insurance contract covering an individual, to the extent such amount does not exceed the limitation determined under the following table:

| Attained age before the close of the taxable year 2018: | The limitation is: |
|---|--------------------|
| Age 40 or less  | \$420              |
| Age 41-50   | \$780              |
| Age 51-60   | \$1,560            |
| Age 61-70   | \$4,160            |
| Age 71 and older  | \$5,200            |



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# 1035 Exchange (PPA)<sup>21</sup>

## 1035

The Pension Protection Act of 2006 (effective 1/1/2010) amended the IRS Code Section 1035 rules to allow non-qualified, tax-deferred annuities or cash value life insurance to be exchanged, on a tax-free basis, for a qualified Long Term Care insurance policy. The policies must have the same owner(s) and insured(s). Both principal (basis) and tax-deferred gains are allowed to be exchanged to fund the LTCi premiums.

## Contracts that can be exchanged under §1035



| EXCHANGED FROM                     | EXCHANGED TO   |                                    | LTCi       |
|------------------------------------|----------------|------------------------------------|------------|
|                                    | Life Insurance | Non-Qualified Tax-Deferred Annuity |            |
| Life Insurance                     | Yes            | Yes                                | <b>Yes</b> |
| Non-Qualified Tax-Deferred Annuity | No             | Yes                                | <b>Yes</b> |

## Payment Sources Not Allowed



- TQ LTCi may not be paid via a 401(k) retirement account<sup>3</sup>
- TQ LTCi may not be paid via an IRA account<sup>13</sup>
- TQ LTCi may not be paid through a cafeteria plan<sup>3</sup>
- TQ LTCi may not be paid through a FSA or similar arrangement<sup>3</sup>

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# Taxation of LTCi Benefits



- Reimbursement benefits for qualified long term care services are not included in income<sup>1, 16</sup>
- Per Diem (or indemnity) benefits are not included in income except amounts that exceed the greater of \$360 per day (2018, indexed) or total qualified LTC expenses<sup>1, 16, 20</sup>

# Return of Premium / Surrender Benefits



- Return of Premium benefits not subject to income tax upon death of insured (second-to-die if joint policy\*)<sup>19</sup>
- Surrender value will be a lump sum payment to policyowner and included in gross income to the extent any premium deduction or exclusion was utilized<sup>19</sup>
- TQ LTCi surrender value may not be borrowed against or pledged<sup>18</sup>

## EssentialLTC

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### Sources

1. IRC § 104(a)(3)  
2. IRC § 106(a)  
3. IRC § 125(f)  
4. IRC § 162(a)  
5. IRC § 162(l)  
6. IRC § 213(a)

7. IRC § 213(d)(1)(C)  
8. IRC § 213(d)(1)(D)  
9. IRC § 213(d)(10)  
10. IRC § 213(f)  
11. IRC § 220(d)(2)(ii)(II)  
12. IRC § 223(d)(2)(c)(ii)

13. IRC § 408  
14. IRC § 3121(a)(2)  
15. IRC § 7702B(a)(1)  
16. IRC § 7702B(a)(2)  
17. IRC § 7702B(a)(3)  
18. IRC § 7702B(b)(1)(D)

19. IRC § 7702B(b)(2)(C)  
20. IRC § 7702B(d)  
21. Pension Protection Act of 2006

\* In NJ second insured referred to as "Additional Insured" - no references should be made to "joint" coverage.

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