Genworth® Financial

LONG TERM CARE INSURANCE PREMIUM DEDUCTIBILITY QUICK REFERENCE GUIDE[1]

Premium Payer	Circumstance	Deductibility
Individual Taxpayer	Individual (who itemizes deductions) and pays premiums for own policy.	Adds eligible premiums (see explanation and chart on reverse) to other unreimbursed medical expenses and may deduct amount in excess of 7.5% of AGI.
All Business Types	Employer pays premiums for non-owner employees' policies (includes S Corporation employees with a 2% or less ownership interest).	Employer may be able to deduct up to 100% of premium expense (if total compensation is "reasonable"). Premiums paid by employer not included in employee's taxable income. Benefits received from policy not included in employee's (policyowner's) taxable income.
Sole Proprietor	Sole proprietor pays premiums for own policy.	Deducts eligible long term care insurance premium (see explanation and chart on reverse).[2] Benefits received from policy not included in policyowner's taxable income.
Partnership (as well as Limited Liability Company taxed as partnership)	Partnership pays premiums for partners' policies.	Premiums attributed to each partner/member included in their income. Partner/member deducts eligible long term care insurance premium (see explanation and chart on reverse).[3] Benefits received from policy not included in policyowner's taxable income.
C Corporation (as well as Limited Liability Company taxed as corporation.)	C Corporation pays premiums for owner/employees' policies.	C Corporation may be able to deduct up to 100% of premium expense (if total compensation is "reasonable"). Premiums paid by employer not included in owner/employee's taxable income (see explanation on reverse). Benefits received from policy not included in policyowner's taxable income.
S Corporation	S Corporation pays premiums for greater than 2% shareholders' policies.	Premiums attributed to each greater than 2% shareholder included in their income. Greater than 2% shareholder deducts eligible long term care insurance premium (see explanation and chart on reverse).[3] Benefits received from policy not included in policyowner's taxable income.

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[1] Current tax law generally allows deductibility of qualified long term care insurance premiums paid for traditional policies covering an individual, his or her spouse, and dependents (when paid for by the individual taxpayer or received in connection with employment). Premiums paid for life insurance policies or annuity contracts that have qualified long term care insurance riders are not deductible as accident and health insurance premiums. If paid by an employer, the premium is fully taxable to the employee/policyholder.

[2] IRC Sec. 162(l)(1)(B).

[3] IRC Sec. 162(l)(1)(B), Rev. Rul. 91-26, 1991-15 I.R.B. 23

This material only discusses the federal income tax treatment of long term care insurance. Consult with a qualified tax advisor for advice on including Long Term Care Insurance in compensation and benefits planning.

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2011 Long Term Care Insurance Premium Age-Based Deduction Limits

Age	Amount Deductible[1]
40 or under	$340
41 through 50	$640
51 through 60	$1,270
61 through 70	$3,390
71 and above	$4,240

[1] IRC Sec. 213(d)(10)(A). Rev. Proc. 2010-40

The age-based limits are indexed annually (to nearest $10) to increases in the medical care cost category of the Consumer Price Index.

Only "eligible" long term care insurance premiums are deductible medical expenses (Internal Revenue Code (IRC) Sec. 213(d)). Eligible premiums are the lesser of actual premiums paid or the age-based limits shown above. Unreimbursed medical expenses may be deducted only to the extent they exceed 7.5% of the taxpayer's AGI.

Self-employed persons may generally deduct eligible premiums paid for them by their business without regard to the 7.5% of taxpayer's adjusted gross income threshold for deductibility of medical expenses. These business persons may include a sole proprietor, a partner in a general partnership, a greater than 2% shareholder in an S corporation, or member in an LLC not taxed as a C corporation.

References under the "Circumstance" column to "Employer" and "Employee" refer to long term care insurance premiums paid in the employment context as an employee benefit. Benefits paid under a qualified LTCI policy are treated as reimbursements for medical care, and are excluded from the policyowner's income (IRC §105(b)). There is no limit on this exclusion for contracts that reimburse for actual long term care expenses incurred. Some companies offer contracts that pay a per diem amount for long term care expenses. Benefits paid under a "per diem" contract that do not exceed a daily per diem limit are federal income tax free to the policyowner. For 2011, this limit is $300 (IRC §7702B(d)).

It is not clear whether a plan may discriminate when paying LTCI premiums in favor of C corporation owner/employees as a class of participants defined solely by ownership status. Employers must consult with their legal and tax advisors to ensure that a proposed plan providing LTCI benefits does not violate any nondiscrimination requirements.

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