



2021 Tax Summary Tax-Qualified Long-Term Care Insurance (LTCI)

| Type of Taxpayer | Premium Deduction (Traditional Policies) | Taxation of Benefits | | | | | | | | | | | | |
|---|---|---|--------------------------|--------------------------|----------------|-------------|-------------|-------------|-------------|-------------|-------------|------------------|------------------|---|
| Individual taxpayer who does NOT itemize | No deduction. | <p>Reimbursement benefits are not included in income. <i>IRC §§104(a)(3), 7702B(a)(2)</i></p> <p>Per diem (or indemnity) benefits are not included in income except amounts that exceed the greater of:</p> <ul style="list-style-type: none"> \$400 per day (2021 indexed), or Total qualified LTC expenses. <i>IRC §§104(a)(3), 7702B(a)(2), 7702B(d)</i> | | | | | | | | | | | | |
| Individual taxpayer who itemizes deductions (Schedule A) | <p>Treated as accident and health insurance. <i>IRC §7702B(a)(1)</i></p> <p>Limited to lesser of actual premium paid or eligible LTCI premium. <i>IRC §§213(d)(1)(D), 213(d)(10)</i></p> <p>Eligible LTC premium in 2021 (indexed):</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr style="background-color: #e6f2ff;"> <th>Attained age in tax year</th> <th>Deductible premium limit</th> </tr> </thead> <tbody> <tr><td>Age 40 or less</td><td>\$ 450</td></tr> <tr><td>Age 41 – 50</td><td>\$ 850</td></tr> <tr><td>Age 51 – 60</td><td>\$1,690</td></tr> <tr><td>Age 61 – 70</td><td>\$4,520</td></tr> <tr><td>Age 71 and older</td><td>\$5,640</td></tr> </tbody> </table> <p>Medical expense deduction is allowable to extent that such expenses (including payment of Eligible LTCI premium) exceed 10% of AGI <i>IRC §213(a), 213(f)</i></p> | | Attained age in tax year | Deductible premium limit | Age 40 or less | \$ 450 | Age 41 – 50 | \$ 850 | Age 51 – 60 | \$1,690 | Age 61 – 70 | \$4,520 | Age 71 and older | \$5,640 |
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| HSA & HRA | Eligible LTCI premium is a qualified medical expense. <i>IRC §213(d)(1)(D)</i> | <p>Return of premium (non-forfeiture) benefits:</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> | | | | | | | | | | | | |
| Employee (W-2) (NON-owner) | <p>Premium paid by employee (e.g., “voluntary” or payroll deduction):</p> <ul style="list-style-type: none"> May NOT be paid through pre-tax cafeteria plan. <i>IRC §125(f)</i> May NOT be paid through FSA or similar arrangement. <i>IRC §106(c)</i> Deductible by employee who itemizes (subject to limitations above) <p>Premium paid by employer (ANY business type):</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 - NOT limited to Eligible premium (subject to reasonable compensation). May also include spouse and other eligible tax dependents. <i>IRC §162(a)</i> Total premium excluded from employee’s income (NOT limited to Eligible premium). Not subject to FICA, etc. <i>IRC §106(a)</i> Benefits remain tax-free. (See column to right) | | | | | | | | | | | | | |
| C-Corporation Shareholder / Employee (with W-2) • Including PCs and LLCs taxed as a C | <p>Treated as employee. (See above)</p> <p>(NOTE that premiums may NOT reduce or be allocated against any individual’s compensation in any form; the premiums must be a true corporate expense.)</p> | | | | | | | | | | | | | |
| “Self-employed” business owners: • Sole Proprietor • Partner • S-Corporation >2% shareholder/employee (W-2) • Member of a LLC or PC taxed as any of above <i>NOTE: Limited Liability Corporation (LLC) is a legal, not tax, entity – based on how the entity files.</i> | <p>Eligible for Self-Employed Health Insurance Deduction, which is taken “above-the-line” on Form 1040, Schedule 1, Line 16 (2019). May also include spouse or other eligible tax dependents. <i>IRC §162(l)</i></p> <p>Limited to lesser of actual premium paid or Eligible LTCI premium. <i>IRC §§213(d)(1)(D), 213(d)(10)</i></p> <p>Eligible LTCI premium in 2021 (indexed):</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr style="background-color: #e6f2ff;"> <th>Attained age in tax year</th> <th>Deductible premium limit</th> </tr> </thead> <tbody> <tr><td>Age 40 or less</td><td>\$ 450</td></tr> <tr><td>Age 41 – 50</td><td>\$ 850</td></tr> <tr><td>Age 51 – 60</td><td>\$1,690</td></tr> <tr><td>Age 61 – 70</td><td>\$4,520</td></tr> <tr><td>Age 71 and older</td><td>\$5,640</td></tr> </tbody> </table> <p>Deduction is NOT limited to 10% of AGI threshold.</p> | Attained age in tax year | Deductible premium limit | Age 40 or less | \$ 450 | Age 41 – 50 | \$ 850 | Age 51 – 60 | \$1,690 | Age 61 – 70 | \$4,520 | Age 71 and older | \$5,640 | <p style="text-align: center;">Linked-Benefit LTCI</p> <p>LTC benefits paid from a Tax-Qualified (7702B) annuity or life insurance “linked benefit” plan are tax-free as noted above. <i>IRC §7702B(e)</i></p> <p>Cash surrenders from a LTCI linked-benefit plan that paid LTCI benefits may have a reduced cost-basis. <i>IRC §72(e)(11)</i></p> <p>Premium payments for annuity or life insurance linked-benefit LTCI plans are NOT deductible. (Separate TQ LTCI continuation rider premiums may be deductible.)</p> |
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