

Qualified Long-Term Care Insurance (LTCi) 2004 Tax Summary

Type of Taxpayer	Premium Deductions	Taxation of Benefits												
Individual taxpayer who does NOT itemize	No deduction.	Reimbursement benefits are not included in income. IRC §§104(a)(3), 7702B(a)(2)												
Individual taxpayer who itemizes deductions	<p>Treated as accident and health insurance. IRC §7702B(a)(1)</p> <p>Limited to lesser of actual premium paid or eligible LTC premium. IRC §§213(d)(1)(D), 213(d)(10)</p> <p>Eligible LTC premium in 2004:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Attained age</th> <th style="text-align: center;">Limitation on premiums</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Age 40 or less</td> <td style="text-align: center;">\$260</td> </tr> <tr> <td style="text-align: center;">Age 41 – 50</td> <td style="text-align: center;">\$490</td> </tr> <tr> <td style="text-align: center;">Age 51 – 60</td> <td style="text-align: center;">\$980</td> </tr> <tr> <td style="text-align: center;">Age 61 – 70</td> <td style="text-align: center;">\$2,600</td> </tr> <tr> <td style="text-align: center;">Age 71 and older</td> <td style="text-align: center;">\$3,250</td> </tr> </tbody> </table> <p>Medical expense deduction is allowable to extent that such expenses (including payment of eligible LTC premium) exceed 7.5% of AGI. IRC §213(a)</p>	Attained age	Limitation on premiums	Age 40 or less	\$260	Age 41 – 50	\$490	Age 51 – 60	\$980	Age 61 – 70	\$2,600	Age 71 and older	\$3,250	<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 • \$230 per day (in 2004). <p>IRC §§104(a)(3), 7702B(a)(2), 7702B(d)</p> <p>Nonforfeiture 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. <p>IRC §7702B(b)(2)(C)</p>
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MSA & HSA deduct eligible premium	Eligible LTC premium is a qualified medical expense. IRC §213(d)(1)(D)													
Employees (non-owners)	<p>Premiums paid by employees:</p> <ul style="list-style-type: none"> • Deductible by employee who itemizes (subject to limitations outlined above). • May not be paid through cafeteria plan. IRC §125(f) • May not be paid through FSA or similar arrangement. IRC §106(c) <p>Premiums paid by employer:</p> <ul style="list-style-type: none"> • Employer provided LTCi treated as accident and health plan. IRC §7702B(a)(3) • Deductible by employer (subject to reasonable compensation). IRC §162(a) • Total premium excluded from employee's income (not limited to eligible premium). IRC §106(a) 													
C corporation owner-employee	Treated as employee.													
<p>Other business owners</p> <ul style="list-style-type: none"> - Sole proprietor - Greater than 2% shareholder in: - S corporation - Partnership <p>LLC:</p> <p>LLC is a legal not tax filing. Check how the entity files</p>	<p>Eligible for self-employed health insurance deduction, which is taken on Line 30 of IRS Form 1040 (2002). IRC §162(l)</p> <p>Limited to lesser of actual premium paid or eligible LTC premium. IRC §§213(d)(1)(D), 213(d)(10)</p> <p>Eligible LTC premium in 2004:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Attained age</th> <th style="text-align: center;">Limitation on premiums</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Age 40 or less</td> <td style="text-align: center;">\$260</td> </tr> <tr> <td style="text-align: center;">Age 41 – 50</td> <td style="text-align: center;">\$490</td> </tr> <tr> <td style="text-align: center;">Age 51 – 60</td> <td style="text-align: center;">\$980</td> </tr> <tr> <td style="text-align: center;">Age 61 – 70</td> <td style="text-align: center;">\$2,600</td> </tr> <tr> <td style="text-align: center;">Age 71 and older</td> <td style="text-align: center;">\$3,250</td> </tr> </tbody> </table> <p>Deduction is not limited to 7.5% of AGI threshold (outlined above).</p>	Attained age	Limitation on premiums	Age 40 or less	\$260	Age 41 – 50	\$490	Age 51 – 60	\$980	Age 61 – 70	\$2,600	Age 71 and older	\$3,250	<p style="text-align: right;"><i>NOTE: This document is only a summary of the tax treatment of qualified long-term care insurance.</i></p>
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