Marty Puin & Associates Inc.

Specialists in Long Term Care Insurance Planning

2018 One Page Tax Summary
Qualified Long-Term Care Insurance (LTCi)

<table>
<tr><th>Type of Taxpayer</th><th>Premium Deductions</th><th>Taxation of Benefits</th></tr>
<tr><td>Individual taxpayer who does NOT itemize</td><td>No deduction.</td><td rowspan="7">Reimbursement benefits are not included in income. IRC §§104(a)(3), 7702(a)(2)

Per diem or indemnity benefits are not included in income except those amounts that exceed the greater of:
Total qualified LTC expenses, or
$360 per day (in 2018).
IRC §§104(a)(3), 7702B(a)(2), 7702B(d)

Nonforfeiture benefit (return of premium benefit):
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.
IRC §§ 7702B(b)(2)(c)

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NOTE: This document is only a summary of the tax treatment of qualified Long Term Care insurance.</td></tr>
<tr><td>Individual taxpayer who itemizes deductions</td><td>Treated as accident and health insurance. IRC §7702B(a)(1)

Limited to lesser of actual premium paid or eligible LTC premium. IRC §§213(d)(1)(D), 213(d)(10)

Eligible LTC premium in 2018:<table><tr><th>Attained age in tax year</th><th>Limitation on premiums</th></tr><tr><td>Age 40 or less</td><td>$420</td></tr><tr><td>Age 41 – 50</td><td>$780</td></tr><tr><td>Age 51 – 60</td><td>$1,560</td></tr><tr><td>Age 61 – 70</td><td>$4,160</td></tr><tr><td>Age 71 and older</td><td>$5,200</td></tr></table>
Individuals can deduct their medical expenses to the extent that the expenses exceed 7.5% of the individual's adjusted gross income. Premiums paid for spouses and dependents are treated in a similar fashion.</td></tr>
<tr><td>MSA & HSA deduct eligible premium</td><td>Eligible LTC premium is a qualified medical expense. IRC §213(d)(1)(D)</td></tr>
<tr><td>Employees (non-owners)</td><td>Premiums paid by employees:
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)
Premiums paid by employer:
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 employer's income (not limited to eligible premium). IRC §106(a)</td></tr>
<tr><td>C corporation owner-employee</td><td>Treated as employee.</td></tr>
<tr><td>Other business owners

- Sole proprietor
- Greater than 2% shareholder in:
- S corporation
- Partnership

LLC:

LLC is a legal not tax filing. Check how the entity files.</td><td>Eligible for Self-Employer health insurance deduction, which is taken "above the line" Line 31 or IRS Form 1040 (2002). IRC §162(l)

Limited to lesser of actual premium paid or eligible LTC premium, IRC §§213(d)(1)(D), 213(d)(10)

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Deduction is not limited to 7.5% of AGI threshold (outlined above).</td></tr>
</table>

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Long Term Care Insurance
2018 IRS Premium Limits

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) includes provisions for favorable tax treatment of qualified Long Term Care (LTC) insurance contracts. Some of these provisions affect premiums, benefits, employer contributions, and medical expense deductions, among others.

Tax Treatment of Premiums and Benefits

Individual Taxpayers and
Self-Employed, Limited Liability Corporation/Partnerships/S-Corporation

Premium Deduction Limit for

Age Before Close of Tax Year	2018 Tax Year
40 or younger	$ 420
41 to 50	$ 780
51 to 60	$1,560
61 to 70	$4,160
71 or older	$5,200

Self employed individuals, including sole proprietors, partners, and more than 2% shareholders of a subchapter S corporation may deduct 100% of eligible premiums paid for qualified LTC plans as an "above the line" self employed health insurance deduction, *subject to the age based limits noted above*. Example: An S-corporation pays a premium of $1,670 for a 50 year old 2% shareholder. The age-based maximum premiums for this 50 year old is $780, so he may deduct up to $780 on his *personal tax return*. Another example: An S-Corporation pays a premiums of $3,710 for a 65 year old 2% Shareholder. The age based maximum premium allowed under current law is $4,160. In this example the 2% Shareholder may deduct 100% of the $3,710 premiums on his *personal tax return.*

S corporations can also deduct 100% of LTC premiums for its employees, spouses and dependents who are not 2% shareholders.

C-corporations can also deduct 100% of Long Term Care premiums for employees and their spouses. The employer can randomly offer this benefit to the employee of his/her choice and corporations can discriminate by class.. The policies are fully portable to the employees when he/she leaves the company. Premiums paid for spouses and dependents are treated in a similar fashion.

Benefits paid to an individual under a qualified LTC plan are excluded from taxable income. There is a tax free cap of $360/day for the tax year 2018 on benefits received under a per diem plan such as those offered by Unum Life Insurance Company (and others), unless the insured can show that LTC expenses exceed the cap. Also, the tax free cap may be reduced by other LTC reimbursements such as another LTC policy, a Life Insurance policy that pays benefits for LTC services and Medicare.

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