

Tax Benefits

There are two types of long term care policies: Tax qualified and non-tax qualified. Most long-term care policies are tax qualified. This means that they may be eligible for tax deductions. Non-tax qualified policies are currently not eligible for any tax deductions and they do not have to meet any of the standards that the Government requires. Benefits received from a tax-qualified plan are income tax free.

All tax Qualified policies are required to use the same criteria to qualify when benefits should be paid under a policy. Included in the benefit triggers for a tax-qualified policy are the following:

- The insured is expected to be unable to perform without assistance at least 2 or more activities of daily living (ADLs). The activities of daily living are: bathing, eating, dressing, toileting, transferring, and continence. This includes the expected need that care will be needed for at least 90 days.

OR

- Cognitive Impairment: The insured has a severe cognitive impairment where it is determined they are a threat to themselves or others.

The premiums paid for tax qualified policies are eligible for both Federal and State tax deductions. Allison Warner recommends that you consult your accountant for the exact treatment of your premiums, here is a short summary.

Federal Taxes

Individuals

Premium payments purchased by an individual are now included as a personal medical expense if you itemize your taxes. Medical expenses in excess of 7 ½% of your adjusted gross income are tax deductible. Based upon your age, a portion of your premium payment may help you reach the 7 ½%. The amounts increase each year based on the Medical Consumer Price Index. Consult the annual tax guide or your accountant for the current yearly amount.

Self-Employed

Long-term care insurance premiums up to the limits for individuals are also treated like health insurance for the self-employed tax deduction. In year 2003 and beyond self-employed individuals can write off 100% of the individual limit. Self-employed means sole proprietorships, partnerships and other types of corporations (Limited Liability Corporation (LLC), S-Corporation).

C-Corporations

Premium payments are fully deductible as a reasonable and necessary business expense; similar to traditional health insurance premiums. This can apply to the owners, their spouses and dependents, and all employees. Employer-paid long-term care insurance is excluded from the employee's gross income and the benefits received are tax-free.

Partnerships, S-Corporations and Limited Liability Corporations (LLC)

Premium payments purchased for a partner or owners are treated like a self-employed person. Premium payments for non-partners or non-owners are fully deductible as a reasonable and necessary business expense - similar to traditional health insurance premiums. Employer-paid long-term care insurance is excluded from the employee's gross income and the benefits received are tax-free.

See us for your Long Term Care Insurance needs in Kentucky and Indiana. We provide referrals nationwide.

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State Tax Incentives for Long-Term Care Insurance

Recently, many states have begun providing tax credits or deductions from state taxes for long-term care insurance premiums of tax-qualified policies. Please note that these are accurate as of April 2004 but new legislation may have been passed in the meantime.

State	Statute	Description	Effective Date
Indiana	6-3-1-3.5	Income tax deduction for long-term care insurance premiums paid for the benefit of an individual or spouse.	1/1/2000
Kentucky	KRS 141-010	Excludes from income tax any amounts paid for long-term care insurance.	Taxable years beginning 12/31/1997

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