Case In Point:

LTCI Premium Tax Deductibility for C-Corps

The Client

John is the president and CEO of a local manufacturing company. The company is a C-Corp with an annual revenue of $68M. He is 58 years old.

John and his wife have a net worth of $15M. They are healthy and expect to live a long time, so they are concerned about finding a long-term care insurance solution that pays benefits for their lifetimes. They also want a strong return on the premium payment. They have funds readily available and are interested in a one-pay premium payment arrangement.

Key LTCI Concerns:

- Unlimited benefit period
- One-pay option
- Strong return on premium payment
- Tax deductibility
- Shared care benefit
- Guaranteed return of premium

Tax Qualified LTCI Options Considered

The agent presented two options for John to consider:

	Tax Qualified LTCI: Single Pay, **Unlimited** Benefit	Tax Qualified LTCI: Single Pay, **6-Year** Benefit with Shared Care Rider
Premium	$356,347 Single Pay	$288,641 Single Pay
Chance of Future Rate Increase	Eliminated by One Pay	Eliminated by One Pay
Max Benefit Payable Assuming Age 73 at Claim	$13,889,914 (15 Years Combined)	$3,524,612
Maximum Premium to Benefit Ratio	**39.0**	**12.2**
Return of Premium Option	Can be added to this policy. Would increase premium to $584,410. 100% ROP upon death at age 73 less claim paid.	Can be added to this policy. Would increase premium to $473,372. 100% ROP upon death at age 73 less claim paid.
Tax Deductibility of Premiums Paid	Entire premium is potentially tax deductible for C-Corp if it meets the reasonable compensation test.	Entire premium is potentially tax deductible for C-Corp if it meets the reasonable compensation test.

Data uses these assumptions: Issue age: 58, Joint Policy, Preferred Risk Class, $300 Daily Benefit, 90-Day Elimination Period, 3% compound inflation, Carrier: National Guardian Life - Essential LTC

Variables to Explore

- **Spousal Benefit:** The options above allow the benefit to be shared between John and his wife. The 6-year benefit option includes an optional Shared Care Rider. The Rider is not needed on the Unlimited benefit option. If John was single, and a spousal benefit was not needed, the premium amounts would be less.

- **10-Pay Option:** A 10-Pay premium may also be a good option for John. If chosen, a 10-pay would split the amount due each year along with the resulting tax deduction, which may be an advantage for compliance with the reasonable compensation rules. The disadvantage is that rates are not locked until policy is paid in full. The chance of a premium increase exists.
- **Return of Premium (ROP) Option:** For those who like the guaranteed benefit offered by a hybrid life policy, and also want the tax deductibility of a tax-qualified long-term care insurance plan, the ROP option may be a good solution. Adding ROP will increase the premium and reduce the premium to benefit ratio, but it provides more guarantee that funds paid will be received either as an LTCI benefit or as a returned premium.

Tax Deductibility of Premiums Paid

The tax deductibility for Tax-Qualified long-term care insurance plans is best when there is a C-Corp involved. If desired, John could also offer a Group LTCI arrangement to his team and enjoy additional tax deductions. If John owned an S-Corp, or he was buying this policy as an individual, his tax deduction would be limited.

	Deduction Limited to Eligible Long-Term Care Premiums in Table 1?	Employer-Paid Premium Included in Employee's Income?
C-Corp	NO*	NO
S-Corp or Self-Employed	YES	YES
Individual Taxpayer	YES	NA

**Subject to Reasonable Compensation Guidelines.*

For S-Corps and Individual Taxpayers

For S-Corps and Individual Taxpayers, the tax qualified LTCI premium is deductible as a medical expense, only if medical expenses (including eligible LTCI premiums) exceed 10% of adjusted gross income. The deduction is limited to the less of the actual premium paid or the Eligible LTCI premiums in Table 1 below.

Table 1

Attained age before the close of taxable year 2019:	Eligible Long-Term Care Premium Deductibility Limit
Age 40 or less	$420
Age 41-50	$790
Age 51-60	$1,580
Age 61-70	$4,220
Age 71 or older	$5,270

This is a summary only. Please consult IRS Publication 535 Business Expenses and consult with your accountant to learn how this applies to specific organizations.

Next Steps

DIS has helped many agents and their business owner clients achieve positive results with tax qualified LTCI strategies. Contact us to learn more.

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