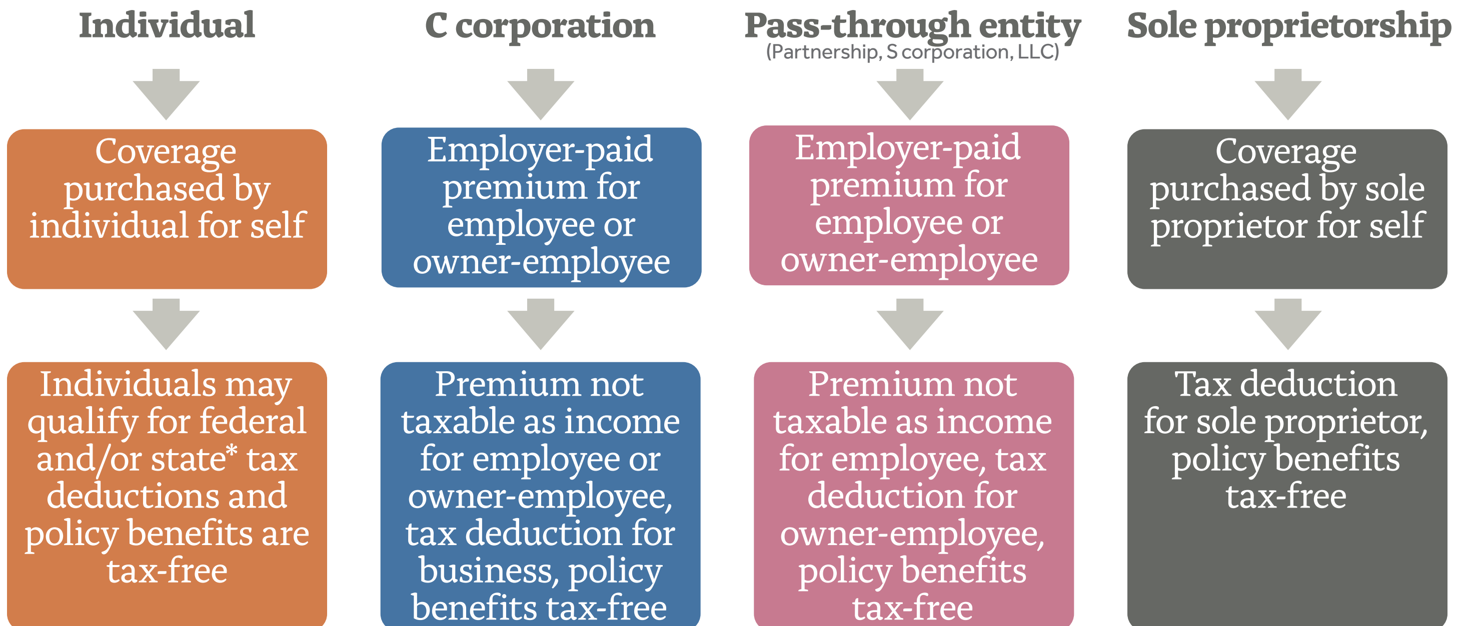
Planning has its advantages.

A look at the tax incentives of long-term care insurance.

New York Life Insurance Company

The government provides tax incentives for individuals and businesses that purchase tax-qualified long-term care insurance (QLTCi) policies.[1] For individuals, incentives may apply to both the premium and benefits paid on a policy. The tax benefits for businesses vary based on the legal status of the entity. Whether you are a business owner, a key decision maker or an individual, learn how you may benefit from these incentives. Then speak with one of our highly skilled New York Life Agents to design a customized plan that's just right for you.[2]



1. All tax incentives mentioned in this brochure apply only to qualified long-term care insurance policies. All New York Life Insurance Company (New York Life) long-term care insurance policies are tax-qualified.
2. This brochure is provided for informational purposes only. Neither New York Life Insurance Company, its subsidiaries, nor any of its Agents are in the business of offering tax, legal or accounting advice and nothing contained herein is, or should be construed as, legal, tax, or accounting advice. This booklet assumes current tax rules apply. Changes to tax laws could impact and change the tax results described in this booklet. Clients should always consult with their independent professional advisors to seek advice on the applicability of this information to their particular circumstances.

*State level tax incentives vary. See 'State-level tax incentives for individuals' section inside this brochure.

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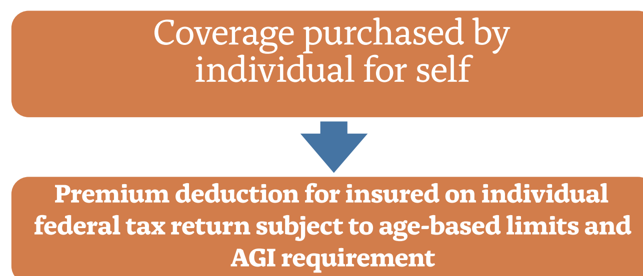
Individual tax incentives

Individuals who itemize medical expenses

For individual income tax purposes, tax-qualified long-term care insurance (QLTCi) premiums are considered a medical expense[3] but are subject to "age-based limits". The chart below lists the amount of LTCi premium, based on one's age, that can be counted towards one's medical expenses. For 2020, medical expenses that exceed 7.5% of Adjusted Gross Income (AGI) may be deducted. Therefore, if a person itemizes their income tax deductions, they may be able to deduct their LTCi premiums (up to the limits listed in the chart), as a medical expense, on their individual Federal tax return. In addition, the policy benefits received by the policyholder at the time of claim are received tax-free.[4]

Age-Based Limits 2020[5]

Age	Limit
40 or less	$430
41-50	$810
51-60	$1,630
61-70	$4,350
71 and older	$5,430



State-level tax incentives for individuals

State legislatures are recognizing the impact that Medicare and Medicaid service costs are having on state budgets. As a result, several states have legislation that encourages the purchase of private insurance through tax incentives. Consult your tax advisor or the Department of Health and Human Services in your state for a list of state specific incentives related to long-term care insurance.

Funding long-term care insurance using partial 1035 exchanges

New York Life will accept some non-tax-qualified deferred annuity values via tax-free partial Section 1035 exchange as a means of funding long-term care insurance premiums.[6] This presents an opportunity for some annuity holders to pay their premiums using funds that would otherwise be subject to taxes. Clients can choose to pay a single LTCi premium from a New York Life Insurance and Annuity Corporation (NYLIAC) or other insurer's deferred annuity policy, or they can arrange to have their LTCi policy's annual premium paid automatically from their NYLIAC deferred annuity policy each year. Note that 1035 exchanges may not be advantageous for all clients with annuities. Check with your tax advisor before undertaking a partial 1035 exchange.

Using HSAs and HRAs to pay individual premiums

Individuals can use Health Savings Accounts (HSAs) or Health Reimbursement Arrangements (HRAs) to pay LTCi premiums, subject to age-based limits.[7] Flexible Spending Accounts (FSAs) cannot be used to pay LTCi premiums.

3. Internal Revenue Code (IRC) Section 213(d)
4. IRC Sections 105 and 7702B
5. These figures are subject to change and are updated by the Internal Revenue Service annually.
6. California has passed a law (S.401) stating that they are not recognizing the changes enacted under the Pension Protection Act of 2006 for California state tax purposes. As a result, partial Section 1035 exchanges from annuities that are used to pay the premiums for long-term care insurance policies in California will likely be subject to state tax, even though they are tax-free for federal tax purposes.
7. Internal Revenue Service, Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans. 2017

Tax Incentives for businesses and employees

Long-term care insurance is one of the few benefits that may offer tax incentives on both sides of the employment equation—premiums that are (i) tax deductible to businesses and/or their owners and (ii) a tax-free benefit to employees.

An employer that contributes to the premium cost of qualified long-term care insurance (QLTCi) policies for employees generally receives a 100% tax deduction for the premiums.[8] For the employees receiving this valuable coverage, long-term care insurance premiums are not taxable as income.[9] In addition, the policy benefits received by the policyholder at the time of claim are received tax-free.[10] Tax benefits associated with LTCi premiums vary according to the legal status of the business entity and the person insured. Some general differences are described in the sections that follow.

C corporations

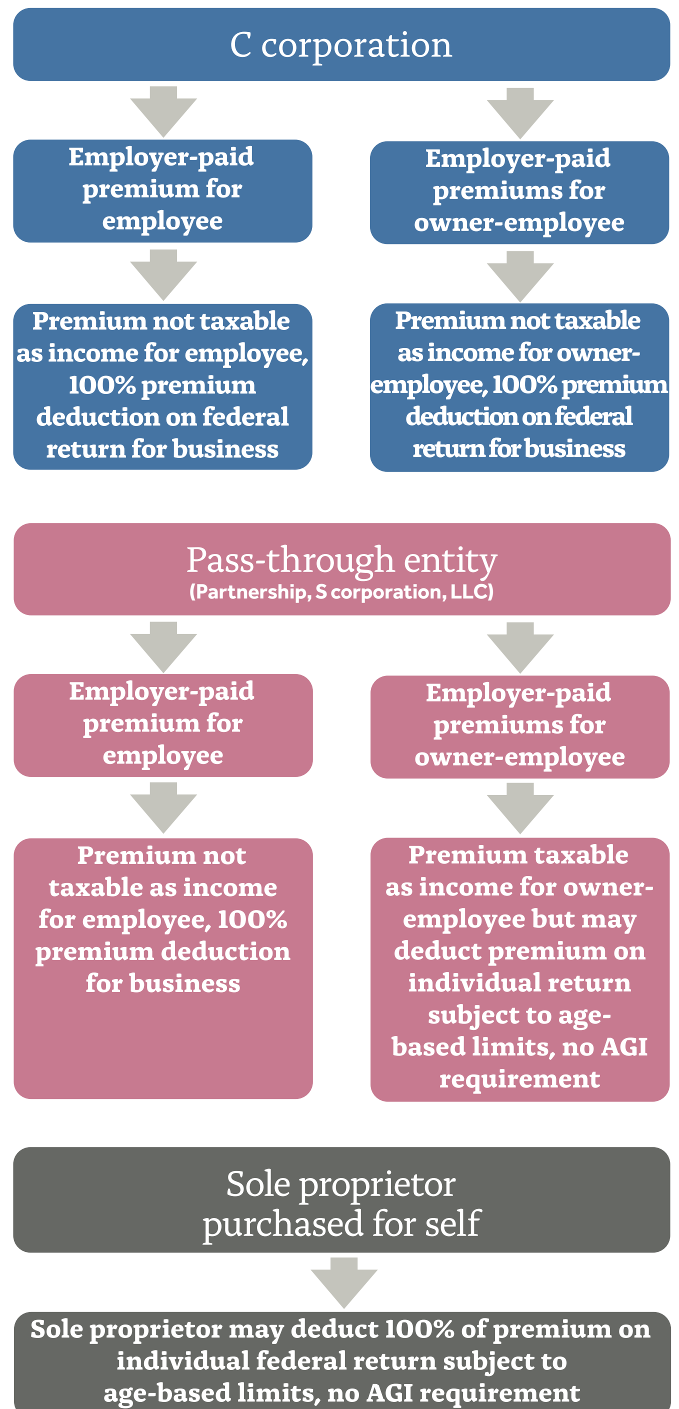
When a C corporation purchases an LTCi policy for an employee, the premium is deductible to the business and not taxable to the employee as income. Since a C corporation is considered a stand-alone entity for legal and tax purposes, LTCi premiums paid by the business for an owner-employee are also generally deductible to the business and not taxable to the owner-employee as income.[11]

Pass-through entities

When a partnership, S corporation, or limited liability company (LLC) treated as a partnership (also known as pass-through entities) purchases a long-term care insurance policy for an employee (non-owner), it is generally 100% deductible for the business and not taxable to the employee as income. If a policy is purchased by the business for an owner-employee[12], the premium is considered compensation income for the owner-employee and is therefore taxable. However, the owner-employee may deduct the premium on his or her individual Federal tax return, subject to the same age-based limits that apply to individuals. Owner-employees are not, however, subject to the 7.5% Adjusted Gross Income (AGI) requirement that applies to individuals.

Sole proprietorships

In a sole proprietorship, there is no legal distinction between the owner and the business. If a sole proprietor purchases a long-term care insurance policy in his or her own name with his or her own funds, the premium may be deducted on his or her individual Federal tax return subject to the same age-based limits that apply to individuals. However, sole proprietors are not subject to the 7.5% AGI requirement that applies to individuals.



8. IRC Section 162
9. IRC Section 106(a)
10. IRC Section 105
11. IRC Section 106(a)
12 An owner (or owner-employee) is generally a partner, an LLC member, or an individual who owns 2% or more of an S corporation.

ERISA

A QLTCi Plan may be subject to fiduciary, disclosure reporting and other requirements of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). All New York Life LTCi policies are qualified. Employers should consult their legal advisors regarding the possible ERISA implications of adopting a QLTCi Plan and whether there is an applicable exception from ERISA coverage for the QLTCi Plan.

Executive carve-out arrangements

Long-term care insurance is a benefit not subject to the Internal Revenue Code's nondiscrimination rules. That means it is one of the few benefits employers can selectively offer to specific groups of employees within a company. This is called an executive carve-out arrangement.

Through this arrangement, a company can purchase an LTCi policy for a key employee, his/her dependents, and/or company retirees. Employers have the option to pay all or some of employees' policy premiums and can offer several differently structured programs in a single worksite—for example, an executive carve-out arrangement combined with a voluntary program. Premiums paid by the business are deductible to the business and not taxable to the employee as income. Tax results may vary depending on the legal structure of the business.

Also, individually-underwritten QLTCi policies, such as those offered by New York Life, allow employees to retain their policies with no change in benefits or premiums if they leave the company or if the company discontinues the plan of insurance.

Call your Agent today to learn more about the tax benefits associated with purchasing long-term care insurance for yourself or your employees!

The purpose of this material is solicitation of insurance. An insurance Agent may contact you. Long-term care insurance is issued on policy form ICC14-LTC6. The policy has exclusions and limitations. For costs and complete details of the coverage, contact your Agent or the company.

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