

**Income Tax Deductions
For HIPAA Tax-Qualified
Long Term Care Insurance**

The State Life Insurance Company
P.O. Box 406
Indianapolis, IN 46206
(317) 285-2300



For Agent Use Only

Type of Taxpayer	Premium Deductions	Taxation of Benefits																																			
Individual Taxpayer Who does NOT itemize	No deduction ¹ except for Health Savings Account owners. See HSA below	<u>Reimbursement benefits</u> for qualified long term care services are not taxed.																																			
Individual Taxpayer Who Itemizes Deductions	Treated as medical insurance premiums. ⁹ Limited to the lesser of the actual premium paid or the amount per person from an age-related table of maximum deductible premiums. Table is adjusted annually for inflation. For given years, the maximum deduction per person is: <table border="1"> <thead> <tr> <th>Age</th> <th>2002</th> <th>2003</th> <th>2004</th> <th>2005</th> </tr> </thead> <tbody> <tr> <td>40 or younger</td> <td>240</td> <td>250</td> <td>260</td> <td>270</td> </tr> <tr> <td>41 – 50</td> <td>450</td> <td>470</td> <td>490</td> <td>510</td> </tr> <tr> <td>51 – 60</td> <td>900</td> <td>940</td> <td>980</td> <td>1,020</td> </tr> <tr> <td>61 – 70</td> <td>2,390</td> <td>2,510</td> <td>2,600</td> <td>2,720</td> </tr> <tr> <td>71 and older</td> <td>2,990</td> <td>3,130</td> <td>3,250</td> <td>3,400</td> </tr> </tbody> </table> Premium deduction is effective to the extent that the deductible premium above added to taxpayer paid medical premiums and deductible out-of-pocket medical expenses exceeds 7.5% of the taxpayers Adjusted Gross Income (AGI).	Age	2002	2003	2004	2005	40 or younger	240	250	260	270	41 – 50	450	470	490	510	51 – 60	900	940	980	1,020	61 – 70	2,390	2,510	2,600	2,720	71 and older	2,990	3,130	3,250	3,400	Per Diem or Indemnity benefits are not taxed except those benefits that exceed the greater of: ^{5,6,7} <ul style="list-style-type: none"> Total qualified long term care services charged or, \$230 per day in 2004, \$240 per day in 2005 and adjusted each year thereafter for inflation) Nonforfeiture Benefit (return of premium benefit):					
Age	2002	2003	2004	2005																																	
40 or younger	240	250	260	270																																	
41 – 50	450	470	490	510																																	
51 – 60	900	940	980	1,020																																	
61 – 70	2,390	2,510	2,600	2,720																																	
71 and older	2,990	3,130	3,250	3,400																																	
401K Plans	May <u>not</u> be paid through 401K retirement accounts. ¹¹	<ul style="list-style-type: none"> Available only upon total surrender or death¹⁰. 																																			
IRA Owners	Individual Retirement Accounts may <u>not</u> be used to pay LTCI premiums.	<ul style="list-style-type: none"> May not be borrowed or pledged. 																																			
HSA (and MSA) Owner	May pay Tax Qualified LTCI premiums from a <u>Health Savings Account</u> (HSA).	<ul style="list-style-type: none"> Not taxable at death.¹⁰ 																																			
Section 125 Plans	LTCI premiums become <u>taxable</u> to employee if paid through Section 125 plan. ¹¹ HSA may be funded through 125 plan, and LTCI premiums paid from HSA.	<ul style="list-style-type: none"> Taxable upon policy surrender to the extent premiums were deducted.¹⁰ 																																			
HRA participant	If Employer <u>Health Reimbursement Plan</u> permits, TQ premiums may be allowed.																																				
Employees (Non-Owners)	<ul style="list-style-type: none"> Premiums paid by employees deductible by employee who itemizes as an individual taxpayer. Deductible by employer^{2,9} Not taxable to employee^{8,9} Not limited to the age-related-cap maximum deduction. Applies to both Individual policies and group insurance. 																																				
C Corporation Owner	If a corporate employee, treated as employee. ⁴																																				
Other Business Owners <ul style="list-style-type: none"> Sole Proprietors SUB Chapter S 2% or more owner Partners – Partnerships and Limited Liability Partnerships (LLP) Limited Liability Corporation (LLC) owners 	<p>May be treated as a business expense for medical insurance premiums.¹²</p> <p>Limited to the lesser of the actual premium or the amount on an age-related table of maximum deductible premiums which are adjusted annually for inflation:¹³</p> <table border="1"> <thead> <tr> <th>Age</th> <th>2002</th> <th>2003</th> <th>2004</th> <th>2005</th> </tr> </thead> <tbody> <tr> <td>40 or younger</td> <td>240</td> <td>250</td> <td>260</td> <td>270</td> </tr> <tr> <td>41 – 50</td> <td>450</td> <td>470</td> <td>490</td> <td>510</td> </tr> <tr> <td>51 – 60</td> <td>900</td> <td>940</td> <td>980</td> <td>1,020</td> </tr> <tr> <td>61 – 70</td> <td>2,390</td> <td>2,510</td> <td>2,600</td> <td>2,720</td> </tr> <tr> <td>71 and older</td> <td>2,990</td> <td>3,130</td> <td>3,250</td> <td>3,400</td> </tr> </tbody> </table> Reduced by the Self-Employed medical insurance allowable percentage, by year: <table border="1"> <tbody> <tr> <td>2000 and 2001</td> <td>60%</td> </tr> <tr> <td>2002</td> <td>70%</td> </tr> <tr> <td>2003 and thereafter</td> <td>100%</td> </tr> </tbody> </table> <i>NOTE: This document refers only to the tax treatment of Tax Qualified Long Term Care Insurance Policies under the Health Insurance Portability and Accountability Act.</i> <i>The tax treatment of Non-Qualified Long Term Care Insurance policies, benefits and premiums is unknown.</i>	Age	2002	2003	2004	2005	40 or younger	240	250	260	270	41 – 50	450	470	490	510	51 – 60	900	940	980	1,020	61 – 70	2,390	2,510	2,600	2,720	71 and older	2,990	3,130	3,250	3,400	2000 and 2001	60%	2002	70%	2003 and thereafter	100%
Age	2002	2003	2004	2005																																	
40 or younger	240	250	260	270																																	
41 – 50	450	470	490	510																																	
51 – 60	900	940	980	1,020																																	
61 – 70	2,390	2,510	2,600	2,720																																	
71 and older	2,990	3,130	3,250	3,400																																	
2000 and 2001	60%																																				
2002	70%																																				
2003 and thereafter	100%																																				

The information provided herein is not intended as legal or tax advice. Consult with an attorney, accountant or tax advisor regarding the tax implications of purchasing long term care insurance.

¹ HIPPA 1996, P.L.104-49L	⁴ IRC Sec. 106(a)	⁷ IRC Sec. 104(a)(3)	¹⁰ Sec. 7702B(b)(2)(C)	¹³ IRC Sec. 213(d)(10)(B)
² IRC Sec. 7702B(a)(3)	⁵ IRC Sec. 7702B(a)(2)	⁸ IRC Sec. 213(d)(1)	¹¹ IRC Sec. 125(f)	
³ IRC Sec. 105(b)	⁶ IRC Sec. 7702B(d)	⁹ IRC Sec. 7702B(a)(1)	¹² IRC Sec. 162(l)	