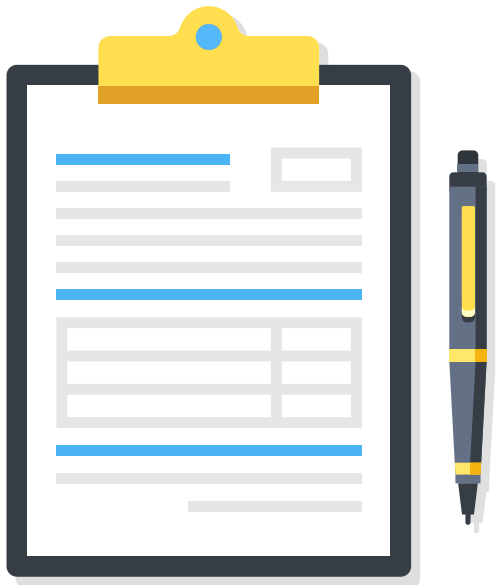




# 2025 LTCi TAX SUMMARY

The tax treatment of Tax-Qualified Long Term Care insurance (TQ LTCi) premiums and benefits can be an important part of the decision to purchase Long Term Care insurance.



Below is a summary of the income tax treatment of TQ LTCi policies for 2024.

**This is offered for education and information only. It is not intended to constitute tax or legal advice. For information on a specific situation, always consult with an attorney or tax advisor for the tax implications of TQ LTCi policies.**

TQ LTCi is a guaranteed renewable insurance contract that provides benefits for long term care expenses, does not pay or reimburse for expenses that would be covered by Medicare, does not provide a cash surrender value that can be borrowed, assigned, or pledged as collateral for a loan, and must meet certain specified consumer protection requirements. For income tax purposes, TQ LTCi is generally treated as accident and health insurance.<sup>18, 21, 25</sup>

## EssentialLTC

# Individual Taxpayer



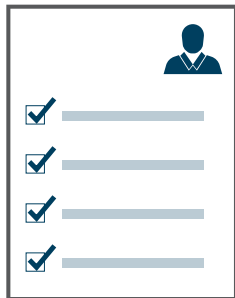
## Individual Who Does Not Itemize Deductions

- Premium is not deductible

## Individual Who Itemizes Deductions (Schedule A)

- Premium is deductible as a medical expense, to the extent medical expenses (including Eligible Long Term Care Premiums) exceed 7.5% of adjusted gross income (AGI)<sup>8</sup>
- Limited to the lesser of the actual premium paid or Eligible Long Term Care Premiums in **Table 1**<sup>9, 10</sup>

## Eligible Long Term Care Premiums<sup>9, 10, 29</sup>

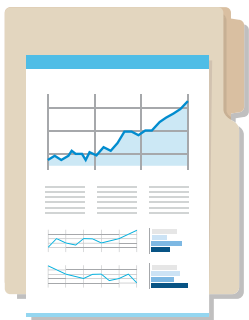


**TABLE 1**

Attained age before the close of the taxable year 2025:	The limitation is:
Age 40 or less	\$480
Age 41-50	\$900
Age 51-60	\$1,800
Age 61-70	\$4,810
Age 71 and older	\$6,020

# C-Corporation Owners & Employees

(including Limited Liability Company (LLC) and Professional Corporation (PC) taxed as a C-Corporation)



## Employer-provided LTCi is treated as an accident and health plan<sup>20</sup>

- Employer-paid premiums deductible by employer subject to reasonable compensation rules<sup>6, 20</sup>
- Not limited to Eligible Long Term Care Premiums in **Table 1**<sup>18, 20</sup>
- Employer-paid premium is not included in employee's income<sup>3, 20</sup>
- Employer may also pay premium for spouses, retirees, and eligible tax dependents<sup>26, 27</sup>

# Self-Employed Taxpayer

Sole Proprietor, Partner in a Partnership (or LLC taxed as Partnership), 2% plus Shareholder of S-Corp (or LLC or PC taxed as S-Corp)



## Tax Treatment of Premium for Self-Employed Taxpayer

- Is eligible for the Self-Employed Health Insurance Deduction,<sup>7</sup> which is taken on the appropriate schedule on IRS Form 1040
  - Deduction is limited to the lesser of actual premium paid or Eligible Long Term Care Premiums in **Table 1**<sup>9, 10</sup>

### IRS Publication 535

Details on the Self-Employed Health Insurance Deduction (pages 20-24)

[irs.gov/pub/irs-pdf/p535.pdf](https://irs.gov/pub/irs-pdf/p535.pdf)

## Tax Treatment if S-Corp, LLC, or Partnership Pays Premium

- Employer-paid premium for owners & their spouses deductible by employer<sup>6, 15</sup>
  - Deducted premium is included in gross income of owners, partners, their spouses, and eligible tax dependents<sup>1, 13</sup>
- Employer-paid premium for non-owner employees, their spouses, and retirees follow the same rules as a C-Corporation

# Tax Treatment of LTCi Benefits



## Benefits Paid for Qualified Long Term Care Expenses

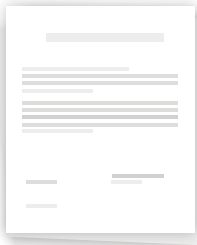
- TQ LTCi reimbursement benefits for qualified long term care expenses are not included as income<sup>2, 19</sup>
  - LTCi benefits paid on a reimbursement basis are payments based on actual charges of eligible long term care expenses incurred, up to the daily or monthly benefit maximum selected under the TQ LTCi policy.

## Refund of Premium Benefits

- Available only upon total surrender or death of insured (second to die if joint policy\*)<sup>23</sup>
- May not be borrowed, assigned, or pledged as collateral for a loan<sup>22</sup>
- Included in gross income to the extent that any deduction or exclusion was allowed with respect to the premiums paid<sup>23</sup>

\* In NJ second insured referred to as "Additional Insured" - no references should be made to "joint" coverage.

# 1035 Exchange & The Pension Protection Act



The Pension Protection Act of 2006 (effective 1/1/2010) amended the IRC § 1035 rules to allow the surrender value of non-qualified, tax-deferred annuities or the cash surrender value of life insurance policies to be exchanged, on a tax-free basis, for a TQ LTCi policy. Both principal (basis) and tax-deferred gains can be exchanged to fund the TQ LTCi premiums.

## Contracts that can be exchanged under §1035

EXCHANGED FROM	EXCHANGED TO		LTCi
	Life Insurance	Non-Qualified Tax-Deferred Annuity	
Life Insurance	Yes	Yes	Yes
Non-Qualified Tax-Deferred Annuity	No	Yes	Yes

## Premium Payment Sources



### Health Saving Accounts and Archer Medical Savings Accounts

Individuals may pay TQ LTCi premium from a Health Savings Account<sup>12</sup> or an Archer MSA<sup>11</sup> as a medical expense. The pre-tax amount that can be used from these accounts is limited to the lesser of actual premium paid or Eligible Long Term Care Premiums in **Table 1**.<sup>9</sup>

### Premium payment sources that may not be tax free

Withdrawing funds from the following types of accounts to pay for TQ LTCi premium may trigger a taxable event:

- 401(k) retirement account<sup>28</sup>
- IRA account<sup>14</sup>
- Cafeteria plan<sup>5</sup>
- Flexible spending or similar arrangement<sup>4</sup>

# EssentialLTC

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#### Sources

- |                    |                                    |                          |                                     |
|--------------------|------------------------------------|--------------------------|-------------------------------------|
| 1. IRC § 61        | 9. IRC § 213(d)(1)(D)              | 17. IRC § 3306(b)        | 25. IRC § 7702B(g)                  |
| 2. IRC § 104(a)(3) | 10. IRC § 213(d)(10)               | 18. IRC § 7702B(a)(1)    | 26. Treas. Reg. § 1.106-1           |
| 3. IRC § 106(a)    | 11. IRC § 220(d)(2)(B)(ii)(II)     | 19. IRC § 7702B(a)(2)    | 27. Rev. Rul. 62-199, 1962-2 CB 32; |
| 4. IRC § 106(c)    | 12. IRC § 223(d)(2)(C)(ii)         | 20. IRC § 7702B(a)(3)    | Rev. Rul. 82-196, 1982 C.B. 53.     |
| 5. IRC § 125(f)    | 13. Rev. Rul. 91-26, 1991-1 CB 184 | 21. IRC § 7702B(b)       | 28. IRC § 402(a)                    |
| 6. IRC § 162(a)    | 14. IRC § 408 (d)(1)               | 22. IRC § 7702B(b)(1)(D) | 29. Rev. Proc. 2024-40              |
| 7. IRC § 162(l)    | 15. IRC § 707(c)                   | 23. IRC § 7702B(b)(2)(C) |                                     |
| 8. IRC § 213(a)    | 16. IRC § 3121(a)                  | 24. IRC § 7702B(d)       |                                     |