

# Income tax deductions for tax-qualified long-term care insurance (LTCI)

## Type of taxpayer and premium deductions

### Individual taxpayer who does not itemize

No deduction<sup>1</sup>

### Individual taxpayer who itemizes deductions

Treated as medical insurance premiums.<sup>2</sup> Limited to the lesser of the actual premium paid or the amount per person from an age-related table that caps maximum deductible premiums. Table is adjusted annually for inflation. See below:

#### Maximum deductible premiums

Age	2023 max deduction	2022 max deduction
40 or younger	\$480	\$450
41–50	\$890	\$850
51–60	\$1,790	\$1,690
61–70	\$4,770	\$4,510
71 and older	\$5,960	\$5,640

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 exceed 7.5% of the taxpayers AGI.<sup>3</sup>

### IRA owners

IRAs may not own LTCI, and IRA distributions may not be rolled tax-free to LTCI. Distributions, after tax, may pay LTCI premiums.

### Flexible Spending Accounts (FSAs)

FSAs may not reimburse LTCI premium.<sup>4</sup> LTCI may not be paid through an employer-provided cafeteria plan.<sup>5</sup>

### Health Savings Accounts (HSAs)

LTCI premiums can be reimbursed through an HSA, tax-free, up to the age-related cap. HSA may be inside an employer-provided cafeteria plan.<sup>6</sup>

### Employees (nonowners)

Premiums paid by employees

- Deductible by the employee who itemizes as an individual taxpayer
- May not be paid through section 125 or 401(k) accounts<sup>7</sup>

Premiums paid by employer

- Deductible by employer<sup>8</sup>
- Not taxable to employee<sup>9</sup>
- Not limited to the age-related cap on deduction
- Not subject to 7.5% of AGI threshold

### C Corporation owner — employee

Treated as employee<sup>10</sup>

1. IRC Sec. 63(b) 2. IRC Sec. 7702B(a)(1) 3. IRC Sec. 213(f) 4. IRC Sec. 106(c) 5. IRC Sec. 125(f)(2) 6. IRC Sec. 106(d) 7. IRC Sec. 125(f)(2) 8. IRC Sec. 162(a) 9. IRC Sec. 106(a) 10. IRC Sec. 106(a)

**Other business owners: Sole proprietors, S Corp greater than 2% owners, partners, LLC owners**

May be treated as a business expense for medical insurance premiums.<sup>11</sup> Limited to the lesser of the actual premium or the amount per person from an age-related table that caps maximum deductible premiums.<sup>12</sup> Table is adjusted annually for inflation. See below:

**Maximum deductible premiums**

Age	2023 max deduction	2022 max deduction
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## Taxation of benefits

Reimbursement benefits for qualified LTC services are not taxed. Per Diem or Indemnity benefits are not taxed except those benefits that exceed the greater of:<sup>13</sup>

- Total qualified LTC services charged, or
- \$420 per day (2023)

Return of Premium (ROP) benefit:<sup>14</sup>

- Available only upon total surrender or death
- May not be borrowed or pledged
- Not taxable at death
- Taxable upon policy surrender to the extent premiums were deducted

11. IRC Sec. 162(l) 12. IRC Sec 213(d)(10)(A) 13. IRC Secs. 7702B(a)(2), 7702B(d) and 104(a)(3) 14. IRC Sec. 7702B(b)(2)(C)

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