

Deductibility of Employer-Paid Premiums

On Behalf of an Employee Stockholder

A C-Corporation that purchases TQ LTCI on behalf of an Employee Stockholder may deduct the premiums paid as an ordinary business expense. This holds true for TQ LTCI purchased for the Employee Stockholder's spouse or other tax dependent.

On Behalf of a Stockholder Who is not an Employee

A C-Corporation that purchases TQ LTCI for a shareholder who is not an employee does not receive a deduction for the premiums paid.

On Behalf of an Employee

A C-Corporation that purchases TQ LTCI on behalf of an Employee may deduct the premiums paid as an ordinary business expense. This holds true for TQ LTCI purchased for the Employee's spouse or other tax dependent.

Tax Consequences of C-Corp-Paid Premiums

For an Employee Stockholder

Provided that the Stockholder is also a bona fide Employee of the C-Corporation, TQ LTCI premiums paid by the C-Corporation on behalf of the Employee are fully deductible assuming the C-Corporation retains no interest in the policy. This would also apply to premiums paid on behalf of the employee's spouse and other tax dependents.

For a Stockholder who is not an Employee

TQ LTCI premiums paid by a C-Corporation on behalf of a Stockholder who is not an Employee of the C-Corporation would represent dividend income for the Stockholder.

For an Employee

Employer-paid LTCI premiums would not be included in the Employee's gross income (IRC Sec. 106). This would also apply to premiums paid on behalf of the employee's spouse and other tax dependents.

Treatment of Benefits Received

General Rule

A TQ-LTCI policy issued after December 31, 1996 is treated as an accident and health insurance contract. The result is that benefits received are considered reimbursements for expenses actually incurred and are not generally includable in gross income (IRC Sec. 104(a)(3) and 105(b)).

For a further discussion of the taxation of benefits received, see “Treatment of Benefits Received in the Individual Taxpayer Section of this discussion.

Contributory Arrangements

Deductibility of Premium Payments

For the Employee

Premiums Contributed by the Employer

Employer-paid LTCI premiums would not be included in the Employee’s gross income (IRC Sec. 106). This would also apply to premiums paid on behalf of the employee’s spouse and other tax dependents.

As a result, the employee has the opportunity to exclude the employer-paid contribution from his or her gross income.

Premiums Contributed by the Employee

Employee premium contributions made to supplement TQ LTCI employer contributions are treated as though paid by an Individual Taxpayer and are subject to the corresponding tax rules.

For the Employer

An Employer that purchases TQ LTCI on behalf of an Employee may deduct the premiums paid as an ordinary business expense. This holds true for TQ LTCI purchased for the Employee’s spouse or other tax dependent.

Treatment of Benefits Received

General Rule

A TQ-LTCI policy issued after December 31, 1996 is treated as an accident and health insurance contract. The result is that benefits received are considered reimbursements for expenses actually incurred and are not generally includable in gross income (IRC Sec. 104(a)(3) and 105(b)).