

S-CORPORATION

Deductibility of Employer-Paid Premiums

For purposes of determining tax liabilities with regards to S-Corporations, the tax code looks to the individual's ownership rights in the company. An employee who owns 2% or more of the S-Corporation is deemed to be an Employee/Owner, while one who owns less than 2% is treated as only an employee.

On Behalf of an Employee/Owner (Shareholder of 2% or greater)

TQ LTCI premiums paid by an S-Corporation on behalf of a greater than 2% shareholder are deductible by the S-Corporation provided the S-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.

On Behalf of an Employee (Less than 2% Shareholder)

Tax-Qualified LTCI premiums paid by a S-Corporation on behalf of an employee are fully deductible provided the S-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.

Tax Consequences of Employer-Paid Premiums

For an Employee/Owner (Shareholder of 2% or greater)

The entire amount of the TQ LTCI premiums paid by the S-Corporation is includable in the employee/owner's gross income. The same holds true for S-Corporation -paid TQ LTCI premiums paid on behalf of the employee/owner's spouse or other tax dependents.

In this case, the employee/owner is treated as a self-employed individual for tax purposes and the TQ LTCI premiums received would be subject to the same tax rules as apply to Sole Proprietors. Since S-Corporations are pass through entities, the shareholder takes the income and then may deduct the premium based on the table below.

In tax years prior to 2003, any TQ LTCI premiums over and above the Percentage of TQ LTCI Premium Deductible as Self-Employed Health Insurance may be added to the employee/owner's other unreimbursed medical expenses when calculating the employee/owner's medical expense deductions. The following table illustrates the deductible premium amounts, based on the age of the insured (and spouse), that can be considered an "above the line" tax deduction.

2006 Table of Eligible Deductible Premium

Age	Eligible Premium 2006 Limit	Eligible Premium 2005 Limit	Eligible Premium 2004 Limit
< 40	\$ 280	\$ 270	\$ 260
41-50	\$ 530	\$ 510	\$ 490
51-60	\$1,060	\$1,020	\$ 980
61-70	\$2,830	\$2,720	\$2,600
70 >	\$3,530	\$3,400	\$3,250

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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.

Tax Consequences of S-Corp-Paid Premiums

For an Employee/Owner (Shareholder of 2% or greater)

The entire amount of the TQ LTCI premiums paid by the S-Corporation is includable in the 2%+ Shareholder's gross income.

In this case, the 2%+ Shareholder is treated as a self-employed individual for tax purposes and the TQ LTCI premiums received would be subject to the same tax rules as apply to Sole Proprietors.

In tax years prior to 2003, any TQ LTCI premiums over and above the Percentage of TQ LTCI Premium Deductible as Self-Employed Health Insurance may be added to the

Partner's other unreimbursed medical expenses calculating the Partner's medical expense deductions.

The same holds true for S-Corporation-paid TQ LTCI premiums paid on behalf of the 2%+ Shareholder's spouse or other tax dependents. The same rules apply to any TQ

For an Employee (Less than 2% Shareholder)

TQ LTCI premiums paid by a Partnership on behalf of an employee are fully deductible providing the Partnership retains no interest in the policy. This would also apply to premiums paid on behalf of the employee's spouse and other tax dependents.

Attribution Rules

Section 318 of the Tax Code speaks to the Constructive Ownership of stock, otherwise known as Attribution. Generally, an individual is considered to be the owner of any stock (directly or indirectly) that is actually owned by members of the individual's family, including his or her: spouse, children, grandchildren and parents.