

Tax Benefits of Long-term Care insurance

Premium deductibility reference guide for federal income tax purposes



Business entity

Sole proprietorship

- 100% of eligible premium is subject to the age-based limitations listed in Table 1 (page 4) for self, spouse and dependents.
- The portion that exceeds the eligible premium age-based limitation is not deductible as a medical expense.
- 100% deductible for total premiums paid on behalf of employees, employees' spouses and dependents. Not taxable to employee.
- A self-employed individual may not deduct premiums during any calendar month in which he or she or his or her spouse is eligible to participate in a subsidized plan where the employer pays all or part of the premiums.

Partnership, limited liability company (LLC), Subchapter S corporation

- 100% of eligible premium is subject to the age-based limitations listed in Table 1 (page 4) for partners of a partnership, members of an LLC that is taxed as a partnership, and shareholders or employees of Subchapter S corporations who own more than 2% of the corporation, and their spouses and dependents.
- The portion that exceeds the eligible premium age-based limitation is not deductible as a medical expense.
- 100% deductible for total premiums paid on behalf of less than 2% owners, employees and spouses, and on behalf of dependents of less than 2% owners and employees. Not taxable to employee.

C corporation

- 100% of the total premium paid on behalf of any of its owners, and their spouses and dependents. Not taxable to employee.
- 100% of the total premium paid on behalf of any of its employees, and their spouses and dependents. Not taxable to employee.
- The deduction is not limited to the eligible premium age-based limitations.
- The purchase of a tax-qualified long-term care insurance contract is not subject to any nondiscrimination rules, thus allowing an employer to be selective in the classification of employees it elects to cover.

Individual

- Premiums for individual taxpayers, their spouses and dependents are considered personal medical expenses.
- The maximum premium amount that can be claimed as a medical expense for each individual is 100% of the eligible premium, subject to the age-based limitations listed in Table 1 (page 4).
- Medical expenses that exceed 7.5% of adjusted gross income are deductible. However, taxpayer must itemize deductions. Taxpayers subject to alternative minimum tax (AMT) are also subject to the 7.5% threshold.



Tax treatment of premiums paid	Sole proprietorship	C corporation	S corporation	Partnership	LLC
For owner/employee or partner²	Eligible premium deductible above the line. ³	Fully deductible to entity, not currently taxable to employee. ¹	>2% owner—eligible premium deductible above the line; ^{2,3} not currently taxable to employee. <2% owner—fully deductible to entity, not currently taxable to employee.	Eligible premium deductible above the line. ^{2,3}	For long-term care insurance premium deductibility purposes, please refer to the applicable section in this table, based on the federal income tax classification of the LLC: <ul style="list-style-type: none">• Sole proprietorship• C corporation• S corporation• Partnership
For spouse or eligible dependent of owner/employee or partner²	Eligible premium deductible above the line. ³	Fully deductible to entity, not currently taxable to owner/employee. ¹	>2% owner—eligible premium deductible above the line; ^{2,3} not currently taxable to employee. <2% owner—fully deductible to entity, not currently taxable to employee.	Eligible premium deductible above the line. ^{2,3}	
For employees (not owner/employee)	Fully deductible to entity, not currently taxable to employee.	Fully deductible to entity, not currently taxable to employee. ¹	Fully deductible to entity, not currently taxable to employee.	Fully deductible to entity, not currently taxable to employee.	
For employee's spouse or eligible dependent	Fully deductible to entity, not currently taxable to employee.	Fully deductible to entity, not currently taxable to employee. ¹	Fully deductible to entity, not currently taxable to employee.	Fully deductible to entity, not currently taxable to employee.	

Taxation of benefits

A tax-qualified long-term care insurance contract is treated as an accident and health insurance contract, and the benefits are typically treated as tax-free. Under a “reimbursement” contract, the insurer does not pay a set amount. Instead, it pays for long-term care expenses incurred, up to the maximum benefit under the contract. All amounts received under a reimbursement contract are income tax-free (see Internal Revenue Code sections 7702B(a)(2) and 104(a)(3)).

However, if your contract pays a set dollar amount per day (per diem), the tax-free treatment is subject to a certain limit, indexed annually for inflation. Benefits over and above this limit are generally considered taxable income.

Under this limit, the amount of your long-term care insurance benefits that is excluded from taxation in a given period is figured by subtracting any reimbursement received (through insurance or otherwise) for the cost of qualified long-term care services during the period from the larger of the following amounts (see Internal Revenue Code section 7702B(d)(4) and Revenue Procedure 2025-32, Internal Revenue Bulletin 539):

- The actual cost of qualified long-term care services during the period.
- The dollar amount for the period (\$430 per day for any period in 2026).

Long-term care insurance contract benefits that are not tax-qualified may be fully or partially subject to income tax.

¹Fully deductible by business for employees and owner/employees of C corporations; not subject to age-based limit.

²Premiums paid for owners and owner's spouse and owner's eligible dependent(s) by pass-through entities or self-employed are subject to age-based limitations.

See Table 1 for information on age-based limitations.

³Allowable amount is taken as an adjustment to income when calculating federal adjusted gross income (AGI).

Internal Revenue Code age-based limits for tax-qualified long-term care insurance premiums

Individuals can include, in medical expenses, amounts paid for qualified long-term care services and premiums paid for qualified long-term care insurance contracts. Eligible medical expenses as defined by Internal Revenue Code section 213(d)(10) are included on Schedule A (IRS Form 1040) to the extent they exceed 7.5% of the individual's adjusted gross income (AGI).* The amount of qualified long-term care insurance premiums they can include is limited to the age-based limits shown in the following table.

The portion of long-term care insurance premiums that exceeds the eligible age-based long-term care insurance premiums is not includable as a medical expense.

*The AGI threshold for calculating medical expense deductibility is 7.5%. Taxpayers subject to alternative minimum tax (AMT) are also subject to the 7.5% threshold.

Long-Term Care Insurance Federal Tax Deductible Limits (Table 1)		
Insured's age at the end of the tax year	2025 long-term care insurance eligible premium	2026 long-term care insurance eligible premium
Age 40 or younger	\$480	\$500
Age 41 to 50	\$900	\$930
Age 51 to 60	\$1,800	\$1,860
Age 61 to 70	\$4,810	\$4,960
Age 71 or older	\$6,020	\$6,200

Linked-Benefit LTCI

LTC benefits paid from a tax-qualified annuity or life insurance "linked-benefit" plan are generally considered tax-free (IRC Sec. 7702B). Premium payments for annuity or life insurance linked-benefit plans are not deductible, *unless* there is no cash value for the portion being deducted. Insurance carriers may incorporate separate LTC agreement premium payments for Acceleration of Benefits, Extension of LTC Benefits, or Inflation Protection Agreements with those charges paid directly to the carrier for those LTC benefits. If the costs for those are separate and never part of the cash value of the contract, those *may* be deductible up to the age-based limitations.*

*IRC Sec. 7702B(e)(1) and 7702B(e)(2).

Health Savings Account (HSA)

Individuals who have a Health Savings Account (HSA), or qualify to open one, may have an opportunity to use pre-tax dollars to pay for some or all of their Long-Term Care Insurance (LTCi) premiums. Qualified LTCi premiums are considered eligible medical expenses, which means individuals can use HSA funds to pay them tax-free.

For more information contact: Peggy Fields, Licensed Long-term Care Consultant

Text/phone: (704) 839-1158 or email: peggy.fields@acsipartners.com