New York Life Insurance Company

A smart move can come with perks

A look at the tax incentives of traditional long-term care insurance.

The government provides tax incentives for individuals and businesses that purchase tax-qualified long-term care insurance policies.[1] For individuals, incentives may apply to both the premium and benefits paid on a policy. The tax benefits for businesses vary based on the legal status of the entity.

Whether you are a business owner, a key decision maker, or an individual, learn how you may benefit from these incentives. A New York Life financial professional can provide valuable additional insight and guidance and identify the right long-term care solution for you, your family, your business, or your employees.[2]

Individual	C corporation	Pass-through entity (Partnership, S corporation, LLC)	Sole proprietorship
Coverage purchased by individual for self	Employer-paid premium for employee or owner-employee	Employer-paid premium for employee or owner-employee	Coverage purchased by sole proprietor for self
Individuals may qualify for federal and/or state* tax deductions and policy benefits are tax-free	Premium not taxable as income for employee or owner-employee, tax deduction for business, policy benefits tax-free	Premium not taxable as income for employee, tax deduction for owner-employee, policy benefits tax-free	Tax deduction for sole proprietor, policy benefits tax-free

1. All tax incentives described in this brochure apply only to tax-qualified, traditional long-term care insurance policies.
2. This brochure is provided for informational purposes only. Neither New York Life Insurance Company, its subsidiaries, nor any of its financial professionals are in the business of offering tax, legal or accounting advice and nothing contained herein is, or should be construed as, legal, tax, or accounting advice. This information assumes current tax rules apply. Changes to tax laws could impact and change the tax results described here. Clients should always consult with their independent professional advisors to seek advice on the applicability of this information to their particular circumstances.

*State level tax incentives vary. See 'State-level tax incentives for individuals' section inside this brochure.

Federal individual tax incentives

Individuals who itemize medical expenses

For individual income tax purposes, tax-qualified long-term care insurance premiums are considered a medical expense[3] but are subject to age-based limits. The chart below lists the amount of premium, based on one's age, that can potentially be counted toward one's medical expenses.

For 2021, medical expenses that exceed 7.5 percent of Adjusted Gross Income (AGI) may be deducted. Therefore, if a person itemizes their income tax deductions, they may be able to deduct their premiums (up to the limits listed in the chart), as a medical expense on their individual Federal tax return. In addition, the policy benefits received by the policyholder at the time of claim are received tax-free.[4]

Coverage purchased by individual for self

Premium deduction for insured on individual federal tax return subject to age-based limits and AGI requirement

Age-Based Limits 2021[5]

40 or less	$450
41-50	$850
51-60	$1,690
61-70	$4,520
71 and older	$5,640

Funding long-term care insurance using partial 1035 exchanges

New York Life will accept eligible non-tax-qualified deferred annuity values via tax-free partial Section 1035 exchange as a means of funding long-term care insurance premiums.[6] This presents an opportunity for some annuity holders to pay their premiums using funds that would otherwise be subject to taxes.

Clients can choose to pay a single long-term care insurance premium from a New York Life Insurance and Annuity Corporation (NYLIAC) or other insurer's deferred annuity policy, or they can arrange to have their long-term care insurance policy's annual premium paid automatically from their NYLIAC deferred annuity policy each year. Note that 1035 exchanges may not be advantageous for all clients with annuities. Check with your tax advisor before undertaking a partial 1035 exchange.

Using HSAs to pay individual premiums

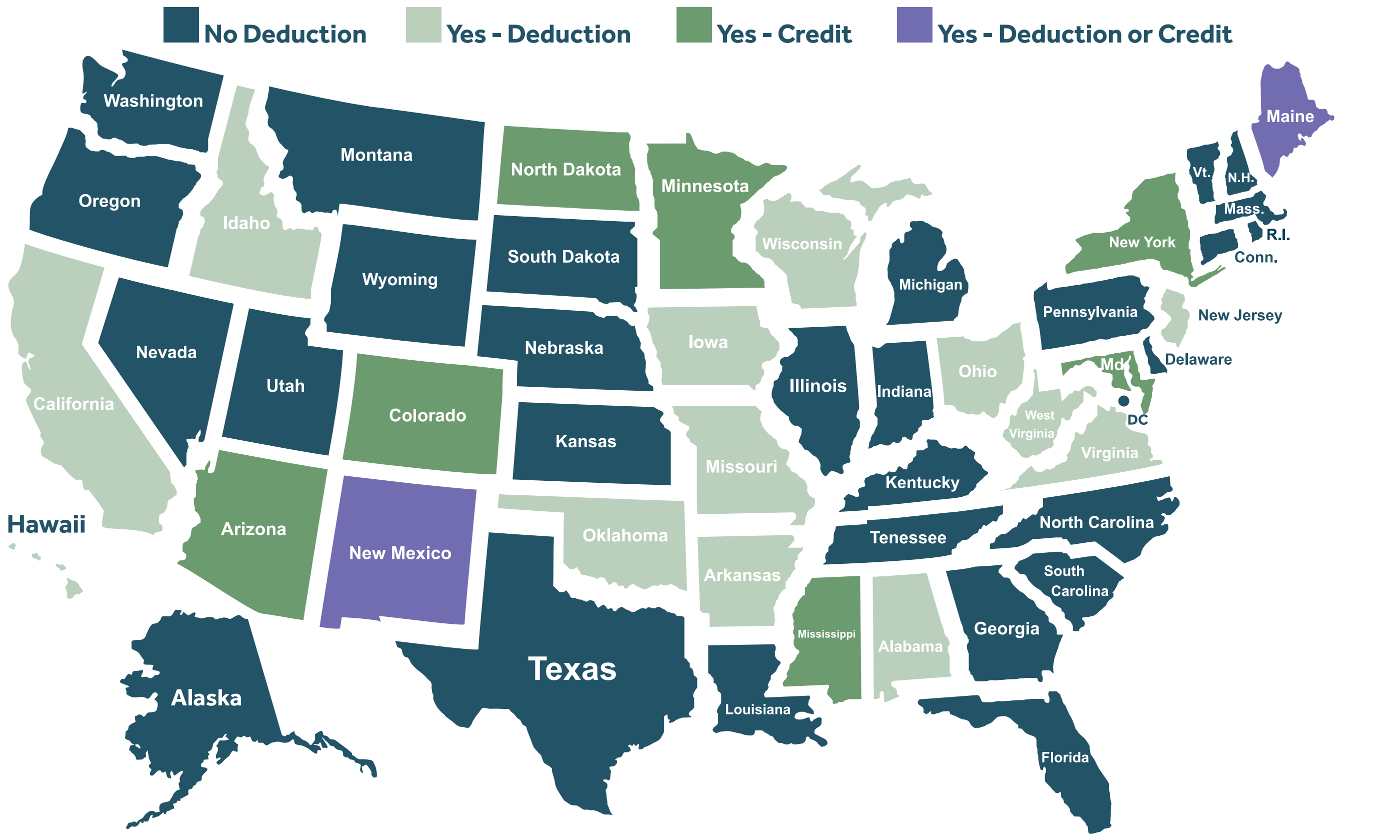
Individuals can use Health Savings Accounts (HSAs) to pay long-term care insurance premiums, subject to age-based limits.[7] Flexible Spending Accounts (FSAs) cannot be used to pay long-term care insurance premiums.

3. Internal Revenue Code (IRC) Section 213(d)
4. IRC Sections 105 and 7702B
5. These figures are subject to change and are updated by the Internal Revenue Service annually.
6. California has passed a law (S.401) stating that they are not recognizing the changes enacted under the Pension Protection Act of 2006 for California state tax purposes. As a result, partial Section 1035 exchanges from annuities that are used to pay the premiums for long-term care insurance policies in California will likely be subject to state tax, even though they are tax-free for federal tax purposes.
7. Internal Revenue Service, Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans. 2019

State-level tax incentives for individuals

Several states offer tax incentives that encourages the purchase of long-term care insurance. These incentives are usually offered in the form of a tax credit or deduction and are in addition to the Federal individual tax incentives described above.

This information is based on our understanding of applicable law, which is subject to change. These state tax incentives are subject to conditions and/or limitations under applicable law. Consult your tax advisor, your state Department of Taxation, or your state Department of Health and Human Services for details about potentially available state-specific tax credits or tax deductions.



AK	No	No Deduction	KY	No	No Deduction	NY	Yes	Credit
AL	Yes	Deduction	LA	No	No Deduction	OH	Yes	Deduction
AR	Yes	Deduction	MA	No	No Deduction	OK	Yes	Deduction
AZ	Yes	Credit	MD	Yes	Credit	OR	No	No Deduction
CA	Yes	Deduction	ME	Yes	Deduction or Credit	PA	No	No Deduction
CO	Yes	Credit	MI	No	No Deduction	RI	No	No Deduction
CT	No	No Deduction	MN	Yes	Credit	SC	No	No Deduction
DC	No	No Deduction	MO	Yes	Deduction	SD	No	No Deduction
DE	No	No Deduction	MS	Yes	Credit	TN	No	No Deduction
FL	No	No Deduction	MT	Yes	Deduction or Credit	TX	No	No Deduction
GA	No	No Deduction	NC	No	No Deduction	UT	No	No Deduction
HI	Yes	Deduction	ND	Yes	Credit	VA	Yes	Deduction
IA	Yes	Deduction	NE	No	No Deduction	VT	No	No Deduction
ID	Yes	Deduction	NH	No	No Deduction	WA	No	No Deduction
IL	No	No Deduction	NJ	Yes	Deduction	WI	Yes	Deduction
IN	No	No Deduction	NM	Yes	Deduction or Credit	WV	Yes	Deduction
KS	No	No Deduction	NV	No	No Deduction	WY	No	No Deduction

Tax incentives for businesses and employees

Long-term care insurance is one of the few policies that may offer tax incentives on both sides of the employment equation—premiums that are tax deductible to businesses and/or their owners and a tax-free benefit to employees. An employer that contributes to the premium cost of qualified long-term care insurance (QLTCi) policies for employees generally receives a 100 percent tax deduction for the premiums.[8] For the employees receiving this valuable coverage, long-term care insurance premiums are not taxable as income.[9] In addition, the policy benefits received by the policyholder at the time of claim are received tax-free.[10] Tax benefits associated with long-term care insurance premiums vary according to the legal status of the business entity and the person insured. Some general differences are described in the sections that follow.

C corporations

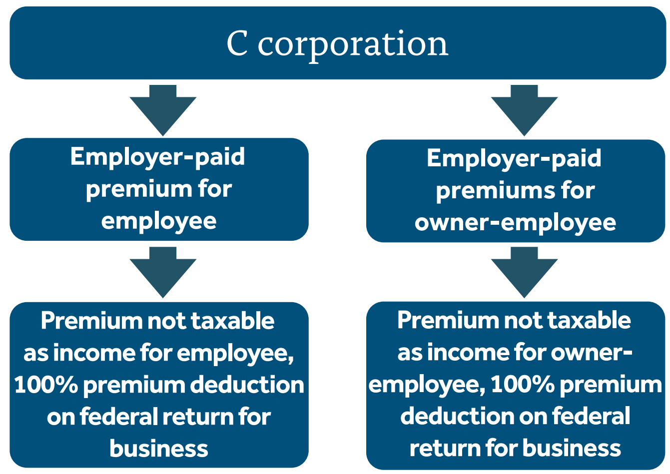
When a C corporation purchases a long-term care insurance policy for an employee, the premium is deductible to the business and not taxable to the employee as income. Since a C corporation is considered a stand-alone entity for legal and tax purposes, long-term care insurance premiums paid by the business for an owner-employee are also generally deductible to the business and not taxable to the owner-employee as income.[11]

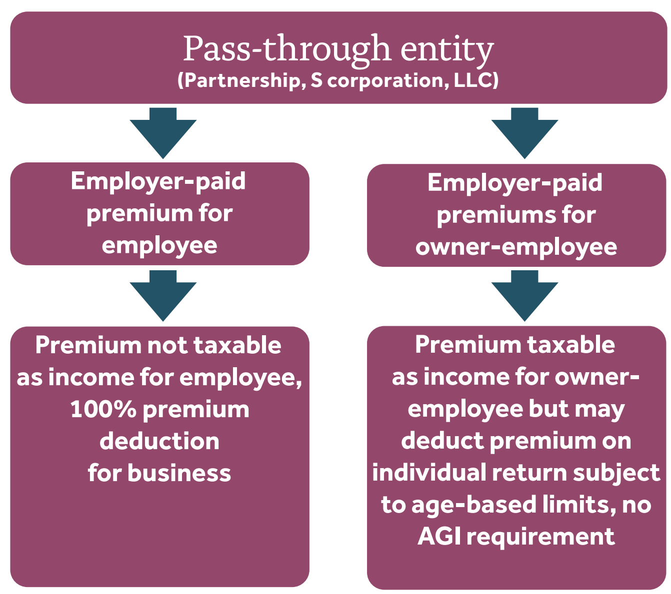
Pass-through entities

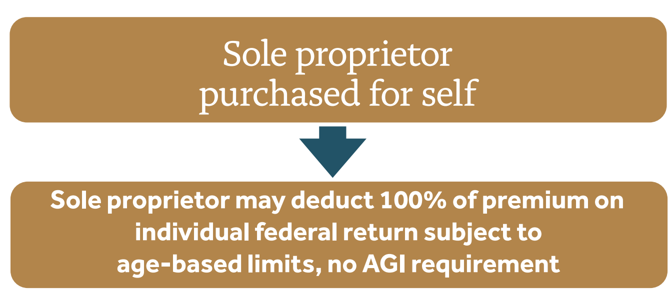
When a partnership, S corporation, or limited liability company (LLC) treated as a partnership (also known as pass-through entities) purchases a long-term care insurance policy for an employee (non-owner), it is generally 100% deductible for the business and not taxable to the employee as income. If a policy is purchased by the business for an owner-employee[12], the premium is considered compensation income for the owner-employee and is therefore taxable. However, the owner-employee may deduct the premium on his or her individual Federal tax return, subject to the same age-based limits that apply to individuals. Owner-employees are not, however, subject to the 7.5 percent AGI requirement that applies to individuals.

Sole proprietorships

In a sole proprietorship, there is no legal distinction between the owner and the business. If a sole proprietor purchases a long-term care insurance policy in his or her own name with his or her own funds, the premium may be deducted on his or her individual Federal tax return subject to the same age-based limits that apply to individuals. However, sole proprietors are not subject to the 7.5 percent AGI requirement that applies to individuals.







8. IRC Section 162
9. IRC Section 106(a)
10. IRC Section 105
11. IRC Section 106(a)
12. An owner (or owner-employee) is generally a partner, an LLC member, or an individual who owns 2% or more of an S corporation.

ERISA

A qualified long-term care insurance policy may be subject to fiduciary, disclosure reporting, and other requirements of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). All New York Life Long-term care insurance policies are qualified. Employers should consult their legal advisors regarding the possible ERISA implications of adopting a qualified long-term care insurance policy and whether there is an applicable exception from ERISA coverage for the qualified long-term care insurance policy.

Executive carve-out arrangements

Long-term care insurance is a benefit not subject to the Internal Revenue Code's nondiscrimination rules. That means it is one of the few benefits employers can selectively offer to specific groups of employees within a company. This is called an executive carve-out arrangement.

Through this arrangement, a company can purchase long-term care insurance for a key employee, his/her dependents, and/or company retirees. Employers have the option to pay all or some of employees' policy premiums and can offer several differently structured programs in a single worksite—for example, an executive carve-out arrangement combined with a voluntary program. Premiums paid by the business are deductible to the business and not taxable to the employee as income. Tax results may vary depending on the legal structure of the business.

Also, individually-underwritten qualified long-term care insurance policies, such as those offered by New York Life, allow employees to retain their policies with no change in benefits or premiums if they leave the company or if the company discontinues the plan of insurance.

Contact your financial professional today to learn more about the tax benefits associated with purchasing long-term care insurance for yourself or your employees!

The purpose of this material is solicitation of individual insurance. An insurance agent may contact you. Policy forms LTCD PLCY (FL)(0218), LTCDNC PLCY (FL) (0218), LTCDNC-U PLCY (FL) (0218), LTCD-U PLCY (FL) (0218), LTCWP PLCY (FL) (0218), LTCWPNC PLCY (FL) (0218), LTCWPNC-U PLCY (FL) (0218), LTCWP-U PLCY (FL) (0218), LTC6.1 (FL), and any state-specific, are issued by New York Life Insurance Company, New York, NY. These products have exclusions and limitations. Underwriting approval is required to purchase coverage and a medical exam may be required. The company reserves the right to increase premiums in the future. For cost and complete details of the coverage, contact your agent or the company. The products offered through AARP Long-Term Care Options are available to the public. To be eligible for long-term care benefits, the insured must be a chronically ill individual, with qualified long-term care service provided pursuant to a plan of care prescribed by a licensed health care practitioner.

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