

Case Study

A Great Fit for Farmers¹

Description:

Arthur (age 56) and Elizabeth (age 51) run a family farm which they plan to pass down to their children in the future. As it would be difficult to sell off parts of the farm to pay for long term care needs, they wish to purchase long term care insurance to reduce the risk of losing the farm.

Qualified long term care insurance occupies a unique status in the IRS code as the employer may deduct the premiums for long term care insurance for its employees (IRC Sec. 162(l)). As a 2% or more owner of a S-Corp or LLC, one can deduct premiums for qualified long term care insurance on page 1 of Form 1040. A person then takes their qualified long term care insurance premium amount, limited to the capped amounts (see example below). Don't forget to also count the premiums paid for coverage on the spouse.

For example, if Arthur and Elizabeth continue to farm the land (or even just rent out the land to be farmed) they may be running a business. As such, they might leverage this unique tax advantage.

¹This is a case study based on actual factors



Age on 12/31/23	Capped Amount ²
40 and under	\$480
41 to 50	\$890
51 to 60	\$1,790
61 to 70	\$4,770
71 to 80	\$5,660

²IRS Procedure 2022-38

Arthur (Age 56) and Elizabeth (Age 51)	
Combined Premium	\$3,750
Company Pays Premium	\$3,750
Owner Deducts on Page 1 of 1040	-\$3,580
Owner Receives as Income	\$170

In this example, Arthur and Elizabeth might write off the majority of their premiums because they paid for the insurance through the farm. In five years, Arthur will be 61 years old and may be able to deduct up to \$4,770 of his premium instead of only \$1,790. By working with their tax professional, eventually the entire premium might be fully deducted, assuming they continue to pay it through the business. Arthur and Elizabeth's experience may not be the same as others and does not indicate future performance or success.



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