Insurance Tax Fact-Sheet

Taxes Terminology	
Tax deductible\Pre-tax	Amount was subtracted (premiums were paid) from your earned income prior to calculating taxes due on your income. Lowers your taxable income and the amount you pay in income tax. Typically done through payroll deduction.
Non-tax-deductible\After-tax	Amount was subtracted (premiums were paid) after calculating taxes due on your income. Can pay payroll deduction or regular premium payments.
Payroll Deduction	Amount deducted from your paycheck before you receive it.
Tax-deferred	Delays the calculation and payment of taxes.
Tax-free/non-taxable	Not reported as “taxable income” to the IRS.
Not Tax-free/Taxable	Reported to the IRS as “taxable income” and figured in to the amount of taxes you are required to pay.
Life Insurance	
Individual Premiums	**NOT** Tax-deductible unless: purchased for a charity or purchased as a court-order for an exspouse.
Cash Values	As long as the cash value stays in the policy, no taxes will ever be imposed on any portion and the cash value will grow tax free. If the policy is surrendered, any portion of cash paid to the policyowner EXCEEDING the premiums paid is taxable. If a policy loan is taken out, the loan is tax-free as long as the policy is kept in force.
Accelerated Benefits (For terminal illness)	Received tax-free
Proceeds\Death Benefit for Individual and Group Life	Tax-free if taken as a lump sum to a named beneficiary. If taken as installment payments the principle amount of the benefit is not taxed, but any interested accumulated while the installments are paying out will be taxed. If sold to a 3rd party prior to death, benefit may be taxable. Benefits left to “The Estate,” may be taxable.

1035 Exchange	NOT TAXABLE
Group Life	Must benefit ATLEAST 70% of all employees of which 85% cannot be KEY EMPLOYEES.

	Premiums paid by the EMPLOY**ER** to fund group life insurance for the benefit of the employees are deducted as a business expense for the employer and have nothing to do with the EMPLOY**EES** taxes. Premiums paid by EMPLOY**EES** are NOT taxdeductible.
Modified Endowment Contracts (MECs)	Viewed as investments (Lose favorable tax treatment for life insurance policies). Taxed if/when cash is distributed. Withdraws (including loans) are Last-in-first-out (LIFO). Meaning any earnings/returns are distributed first and FULLY taxable as ordinary income. Withdraws (including loans) before age 59 ½ are subject to a 10% penalty.
Annuities	
Tax-sheltered annuities 403(b) Premiums	Premiums paid by the individual (employee) are INCOME TAX deductible up to an annual contribution limit. You will still pay Social Security and Medicare taxes on the amount deducted. Premiums paid above the contribution limits are not tax-deductible and are paid with after-tax dollars. Premiums paid by an employer are deductible as a business expense HOWEVER, the employer will still pay unemployment, social security, and Medicare taxes on the amount deducted.
Tax-sheltered annuities 403(b) Benefits	Grow tax-free until withdrawal.
Tax-sheltered annuities 403(b) Benefit Withdraws	Any withdraws taken prior to age 59 ½ are considered 100% interest, (meaning fully taxed as ordinary income) and are subject to a 10% penalty. Withdraws taken after age 59 ½ are taxed as ordinary income without penalty. By age 70 ½ you must take a minimum required distribution or pay a 50% excise tax on the difference of

Exclusion Ratio	Used to determine what portion of each annuity benefit payment is taxable.
Cost Basis	Principal or premiums paid in to an annuity during the accumulation period.
Interest	Portion of the annuity benefit that is INTEREST EARNED on the PRINCIPAL. Taxed as ordinary income.
Other	

Dividends	In relation to insurance are considered a refund of "paid but not needed" premiums. Since you technically are getting your money back dividends are received tax free. However, if a policyowner chooses to allow the insurance company to hold on to their dividends and accumulate interest, the policyowner would pay ordinary income tax on any ACCUMULATION. The same is true if a policyowner receives a dividend check greater than the amount of premiums they paid.
Social Security Payroll Taxes	Funding for Social Security is collected from FICA Payroll Taxes.
Taxation of Social Security Benefits	Individual is subjected to federal income tax if annual income is greater than $25,000. Joint filers are subject to federal income tax if annual income is greater than $32,000.
Retirement Plans	
Qualified Retirement Plans	Employer's contributions are tax-deductible as a business expense to the employer and are NOT treated as taxable income to the employee. Employee's contributions are made with pretax dollars. Interest earned is tax deferred until withdrawn. Employees ONLY pay taxes on amounts at the time of withdrawal.
Nonqualified Retirement Plans	Contributions are NOT tax-deductible. Interest earned is tax-deferred until withdrawn

Retirement Plan Withdrawals	Treated as ordinary taxable income. Withdrawals prior to age 59 ½ are assessed an additional 10% penalty tax. Distributions are mandatory by April 1st of the year following age 70 ½ or may result in a 50% excise tax.
Early Withdrawal Penalty Exemptions	Funds may be withdrawn prior to the employee reaching age 59 ½ without the 10% penalty tax: if the employee dies or becomes disabled; if a loan is taken on the plan's proceeds; if the withdrawal is the result of a divorce proceeding; if the withdrawal is made to a qualified rollover plan; or if the employee elects to receive annual level payments for the remainder of his life.
Profit Sharing	Contributions and interest are tax-deferred until withdrawal.
Cash Deferred Arrangement (401k Plans)	Employers make tax-deferred contributions. Employee makes pre-tax contributions. Account grows tax-deferred.

	All funds are taxable upon withdrawal.
Keogh Plans	Contributions are tax-deductible. Interest and dividends are tax-deferred.
Traditional IRAs	Some individuals may deduct contributions for the taxes depending on other retirement plans. If there is no employer retirement plan, the entire contribution is tax-deductible. All withdrawals are taxable income. Withdrawals prior to age 59 ½ are assessed an additional 10% penalty tax. Distributions are mandatory by April 1st in the year following attainment of age 70 ½
Traditional IRA Early Withdrawal Penalty exemption	Funds may be withdrawn prior to the employee reaching age 59 ½ without paying the 10% penalty tax (but the interest is still taxable) to the following: death, disability, first-time homebuyers up to $10,000, education (no dollar maximum), health insurance premiums if unemployed, qualified medical expenses.

ROTH IRA	Contributions are NOT Tax-deductible. Withdrawals are received income tax-free. Interest on contributions is not taxable as long as withdrawal is a qualified distribution. Qualified distribution includes: after 5 years in the event of death or disability, $10,000 first-time homebuyer, or after age 59 ½.
"Rollovers"	One qualified plan to another. Subjected to a 20% withholding tax if funds are received personally by the participant unless the funds are transferred to another qualified plan within 60 days. Funds transferred directly from one qualified plan to another are NOT subject to the 20% withholding.
BUSINESS INSURANCE	
Key Person Insurance	Premiums are NOT tax-deductible for income purposes. Proceeds or benefits received by the business are TAX-FREE.
Buy-Sell Plans, Cross-Purchase Plans, Entity Purchase	Premiums are NOT tax-deductible for income purposes. Proceeds or benefits received by the business are TAX-FREE.
Business Overhead Expense Insurance	Premiums ARE TAX-DEDUCTIBLE as a business expense. Proceeds or benefits received are treated as taxable income.
HEALTH INSURANCE	
Group Health Insurance	Employer can obtain a tax deduction for the portion of premium paid my them. This is NOT considered taxable income for the employee. Premiums paid by the employee are usually paid with pre-tax dollars OR are tax-deductible. Benefits for QUALIFIED medical expenses are received Tax-Free.
Health Savings Account (HSA)	Contributions are tax-deductible if made by the employee and are NOT taxable income to the employee if made by the employer. Earnings grow tax-free. Withdrawals to cover QUALIFIED health care costs are tax-free.
Disability Health Benefits	Disability benefit payments that are attributed to employee contributions are not taxable, but benefit payments that are attributed to employer contributions are taxable.

Disability Health Premiums	Individual paid personal disability income insurance premiums are NOT tax-deductible. Premiums paid by an employer are taxdeductible to the employer.
Disability Health Benefit and Premium	If an employee contributes to any portion of the premium, their benefit will be received tax-free in proportion to the premium contributed. IE: Employee contributes 50%, 50% of the benefit will be tax-free.
Medical Expense Benefits	Incurred medical expenses reimbursed by an insurance company are not taxable nor are they tax-deductible for an individual. Incurred medical expenses NOT reimbursed by an insurance company are only tax-deductible if they exceed 7.5% of the insured's adjusted gross income.
Marketplace Purchased (Affordable Care Act) Plans	Out-of-pocket premiums are deductible. Any premium credits are NOT deductible. Benefits are received tax-free.
Sole-Proprietor, Business Owner, Self-Employed	100% of health insurance expenses for self and family are tax-deductible.