

Disability Income Insurance Tax Guide

Disability Income and Federal Income Taxes*					
Organization Form	Coverage For	Premium Paid By	Owner/Beneficiary	Premium	Benefits
Sole Proprietor	Sole Proprietor	Sole Proprietor	Sole Proprietor	Not a deductible business expense (IRC Sec. 213 and 262)	Tax free (IRC Sec. 213 and 262)
	Employee	Sole Proprietor	Employee	Deductible business expense. Not taxable income to employee (IRC sec. 162 and 106)	Benefits reported as income (IRC Sec. 105)
	Employee	Sole Proprietor	Sole Proprietor	Not a deductible business expense (IRC Sec. 265)	Tax free (IRC Sec. 104(a)(3))
	Employee	Employee funds received through bonus	Employee	Bonus is tax deductible to the business and is reported as income to employee (IRC Sec. 162 and 61)	Tax free (IRC Sec. 104(a)(3))
Partnership	Partner	Partnership	Partner	Not a deductible business expenses (IRC Sec. 262 and 162)	Tax free (IRC Sec. 104(a)(3))
	Employee	Partnership	Employee	Deductible business expense. Not taxable income to employee (IRC Sec. 162 and 106)	Benefits reported as income (IRC Sec. 105)
	Employee	Partnership	Employee	Not a deductible business expenses (IRC Sec. 265)	Tax free (IRC Sec. 104(a)(3))
	Employee	Employee funds received through bonus	Employee	Bonus is tax deductible to the business and is reported as income to employee (IRC Sec. 162 and 61)	Tax free (IRC Sec. 104(a)(3))
C-Corporations	Employee and Shareholder/ Employee	Corporation	Employee and Shareholder/ Employee	Deductible business expense. Not taxable income to employee (IRC Sec. 162 and 106)	Benefits reported as income (IRC Sec. 105)
	Employee and Shareholder/ Employee	Corporation	Corporation	Not a deductible business expense (IRC Sec. 265). Not taxable income to employee (IRC. Sec. 106)	Tax free (IRC Sec. 104 (a) (3)) (Possible AMT tax IRC Sec. 55 and 56)
	Employee and Shareholder/ Employee	Employee and Shareholder/ Employee	Employee and Shareholder/ Employee	Not deductible business expense (IRC Sec. 265)	Tax free (IRC Sec. 104(a)(3))
	Employee and Shareholder/ Employee	Employee funds received through bonus	Employee and Shareholder/ Employee	Bonus is tax deductible to the business and is reported as income to employee (IRC Sec. 162 and 61)	Tax Free (IRC Sec. 104(a) (3))
Limited Liability Company (LLC) - Since 1996 owners of LLC's have been able to elect the taxation of their LLC by "checking" the box on IRS form 8832. Although the majority of LLCs are taxed as partnerships, many are taxed as corporations or sole proprietorships. The income tax treatment of and LLC's Qualified Sick Pay Plan, therefore, will depend upon the owner's election.					
S- Corporations	More than 20% Shareholder	Corporation	More than 20% Shareholder	Not a deductible business expense (IRC Sec. 162)	Tax free (IRC Sec. 104(a) (3))
	Employee	Corporation	Employee	Deductible business expense. Not taxable income to employee (IRC Sec. 162 and 106)	Benefits reported as income (IRC Sec. 105)
	Employee or 2% or less Shareholder	Corporation	Corporation	Not a deductible business expense (IRC Sec. 265)	Tax free (IRC Sec. 104(a)(3))
	Employee or 2% or less Shareholder	Employee and Shareholder/ Employee	Employee	Bonus is a tax deductible to the business and is reported as income to employee (IRC Sec. 162 and 61)	Tax free (IRC Sec. 104(a)(3))
Disability Overhead Expense					
Organization Form	Coverage For	Premium paid by	Owner/Beneficiary	Tax Treatment Benefits	
All forms of Eligible Business	Sole Proprietor of Business	Sole Proprietor of Business	Tax Deductible (Rev. Rule 55-264, 1955-1 CB 11)	Reportable as income. However, overhead expenses which are deductible as ordinary business expenses will, to the extent deductible, offset the reportable benefits.	

*The information in this chart is provided as general helpful information. Please consult your professional tax advisor for specific advice.



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