

How Long Can You Live Without Your Income?

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Speakers

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Housekeeping

- ▶ 1 ce/cpe credit for today's program for CPAs and EAs
- ▶ Do the attendance checks that pop up on your screen
- ▶ Have an issue? Comment in the Q&A so we can prove you're there
- ▶ Look for a link to come out later to claim your certificate (EAs this is where you add your PTIN)
- ▶ Any issues email us at team@taxrepllc.com

Agenda

- ▶ Meet Tom
- ▶ The impact of Disability Insurance
- ▶ Tax aspects/choices for business owners

Meet Tom

- ▶ Tom plans to sell his tax practice to large firm for 1x revenue (\$600,000) spread over 3 years
- ▶ Tom is required to work in the practice for those three years, or else price is reduced to .6x
- ▶ Tom is in a terrible car collision

Tom

- ▶ Tom is unable to work
- ▶ Now no income
- ▶ Buyer never signs the deal, assuming they will just pick up the clients now for free
- ▶ Has no disability insurance



What is disability insurance

- ▶ Disability insurance provides income to replace a portion of your earnings if a physical or mental condition prevents you from working.
- ▶ It comes in two main types: short-term and long-term disability, which differ in the length of time they provide benefits.
- ▶ The benefits are a percentage of your salary, and you pay a premium for the policy.

The Stats

- ▶ In that accident, Tom had a 20X times greater chance of being disabled then dying
- ▶ Only 35% of Americans have some form of disability insurance
- ▶ Only 50% of Americans have life insurance

How Long Can You Live Without Your Income?

Tax Aspects of Disability Insurance: Individual

- ▶ Premiums can be paid either with pre-tax dollars or after tax dollars
- ▶ If paid pre-tax, the benefits are taxable income when received
- ▶ If paid with post tax dollars, then the benefit is tax free if received

Tax Aspects of Disability Insurance: Employer

- ▶ If employer pays, it can deduct the premiums
- ▶ If the employee picks up the benefit as taxable income, they will received the benefits tax free
- ▶ If the employee does not pick up the benefit as taxable income, then the benefits are taxed if and when received

Tax Aspects of Disability Insurance: Business

- ▶ Premiums for business overhead expense insurance (which covers business expenses if the owner is disabled) are generally deductible as a business expense under IRC §162, however, the benefits received by the business are taxable income.
- ▶ Premiums for key person disability insurance (which protects the business from the loss of a key employee) may also be deductible, but the benefits are taxable to the business.

Summary

Who Pays Premiums?	Are Premiums Deductible?	Are Benefits Taxable?
Employee (after-tax)	No	No (benefits are tax-free)
Employer (not included in employee's income)	Employer: Yes; Employee: No	Yes (benefits are taxable)
Employee (pre-tax, e.g., cafeteria plan)	No	Yes (benefits are taxable)
Both employer and employee	See above	Proportionally taxable
Business overhead/key person (business)	Yes (business expense)	Yes (benefits are taxable)

How much coverage can you buy?

- ▶ Most policies allow 60-70% of income
- ▶ Can obtain more often by combining separate policies
- ▶ Often limited to 100% of your income
- ▶ Limited to purchase up until age 65

Questions?

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