

Disability Insurance & Federal Taxes



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DISABILITY INCOME

Organization Form	Coverage for	Premium Paid By	Owner/ Beneficiary	Premium	Tax Treatment	Benefits
Individual	Individual	Individual	Individual	Not Deductible (IRC Sec. 213) and (IRC Sec. 262)		Tax Free (IRC Sec. 213) and (IRC Sec.262)
Sole Proprietorship	Sole Proprietor	Sole Proprietor	Sole Proprietor	Not Deductible Business Expense (IRC Sec. 213) and (IRC Sec. 262)		Tax Free (IRC Sec. 104(a) (3))
	Employee	Employer	Employee	Deductible Business Expense Not Taxable Income to Employee (IRC Sec. 162) and (IRC Sec. 106)		Benefits Reported as Income
	Employee	Employer	Employer	Not Deductible Business Expense (IRC Sec. 265)		Tax Free to Sole Proprietor
Partnership	Partner	Partnership	Partner	Not Deductible Business Expense (IRC Sec. 262) and (IRC Sec. 162)		Tax Free (IRC Sec. (a) (3))
	Employee	Employer	Employee	Deductible Business Expense Not Taxable Income to Employee (IRC Sec. 162) and (IRC Sec. 106)		Benefits Reported as income (IRC Sec. 105)
	Employee	Employer	Partnership	Not Deductible Business Expense (IRC Sec. 265)		Tax Free to Partnership (IRC Sec. 104 (a) (3))
Corporation	Employee	Corporation	Employee	Deductible Business Expense Not Taxable Income to Employee (IRC Sec. 162) and (IRC Sec. 106)		Reported as Income (IRC Sec. 105)
	Employee	Corporation	Corporation	Not Deductible Business Expense (IRC Sec. 265)		Tax Free to Corporation (IRC Sec. 104 (a) (3))
	Employee	Employee Funds Received Through Executive Bonus	Employee	Executive Bonus is Tax Deductible to the Business and is Reported as Income to the Employee (IRC Sec. 162)		Tax Free (IRC Sec. 104 (a) (3))

DISABILITY BUY-OUT

Sole Proprietorship	Sole Proprietor	Sole Proprietor	Sole Proprietor	Non Deductible (IRC Sec. 213)		Tax Free (IRC Sec. 104 (a) (3))
Partnership Entity Buy-Out	Partnership	Partnership	Partnership	Non Deductible (IRC Sec. 265)		Tax Free (IRC Sec. 104 (a) (3))
Partnership Cross-Purchase	Partner	Partner	Partner	Non Deductible (IRC Sec. 213)		Tax Free (IRC Sec. 104 (a) (3))
Corporation Stock Redemption	Corporation	Corporation	Corporation	Non Deductible (IRC Sec. 213) Not Taxable to Shareholder Rev. Ruling 59-184, 1951-1 cb 65		Tax Free (IRC Sec. 104 (a) (3))
Corporation Cross-Purchase	Stockholder	Stockholder	Stockholder	Non Deductible (IRC Sec. 213)		Tax Free (IRC Sec. 104 (a) (3))

BUSINESS OVERHEAD EXPENSE

Organization Form	Premium Paid By	Owner/ Beneficiary	Premium	Tax Treatment	Benefits
All Forms of Eligible Business	Sole Proprietor or Business	Sole Proprietor or 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.