



Tax Reduction Letter

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Private Letter Ruling 7730007

This is in reply to your letter of February 22, 1977, submitted on behalf of taxpayer A, requesting a ruling that payment of an insurance premium for coverage under an equipment loan rider to taxpayer's business overhead expense policy is deductible under section 162 of the Internal Revenue Code of 1954.

Taxpayer A is a medical doctor who is considering purchasing business insurance coverage which would provide reimbursement of overhead expenses incurred by members of professional and business associations. Under the terms of the policy, the insurer would reimburse the monthly expenses actually incurred by the insured person in the operation of his office, or, in the event of joint occupancy, the insured's portion of such expenses, when the insured person is wholly and continuously disabled and unable to perform the duties of his profession or occupation as the result of injury or sickness.

Benefit payments will not be made until a waiting period is completed nor during a disability period when the insured is not under the care of a physician or surgeon. The policy limits the benefits payable to the expenses actually incurred by the insured in the normal operation of his business or [*2] profession.

The proposed Monthly Benefit for Equipment Loan Rider will reimburse the insured for the expenditure involved in making installment payments under an obligation incurred in purchasing equipment for the insured's business. Coverage under the rider is subject to payment of a separate premium.

Section 162(a) of the Code provides that there shall be allowed as a deduction all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business.

Section 1.162-1(a) of the Income Tax Regulations provides that among items which are included in business expenses are management expenses and insurance premiums against fire, storm, theft, accident, or other similar losses in the case of a business.

Rev. Rul. 55-*** 1955-1 C.B. 11, states that where a taxpayer purchases an insurance policy which, in accordance with its terms, would reimburse the taxpayer, to the extent specified in the policy, for certain business overhead expenses incurred by him during prolonged periods of disability due to injury or sickness, any proceeds derived under the terms of such policy constitute and are includible in gross income under section 61 of the Code. It also [*3] provides that any premiums paid on such policy constitute business expenses and are deductible from gross income under section 162 of the Code.

Accordingly, we conclude that the insurance premium under the Monthly Benefit for Equipment Loan Rider paid by taxpayer A as a rider to his business overhead expense policy is an ordinary and necessary business expense in carrying on a trade or business under section 162 of the Code, and the payment of this insurance premium is a deductible business expense under the provisions of section 162.

Mario E. Lombardo
Chief, Individual Income Tax Branch