

Revenue Ruling 58-480

SECTION 162 – TRADE OR BUSINESS EXPENSES

Where the terms of an insurance policy provide that the benefit payments to be made are for loss of income, dismemberment, or loss of life, but do not specifically provide that the payments under the contract are to reimburse the policyholder for certain business overhead expenses incurred by him during a period of disability due to injury or sickness, the premiums paid on such a policy do not constitute business expenses and are not deductible under section 162 of the Internal Revenue Code of 1954.

Advice has been requested whether premiums on the disability insurance policy described below may be considered as business expenses deductible under section 162 of the Internal Revenue Code of 1954.

The insurance policy in question is called a noncancellable income protector policy. The policy provides for payments to be made to the policyholder of monthly income for partial or total disability from accidental injury, monthly income for total disability from sickness, and payment for accidental death or dismemberment, to the extent specified in the policy. The policy does not contain any provisions which expressly state that the benefits payable shall [*2] be the monthly expenses actually incurred by the insured in the normal operation of his business.

The question of whether or not premiums paid on an insurance policy are deductible as a business expense depends upon the terms of the policy. In Revenue Ruling 55-264, C.B. 1955-1, 11, it is held 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 premiums paid on such policy constitute business expenses and are deductible under section 23 (a) of the Internal Revenue Code of 1939 or section 162 of the Internal Revenue Code of 1954. Thus, in Revenue Ruling 55-264, *supra*, the expense benefits payable under the policy shall be the monthly expenses actually incurred in the operation of the business. The instant policy, however, relates to a wholly different insurance contract. Its provisions closely parallel those described in Revenue Ruling 55-331, C.B. 1955-1, 271, which holds that the premiums paid by an individual for his personal disability insurance which would, [*3] in part, replace income lost by reason of the loss of, or loss of the use of, a portion of the body, do not constitute business expenses and are not deductible for Federal income-tax purposes.

In view of the above, it is held that where the terms of an insurance policy provide that the benefit payments to be made are for loss of income, dismemberment, or loss of life, but do not specifically provide that the payments under the contract are to reimburse the policy-holder for certain business overhead expenses incurred by him during a period of disability due to injury or sickness, the premiums paid on such a policy do not constitute business expenses and are not deductible under section 162 of the Code.