Are there special rules regarding the income tax treatment of an amount received by a chronically ill insured from a viatical settlement provider?

There are several special rules that apply to chronically ill insureds. Generally, the tax treatment outlined above will not apply to any payment received for any period unless such payment is for costs incurred by the payee (who has not been compensated by insurance or otherwise) for qualified long-term-care services provided to the insured for the period. Additionally, the terms of the contract under which such payments are made must comply with:

(1) the requirements of IRC Section 7702B(b)(1)(B)(defining “long-term care contract”);

(2) the requirements of IRC Sections 7702B(g) and 4980C that the IRS specifies as applying to such a purchase, assignment, or other arrangement (relating to consumer protection provisions);

(3) standards adopted by the NAIC that apply specifically to chronically ill insureds (if such standards are adopted, similar standards under number (2) above cease to apply); and

(4) standards adopted by the state in which the policyholder resides (if such standards are adopted, the analogous requirements under number (2) and, subject to IRC Section 4980C(f), standards under number (3) above cease to apply).[[1]](#footnote-1)

1. . IRC Sec. 101(g)(3)(B). [↑](#footnote-ref-1)