



Tax Reduction Letter

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Revenue Ruling 70-394

Section 162, Trade or Business Expenses

July 1970

Premiums paid by an airline pilot for occupational disability insurance are not deductible as a business expense; however, amounts received under the insurance policy are excludable from gross income.

Advice has been requested whether premiums paid on an insurance policy under the circumstances described below are deductible as a business expense under section 162 of the Internal Revenue Code of 1954.

A taxpayer, employed as an airline pilot, paid premiums on an insurance policy designated as "Airline Pilot Occupational Disability Insurance" but referred to as "Loss of License Insurance." The policy provides for a principal sum to be paid to the insured if he sustains any accidental bodily injury or contracts any sickness or disease which results in the insured being permanently prevented from carrying on his occupation during the valid period of the policy. If there is a qualifying injury, the principal sum is payable through age 54 with gradual reductions until the insured reaches age 60, at which time the policy is automatically cancelled.

Section 162 of the Code provides for the deduction of all ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business. An individual while performing his services as an employee is carrying on a trade or business and the ordinary and necessary expenses incurred in connection therewith are deductible.

Revenue Ruling 55-331, C.B. 1955-1, 271, holds that premiums paid by a taxpayer for his personal disability insurance are not business expenses under the predecessor of section 162 of the 1954 Code. However, that Revenue Ruling also holds that any amounts received by the taxpayer pursuant to such an insurance contract are excludable from gross income under the predecessor of section 104 of the 1954 Code as amounts received as compensation for personal injuries or sickness

In the instant case, the premiums paid by the taxpayer are for his personal disability insurance since he is insured against being permanently prevented from carrying on his occupation as a result of accidental bodily injury, sickness, or disease.

Accordingly, the premiums paid by the taxpayer are not deductible as a business expense under section 162 of the Code. However, amounts received under the insurance policy are excludable from the taxpayer's gross income under section 104 of the Code.