

Tax filing and insurance

Can you deduct your premiums? Are insurance payouts taxable? Answers to your tax questions

Other Insurance Topics

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At tax time people are looking to find every possible deduction they can?so what about writing off your home or auto insurance premiums? The answer mostly comes down to one easy question: personal or business?

If you?re buying personal coverage for your home, car or another purpose, the Internal Revenue Service considers it a regular living expense, which isn?t any more deductible than buying toothpaste or kitty litter.

If you?re in business for yourself?even if it?s just moonlighting?the answer may be different. And if you participate in the ?gig economy? (e.g. renting your home on Airbnb or driving for Uber) you also can deduct some part of those costs against your business income?as long as you?re also willing to declare the money you?re earning as income.

Deducting your premiums

It takes some extra effort to directly deduct either your auto or home insurance payments on your taxes. First, you?ll have to itemize and fill out an entire Form 1040, not the abbreviated 1040 A or the quickie 1040 EZ. If you typically only take the standard deduction on your taxes, you may not have enough other items to write off in order to make this worthwhile. You?ll also have to file Schedule C Profit or Loss From Business. Second, to maximize your deductions you?ll need to calculate how you?re going to claim your insurance premiums?for both auto and home deductions you have the option of using a simplified method or calculating your actual insurance expenditure.

Auto

The IRS allows for a simplified method of deducting the business use of your car or other vehicles, at 54 cents per mile. That?s designed to cover payments, fuel, repairs, depreciation, maintenance and insurance costs. To take your actual expenses, you must calculate the percentage of total car costs for the year based on the number of total miles driven vs. miles driven for business.

Home

For homeowners, the simplified home office deduction is \$5 per square foot for the space that?s dedicated only to office use, up to a maximum of 300 square feet, or \$1,500.

The more complicated method is to add up all your home-related expenses?mortgage payments, maintenance, property tax, insurance, utilities and so on?and then deduct the percentage of total space in the home occupied by the home office space. So, if all your home expenses for the year totaled \$8,000, that 96-square-foot office in a 2,000-square-foot home would allow you to deduct \$384. Of course, you?ll need to have good records of all the expenses.

Are insurance payments taxable?

Insurance payouts you receive after damage to your home or an accident involving your car are generally not taxable unless you?ve come out way ahead financially. Generally, a payment to reimburse you for repairs or replacement isn?t going to be taxable unless the payment exceeds what you originally paid for the property, an unlikely situation since most things lose value over time rather than gaining it. And, if you receive dividends from a mutual insurance company, those aren?t taxable unless they total more than the insurance premiums you paid to that company during the year.

On the other hand, if there is a really big gap between what your insurer paid out and your actual financial damage, you might be able to take a deduction for the loss. Deductions on the Casualties and Thefts schedule can be written off only to the extent that they exceed 10 percent of your adjusted gross income,

minus \$100 and any insurance payments. Your adjusted gross income, or AGI, is your taxable income after tax credits, exemptions and deductions?the amount of money you actually pay tax on. If your household made \$80,000 in 2016, and your AGI was \$60,000, you?d need a loss of more than \$6,100 before you could deduct a single dime. Even then, the amount is limited to the part of the loss that?s more than \$6,100 so you would need to have a significant loss to be able to write anything off.

These are both fairly rare and complex situations that should be reviewed with a financial professional.

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