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PayDay

Health insurance premiums paid by a "S" corporation on behalf of employee-shareholders who own 2% or more of the "S" corporation's stock are subject to Federal, State and local income taxes, and thus should be included in their annual W-2 wages for income tax purposes.

If the 2% shareholder-employee's insurance premiums are part of the corporation's group policy, they are not taxed for FICA or Medicare tax purposes. If the insurance premiums are for non-group personal insurance policies, they are considered discriminatory and are then subject to FICA and Medicare taxes, and the "S" corporation must "match" those payroll taxes.

BOTTOM LINE - If your "S" corporation pays health insurance premiums for you as part of a group policy, make sure you do not pay FICA and Medicare taxes on the premiums. Call your CPA or an AccuPay "CPP/CPA team" if you need further clarification about "S" corporation health insurance tax laws.

PayDay is an email communication of payroll news, legal updates and tax considerations intended to inform clients and colleagues of AccuPay about current payroll issues and planning techniques. You should consult with your CPA or tax advisor before implementing any ideas, comments or planning techniques.