



## **“S” Corporations – Don’t Blow This!**

**Special rules must be followed so that 2% or more "S" corporation shareholder-employees can deduct health insurance premiums covering the shareholder, his/her spouse and dependents. IRS Notice 2008-1 permits tax deductions for "S" corporation shareholder-employees who meet the following requirements:**

- The health insurance premiums are either paid directly by the "S" corporation OR are reimbursed to the shareholder-employee, if paid from personal funds; AND
- The "S" corporation employer must report the amount of health insurance premiums paid or reimbursed as taxable wages in the employee's Form W-2. The premiums are not taxable for FICA or Medicare taxes.

**If the above requirements are met**, the "S" corporation deducts the owner's health insurance as compensation expense, the owner reports the premiums as income included in his/her W-2, and the "S" corporation owner then deducts the same amount as "self-employed health insurance" on his/her Form 1040 personal tax return.

IRS Notice 2008-1 clearly indicates that the owner's health insurance deduction is not available if the shareholder-employee personally pays the premium and is not reimbursed and taxed by the "S" corporation on Form W-2.

## **CONCLUSION**

**Every "S" corporation should directly pay or reimburse their owners' health insurance premiums and report the amount at year-end as wages on the owners' W-2 forms. AccuPay can assist you in reporting the insurance on year-end W-2 forms to ensure annual income tax deductions for the employee-shareholders of the "S" corporation.**

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