



“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.

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.

