Accident and Health Insurance Premiums paid for 2% S-Corporation Shareholders

Many “more than 2% S corporation shareholders” (owners) have accident and health insurance premiums paid for them through their S-Corporation. This is an acceptable practice as long as the insurance premiums are included in the owner’s Form W-2, Wage and Tax Statement as gross income subject to Federal and State income tax withholding, but not subject to Social Security and Medicare taxes. Disability and Life Insurance premiums paid for the benefit of a more than 2% S corporation shareholder by the corporation are included in the owner’s Form W-2 as gross income subject to federal and state income tax withholding, Social Security and Medicare taxes.

The owner is required to report the premiums as gross income on their individual tax return as part of their W-2 earnings. The owner is allowed a “self-employed health insurance deduction” for the health insurance premiums paid by the S-Corporation, not to exceed the earned income reported on the W-2.

To comply with the Internal Revenue Service rules and regulations for 2016 and future years, owners must report premiums paid for the benefit of the “more than 2% S corporation shareholder” to their payroll providers (i.e. Filipovitch & Co payroll service, ADP, Paychex…) or include the premiums as compensation as part of the company’s in-house payroll before year-end Form W-2’s are completed. The premium amounts can be included each payroll period, monthly, quarterly, or annually.

If you use payroll-processing services provided through our firm, please report the owner’s insurance premiums paid in 2016 to our office now by fax (760.602.8336) email (payroll@flipcpa.com) or mail. These premiums will be added to the shareholder’s fourth-quarter 2016 payroll to assure accurate reporting on Form W-2.

If your in-house payroll system is QuickBooks, please contact our firm for step-by-step instructions on how to add the S-Corp Paid Medical Premium line item to the payroll item listing.

If you have any questions please contact us at 760 602 8200, evan@flipcpa.com or cathy@flipcpa.com.