



December 3, 2012

As we move into December, there are two items that the shareholders of S-corporations need to do.

Self-Employed Health Insurance Deduction: Shareholders who own more than 2% of the shares in the S-corporation are required to report health insurance premiums paid on their behalf by the business on their W-2. This is a valuable deduction and must be reported correctly to take advantage of it. Attribution rules apply so premiums paid on behalf of family members who are not shareholders must be reported on their W-2 as well. The insurance policy that provides your insurance can either be in the name of the S-corporation or in the name of the shareholder. The premiums can be paid by the shareholder or the corporation. However, where the policy is in the shareholder's name (you individually), the corporation must reimburse you before year-end (12/31) if you personally paid the premiums.

Premium amounts are a "deemed wage" and are reported in Box 1 of your Form W-2. This "deemed wage" from payment of health insurance premiums is not subject to FICA or FUTA taxes.

In summary, the corporation deducts the health insurance premium paid on your behalf as an expense, you report this as income on your W-2, and you deduct the same amount on page 1 of your Form 1040 as self-employed health insurance premium. The IRS can deny your Form 1040, Page 1 self-employed health insurance deduction if you do not report the premiums as part of Box 1 wages on Form W-2.

Personal use of company owned autos: The value of using a company auto for personal purposes is a fringe benefit that is taxable to the employee and to the shareholder. This benefit is treated as compensation and is subject to payroll taxes including FICA and FUTA tax.

There are several different methods to compute the value of personal use of company autos. If you would like any assistance with this calculation, please contact our office. Once the amount is determined, it is added to the gross wages of the individual receiving the benefit.

Reporting: If you use a payroll service to prepare your payroll and W-2's, you will need to notify them of the shareholder insurance amount and auto fringe benefit amount before the final payroll processing in December. Often, the final payroll processing date is mid-December so now is a good time to gather this information.

Fringe benefits like the shareholder health insurance and personal use of company autos are considered wages and are included in the Form 941 and 940 wages as well as added to W-2's.

These issues can be complex. Please call our office for assistance in calculations or if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Shannon & Associates LLP". The signature is written in a cursive, flowing style.

SHANNON & ASSOCIATES, LLP

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