

SHAREHOLDERS OF S-CORPORATIONS, AS WE MOVE INTO DECEMBER, THERE ARE TWO THINGS YOU NEED TO DO

SELF-EMPLOYMENT 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. You cannot take the health insurance deduction on the corporate return without it coming through the shareholders' W-2.

For 2016, 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.

CAUTION: Health insurance reimbursement plans where the employer reimburses the employee's cost of health insurance do not comply with the ACA rules. There are limited exceptions for group health plans with fewer than two current employees.

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-employment 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-2s, 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-2s.

These issues are complex. Please contact us for assistance in calculations or if you have any questions.