

Recording 2% Shareholder Health Benefits

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According to the IRS, **shareholders who own at least 2% of an S corporation** are treated differently from regular employees when it comes to health insurance premiums. Specifically, these shareholders can be provided with health insurance by the S corporation, and the premiums paid by the company can be deducted by the shareholder. However, **there are certain rules and regulations around how you need to pay and report your health care premiums**. As a taxpayer, it's important to understand those rules and regulations if you want to be able to deduct those premiums on your taxes.

What Are the Rules Around 2% S-Corp Shareholders and Health Benefits?

Under IRS **IRS Notice 2008-1**, premium payments for accident insurance or health insurance plans for 2 percent shareholders are, for income tax purposes, to be treated as shareholder compensation. As long as health insurance premiums are paid and reported correctly, 2 percent shareholders can take a line deduction for their health insurance plan on Form 1040—the Self-Employed Health Insurance Deduction.

This deduction is subject to certain limitations and rules outlined by the IRS, so please make sure this applies to you before proceeding. We highly recommend consulting with your CPA or tax accountant for further advice.

What insurance premiums and amounts are deductible if paid by an S corporation?

An S corporation can deduct the costs of **health, dental, vision, supplemental/AFLAC, and long-term care premiums, along with HSA contributions** made for a shareholder. To do this, the company must ensure that these amounts are reported on the shareholder's W-2. These payments increase the officer's Federal and State taxable wages but are exempt from Social Security, Medicare, and FUTA taxes. You will see these amounts included in Box 1 (Wages) on the W-2 but not in Boxes 3 or 5.

Reporting Requirements

As mentioned, for income tax withholding purposes, accident and health insurance premiums need to be treated as shareholder compensation—which means that premiums for the shareholder's health benefits need to be included as wages on the shareholder's form W-2. S corporations need to properly report eligible health insurance premiums paid by the S corporation on the shareholder's W-2 forms to reflect the accurate amount of compensation.

If health insurance premiums are excluded from the shareholder's taxable income and are not included as additional compensation/wages on form W-2, **the shareholder's premiums will not be considered deductible for that tax year**.

What information do I need to provide to Salt & Main for year-end payroll processing?



Towards the end of the year, your account manager will reach out and request an accurate total of all premiums covered or reimbursed by the S corporation for officers and their dependents. **We must receive this information back from you by no later than December 20th of each year.**

This will give us the appropriate amount of time to get it processed and recorded properly on your W2.
