

HEALTH INSURANCE AND S CORP

Managing W-2's for S Corporation Shareholder Health Insurance Premiums and Health Savings Accounts

- **S-Corp Must Provide W-2:** An S corporation that pays health insurance premiums or offers a Health Savings Account **for the benefit of a “greater-than-2% shareholder”** must include the cost of the health insurance premiums and HSA contributions in the shareholder's gross wages in Box 1 of the employee's W-2. These payments are not considered wages for Social Security, Medicare and FUTA tax purposes and are not added to the wages reported in boxes 3 and 5.

The health insurance premiums and HSA contributions are then each listed separately in Box 14 of the W-2.

- **Health Insurance Premiums Deductions:** The S Corporation is allowed a tax deduction for the wages paid (including health insurance premiums and HSA premiums) and the shareholder is allowed a deduction on his/her personal tax return for the health insurance premiums and HSA premiums included in their wages. **There is no additional tax resulting from this treatment.** The net effect is exactly the same as in previous years; it's just a different way of reporting which is now required by the IRS.
- **Greater-Than-2% Shareholder:** A “greater-than-2% shareholder” includes individuals who are considered to indirectly own stock, such as spouse, parents, children and grandchildren of the shareholder. This means that if any of these individuals are employees of the corporation, and the company pays health insurance or HSA premiums for them, then the cost of the insurance must also be included in their gross wages.
- **Please notify your payroll processor of the amount of premiums, if any, the S Corporation has paid.**
- **Accounting For Health Insurance & HSA Payments:** If health insurance and HSA payments have not been accounted for in this manner, the wages will need to be adjusted in the 4th quarter. You will also want to be sure these amounts are reflected on Form 941. Since wages are increased and the shareholder receives a corresponding tax deduction, there is no need to be concerned about W-2 additional withholding or adjusting payroll deposits.
- **Employee / Non Shareholder Tax Credit:** You may also be eligible for the Small Business Health Care Tax Credit if you pay at least 50% of the health insurance premium for employees who are not shareholders. If you think you qualify, please call to discuss

Please do not hesitate to call us if you have any questions.
