

HEALTH INSURANCE AND S CORPS

Managing W-2's for S Corporation Shareholders' Health Insurance Premiums and Health Savings Accounts (HSA)

- **S-Corp Must include Health Insurance on 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 and in gross wages on Form 941**. 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**.

The premium may be paid by the corporation or paid by the shareholder and reimbursed by the corporation.

- **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 (e.g. PAYCHEX) before they issue the W-2s of the amount of premiums, if any, the S Corporation has paid.**
- **Employee / Non Shareholder Tax Credit:** S-Corps that pay at least 50% of the health insurance premium for employees who are not shareholders may be eligible to claim the Small Business Health Care Tax Credit. The credit is specifically targeted to help small businesses and tax-exempt organizations that primarily employ 25 or fewer workers with average income of \$50,000, or less. To be eligible for this credit, you must have purchased coverage through the small business health options program, also known as the SHOP marketplace.

For information about insurance plans offered through the SHOP Marketplace, visit <https://www.wahealthplanfinder.org>

If you think you qualify, call us to discuss.

Please do not hesitate to contact our office if you have any questions