

December 19, 2023

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## S CORPORATION OWNERS

### HEALTH INSURANCE & HEALTH SAVINGS ACCOUNTS (HSA) REPORTING

Self-employed taxpayers are allowed an "above the line" deduction (a deduction directly from gross income) for 100% of the cost of providing medical and dental insurance for themselves and their families. S Corporation stockholders who own at least 2% of stock are considered self-employed for these rules.

Please note that the IRS has issued commentary indicating that if these benefits are not treated properly, the greater than 2% shareholder would not be entitled to applicable deductions on their tax return.

#### Health Insurance Premiums

If the S Corporation directly pays the health insurance premium, the premium **must be** reported as compensation and included in boxes 1 and 16 of the shareholder's W-2 form. The amount is not subject to FICA or Medicare tax. The shareholder picks up the premium as wage income and deducts the premium "above the line" on his/her tax return. The corporation can claim a deduction for the premiums on the S Corporation return. Due to this, the S Corporation owner cannot make pre-tax deductions from their payroll to contribute for payment of premiums, no matter the company policy for employees.

If the more than 2% shareholder pays the premiums directly, he/she must report this to the S Corporation and be reimbursed by the S Corporation. The reporting is the same as previously explained.

**Note: If the S Corporation does not reimburse the greater than 2% shareholder for the premiums, the employee is not allowed to take**

**it as an above the line deduction; it may only be deducted as an itemized deduction subject to the 7.5% medical expense threshold.**

### **Health Savings Accounts (HSA)**

If the S Corporation contributes to the HSA on behalf of a greater than 2% owner, these contributions are treated as income and added to the shareholder's wages. They are reported in boxes 1 and 16 of the form W-2 as wages. These wages are not subject to FICA or Medicare taxes. The shareholder is allowed to deduct the contribution on his/her individual income tax return (above the line).

Owners of an S corporation cannot make pre-tax contributions to their HSAs through the company by salary reductions.

Remember to designate a beneficiary when you set up your HSA. If your spouse is the beneficiary, it is treated as your spouse's HSA after your death. If you designate anyone other than your spouse, at your death it ceases to be an HSA and the fair market value of the account becomes taxable to the beneficiary in the year of death.

We would be happy to assist you in properly reporting these items or any other issues you may have as a greater than 2% shareholder of an S Corporation. Please contact us with any questions.



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