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The IRS modified the rules governing the deductibility of S-Corporation shareholder health insurance premiums.

Previously, any shareholder who owned more than 2% of the stock of an S-Corporation was limited in claiming health insurance premiums as a deduction on his or her Form 1040.

The new expanded rules allow this deduction for premiums paid to benefit the shareholder, spouse, and dependents, under the following circumstances:

- 1) The deduction is not allowed for any month in which the shareholder or spouse was eligible to participate in a subsidized health plan maintained by another employer.
- 2) The health insurance premiums cannot exceed the earned income from the S-Corporation.
- 3) The S-Corporation maintains a plan providing medical care coverage for its shareholders. This plan can be achieved in one of two ways:
 - a) The S-Corporation pays the health insurance premiums on behalf of the shareholder.
 - b) The shareholder pays the premiums and presents proof of payment to the S-Corporation for reimbursement.
- 4) The S-Corporation must include the amount of the health insurance premiums on the shareholder's W-2 (not subject to Social Security and Medicare). **If they are not included on the W-2 the deduction will not be allowed on the front of the 1040.**

The most important element here: the S-Corporation must issue a W-2 and add the health insurance to that W-2. If you have not previously filed W-2s or want assistance with this process, please contact us before the end of the year.

Also don't forget to check out our website. It is updated regularly with helpful articles and links to other useful sites. Please call if you have any questions.

Sincerely,

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