

Year-end reminder for S-corporations

NOVEMBER 13, 2023 | BY: THE MEDICAL-DENTAL TEAM



We are writing to provide you with guidance on how to properly disclose the value of health insurance premiums paid by your S Corporation for an employee who is a more than 2% shareholder. This disclosure is crucial for both tax compliance and ensuring accurate reporting to the Internal Revenue Service (IRS). In this regard, health insurance encompasses medical, dental, and vision insurance.

According to IRS regulations, health insurance premiums paid by an S Corporation for more than 2% shareholders (who are also employees) are treated differently from those paid for other employees. The value of these premiums should be reported on the shareholder-employee's Form W-2 as wages, subject to income tax withholding. Here are the steps you need to follow to make this disclosure correctly:

1. **Determine the Total Premium Amount:** Begin by calculating the total annual premium paid by the S Corporation for the health insurance coverage of the more than 2% shareholder-employee.
2. **Include the Premium Amount in W-2 Wages:** Add the total premium amount to the shareholder-employee's wages in Box 1 of their Form W-2. This ensures that the premium amount is subject to federal income tax withholding. It is essential to report this amount accurately to avoid any discrepancies during tax filings. Note that this amount is not subject to FICA taxes.
3. **Report in Box 14 of Form W-2:** In Box 14 of the shareholder-employee's Form W-2, include a brief description such as "Health Insurance Premiums," "S Corp Health," or "SE Health," along with the total premium amount. This helps in clearly identifying the nature of the reported amount.
4. **Complete Schedule K-1:** Ensure that the health insurance premiums paid on behalf of the more than 2% shareholder are properly reflected in the S Corporation's Schedule K-1. This information is vital for the shareholder's individual tax return.
5. **Provide Adequate Documentation:** Maintain detailed records of the health insurance premiums paid on behalf of the more than 2% shareholder-employee. Proper documentation will be valuable in case of an IRS audit or if any questions arise regarding the reported amounts.

Finally, note that more than 2% shareholders cannot participate in a Section 125 plan, so any health insurance payments withheld from their pay should be done after-tax.

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