



DOLINKA, VANNOORD & COMPANY'S

TAX TIDBITS



S-CORPORATION FRINGE BENEFITS TO SHAREHOLDERS

Again this year, certain fringe benefits must be included in your W-2 if you are a shareholder. The fringe benefits that must be included in W-2s are health insurance (including long-term care), HSA contributions, disability insurance, group term life insurance, cafeteria plans and personal use of a company owned or leased vehicle.

Accident and Health Insurance Premiums

For an S corporation to deduct the cost of accident and health insurance premiums paid on behalf of its 2-percent shareholders, the corporation must include the premium payments in wages for income tax withholding purposes on the shareholder-employee's Form W-2, Wage and Tax Statement. This requirement also applies to contributions an S corporation makes to a 2-percent shareholder's Health Savings Account (HSA). The shareholder is required to include the amount of the accident and health insurance premiums in gross income (as part of wages). The shareholder is allowed a corresponding deduction from gross income on his or her individual income tax return for self-employed health insurance.

Although accident and health insurance premiums paid on behalf of a 2-percent shareholder are included in gross wages, they are not subject to Social Security and Medicare taxes.

Disability and Life Insurance Premiums

If an S corporation pays life or disability insurance premiums on behalf of its 2-percent shareholders, the corporation must include the premium payments in wages for income tax withholding purposes on the shareholder-employee's Form W-2, Wage and Tax Statement. Unlike payments for accident and health insurance premiums, payments for life and disability insurance are subject to employment taxes (FICA and FUTA), as well as federal and state withholding.

In most cases, companies may not reimburse employees (or shareholders) on a tax-free basis for privately-purchased health insurance. If an employer wants to continue to reimburse for privately-paid health insurance, the reimbursement must be classified as wages subject to withholding, FICA and FUTA.¹ However, one notable exception is for companies with a qualified small employer health reimbursement arrangement (QSEHRA), which does allow certain tax-free reimbursements. If you are interested in setting up a QSEHRA, please consult your insurance professional.

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¹ Notice 2013-54. Note that reimbursing an otherwise-eligible employee for privately-paid coverage may not exempt the employer from employer-mandated insurance coverage penalties if the employer is subject to minimum coverage requirements.