



Certain S Corporation employee-owners 2009 planning

There are some unique tax rules that apply to employee-owners of S Corporations, and we want to make sure you address them before the end of the year.

Who is impacted

Special tax treatment applies to certain health insurance benefits paid to individuals when all of the following apply:

- The individuals are shareholders of an S Corporation
- They own more than 2% of the S Corporation
- They are also employees of the S Corporation
- The S Corporation pays their health insurance premiums

The treatment

Health insurance premiums paid on behalf of more-than-2% S shareholder-employees are treated as additional compensation to the impacted employee. These payments should be considered supplemental wages, which are reported on the shareholder-employee's Form W-2 and are deductible as wages on the S Corporation's income tax return.

Withholding

The compensation is subject to federal income tax withholding, but is not taxable for FICA and FUTA tax purposes if the premium payments are made pursuant to a plan providing health coverage.

Treatment of family members

Under the family attribution rules of IRC Sec. 1372(b), the spouse, children, grandchildren, and/or parents of a more-than-2% S shareholder-employee are also subject to this treatment. As a result, if these family members are receiving employer-paid health insurance, they must follow the same rules of withholding and taxation described above.

Premium payments

Insurance premiums are taxable as wages under these rules whether the S corporation pays the premiums directly, or the shareholder-employee pays the premiums and is subsequently reimbursed by the S corporation.