



SUMMARY OF REQUIREMENTS TO DEDUCT SELF EMPLOYED HEALTH INSURANCE FOR SHAREHOLDERS OF S CORPORATIONS

A 2% shareholder-employee in an S corporation can deduct health insurance premiums paid by an S corporation on page one of their individual income tax return. The 2% shareholder of an S corporation may do so only if the plan providing medical care coverage for that shareholder is established by the S corporation. For purposes of this requirement, a plan providing medical care coverage for the 2% shareholder is treated as established by the S corporation if:

- (1) the S corporation makes the premium payments for the accident and health insurance policy covering the 2% shareholder (and his spouse or dependents, if applicable) in the current tax year; or
- (2) the 2% shareholder makes the premium payments and furnishes proof of premium payment to the S corporation and then the S corporation reimburses the 2% shareholder for the premium payments in the current tax year.

To qualify for deduction, the S corporation must report the insurance premiums paid or reimbursed on employee's Form W-2, and employee must report payments or reimbursements as gross income.

IRS uses the term “2% shareholder” to mean persons owning (or treated as owning) more than 2% of the S corporation's stock—i.e., “more-than-2% shareholders.” Thus, for purposes of this discussion, the terms “2% shareholder” mean persons owning (or treated as owning) more than 2% of the S corporation's stock. If the shareholder owns 2% or less, any health insurance paid by the S corporation does not have to be reported as income by the shareholder, and the shareholder would not be entitled to deduct the cost of such insurance paid on his/her behalf by the S corporation.

EXAMPLES

The following examples illustrate these rules. The following examples assume that each shareholder is a 2% shareholder-employee in an S corporation, whose earned income from the S corporation exceeds the amount of the premiums for the accident and health insurance policies covering the shareholder, his or her spouse and dependents. None of the shareholders in the following examples are eligible to participate in any subsidized health plan maintained by an employer of the shareholder or the shareholder's spouse.

Example 1

(i) For 2024, shareholder A obtains an accident and health insurance policy in the name of shareholder A and makes the premium payments on the policy. The S corporation makes no payments or reimbursements with respect to the premiums.

(ii) A plan providing medical care for shareholder A is not established by the S corporation and shareholder A is not entitled to the deduction under § 162(l).

Example 2

(i) For 2024, the S corporation obtains an accident and health insurance plan in the name of the S corporation. The health plan provides coverage for shareholder B, B's spouse and dependents. The S corporation makes all the premium payments to the insurance company. The S corporation reports the amount of the premiums as wages on shareholder B's Form W-2 for 2024 and shareholder B reports that amount as gross income on Form 1040 for 2024.

(ii) A plan providing medical care for shareholder B has been established by the S corporation and shareholder B is allowed the deduction under § 162(l) for 2024.

Example 3

(i) For 2024, shareholder C obtains an accident and health insurance policy in the name of shareholder C. The S corporation makes all the premium payments to the insurance company. The S corporation reports the amount of the premiums as wages on shareholder C's Form W-2 for 2024 and shareholder C reports that amount as gross income on Form 1040 for 2024.

(ii) A plan providing medical care for shareholder C has been established by the S corporation and shareholder C is allowed the deduction under § 162(l) for 2024.

Example 4

(i) For 2024, shareholder D obtains an accident and health insurance policy in the name of shareholder D. Shareholder D makes the premium payments to the insurance company and furnishes proof of premium payment to the S corporation. The S corporation then reimburses shareholder D for the premium payments. The S corporation reports the amount of the premium reimbursements as wages on shareholder D's Form W-2 for 2024 and shareholder D reports that amount as gross income on Form 1040 for 2024.

(ii) A plan providing medical care for shareholder D has been established by the S corporation and shareholder D is allowed the deduction under § 162(l) for 2024.