

### SELF-EMPLOYED INDIVIDUALS – 2 PERCENT SHAREHOLDER-EMPLOYEE S-CORPORATION W-2 REPORTING

Generally, fringe benefits paid on behalf of a 2-percent shareholder are not deductible by an S corporation. A common fringe benefit is the payment of health insurance premiums. The amounts paid for health insurance premiums by the S corporation, either directly or as reimbursement to the shareholder-employee, are deductible as compensation for services rendered.

A 2-percent shareholder is defined as any person owning more than 2-percent of the outstanding stock or more than 2-percent of the total combined voting power of the outstanding stock of an S corporation.

In most cases, employees are allowed to take a deduction for medical insurance premiums in computing adjusted gross income with certain limitations. The IRS has issued a notice requiring S corporations to report health insurance premiums paid on behalf of 2-percent shareholders as wages on form W-2 in order for the shareholder-employee to be eligible to deduct medical insurance premiums. The amounts reported as wages for health insurance premiums are not subject to FICA or Medicare.

The value of personal use of a company provided vehicle must also be included as wages on form W-2 and as income on the employee's individual income tax return. Unlike health insurance premiums, this income is subject to FICA and Medicare tax. The IRS provides tables to determine the annual lease value of an auto which in turn is used to calculate the value of personal use.

Other common fringe benefits include:

1. Group term life insurance;
2. Disability insurance; and
3. Parking.

Any of these or other fringe benefits paid on behalf of 2-percent shareholder-employees are not deductible to the S corporation, unless reported as income to the recipient.

Please contact us at 206.622.1326 if you have any questions or need assistance in reporting fringe benefits.

**CLOTHIER  
& HEAD**<sup>PS</sup>

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*Any tax advice in this communication is not intended to be a "covered opinion" as described under IRS Circular 230. It is therefore not intended to be used, and cannot be used, by a client or any other person or entity for the purpose of avoiding penalties that may be imposed on any taxpayer.*