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-2’s are health insurance, HSA contributions, disability insurance, group term life insurance, cafeteria plans and personal use of a company owned or leased vehicle.

If you own more than 2% of an S-Corporation and have health insurance, you must report the premium amount as deemed wages in your Form W-2 (generally, not subject to FICA or FUTA taxes). The policy must be in the name of the S-Corp and payments must be made under a plan for employees and dependents generally or for a class of employees and their dependents. The IRS indicates on their website that they will deny your Form 1040, page one self-employed health insurance deduction if you do not report the premiums as deemed wages on Form W-2.

The Affordable Care Act (ACA) has done away with the practice of companies reimbursing employees (or shareholders) on a tax-free basis for privately-purchased health insurance. Beginning in 2014, 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.

If your Company is paying any of the above for a shareholder, please contact our office by December 12, 2014 so we can help you compute the amount that must be included in your W-2’s.

This material is provided as a service of Dolinka VanNoord & Company, PLLP for informational purposes only and should not be construed as financial or legal advice. We have reviewed the information contained herein and believe it to be correct. However, we cannot accept responsibility for its content or application. Please consult with us for specific guidance for your organization before acting on any tax advice.

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1 Announcement 92-16
2 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.