



FAQ – 2% Shareholder Insurance

WHAT IS IT?

Health and accident insurance premiums paid on behalf of a greater than 2% S Corporation shareholder-employee are deductible by the S Corporation and reportable as wages on the shareholder-employee's Form W-2. (Subject to income tax withholding).

As long as the payments were made to a plan that covers other employees of the company, then these additional wages are not subject to Social Security, Medicare (FICA), or Unemployment (FUTA) taxes.

This additional compensation is treated as taxable wages for federal and state, and will be reflected in Box 1 and Box 16 of Form W-2.

- If a person owns 2% or more of the company, they cannot receive a pretax insurance deduction like other employees.

WHERE DO I GET THE INFORMATION?

Typically, you can get the amount of the premium from your insurance bills or your CPA can assist in calculating this amount.

WHAT DOES PAYDATA NEED FROM ME – AND WHEN DO THEY NEED IT?

The best way to track this is to set up a scheduled ED on the shareholder-employee so that it can be calculated each payroll. In the event that the premium amount is posted just at year end, you need to make sure to have this information to PayData no later than your last regularly scheduled payroll of the year.