

IRS NOTICE 2008-1

This will appear in Internal Revenue Bulletin 2008-2 dated January 14, 2008.

This notice allows a greater than 2% shareholder in an S Corporation to deduct his/her health insurance premiums as an above-the-line deduction.

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It no longer matters that the insurance policy is in the shareholder's name.

The IRS has leveled the playing field and "fixed" the problem.

The S Corp must establish a Plan in order to provide this benefit to the shareholder.

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The Plan means doing 1) or 2):

1) The S Corp can pay the ins. premiums directly to the insurance company in the tax year.

2) The shareholder can pay the premiums, give proof to the employer/S Corp, and receive a reimbursement in the tax year.

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“If the accident and health insurance premiums are not paid or reimbursed by the S Corporation and included in the 2% shareholder/employee’s gross income, a plan providing medical care coverage for the 2% shareholder/employee is not established by the S Corporation and the 2% shareholder/employee in an S Corporation is not allowed the deduction under Section 162(l).”

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You must follow all the steps:

S Corp pays the premiums OR

S Corp reimburses the premiums

Proper reporting – put it on the W2

Subject to income taxes, not empl. taxes