

Wright Ford Young & Co.

Certified Public Accountants and Consultants, Inc.

November 17, 2010

Dear Client:

Health and Accident Insurance Premiums Paid on Behalf of a Greater Than Two Percent S corporation, Please Note for Shareholder W-2 Reporting –

Treating Medical Insurance Premiums as Wages –

Health and accident insurance premiums paid on behalf of a greater than two percent S corporation shareholder-employee are deductible and reportable by the S corporation as wages for income tax withholding purposes on the shareholder-employee's Form W-2.

Please note - these benefits are not subject to Social Security or Medicare (FICA) or Unemployment (FUTA) taxes. The additional compensation is included in Box 1 (Wages) of the Form W-2, Wage and Tax Statement, issued to the shareholder-employee, but would not be included in Boxes 3 and 5 of Form W-2.

A 2-percent shareholder-employee is eligible for an Adjusted Gross Income (AGI) deduction for amounts paid during the year for medical care premiums if the medical care coverage is established by the S corporation and the shareholder meets the other self-employed medical insurance deduction requirements. If, however, the shareholder or the shareholder's spouse is eligible to participate in any subsidized health care plan then the shareholder is not entitled to the AGI deduction.

A medical plan can be considered established by the S corporation if the S corporation paid or reimbursed the shareholder-employee for premiums and reported:

- The premium payment
- Reimbursement as wages on the shareholder-employee's W-2

Health Insurance Purchased in Name of Shareholder –

The insurance laws in some states do not allow a corporation to purchase group health insurance when the corporation only has one employee. Therefore, if the shareholder was the sole corporate employee, the shareholder had to purchase his health insurance in his own name.

The IRS issued Notice 2008-1 which ruled that under certain situations the shareholder would be allowed an above-the-line deduction even if the health insurance policy was purchased in the name of the shareholder. Notice 2008-1 provided four examples, three of the examples had the shareholder purchasing the health insurance and the other example had the S corporation purchasing the health insurance.

The Notice held that if the shareholder purchased the health insurance in his own name and paid for it with his own funds the shareholder would not be allowed an above-the-line deduction. On the other hand, if the shareholder purchased the health insurance in his own name but the S corporation either directly paid for the health insurance or reimbursed the shareholder for the health insurance and also included the premium payment in the shareholder's W-2, the shareholder would be allowed an above-the-line deduction.

In summary - in order for a shareholder to claim an above-the-line deduction, the health insurance premiums should be paid by the S corporation and should be included in the shareholder's W-2.

Sincerely,

Wright Ford Young & Co.

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