



December 2021

Re: 2021 Year End Tax Reporting of S-Corporation Shareholder's Health Insurance

Dear Valued Client:

As calendar year 2021 draws to a close, it is time to consider gathering the information needed for proper tax reporting of health insurance fringe benefits provided to shareholders who hold more than 2% of a S Corporation.

Tax treatment of health insurance, including dental and vision insurance, provided to or for the benefit of an S Corporation shareholder who owns, directly or indirectly, more than 2% of the stock of an S Corporation is taxable.

Here are more details on the tax treatment of health insurance premiums paid for the benefit of a more than 2% shareholder in a S Corporation:

- Considered taxable wages to the applicable S corporation shareholder for federal income tax withholding purposes – *should be withheld and reported on the 4th quarter payroll tax returns*
 - However, fully deductible as a reduction of Adjusted Gross Income on the personal tax return of the applicable S Corporation Shareholder
- Exempt from Social Security, Medicare and FUTA tax if paid pursuant to a qualified plan
- Generally, not subject to Pennsylvania or PA local income tax withholding
- W-2 reporting as wages for federal purposes only

Information needed from you to properly report taxable S Corporation Shareholder's Health Insurance

If you use a payroll service, the information needs to be reported to your payroll service provider prior to or on the last pay of 2021. Please provide the information to our office **within two weeks prior to your last payroll for the year** so that we have adequate time to prepare the information for your payroll service.

If applicable, please complete the worksheet below for each shareholder for which the corporation paid health insurance premiums. The information that you provide will be considered complete and accurate.



Additionally, please provide us with your general ledger detailed history from your recordkeeping system for the year to insure twelve months of premiums are included in the totals. **PLEASE ENSURE YOU HAVE POSTED THE DECEMBER PREMIUM PAYMENT BEFORE SUBMITTING INFORMATION TO OUR OFFICE.** Contact your Herbein engagement team leader if you use QuickBooks and need assistance printing the applicable general ledger detail. Print a report on both the accrual and cash basis and provide it to us with your information.

- A. Shareholder's Name: _____
- B. Amount of Health Insurance Premiums Paid in 2021: _____
- C. For Clients using a payroll service – last payroll call in date in 2021: _____
- D. Payroll Service and Contact Name: _____

Alternatively, if the S–Corporation did not pay health insurance premiums for any shareholders or related parties, please complete the statement below and return it to us.

This is to state that during the tax year 2021, this S-Corporation did not pay health insurance premiums for its shareholders or any related parties.

Signed: _____

Company Officer

Corporation Name

Please contact us if you have questions regarding the content of this letter or health insurance for S Corporation shareholders.

Thank you.

Sincerely,

A handwritten signature in black ink that reads "Herbein + Company, Inc." in a cursive style.

Herbein + Company, Inc.