

MHTB ACCOUNTANCY GROUP OF SILICON VALLEY
1655 WILLOW ST.
SAN JOSE, CA 95125
(408) 266-4755

November 19, 2021

Dear Client:

RE: Year end tax planning for S-Corporations

Health and Dental Insurance Premiums

If the S-Corporation is paying premiums for health and dental insurance for a shareholder who owns more than 2% of the outstanding stock of the Corporation, you are required to report these amounts on your Form W-2. The amount should be included as taxable wages in Box 1, but NOT in Box 3 (Social Security wages) nor in Box 5 (Medicare wages). This amount should also be included in Box 14 - other and indicated that this is for 2% shareholder insurance premiums. If you are currently using a payroll service, the service should be able to accommodate this reporting requirement. Make sure that you give the payroll service enough time to process this on the 2021 Form W-2. **If the health and dental insurance is paid by the S-Corporation and not reported on your W-2, the IRS may disallow the self employed health insurance deduction on your individual return.**

Health Savings Account (HSA)

With the rising cost of health insurance premiums, employers have begun to offer HSA plans for their employees. If the Corporation is making payments into an HSA account for an employee, the amount must be reported on the employee Form W-2. These amounts are not included as wages for Federal Income Tax purposes, but should be reported in Box 12 with a code "W" on the Form W-2.

The State of California does not follow the same rules as the Federal government as for the non-taxability of HSA payments. Therefore, the amount of the payments made by the Corporation on behalf of the employee will be reported as taxable wages in Box 16 of the W-2 for all California employees.

Non-California Resident Withholding Tax

The State of California Franchise Tax Board requires S-Corporations to withhold income taxes on distributions of current earnings that exceed \$1,500 for all nonresident shareholders. If you believe that your S-Corporation may fall into this requirement, please contact our office for assistance before December 10, 2021.

Please call if you have any questions.

MHTB Accountancy Group of Silicon Valley