



1707 N. Randall Rd., Suite 200 ■ Elgin, Illinois 60123
847.888.8600 Fax: 847.888.0635 ■ www.muellercpa.com

**S-Corps and Certain Insurance Premiums Paid
on Behalf of More Than 2% Shareholder-employees**

The Internal Revenue Service requires special treatment for S-Corporations with regard to premiums that have been paid throughout the year as they relate to more than 2% shareholder-employees (and any family members employed by the S-Corporation) for accident and health plans (which include premiums paid for accident and health, short- and long-term disability, and qualified long-term care), group-term life insurance coverage, MSA or HSA employer plan contributions, and workers comp insurance coverage.

The most practical way to comply with these rules is to include the total amount of applicable premiums paid for the year with your company's final payroll in 2014. These premiums need to be included in the shareholder's or family member's gross wages and reported as such on the 4th quarter payroll reports and annual W-2s. The premiums for the accident and health plans category are considered taxable wages subject to Federal and State income tax withholding, but exempt from Social Security, Medicare tax and unemployment taxes. The Group-term life premiums are considered taxable wages subject to Social Security and Medicare taxes, but exempt from Federal and State income tax withholding and unemployment taxes.

If you process your own payroll or use a payroll service, you will want to take these premiums into account before processing your company's final payroll for the year. By doing so, you will insure compliance with these rules and prevent the need to issue corrected quarterly payroll reports or W-2's at a later date. Be sure to specify the group-term life premiums separately, as their treatment is different.

As always, don't hesitate to call us if you have any questions.

Best regards,

MUELLER & CO LLP

**EMPLOYER NOTICE TO APPLICABLE EMPLOYEES-
ELECTION NOT TO WITHHOLD FEDERAL AND STATE INCOME TAXES ON
S CORPORATION HEALTH INSURANCE**

(Signed NOTICE should be retained in your personnel files for 2015 payroll)

TO:

DATE:

FROM:

RE: **Employer election not to withhold income tax on the value
of S Corporation Health Insurance for > 2% shareholders.**

_____ elects not to withhold any
Federal or State withholding tax from the value of the S Corporation Health
insurance for > 2% shareholders, which is a taxable fringe benefit to its
employees.

You may wish to file an amended Form W-4 to increase your withholding
to cover the additional income which will be reported on your W-2 Form at
the end of the year.

I have read and fully understand the above statement.

Employee's Signature

Date