

Tax Breaks on Health Insurance for the Self-Employed

Here is some information about a special tax deduction for the self-employed. You may be able to deduct premiums paid for medical and dental insurance and qualified long-term care insurance for you, your spouse, and your dependents if you are one of the following:

- A self-employed individual with a net profit reported on Schedule C (Form 1040), Profit or Loss From Business, Schedule C-EZ (Form 1040), Net Profit From Business, or Schedule F (Form 1040), Profit or Loss From Farming.
- A partner with net earnings from self-employment reported on Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc., box 14, code A.
- A shareholder owning more than 2% of the outstanding stock of an S corporation with wages from the corporation reported on Form W-2, Wage and Tax Statement.

The insurance plan must be established under your business.

- For self-employed individuals filing a Schedule C, C-EZ, or F, the policy can be either in the name of the business or in the name of the individual.
- For partners, the policy can be either in the name of the partnership or in the name of the partner. You can either pay the premiums yourself or your partnership can pay them and report the premium amounts on Schedule K-1 (Form 1065) as guaranteed payments to be included in your gross income. However, if the policy is in your name and you pay the premiums yourself, the partnership must reimburse you and report the premium amounts on Schedule K-1 (Form 1065) as guaranteed payments to be included in your gross income. Otherwise, the insurance plan will not be considered to be established under your business.
- For more-than-2% shareholders, the policy can be either in the name of the S corporation or in the name of the shareholder. You can either pay the premiums yourself or your S corporation can pay them and report the premium amounts on Form W-2 as wages to be included in your gross income. However, if the policy is in your name and you pay the premiums yourself, the S corporation must reimburse you and report the premium amounts on Form W-2 as wages to be included in your gross income. Otherwise, the insurance plan will not be considered to be established under your business.

If you need any help please feel free to contact me by phone at (508) 525-6522 or email @
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IRS Publication 535, Business Expenses, available at <http://www.IRS.gov> or by calling 800-TAX-FORM (800-829-3676).