



To: Clients, Associates & Friends of Pro@ctive CPA
From: Mark Wyssbrod, Managing Member
Date: November 29, 2010
Re: Alternative Minimum Tax Saga

As this year winds down we remind our S-corporation clients it is required to report the health insurance, dental insurance, vision insurance and long-term care insurance of shareholders (who own more than 2%) in their W-2.

Generally speaking, the amount is added to taxable income, but is not subject to Social Security and Medicare. On the shareholder's W-2 box 14 should have the amount and description of the item. This will allow the shareholder to have favorable deduction treatment of the health, et al, insurances against income on the front page of their federal individual income tax return. IRS Notice 2008-1 is below for assistance. Please contact me should you have any questions.

Additionally, we would like to take this opportunity to remind you that s-corporation shareholders who provide service to their s-corporation should have **reasonable compensation**. Please contact us should you have any questions.

Under IRS Notice 2008-1, S corporation shareholders may deduct premiums paid for themselves, their spouses and their dependents if:

1. A two-percent or greater shareholder has earned income from the S corporation exceeding the total of all premiums paid;
2. The shareholder is not eligible to participate in any subsidized health plan maintained by the shareholder's or a spouse's employer;
3. The S corporation includes the premium cost in the shareholder's Form W-2;
4. The shareholder includes the premium cost in gross income on Form 1040;
5. If the S Corporation reimburses the premiums, it must be in the same tax year.

Whether the policy is in the individual's or S corporation's name or who initially pays for the premiums are not the determining factors.

Have a wonderful end to your year and Happy New Year!

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