

Deductible Health Insurance for the Business Owner

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Sole Proprietor

Health insurance benefits provided by a company taxed as a sole proprietorship to its owner are a deductible expense on the owner's personal tax return. As such, the business owner is able to enjoy health care benefits on a pre-tax basis. The owner, however, must pay self-employment taxes on the value of the benefits received.

includes single member LLCs that have not filed to be taxed as a corporation

C-Corporation

Owners of entities taxed as c-corporations are treated for health care benefit purposes just as non-owner employees. As such, the business may pay and deduct as a business expense health insurance premiums and other costs. Neither the company nor the employee must pay payroll taxes on health benefits provided, regardless of the ownership status of the employee, and the owner-employee does not owe income tax on the benefit.

includes LLCs that elect to be taxed as a c-corporation

S-Corporation

A person that is employed by an s-corporation in which he or she owns 2% or more may receive health benefits paid by the company. The company may deduct the cost of the benefit as salary expense. The amount is not subject to FICA by either employer or employee, but the 2%+ owner/employee must pay income tax on the value of the benefits received. As convoluted as it may be, the owner/employee may then reverse the personal income tax levee by deducting the value of the health benefit on their personal tax return.

includes LLCs that elect to be taxed as an s-corporation

Partnership

Same as s-corporation, above. A person that is employed by a partnership in which he or she owns 2% or more may receive health benefits paid by the company. The company may deduct the cost of the benefit as salary expense. The amount is not subject to FICA by either employer or employee, but the 2%+ owner/employee must pay income tax on the value of the benefits received. As convoluted as it may be, the owner/employee may then reverse the personal income tax levee by deducting the value of the health benefit on their personal tax return.

includes multi-member LLCs that have not elected to be taxed as a corporation