**Key Issue 7F: Self-employed Health Insurance Deduction.**

Self-employed taxpayers are allowed an above-the-line deduction for 100% of the cost of providing medical, dental, and qualifying long-term care insurance for themselves and their families [**[IRC Sec. 162(l)](https://checkpoint.riag.com/app/main/docLinkNew?DocID=i8d32581e19d711dcb1a9c7f8ee2eaa77&SrcDocId=T0PPCTDB%3A2014dbea9b109c1100d-1&feature=tcheckpoint&lastCpReqId=546477&pinpnt=TCODE%3A4780.1&d=d" \l "TCODE:4780.1" \t "_top)**]. The amount is deducted on line 29 of Form 1040, not as a trade or business expense. Although the deduction reduces AGI, it is not allowed as an expense when calculating net earnings subject to SE tax [**[IRC Sec. 162(l)(4)](https://checkpoint.riag.com/app/main/docLinkNew?DocID=i8d32581e19d711dcb1a9c7f8ee2eaa77&SrcDocId=T0PPCTDB%3A2014dbea9b109c1100d-1&feature=tcheckpoint&lastCpReqId=546477&pinpnt=TCODE%3A4784.1&d=d" \l "TCODE:4784.1" \t "_top)**].

**Observation:** Self-employed taxpayers are allowed to deduct 100% of the medical insurance costs paid for themselves, their spouse, their dependents, and any nondependent child under age 27 at the end of the year [**[IRC Sec. 162(l)(1)](https://checkpoint.riag.com/app/main/docLinkNew?DocID=i8d32581e19d711dcb1a9c7f8ee2eaa77&SrcDocId=T0PPCTDB%3A2014dbea9b109c1100d-1&feature=tcheckpoint&lastCpReqId=546477&pinpnt=TCODE%3A42609.1&d=d" \l "TCODE:42609.1" \t "_top)**].

More-than-2% S Corporation Shareholder-employees. A more-than-2% S corporation shareholder may claim a deduction for premiums paid on a medical insurance policy in either the shareholder's name or the name of the S corporation. The S corporation must either establish the medical plan that covers the shareholder or have been deemed to establish the plan under one of the following circumstances (**[Rev. Rul. 91-26](https://checkpoint.riag.com/app/main/docLinkNew?DocID=i24c215ae32ad11dd877bc7f8ee2eaa77&SrcDocId=T0PPCTDB%3A2014dbea9b109c1100d-1&feature=tcheckpoint&lastCpReqId=546477" \t "_top)**; **[IRS Notice 2008-1](https://checkpoint.riag.com/app/main/docLinkNew?DocID=ia3f4b3d4f91a11ddad790a48867caa77&SrcDocId=T0PPCTDB%3A2014dbea9b109c1100d-1&feature=tcheckpoint&lastCpReqId=546477" \t "_top)**):

1. The S corporation directly pays the premiums, and the company-paid premium amounts are reported as compensation on the more-than-2% shareholder-employee's Form W-2 and included in gross income on his or her Form 1040. Beginning with 2014, these premiums are subject to FICA tax as well as income tax. The corporation can claim a wage deduction for the premiums on its Form 1120S.

2. The more-than-2% shareholder pays the premiums, furnishes proof of the premium payments to the S corporation, and then the S corporation reimburses the shareholder in the current year for the premium payments. The premium amounts must be included as compensation on the more-than-2% shareholder-employee's Form W-2 and included in gross income on his or her Form 1040. Beginning in 2014, these reimbursements are also subject to FICA tax. The corporation can claim a wage deduction for the premiums on its Form 1120S.

**Caution:** If the health insurance premiums are not paid or reimbursed by the S corporation and included in the more-than-2% shareholder's gross income, the medical plan is not considered established by the S corporation, and no Section 162(l) deductions are allowed. (See Example **[7F-5](https://checkpoint.riag.com/app/main/docLinkNew?DocID=iPPCTDB%3A2014dbea9b109c1100d&SrcDocId=T0PPCTDB%3A2014dbea9b109c1100d-1&feature=tcheckpoint&lastCpReqId=546477&pinpnt=PPCTDB%3A2014a7119d9aad86cf6&d=d" \l "PPCTDB:2014a7119d9aad86cf6" \t "_top)**.)