

Example of a BASE[®] 105 HRA in the Sub Chapter S Corporation

John Smith owns an auto repair business, which is structured as an S Corporation. John pays himself a salary of \$36,000, plus \$20,000 in distribution income per year. John pays federal, state, and FICA (Social Security & Medicare) tax on his \$36,000 salary, and he pays federal and state tax on his distribution.

John pays \$500 per month for health insurance and roughly \$3,000 per year in non-insured medical expenses. Prior to establishing a BASE[®] 105 HRA, John was able to deduct 100% of his family's health insurance premiums on his 1040. This deduction resulted in federal (15%) and state (5%) tax savings of approximately \$1200.

John's business adopted a BASE[®] 105 HRA. In order to gain a tax savings using the HRA, the following changes were made:

1. John restructured his \$36,000 salary to include his family's health expenses. Assuming the above health expenses are the same, his monthly salary would remain at \$3,000, and the entire \$3,000 would still be subject to federal and state income taxes. He included \$750 of his family's monthly health expenses as part of his \$3,000 wage, and his FICA tax is now calculated on \$2,250 (rather than \$3,000), increasing his take home pay by \$57.38 per month. This is half the tax savings; the other half is realized when his corporation no longer has to match the FICA/FUTA it did not withhold. John will realize a \$114.75 savings in FICA/FUTA tax through the use of a BASE[®] 105 HRA in his business.
2. John must change the way he reports his income on his quarterly 941. In the past, he reported \$9,000 ($\$3,000 \times 3$ months) as subject to Social Security and Medicare tax. Now he reports only \$6,750 ($\$2,250 \times 3$ months), this reduces his Social Security and Medicare tax.
3. John's W-2 must be adjusted as well; since part of his income is no longer subject to FICA tax, Box 1 remains the same as in previous years (\$36,000). Boxes 3 & 5, however, are reduced to (\$27,000). John will also report the \$9,000 HRA benefit in Box 14, as other income, to verify to the IRS that the \$9,000 is not subject to FICA/FUTA tax.


Since \$9,000 of John's compensation is no longer subject to Social Security tax, ($\$9,000 \times 12.4\%$) he saves \$1,116. He also saves \$261 in Medicare tax ($\$9,000 \times 2.9\%$) for a combined BASE[®] 105 HRA savings of \$1,377.

John will continue to deduct his health insurance premiums on the line labeled self-employed insurance deduction of his 1040 since this personal deduction gains him a federal and state tax savings only.

NOTE: Insurance regulations may prohibit the reimbursement of health insurance premiums in your state. For additional details, please contact a BASE[®] Benefit Specialist.

John Smith's Sample Paycheck WITH BASE® 105 HRA

Earnings	Rate	Hours	This Period	Year to Date
Regular	\$3000.00	NA	\$3000.00	
Gross Pay			\$3000.00	\$3000.00
Deductions				
Statutory				
Federal Income Tax			\$319.38	\$319.38
Social Security Tax			\$139.50	\$139.50
Medicare Tax			\$32.63	\$32.63
State Income Tax			\$151.00	\$151.00
105 HRA Benefit			\$750.00	\$750.00
Net Pay			\$2357.49	\$2357.49



John's Auto Repair
123 Main Street
Cooperstown, IA 50101


Main Street Bank 13-34
456 Main Street 567
Cooperstown, IA 50101

CHECK DATE	CHECK NO.

PAY Two thousand three hundred fifty-seven and $\frac{49}{100}$

TO THE ORDER OF: John Smith

PAY THIS AMOUNT **\$2357.49**



AUTHORIZED SIGNATURE

004099 251072955
999-999

MONTHLY PAY PERIOD
STATUS - MARRIED
STATE - IOWA

SSN	Employee No.	Pay Rate	Date	Check No.

Earnings	Current	Deductions	Current	Annualized
Gross Pay	\$ 3,000.00			\$ 36,000.00
		Federal	319.38	3,832.56
		FICA	139.50	1,674.00
		Medicare	32.63	391.56
		Iowa	151.00	1,812.00
	With BASE® 105 HRA	105 HRA	750.00	9,000.00
	<i>Exempt from FICA</i>			
	<i>Not subject to FUTA</i>			
	<i>Not deducted from gross pay</i>			
		Net Pay	2,357.49	28,289.88

Form **941 for 2007: Employer's QUARTERLY Federal Tax Return**
 (Rev. January 2007) Department of the Treasury — Internal Revenue Service

990107

OMB No. 1545-0029

(EIN) Employer identification number -

Name (not your trade name)

Trade name (if any)

Address

Number Street Suite or room number

City State ZIP code

Report for this Quarter of 2007
 (Check one.)

1: January, February, March

2: April, May, June

3: July, August, September

4: October, November, December

Read the separate instructions before you fill out this form. Please type or print within the boxes.

Part 1: Answer these questions for this quarter.

1 Number of employees who received wages, tips, or other compensation for the pay period including: *Mar. 12 (Quarter 1), June 12 (Quarter 2), Sept. 12 (Quarter 3), Dec. 12 (Quarter 4)* **1**

2 Wages, tips, and other compensation **2**

3 Total income tax withheld from wages, tips, and other compensation **3**

4 If no wages, tips, and other compensation are subject to social security or Medicare tax Check and go to line 6.

5 Taxable social security and Medicare wages and tips:

	Column 1		Column 2
5a Taxable social security wages	<input type="text"/>	× .124 =	<input type="text"/>
5b Taxable social security tips	<input type="text"/>	× .124 =	<input type="text"/>
5c Taxable Medicare wages & tips	<input type="text"/>	× .029 =	<input type="text"/>

5d Total social security and Medicare taxes (Column 2, lines 5a + 5b + 5c = line 5d) **5d**

6 Total taxes before adjustments (lines 3 + 5d = line 6) **6**

7 TAX ADJUSTMENTS (Read the instructions for line 7 before completing lines 7a through 7h.):

7a Current quarter's fractions of cents	<input type="text"/>
7b Current quarter's sick pay	<input type="text"/>
7c Current quarter's adjustments for tips and group-term life insurance	<input type="text"/>
7d Current year's income tax withholding (attach Form 941c)	<input type="text"/>
7e Prior quarters' social security and Medicare taxes (attach Form 941c)	<input type="text"/>
7f Special additions to federal income tax (attach Form 941c)	<input type="text"/>
7g Special additions to social security and Medicare (attach Form 941c)	<input type="text"/>
7h TOTAL ADJUSTMENTS (Combine all amounts: lines 7a through 7g.)	<input type="text"/>

8 Total taxes after adjustments (Combine lines 6 and 7h.) **8**

9 Advance earned income credit (EIC) payments made to employees **9**

10 Total taxes after adjustment for advance EIC (line 8 - line 9 = line 10) **10**

11 Total deposits for this quarter, including overpayment applied from a prior quarter **11**

12 Balance due (If line 10 is more than line 11, write the difference here.) **12**
 Follow the Instructions for Form 941-V, Payment Voucher.

13 Overpayment (If line 11 is more than line 10, write the difference here.)

Check one Apply to next return.
 Send a refund.

▶ You **MUST** fill out both pages of this form and **SIGN** it.

Next →

22222		Void <input type="checkbox"/>		a Employee's social security number		For Official Use Only ▶ OMB No. 1545-0008							
b Employer identification number (EIN)				1 Wages, tips, other compensation \$36,000.00		2 Federal income tax withheld							
c Employer's name, address, and ZIP code				3 Social security wages \$27,000.00		4 Social security tax withheld							
				5 Medicare wages and tips \$27,000.00		6 Medicare tax withheld							
				7 Social security tips		8 Allocated tips							
d Control number				9 Advance EIC payment		10 Dependent care benefits							
e Employee's first name and initial		Last name		Suff.		11 Nonqualified plans		12a See instructions for box 12					
f Employee's address and ZIP code				13 Statutory employee <input type="checkbox"/>		Retirement plan <input type="checkbox"/>		Third-party sick pay <input type="checkbox"/>		12b			
				14 Other \$9,000		Employee Benefit		12c		12d			
				15 State		Employer's state ID number		16 State wages, tips, etc.		17 State income tax		18 Local wages, tips, etc.	

Form **W-2** Wage and Tax Statement

2007

Department of the Treasury—Internal Revenue Service

Copy A For Social Security Administration — Send this entire page with Form W-3 to the Social Security Administration; photocopies are not acceptable.

For Privacy Act and Paperwork Reduction Act Notice, see back of Copy D.

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Small Bus/Self-Employed

S Corp Shareholder-Employees - Reporting Health & Accident Insurance Premiums

Headliner Volume 41
February 12, 2003

This TEC “Headliner Package” describes the Correct IRS Forms for Reporting Health & Accident Insurance Premiums for greater than 2% S Corp Shareholder-Employees. The recommendation for this Headliner came from the SB/SE subgroup of IRPAC (Information Reporting Program Advisory Committee).

The IRS would like to clarify the proper reporting of S corporation payments of health and accident insurance premiums made on behalf of its greater than 2% shareholder-employees continues in the manner reflected in Revenue Ruling 91-26, 1991-1 CB 184, as clarified in IRS Announcement 92-16, 1992-5 IRB 53.

The cost of these health and accident insurance premiums paid on behalf of the greater than 2% S corporation shareholder-employee (hereafter referred to as “shareholder”) is deductible by the S corporation and reportable as additional compensation to the shareholder.

This additional compensation is included in Box 1 (Wages) of the Form W-2, Wage and Tax Statement issued to the shareholder. If these payments are made under a “plan” for the S corporation employees and their dependents, the amount would only be subject to income tax withholding, and would not be included in Boxes 3 or 5 of Form W-2 wages for Social Security or Medicare, nor would it be subject to the FUTA tax. Form K-1 (1120S) and Form 1099 should not be used as an alternative to the Form W-2 to report this additional compensation.

The payments of the health and accident insurance premiums on behalf of the shareholder may be further identified in Box 14 (Other) of the Form W-2.