

# **SAMPLE LETTER**

**Findem, Billem And Lockemup, CPAs  
123 Main Street  
Tamarac, Florida 33321-1317**

Johnny Sample  
Sample Construction Co.  
456 Oak Street  
Tamarac, FL 33321-1317

**RE: Self-Employed Health Insurance Deduction**

Dear Johnny,

One of the important deductions on your tax return is self-employed health insurance deduction. The IRS has supplied a recent update to the requirements for this important deduction. Our accounting firm is committed to preserving this deduction for you.

(The CPA **must** select one of the set of optional paragraphs below).

## **(For Schedule C, Form 1040 Clients)**

The IRS has made it clear as to how to handle the self-employed health insurance deduction for a Form 1040, Schedule "C" self-employed individual. The Schedule C person can have the insurance in the name of the business or the name of the individual. An IRS chief counsel advice – legal memorandum makes that clear (CCA 2005-24001). Other technical requirements still apply.

I have attached a copy of IRS Pub. 535 – Chapter 6 that covers "insurance" including the "self-employed health insurance deduction." Please call me after you have read this letter and the attached information.

**(For “S” Corporation Clients; Assumes Shareholders Own More Than 2%)**

The IRS has issued a recent pronouncement regarding “S” corporation shareholders and their self-employed health insurance deductions. This pronouncement is called “IRS Notice 2008-1.” I have included a copy of this IRS pronouncement and Chapter 6 of IRS Pub. 535 that covers the topic of the “self-employed health insurance deduction.”

Here is the bottom line. If your “S” corporation shareholder-employee health insurance is a group policy in the name of the “S” corporation, the self-employed health insurance deduction will be achieved where the premium is included in the “W-2 wage statement” and then deducted on page 1 of Form 1040 (assuming all other IRC 162(l) requirements have been met). If the health insurance is in the individual name of the shareholder-employee, the “S” corporation must reimburse the premium amount by the end of the year (upon an adequate accounting). In addition, the “S” corporation must reflect this reimbursement as a deemed wage on the “Form - W-2” wage statement of such shareholder-employee.

**NOTE:** This “deemed wage” mandate to obtain the deduction will cause additional administrative accounting work at year-end. If your bookkeeping or accounting staff need guidance here, please feel free to contact me.

I know that this issue (preserving self-employed tax deductions) is somewhat complex. My job is to help educate you and to help you preserve your deduction. Please call me after you have reviewed this letter and the attached information.

**(For Partners/LLC Members/LLP Partners In Form 1065 Entities)**

For partners (including LLC owners treated as partners), the health insurance policy can be in the name of the partner or in the name of the business. If it is in the name of the business (the partnership or LLC), then the premium payment for the partner must be placed on the partner’s Schedule K-1 “income statement” as a “guaranteed payment.” This “guaranteed payment” is subject to self-employment tax; the “guaranteed payment” will be offset by the “self-employed health insurance deduction.” If the health insurance is in the name of the partner, the partner must be reimbursed by year-end (assuming an adequate accounting). Again, this amount must be reported as a “guaranteed payment” (as discussed above).

**NOTE:** The technical requirements to achieve the self-employed health insurance deduction are somewhat complex. I have enclosed a copy of Chapter 6 of IRS Pub. 535 that covers this topic. The “guaranteed payment” forced income inclusion may cause additional estimated tax obligations for you. I would be happy to help you and/or staff with these administrative and tax matters.

### **Conclusion**

Our accounting firm monitors the IRS landscape for new developments. I want to help you preserve your self-employed health insurance deduction in light of the recent developments discussed in this material and the attachment. Please feel free to call me if you or your staff have any questions.

Very truly yours,

Bill Findem  
Managing Partner  
Findem, Billem And Lockemup, CPAs

Enclosures