

MEMO

To: Clients

From: Ryter & Company, P.C.

Date: 10/20/98

Re: W-2 Addbacks for Shareholder Health and Personal Use of Company Automobiles

Reporting requirements relative to Health Insurance Premiums:

Accident and health insurance premiums paid by an S Corporation for a more-than-2-percent shareholder-employee need to be included in the shareholder's gross income as compensation, in order for the corporation to be able to deduct the health insurance premium expense.

Therefore, at the end of the year an adjustment needs to be made to include the amount of the shareholder health insurance premiums in box 10 (wages, tips, other compensation) on the shareholder's W-2. The premiums added to gross income are exempt from FICA tax and Unemployment taxes, but should be included in the 941 for the quarter in which the reporting occurs. The amount may also be recorded in box 16 of the Form W-2. Most payroll services are familiar with the reporting requirements, therefore, before your last pay period you will need to call your payroll service and properly identify the total amount of the premiums, so they will know the required adjustment amount for each shareholder's health insurance premiums paid during the year.

Reporting requirements relative to Personal Use of Company Automobiles:

To the extent that a Company auto is used for personal purposes by an employee of the company (including shareholders), the annual lease value of the auto is taxable income to the employee. The annual lease value can be determined by using the Annual Lease Value Table provided in the Regulations. Note that the lease value table amount includes the cost of maintenance and insurance but not the cost of gasoline provided by the employer. Personal use of the company auto using gas paid by the Company constitutes taxable income to the employee at the rate of 5.5 cents a mile.

Example:

80% personal use	
Annual Total Miles Driven 20,000	
Employer pays for all gasoline	
Automobile Fair Market Value @ 1/1/98 or purchase date (whichever is later):	<u>\$10,000</u>
Annual Lease Value (From Table)	\$3,100
x personal use factor	<u>x 80%</u>
Value of Fringe Benefit	2,480
Gasoline @ 5.5¢	<u>+ 880</u>
Additional Taxable Income	<u><u>3,360</u></u>

This income must be reported at least annually to the employee, and is properly reported on Form W-2 in box 10 (wages, tips, other compensation) along with all other compensation. The income reported is subject to FICA and Unemployment taxes and must be included on Form 941 for the period in which the reporting occurs. The amount may also be recorded in box 16 of the Form W-2. Most payroll services are familiar with the reporting requirements, therefore, before your last pay period you need to call your payroll service and properly identify the required adjustment amount for each employee's and shareholder's personal use of company autos for the year.