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## How to Deduct Medicare as a Business Expense

Premiums for Medicare health insurance can add up to a substantial sum. That's especially true if

- you have high income, and
- you're married and both you and your spouse are paying premiums.

Fortunately, the premiums can potentially help your tax situation. The dollar benefit of Medicare tax deductions depends greatly on where you can deduct the premiums:

- The business deduction produces the maximum tax benefit.
- The self-employed health insurance deduction on line 29 of Schedule 1 of your Form 1040 produces the second-best benefit.
- The itemized deduction either is useless or produces the third-best benefit.

### ***Number 1: The Business Deduction***

You flat out get the best dollar benefit from your Medicare and supplemental insurance premiums when you can deduct them as business deductions. You can make this happen when you

- are the sole owner and only employee of your C corporation (see Blueprint for Employee-Spouse 105-HRA (Health Reimbursement Arrangement for how to make this work for you);
- operate as a sole proprietorship or single-member LLC and your spouse is your only employee (see Blueprint for Employee-Spouse 105-HRA (Health Reimbursement Arrangement for how to make this work for both you and your employee-spouse). Note: with the deduction on your Form 1040, Schedule C, your tax benefits include both a reduction in your income taxes and a reduction in your self-employment taxes;
- operate as a C corporation and have 20 or fewer employees to whom you offer group health insurance;<sup>1</sup> or
- operate as a C corporation and either you or your spouse is an employee and you offer a qualified small employer health reimbursement arrangement (QSEHRA) (for how this plan works, see Avoid Penalties—Give Notice of 2019 HRA Medical Plan on Oct. 2).

### ***Second Best: Self-Employed Health Insurance Deduction***

If you are self-employed as a sole proprietor, an LLC member treated as a sole proprietor for tax purposes, a partner, an LLC member treated as a partner for tax purposes, or an S corporation shareholder-employee, you can potentially claim an above-the-line deduction for your health insurance premiums—including Medicare premiums.<sup>2</sup>

You don't need to itemize deductions to get the tax-saving benefit from this above-the-line self-employed health insurance deduction.<sup>3</sup>

According to IRS Publication 535 (Business Expenses), the health insurance coverage must be established or considered to be established for your business as per the following explanations.<sup>4</sup>

#### **If You Are a Sole Proprietor**

If you are a sole proprietor or an LLC member treated as a sole proprietor for tax purposes who files Schedule C, a health insurance policy can be in the name of your business or in your own name. Premiums you pay for Medicare health insurance in your name can be used to figure the above-the-line deduction for self-employed

health insurance.

### **If You Are a Partner**

If you are a partner or an LLC member treated as a partner for tax purposes, a health insurance policy can be either in the name of the partnership (LLC) or in your own name.

You can pay the premiums yourself, or the partnership (LLC) can pay them and report the premium amounts on your Schedule K-1 as guaranteed payments that you must include as income on your Form 1040.

But if the policy is in your name and you pay the premiums yourself, the IRS says the partnership (LLC) must reimburse you and report the premium amounts on your Schedule K-1 as guaranteed payments that you must include as income on your Form 1040. Otherwise, the IRS says the insurance won't be considered established for your business and you will not qualify for the deduction.

The tax code allows the partnership (LLC) to deduct its guaranteed payments.<sup>5</sup>

### **If You Are an S Corporation Shareholder-Employee**

If you are a shareholder employee who owns more than 2 percent of the S corporation, the health insurance policy can be either in the name of the S corporation or in your own name. You can pay the premiums yourself, or the S corporation can pay them and report the premium amounts on your Form W-2 as additional taxable wages.

But if the policy is in your name and you pay the premiums yourself as you would for your Medicare coverage, the IRS says the S corporation must reimburse you and report the premium amounts on your Form W-2 as additional taxable wages. Otherwise, the IRS says the insurance won't be considered established for your business.

## ***What about a Spouse's Medicare?***

In guidance, the IRS makes it clear that the S corporation and the partnership can reimburse to the shareholder-employee the spouse's Medicare payments, and that reimbursement establishes the insurance in the business's name.<sup>6</sup> The S corporation then adds the reimbursement to the shareholder's W-2, and the partnership treats the reimbursement to the partner as a guaranteed payment.

The treatment described above creates the tax deduction for the spouse's cost of Medicare (including supplemental insurance).

If you operate as a proprietorship, we recommend having the proprietorship reimburse the nonowner spouse to establish the Medicare insurance in the name of the business.

## ***Do the Two-Step***

Some tax professionals say that the premiums you pay for Medicare insurance in your own name can be used to figure the above-the-line deduction for self-employed health insurance without this two-step drill.

We don't see that at all. We recommend that you have the partnership or S corporation reimburse the Medicare premiums to you and report them as guaranteed payments on your Schedule K-1 or as additional wages on your W-2.

## ***Third Best: Itemized Deductions***

As a business owner who falls into the self-employed health insurance deduction category, you could use your Medicare premiums as itemized deductions if<sup>7</sup>

- you or your spouse is eligible for health coverage from another employer, or
- your business shows a tax loss for the year.

And once you have itemized deductions, the question is are you itemizing? If not, there's no benefit.

If you itemize your deductions, you have to look at the floors on your medical deductions to see whether you realize any tax benefits.<sup>8</sup>

- For 2018, you can claim itemized medical expenses only to the extent that your total qualifying medical expenses exceed 7.5 percent of your adjusted gross income.
- For 2019, the deduction threshold rises to 10 percent of your adjusted gross income.

## **Takeaways**

Medicare and supplemental health insurance premiums can add up to a healthy sum, especially if you're a high earner and both you and your spouse are paying the premiums. That's the bad news.

The good news is that with some planning, you likely can deduct the premiums as either

- business expenses, or
- self-employed health insurance on your Form 1040.

With reimbursement for your spouse, as we explained in this article, you also can deduct your spouse's Medicare and supplemental insurance premiums.

[Client Letter on This Article for Use by Tax Pros. Click Here.](#)

1 TD 9744.

2 IRC Section 162(l)(2)(B) 2018 disallows the deduction when you or your spouse are eligible for other health coverage.

3 IRC Section 162(l) 2018.

4 IRS Pub. 535, Business Expenses (2018), dated Jan. 25, 2019, p. 21.

5 IRC Section 707(c).

6 CCA 201228037.

7 IRC Section 162(l)(2) 2018.

8 IRC Section 213(f) 2018.

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