



It's a new calendar year and it is time to do some housekeeping with respect to your S Corporation. As always, don't hesitate to contact us by email or phone.

### Shareholder Health Insurance

Yes, shareholder health insurance is deductible, but unfortunately you must jump through a few hoops to qualify it for deduction.

- First, the corporation/LLC must reimburse the shareholder for their health insurance as well as their families' health insurance. This includes medical, dental and vision insurance.
- Second, the shareholder's health insurance must be added to the shareholder's Box 1 W2 wages. No payroll taxes are owed on the amount added to Box 1 on the W2. You are then able to take a deduction for self-employed health insurance [yes, we know you aren't self-employed ...we never said this would make sense.] Make sure your payroll provider knows you have shareholder health insurance AND they add it to your Box 1 wages. If they don't, you will have to have them amend the fourth quarter and year-end reports so that we can deduct your health insurance.. With the high cost of health insurance, you will want to capture the deduction.

### Personal Use of Company Vehicle

The value of the personal use of a company vehicle must be added to all employee's wages. If you have personal use of a company vehicle, contact us for assistance in determining which method of valuing the personal use is the most beneficial for you and your business.

### Oregon Corporate Activity Tax [CAT]

Look at your gross receipts for last year and if they exceeded \$750,000, go [here](#) and register your business. If you have previously registered for the CAT, you do not need to do anything now. The tax is not owed until you are over \$1million in gross receipts. If you want to know more about this tax, there is a FAQ handout on our [website](#).

### Expense Reimbursements

Shareholders should confirm that the corporation has reimbursed them for any deductible business expenses that they incurred during the year. To deduct these expenses the business must have an accountable plan. See our [website](#) for a sample of an accountable plan. Mileage can be reimbursed at 58.5 cents/mile for January – June 2022 and 62.5 cents per mile from July – December 2022. For 2023 the mileage rate is 65.5 cents per mile. Attached is a template spreadsheet that employees can use to request reimbursement for mileage and other expenses.



### Reasonable Compensation

Shareholder and officer compensation is a hot issue with the Internal Revenue Service. Why? Shareholder distributions are not subject to payroll taxes, while shareholder wages are. It is important that you confirm shareholders and officers are being reasonably compensated for their services. What is reasonable compensation? That is the million-dollar question. A good start is to find out what other employees with positions and responsibilities are being paid in your area. A good website to check this out is found [here](#) . You can also use industry surveys or employee recruiting websites like ZipRecruiter or Indeed. Take time now to research and document what a reasonable compensation is for your officers and shareholders. If needed, adjust payroll for 2023. It is our opinion that at least 60% of the combined amount of distributions and payroll should be in the form of compensation.

Another consideration is that the officer and shareholder salaries paid will impact the social security received when they retire. Beginning in June 2023, we will offer a consultation package for retirement planning to help business owners prepare for retirement. As part of this process, we will address social security and how to leverage your options to maximize your retirement income.

### Employee Benefits

Most employee benefits are not available to 2% or greater owners. However, offering employee benefits can result in increased job satisfaction for your employees. An easy benefit to initiate is a Section 125 cafeteria plan. Employees can elect to defer part of their pay into the plan and the employer can also contribute. The cafeteria plan can cover medical and/or dependent care. Unfortunately, owners can not participate in the cafeteria plan.

Pension plans are an employee benefit that a shareholder/officer can participate in. There are many flavors of pension plans. If you interested in starting a new pension plan , changing the one you have or confirming that you are in the right type of plan, call us and we can help you determine the best retirement plan for your goals. There is an alphabet soup of available pension plans, and we will help you find the perfect plan for your business.

As always, call or email us with any questions. We are here to help you and your business be successful.

Hendrick & Kellison LLC