



S-Corporation Health Insurance MUST be reported as wages to the owner by 12/31/22

Owners of S-corporations are allowed to deduct health insurance paid by the S-corporation as an above-the-line deduction on their individual income tax returns, however, the amount of health insurance MUST be reported on the owner's W-2. The S-corporation should provide their payroll service company the total amount of health insurance paid for the S-corporation owner, spouse and/or dependents so that it's reported as wages to the owner no later than 12/31/22. These wages are exempt from Medicare and FICA and are deducted as wage expense to the S-Corporation.

Second and final installment of 2020 self-employment tax deferral due 12/31/22

If you were subject to self-employment tax in 2020 and opted to defer a portion of the tax due, the second and final installment must be paid by 12/31/22. The IRS recently sent reminder notices, but please contact our office if you are unsure as to whether this applies to you or if you need a reminder of the amount to pay.

Pass-Through Entity (PTE) tax payments can be made by 12/31/22 for a deduction in 2022

The first 50% installment for your 2022 PTE must have been paid by 6/15/22. The remaining 50% installment is not due until 3/15/23, however, **you can pay this installment by 12/31/22 in order for it to be deductible by the business entity in 2022.** Effectively this reduces the owners' 2022 K-1 passthrough federal income AND is a state tax credit to the owners in 2022.

If you choose to pay this installment in 2023, it will still be treated as a credit to the consenting owners for 2022, but it cannot be deducted by the business entity until 2023. Effectively, this reduces the owners' 2023 K-1 passthrough income, not 2022.

**The FTB has confirmed that if the 6/15/22 installment was not at least 50% of the final 2021 PTE, the PTE election cannot be made for 2022. There are currently no exceptions to this rule. As a result, there *may be* no purpose to pay the 2<sup>nd</sup> installment of the 2022 PTE tax due. There's always a possibility for a retroactive change, but this is the law as it currently stands. Please contact us to discuss.**

*Pass-Through Entity Tax provisions and reminders*

- Available to qualified S-corporations, partnerships, and LLC's taxed as a partnership (no single member LLC's). NOT available to C-corporations, trusts and/or sole-proprietors.
- All business owners do not have to consent, but this does create issues for S-corporation owners if not all shareholders agree (more information available upon request).
- The business entity elects to pay state tax on behalf of the consenting owners at a rate of 9.3%. The business entity deducts the tax paid as an expense, which decreases the amount of federal income flowing through to the owners of the business.
- The owners claim the state tax paid by the business as a credit on their state individual income tax return.
- End result? The owner has now worked around the \$10,000 SALT limit that previously limited the state tax deduction to \$10,000 for the federal itemized deductions!
- Interplay with the mandatory E-Pay requirement for the FTB:
  - For partnerships and LLC's taxed as partnerships, these payments do not have to be paid electronically.
  - For S-corporations, the payment must be paid electronically only if the S-corporation is already subject to the mandatory E-Pay requirement. These payments do not automatically trigger the E-Pay requirement.
- The PTE election is available in MANY states (with modifications), not just California.