

# Self-Employed Health Insurance Deduction

# ■ Self-Employed Health Insurance

- Self-employed health insurance deduction in scope
  - 2018 and all open years (by amendment)
- Applies to returns with Schedule C profit
- Return out of scope for taxpayers entitled to premium tax credits (PTC)
  - More on scope later

# ■ Self-Employed Health Insurance

- Includes insurance coverage for
  - Taxpayer
  - Spouse
  - Dependents
  - Child under 27 (as of year end) even though not the taxpayer's dependent
    - “Child” includes stepchild, adopted child or foster child

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Pub 535 page 20

- Qualifying insurance includes
  - Health insurance
    - Medicare – can be paid by taxpayer or spouse when filing MFJ
    - Dental, vision, supplemental, limited coverage, etc.
  - Long-term care (LTC) insurance
  
- Coverage can be in name of the individual\* for in-scope returns
  - \*Individual can be taxpayer, spouse, dependent, or child
  - Satisfies requirement that it be “established under the trade or business”

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- The **taxpayer** cannot be eligible for subsidized coverage
  - From any employer: own, spouse's, dependent's, or child's
  - Prior employers do not count
    - Premiums paid for retiree coverage qualify
    - Reduce for PSO exclusion, if any
  - Test LTC plan separately from other employer health plan offers to determine whether subsidized
    - E.g., if LTC is not subsidized, can claim its cost even though taxpayer eligible for subsidized medical coverage

# ■ Self-Employed Health Insurance Deduction Limit

Pub 4012 Tab E

- Maximum self-employed health insurance deduction is limited to net profit shown on Schedule C reduced by self employment tax deduction (1/2 of SE tax)
  - Not reduced for anything else
- See NTTC-modified Pub 4012 for TaxSlayer input

# ■ Self-Employed Health Deduction Example 1

- Schedule C profit: \$10,000
- Health premium: \$2,500
- LTC premium: \$1,200 (fully allowed base on age)
- SE tax deduction \$706 (1/2 of \$1,413)
- SE health deduction limit is \$9,294 (\$10,000 - 706)
- Deduct is \$3,700 (\$2,500 + 1,200)

# ■ Self-Employed Health Deduction Example 2

- Schedule C profit: \$3,800
- Health premium: \$2,500
- LTC premium: \$1,200 (fully allowed base on age)
- SE tax deduction \$268 (1/2 of \$537)
- SE health deduction limit is \$3,532 (\$3,800 - 268)
- Deduct is \$3,532
  - Remaining \$168 can be itemized on Schedule A



# Self-Employed Health Deduction with PTC Example 3

Using 2017 Practice Lab

- Schedule C profit: \$39,000
- Health premium: \$4,800, APTC: \$3,000
- SE tax deduction \$2,755 (1/2 of \$5,511); excess APTC: \$512
- Initial premium for SE health deduct: \$2,312 ( $\$4,800 - 3,000 + 512$ )
- Initial excess APTC with SE health deduct is \$139
- First round: SE health  $\$4,800 - 3,000 + 139 = \$1,939 \rightarrow$  excess APTC: \$201
- Second round: SE health  $\$4,800 - 3,000 + 201 = \$2,001 \rightarrow$  excess APTC: \$195
- Third round: SE health  $\$4,800 - 3,000 + 195 = \$1,995 \rightarrow$  excess APTC: \$196
- Final excess APTC: \$195

# ■ Self-Employed Health Deduction Example 3 (cont.)

- Based on marginal tax rate of 15% you'd expect an impact of \$347 (15% of \$2,312)
- Net federal tax without SE health deduction: \$9,430 due
- Net federal tax with SE health deduction: \$8,821 due
- Difference \$609
  
- This is why it is out of scope and should decline the return

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**Comments**



**Questions**

