

# Increased Tax Benefits for Self-Employed Business-owners in 2010

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By Michael Burzynski, CPA, Partner

There was a great deal of publicity given late last year to the 2010 **Tax Relief Act** that was signed into law on December 17, 2010. This major tax legislation gave extended a number of individual tax incentives that had expired or were set to expire and created some additional tax incentives starting in 2011. ([See article](#)) With all the hype and attention given to this act, few focused on some lesser known individual income tax incentives effective in 2010.



## Tax Relief for Self-Employed Business Owners

Self-employed business owners received welcome tax relief starting in 2010 to help offset escalating health insurance costs as a result of expanded deductibility of various health insurance premiums. This expansion includes 100% deductibility of insurance for nondependent children under age 27, self-employed health insurance deduction for Medicare Part B premiums, and a potentially significant benefit of the 100% self-employed health insurance deduction for self-employment tax purposes. This deduction also applies to LLC or LLP member, partners, and most S corporation shareholders.

## Nondependent Children Coverage

The March 2010 Patient Protection and Affordable Care Act included a provision requiring health insurance to be offered to non-dependent children of insured adults until the children reach age 27. This provision was to expand the breadth of coverage to an often uninsured group of young adults who are no longer students but who have not yet found full-time employment with health coverage, do not have financial means to pay for health insurance, or who have simply opted not to get health insurance at a time where they are typically more healthy than other adults.



This legislation made a corresponding change in the self-employed health insurance deduction to allow for the cost of the additional insurance. We caution you that health insurance premiums for nondependent adult children from 1/1/2010-3/30/2010 is not eligible for this deduction; nonetheless, the deduction thereafter is welcome tax relief for parents who are taking on the additional cost.

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## Medicare Part B Insurance Premiums

Every American who draws wages or pays self-employment tax also pays Medicare tax, which contributes to a fund for Medicare Part A coverage, or the hospital component of Medicare. There is also optional health insurance coverage for Medicare Part B insurance (non-hospital medical care) and, effective for 2010, the premiums are deductible as for purposes of the self-employed health insurance deduction. This change was a surprise to most since IRS instructions specifically *excluded* Medicare Part B premiums in prior years, but it is a small amount of welcome tax relief.

*Note: The 2010 tax form instructions are silent on Medicare Part C (Medicare Advantage) and Part D (Prescription coverage), meaning it would likely be an aggressive stance to take those premiums as self-employed health insurance.*

## 100% Health Insurance Deduction for Self-Employment Tax Purposes

The most significant new benefit for most self-employed business owners is that the entire self-employed health insurance premium is now deductible for purposes of calculating the 2010 self-employment tax. For those making under the 2010 FICA limit of \$106,800, this change can result in savings of over 14% of the total cost of health insurance. For example, the savings for someone paying \$10,000 in health insurance premiums could be as much as \$1,410!

This change is welcome news to all self-employed individuals, and the benefits are compounded by the additional new deduction for nondependent adult children and Medicare part B health insurance premiums. Additionally, the new health insurance deduction does not change the maximum self-employed retirement deduction which would impact negatively on someone's tax liability.



We have seen a number of tax incentives for 2010 with broad benefits to most American taxpayers. The change in self-employed health insurance deduction, while affecting a much smaller slice of Americans, is welcome relief to self-employed business owners who have likely seen double digit increases in health insurance premiums for over ten years. Considering the average annual family health insurance premium for small business owners with fewer than 50 employees is over \$17,000, it is truly a relief to offset the cost of health insurance with this new tax incentive.

Tax software and tax preparers will generally catch this change if completed properly, but many individuals may not know of this change. If you have any questions regarding your eligibility for the tax incentive or if you took the maximum deduction, please contact Michael Burzynski ([mburzynski@komisarbrady.com](mailto:mburzynski@komisarbrady.com)) or Al Lopata ([alopata@komisarbrady.com](mailto:alopata@komisarbrady.com)).