



What You Need To Know About The One-Year Tax Deduction On Health Costs For The Self-Employed

On September 27, 2010, the Small Business Jobs and Credit Act of 2010 (H.R.5297) was signed into law. The legislation provides an important tax break for the over 23 million self-employed Americans that represent 78 percent of all small businesses in the U.S.

[Read a summary of the Small Business Jobs and Credit Act here.](#)

The self-employed have not received the same tax benefit related to health insurance expenses that all other businesses entities have enjoyed. Various business entities are able to fully deduct the cost of health coverage as a business expense, saving them a significant amount in payroll taxes.

With the passage of the Small Business Jobs and Credit Act, the self-employed will be allowed to take a one-year tax deduction for health costs in determining payroll tax (self-employment tax.) Here is some guidance to determine whether you can benefit from this new deduction:

1) Who can qualify for this one-year self-employment tax deduction on health costs?

Self-employed business owners that meet **all** of the following requirements can take advantage of this new tax deduction:

- Files an IRS Form 1040 Schedule C tax form or Schedule E with earned income -this includes sole proprietors, single member LLCs, and sole owner S-Corporations.
- Pays self-employment taxes via IRS Form 1040 Schedule SE.
- Pays for individual or family health coverage in 2010.

2) When can I take this deduction?

This deduction is available for health costs paid by self-employed business owners in 2010. Self-employed business owners should look to take advantage of this deduction when preparing their taxes next year in time for the April 15, 2011 tax filing deadline.

3) How much will I save with this one-year tax deduction on health costs?

The self-employed must pay the employer and employee contribution to payroll taxes, totaling up to 15.3 percent on business income. For the self-employed, payroll taxes are called self-employment taxes.

To calculate your savings from this new tax deduction, simply add up your total 2010 health insurance costs and multiply that by 15.3 percent. The resulting amount will represent how much you will save on your self-employment taxes when filing your 2010 taxes next year. According to a report on individual health insurance released by America's Health Insurance Plans (AHIP), annual premiums averaged \$2,985 for single coverage and \$6,328 for family plans nationwide in mid-2009. A majority of the self-employed with health coverage currently purchase it via the individual insurance market.

Based on these average premium costs, the new one-year tax deduction on health costs for payroll tax purposes would save self-employed business owners approximately \$456.71 to \$968.14 in taxes.

NOTE: If you qualify for this deduction and your annual income is above the maximum wage limit subject to payroll (FICA) taxes, currently \$106,800, then you will receive a lower tax benefit. Please contact your tax professional to assist you with calculating your exact tax savings.

4) What if I purchased health coverage mid-year or am planning to purchase health coverage this year, will I still get the benefit from the tax deduction?

If you meet the above qualification requirements in Question 1, you can still benefit from this one-year tax deduction.

Since the benefit of the deduction is larger for those with higher health costs, those who purchased coverage mid-year or will be purchasing health insurance in 2010 will simply have a smaller tax benefit when they file their taxes in 2011.

5) What are the next steps a self-employed business owner should take to ensure they qualify and benefit from this one-year self-employment tax deduction on health costs?

Self-employed business owners should inform their tax professional about this new one-year tax deduction. Prior to filing your taxes next year, your tax professional can determine whether you qualify and can take this tax benefit.

In addition, the National Association for the Self-Employed has numerous resources on our website, www.NASE.org, to assist the self-employed with understanding the benefits of the Small Business Jobs Act.

The NASE's tax experts can provide [online assistance with questions](#) about this new deduction or other tax-related issues.

6) Why is this tax deduction benefiting the self-employed only available for one-year?

Lawmakers only extended this tax benefit to the self-employed for one-year to provide some temporary bottom-line cost savings to America's smallest businesses in this difficult economic time and also, to minimize the cost to the federal government.

It is important to reiterate that the self-employed are the only business entities which do not receive a business deduction for their health care costs. All other businesses are able to fully deduct their health costs lowering their payroll tax liability. We feel that self-employed should have the same tax treatment of health costs as all other businesses.

The National Association for the Self-Employed, in coordination with the coalition supporting Equity for Our Nation's Self-Employed, will continue to urge Congress and the Administration to permanently level the playing field for the self-employed.

Please contact your Members of Congress via the NASE's [Legislative Action Center](#) to encourage them to make this tax deduction permanent for the self-employed.