

Reporting the Self-Employed Health Insurance Deduction for 2010*

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Introduction

With the creation of The Small Business Job Creation and Access to Capital Act of 2010, P.L. No. 111-240, self employed individuals are able to deduct their health insurance premium costs against net self-employment income for the purposes of calculating self-employment tax. For the 2010 filing season, which is currently the only tax year this deduction is allowed, questions are cropping up as to how to report and take this deduction. This paper attempts to provide direction about the issue.

Deduction

The deduction for self-employed health insurance premium costs has been available as an adjustment from total income for income tax purposes for several years.

From Page One of Schedule SE Instructions:

Deduction for self-employed health insurance. For 2010, you may be able to reduce your net self-employment income by the amount of your self-employed health insurance deduction on line 29 of Form 1040 or Form 1040NR. See *Line 3 (Short or Long Schedule SE)* on page SE-3.

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From Page Three of Schedule SE Instructions:

Line 3 (Short or Long Schedule SE)

For 2010, you can reduce your net self-employment income by the amount of your self-employed health insurance deduction entered on line 29 of Form 1040 or Form 1040NR. Be sure to subtract this amount after you combine lines 1a, 1b, and 2, and before entering the result on line 3. If both you and your spouse are taking a deduction for self-employed health insurance on line 29 of a joint Form 1040, each of you subtracts on line 3 of your separate Schedule SE only the amount attributable to your own premiums.



The self-employed health insurance deduction is allowed on line 3 only if you have an entry (or entries) on lines 1a and/or 2 of either the short or long Schedule SE.

While the deduction for self employed individuals to deduct their health insurance premium costs against net self-employment income is made on Schedule SE, the math for the deduction is not shown on the schedule nor does a worksheet exist for this calculation showing the deduction as a reduction to net income for self-employment tax purposes. This creates a “phantom” deduction, and therefore, can be easily missed by taxpayers and tax preparers alike. An example illustrating how to report and benefit from this deduction follows:

Example 1: For 2010, Bumpy Trails reported \$50,000 of profit on his Schedule F (Form 1040), Profit or Loss from Farming (Sole Proprietorship). He paid \$9,000 for health insurance for himself and his family. This insurance cost qualifies for the self-employed health insurance deduction as found under Internal Revenue Code § 162(1) and reported on Line 29, Form 1040. Further, this \$9,000 health insurance cost also qualifies for the new self-employment tax deduction for 2010; the SE tax reporting is illustrated below.

Name of person with **self-employment** income (as shown on Form 1040)

Social security number of person with **self-employment** income ▶

111-22-3333

BUMPY TRAIL

Section B—Long Schedule SE

Part I Self-Employment Tax

Note. If your only income subject to self-employment tax is **church employee income**, see page SE-3 for specific instructions. Also see page SE-1 for the definition of church employee income.

A If you are a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361, but you had \$400 or more of **other** net earnings from self-employment, check here and continue with Part I

1a Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A. Note. Skip lines 1a and 1b if you use the farm optional method (see page SE-5)	1a	50,000	00
b If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 6b, or listed on Schedule K-1 (Form 1065), box 20, code Y	1b ()
2 Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see page SE-1 for types of income to report on this line. See page SE-4 for other income to report. Note. Skip this line if you use the nonfarm optional method (see page SE-5)	2		
3 Combine lines 1a, 1b, and 2. Subtract from that total the amount on Form 1040, line 29, or Form 1040NR, line 29, and enter the result (see page SE-3)	3	41,000	00*
4a If line 3 is more than zero, multiply line 3 by 92.35% (.9235). Otherwise, enter amount from line 3. Note. If line 4a is less than \$400 due to Conservation Reserve Program payments on line 1b, see page SE-3.	4a	37,864	00
b If you elect one or both of the optional methods, enter the total of lines 15 and 17 here	4b		
c Combine lines 4a and 4b. If less than \$400, stop ; you do not owe self-employment tax. Exception. If less than \$400 and you had church employee income , enter -0- and continue ▶	4c	37,864	00
5a Enter your church employee income from Form W-2. See page SE-1 for definition of church employee income	5a		
b Multiply line 5a by 92.35% (.9235). If less than \$100, enter -0-	5b		
6 Add lines 4c and 5b	6	37,864	00
7 Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2010	7	106,800	00
8a Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation. If \$106,800 or more, skip lines 8b through 10, and go to line 11	8a		
b Unreported tips subject to social security tax (from Form 4137, line 10)	8b		
c Wages subject to social security tax (from Form 8919, line 10)	8c		
d Add lines 8a, 8b, and 8c	8d		
9 Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11 ▶	9	106,800	00
10 Multiply the smaller of line 6 or line 9 by 12.4% (.124)	10	4,695	00
11 Multiply line 6 by 2.9% (.029)	11	1,098	00
12 Self-employment tax. Add lines 10 and 11. Enter here and on Form 1040, line 56, or Form 1040NR, line 54	12	5,793	00
13 Deduction for one-half of self-employment tax. Multiply line 12 by 50% (.50). Enter the result here and on Form 1040, line 27, or Form 1040NR, line 27	13	2,897	00

By taking this self-employed health insurance deduction Bumpy reduces his SE Tax by \$1,276 [(\$9,000 x 0.153) x 0.9235].

Likewise, general partners and members of LLCs may be able to benefit from this deduction as well.

Additional Topics

This fact sheet was written as part of Rural Tax Education a national effort including Cooperative Extension programs at participating land-grant universities to provide income tax education materials to farmers, ranchers, and other agricultural producers. For a list of universities involved, other fact sheets and additional information related to agricultural income tax please see RuralTax.org.

Fact sheets that might be of interest include:

- Self-Employment Tax Reconciliation Calculator (An interactive excel worksheet)

This information is intended for educational purposes only. You are encouraged to seek the advice of your tax or legal advisor, or other authoritative sources, regarding the application of these general tax principles to your individual circumstances. Pursuant to Treasury Department (IRS) Circular 230 Regulations, any federal tax advice contained here is not intended or written to be used, and may not be used, for the purpose of avoiding tax-related penalties or promoting, marketing or recommending to another party any tax-related matters addressed herein.

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