



HERBEIN+COMPANY, INC.

CERTIFIED PUBLIC ACCOUNTANTS

Members of PKF North American Network, Pennsylvania Institute of CPAs,
American Institute of Certified Public Accountants Div. of CPA Firms/SEC & Private Practice Sections
www.herbein.com

December 9, 2008

Dear Client:

As December 31, 2008 fast approaches, we would like to take this opportunity to remind you that the Internal Revenue Service requires reporting of health or accident insurance premiums, paid by an S Corporation, on behalf of greater than 2% shareholder/employees, as wages or salary on the S Corporation federal corporate tax and employment tax returns. A greater than 2% shareholder is an individual owning more than 2% of the outstanding stock of the S Corporation. Health insurance includes dental and vision insurance.

The health and accident insurance premiums are also considered taxable wages for federal income tax withholding and, accordingly, the appropriate federal income taxes should be withheld and reported on the fourth quarter federal payroll tax returns. If paid pursuant to a qualified benefit plan, the premiums are exempt from Social Security, Medicare, and FUTA tax. During 2008, each shareholder affected by these provisions may be entitled to deduct 100% of the health insurance premiums paid in arriving at his or her adjusted gross income on Form 1040.

Additionally, the health insurance premiums are generally not subject to Pennsylvania and local income tax withholding and are not required to be reported on quarterly or annual Pennsylvania or local tax filings. The amount of the health insurance premiums should be included in each individual's W-2 form as federal wages, but not as Pennsylvania or local wages.

Note that group-term life insurance premiums are includable in income to S shareholder-employees and are subject to Social Security taxes. However, the premiums are not subject to federal income tax withholding and generally are not subject to FUTA taxes if they are paid under an employer plan. In addition, the premiums are generally not taxable for Pennsylvania or local tax purposes.

For 2008, it will also be necessary to include in the income and W-2 form (for federal purposes only) of a more than 2% shareholder any employer-provided parking costs.

If you have any questions concerning these requirements, please do not hesitate to contact our office.

Sincerely,

Herbein + Company, Inc.

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