



Self-Employed Health Insurance

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Don't miss this 2010 tax savings opportunity. The self-employed individual that pays for health insurance can reduce their self-employment tax due to a tax law change.

If you have not filed your 2010 Federal income tax return, be aware of a major tax savings for self-employed persons who pay for health insurance for you and/or your family. For 2010 only, you can not only deduct the cost of the insurance on line 29 of Form 1040, U.S. Individual Don't miss this 2010 tax savings opportunity. The self-employed individual that pays for health insurance can reduce their self-employment tax due to a tax law change.

If you have not filed your 2010 Federal income tax return, be aware of a major tax savings for self-employed persons who pay for health insurance for you and/or your family. For 2010 only, you can not only deduct the cost of the insurance on line 29 of Form 1040, U.S. Individual Income Tax Return, but also on Line 3 of Schedule SE, Self-Employment Tax. This deduction could reduce your self-employment tax by more than 14% of the cost of the insurance.

To qualify for the deduction you must:

- Be self-employed and file Schedule F, Profit or Loss From Farming, or Schedule C, Profit or Loss From Business;
- Have self-employment income as a general partner and active participant in a farming or business general partnership; or
- Own 2% or more of an S corporation and be an employee of that S corporation.

The health insurance deduction is calculated by taking the entire cost of the health insurance and then reducing it by one-half of the self-employment tax and any contribution you made to your SEP-IRA, SIMPLE-IRA, or Keogh retirement plan.

The health insurance deduction is limited to your self-employment income. Therefore, if the farm or business had a loss in 2010, you are not allowed a deduction on line 29 of Form 1040, but you are entitled to use the amount as an itemized deduction on Schedule A, Itemized Deductions.

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There is another limitation. You cannot claim the deduction if you or your spouse are eligible for an employer-provided group health insurance plan. If you were not eligible for all months in 2010, you are only limited for those months you were eligible.

Example. Fred and Shirley file a joint income tax return. Shirley was not employed until July 2010. At that time she became eligible for her new employer's health insurance plan. Even if Shirley elects not to participate in the plan, she and Fred can only deduct 6/12 of their annual health insurance premium.

The reduction of self-employment income by the amount of health insurance is only available in 2010. If you qualify and have already filed your 2010 return, you should consider amending the return for this "taxpayer-friendly" change in the law.