

# Tax Preparation Times

**EXTRA! EXTRA! READ ALL ABOUT IT!**

## **JUDA KALLUS, EA DISCOVERS A TAX DEDUCTION GEM IN THE IRS TAX CODE— MEDICAL INSURANCE AND EXPENSES COULD BE DEDUCTED AS A BUSINESS EXPENSE.**

The old cliché “if something sounds too good to be true, it probably is” applies to many schemes and scams. However, in this case there is actually an obscure provision of the federal tax code that gives freelancers, self employed business owners, LLCs and “C” corporation owners a real tax break. Although it sounds too good to be true, Section 105 of the Internal Revenue Law allows small, family owned businesses to reimburse their employees, including spouses, for 100% of their medical insurance and unreimbursed medical, dental, vision and other related expenses. The regulation has been on the books since 1954 but few accountants seem to know anything about it.

Those who do take advantage of Section 105 have to meet strict requirements set up by the Department of Labor and the Employee Retirement Income Security Act, known as ERISA. You also have to file the appropriate forms with your tax returns and keep careful payroll records, said Juda Kallus, a Manhattan accountant familiar with Section 105.

“First of all, you have to have a bona fide working relationship with your spouse”, Kallus said. “Then, the record keeping requirements are strict.” As an example, Kallus, who has about 25 clients using Section 105, advised one of his clients who lost her job and began to manage her husband’s photography studio, to take advantage

of Section 105. She and her husband are typical of those who take advantage of this provision. She is a full time (though she could work part time and still take advantage of Section 105) employee who invoices clients, writes estimates, does bookkeeping and in general manages the business. Before they took advantage of Section 105, they were spending up to \$12,000 a year in medical insurance plus several thousands of dollars in other medical costs, including vision and dental, for them and their two children.

Now they switched to a cheaper policy, with a higher deductible, and are saving up to \$6,000 a year in taxes and insurance costs.

Although any accountant can learn how to set up a Section 105 Medical Reimbursement Plan and fill out all the necessary forms, most refer their clients to a service provider firm, BizPlan, who specializes in this field. BizPlan was founded after its owner wondered why big corporations could legally deduct 100% of medical insurance costs but small businesses could not. As he researched this subject, he found Section 105 of the IRS code and set up his business to help his clients cope with the necessary paper work.

BizPlan charges \$395 a year to set up and administer the plan. To find out more and see if you can qualify to take advantage of Section 105, please call Juda Kallus at (212) 727-9811.