

# Can Business Owners Benefit from ICHRA?

While employees receive benefits through an individual coverage health reimbursement arrangement (ICHRA), it leaves us with one question: What about the owners and their families?

For benefit eligibility under ICHRA, it depends on the business entity and whether a business owner is classified as an employee:

If the business entity is an S-corp or LLC, then a business owner is a “member” and not an employee.

If the business entity is a C-corp, then a business owner is considered an employee.

## C Corporate Owners

The owner and their dependents can use the HRA .



Owner & Spouse - Eligible



Owner & Owner's Spouse- Eligible



Owner & W-2 Spouse - Eligible - Eligible



Owner & No Spouse- Eligible

A C corporation is a legal entity that is separate from the owners. Owners of a C corporation qualify as employees.

## S Corporation Owners

IRS regulations dictate that S Corporation owners and their spouses who own more than 2% of a business cannot participate in an ICHRA.



Shareholder & Spouse Not Eligible



Shareholder & Shareholder Spouse - Not Eligible



Owner & W-2 Spouse - Eligible



Shareholder & No Spouse- Eligible

An S corporation is not subject to corporate income tax. Rather, shareholders are taxed individually. This means S corporation owners are not employees and are not eligible. Even if family members are W-2 employees or are on the same insurance policy as the owner, they and the owner are not eligible. This is due to attribution rules. Shareholders can take insurance-related deductions on their 1040 form.

## Partners

Partners can only use the HRA if their spouse is a W-2 employee, not a business partner. The owner can access their spouse's allowance as a dependent.



Partner & Spouse Not Eligible



Partner & Partner's Spouse - Not Eligible



Owner & W-2 Spouse - Eligible - Eligible



Shareholder & No Spouse- Not Eligible

A partnership is not subject to income tax. Instead, the partners are directly taxed. Therefore, the partner is self-employed, not an employee, and is not eligible unless the partner's spouse is a bona fide, common-law employee.

## Sole Proprietors

Sole proprietors can only use the HRA if their spouse is a W-2 employee. This means the owner can access their spouse's HRA allowance as a dependent.



Proprietor & Spouse - Eligible



Proprietor & No Spouse- Not Eligible



Proprietor & W-2 Spouse - Eligible

A sole proprietorship is an unincorporated business owned and run by one individual with no distinction between the business and the owner. Therefore, the owner is not an employee and is not eligible unless the owner's spouse is a common-law employee.