

SENATE BILL 419 and POSSIBLE TAX CONSEQUENCES



Montana law as it applies to MACoHCT insurance coverage of dependents becomes effective as of the Member Group's effective date or next annual renewal concurrent with or after January 1, 2008.

Montana law, as amended by SB 419 defines dependent eligibility for health benefits purposes as follows;

1. A spouse;
2. Dependent child – An unmarried child under the age of 25 years of age except if;
 - i. the dependent child is eligible for coverage as a member under an existing plan or policy; or
 - ii. the premium cost to the dependent child under his or her employer's plan or policy is less than or equal to the additional cost of dependent coverage under the parent's plan.*
3. The MACoHCT plan also covers unmarried adult dependents.

*To clarify, under SB 419 an unmarried child between the ages 19 and 25 that is eligible for coverage under his or her employer's plan may be covered as a dependent under the parent's plan if the child's premium cost under his or her employer's plan is more than the additional cost to the parent to add the child as a dependent to the parent's plan.

The MACoHCT Summary Plan Document defines a child as a natural child, a legally adopted child, or the following who reside with the participant and who are financially dependent upon the participant for support and maintenance: stepchild, a child placed for adoption with the participant, a child for whom the participant has been appointed the legal guardian by a court of competent jurisdiction prior to the child attaining nineteen (19) years of age.

TAX DEPENDENT: The IRS defines a taxpayer's *qualifying child* as someone who meets the four part test outlined below:

❖ Relationship test. The child is a natural child, stepchild, adopted child, child for whom the employee has a legal guardianship
❖ Residency test. The child must claim his or her primary residency to be the same as the employee's for at least half of the calendar year. Temporary absences for schooling, military service, illness and vacations are not counted against this measurement.
❖ Age test. A child who is not a full time student must be less than 19 years old at the end of the tax year for which the employee is claiming him or her as a dependent. If the child is a full time student the child must be less than 24 years old at the end of the tax year for which the employee is claiming him or her as a dependent. <i>The age test does not apply to dependent children who are mentally or physically disabled to the extent they are not self-supporting.</i>
❖ Self support test. The child must not have provided more than half of his or her own support during the calendar year for which the employee intends to claim him or her as a dependent.

TAX IMPLICATIONS

There may be tax implications for a participant who covers a dependent that does not meet the IRS definition of a qualified child.

- For each eligible dependent who does not meet the entire four part test to be considered a tax dependent (Section 152 IRS) as outlined above may create imputed income** to the member.
- All covered dependent children over the age of 24 may create imputed income** to the employee.
- Because the Internal Revenue Service does not recognize same-sex domestic partners as dependents, the value of the medical (and/or dental & vision) benefits provided for a domestic partner may be considered taxable income.

**IMPUTED INCOME: Imputed income is the addition of the value of cash/non-cash compensation to employees' taxable wages in order to properly withhold income and employment taxes from the wages. Imputed income is taxable to the assignee (unless specifically exempt).

NOTE: There are additional rules for children whose parents are divorced or separated. Employees should check with a tax attorney or tax consultant to determine whether they are allowed to claim a child for federal income tax purposes in these situations.

MACoHCT does not hold itself out as a tax advisor. Counties, groups and employees desiring to cover persons not considered a qualified tax dependent for IRS purposes should consult their own tax advisors.



DETERMINATION OF DEPENDENT TAX LIABILITY WORKSHEET

Please answer the questions below as they apply to your dependent(s) to determine if covering your dependent may create tax consequences.

Adult Dependent: My adult dependent is a covered dependent on my plan. _____ Yes _____ No

If your answer is **YES to the question above**, covering your adult dependent may create tax consequences for you.

Child #1 _____

1. This child is less than 19 years old and meets the four part test considered for tax dependency (refer to page 1 for IRS four part test). _____ Yes _____ No
2. This child is between 19 and 24 and meets the four part test considered for tax dependency. _____ Yes _____ No
3. This child is between his or her 24th and 25th birthday. _____ Yes _____ No

Child #2 _____

1. This child is less than 19 years old and meets the four part test considered for tax dependency (refer to page 1 for IRS four part test). _____ Yes _____ No
2. This child is between 19 and 24 and meets the four part test considered for tax dependency. _____ Yes _____ No
3. This child is between his or her 24th and 25th birthday. _____ Yes _____ No

Child #3 _____

1. This child is less than 19 years old and meets the four part test considered for tax dependency (refer to page 1 for IRS four part test). _____ Yes _____ No
2. This child is between 19 and 24 and meets the four part test considered for tax dependency. _____ Yes _____ No
3. This child is between his or her 24th and 25th birthday. _____ Yes _____ No

-
- If your answer is **YES to questions 1 or 2** for any child, covering that child does not create tax consequences for you.
 - If your answer is **NO to questions 1 or 2** for any child, covering that child may create tax consequences for you.
 - If your answer is **YES to question 3** for any child, covering that child may create tax consequences for you.

If coverage of your child or adult dependent may create a tax consequence, please consult with your County Clerk or Human Resources Department.

MACoHCT does not hold itself out as a tax advisor. Counties, groups and employees desiring to cover persons not considered a qualified tax dependent for IRS purposes should consult their own tax advisors.