



TAXING TIMES

One of the most popular provisions of the Affordable Care Act (ACA) is the ability to cover young adult children up to age 26 on their parent's health plans. The intent of this section is to increase access to affordable insurance for this demographic group regardless of dependent status. Under the ACA, there are no tax implications on the value of these benefits at the federal level. However, California exempts the value of these benefits for state tax purposes only for "qualifying" dependents and does not currently conform to the federal tax rules.

Some states automatically comply with the federal changes and others would need to convert their tax laws before the value of health benefits are removed from the parent's gross income. California is one of 17 states facing this dilemma. Legislation would be required in order to conform our tax code to the ACA. California defines a "qualifying" dependent according to IRS regulations on health insurance as follows:

- **Relationship** — the taxpayer's child or stepchild (whether by blood or adoption), foster child, sibling or stepsibling, or a descendant of one of these.
- **Residence** — has the same principal residence as the taxpayer for more than half the tax year. Exceptions apply, in certain cases, for children of divorced or separated parents, kidnapped children, temporary absences, and for children who were born or died during the year.
- **Age** — must be under the age of 19 at the end of the tax year or under the age of 24 if a full-time student for at least five months of the year, or be permanently and totally disabled at any time during the year.
- **Support** — did not provide more than one-half of his/her own support for the year.

In the event a young adult child does not meet the above mentioned criteria and has been added to their parents health plan, the value will be included in the participating employees gross income for state tax.

This is similar to benefits for Domestic Partners in reverse. The Federal Government requires employers to provide the fair-market value for this insurance on an employee's W2 and it is added to the gross income for federal tax but not state tax.

It is important for Associations to have a conversation with their plan sponsors to determine the fair-market value of these benefits. Some plans have created a formula and others are determining the value based on COBRA rates. In the event, an employee already has family coverage with qualifying dependents an argument can be made that any other dependents added to the plan who don't qualify would not require additional taxation. Individuals should also be advised to consult their tax advisor for more information.

Lastly, the mandatory requirement for employers to report the full value of health plans for all employees under the ACA has been changed to a voluntary program for this tax year. Many employers were unable to update their payroll system in order to comply. This is for REPORTING purposes only and the value will not be taxed at the federal or state level.

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