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BENEFIT SERVICES INCORPORATED

Benefit News

Inputed Income: Is Your Company at Risk?

Employee benefit plans enjoy very favorable tax treatments for both employer and employee. Employers can purchase plans tax free and employees are not taxed on the value of their coverage. This is NOT the case if your coverage includes people who are not your dependents under IRS guide lines.

What is Imputed Income?

Imputed income is wealth created or acquired internally, or from non-cash sources.

Imputed income is the term the IRS applies to the value of any benefit or service that should be considered **income** for the purposes of calculating your taxes.

Who has to claim Imputed Income?

Based on IRS requirements, imputed income applies only for coverage of an eligible family member who is **NOT** a tax dependent according to IRC section 106. Persons who might be covered by medical insurance who are not tax dependents might be a domestic partner, any children of a domestic partner, children who are not in college or are between the ages of 24 and 26. If your company contributes toward the cost of any non-dependent coverage, the Fair Market Value of your health coverage must be added to the employee's W-2 and thereby subject to tax. Because Massachusetts mandates health coverage for all citizens over 18, MA employees do not have to add this income to their state tax return. An employee's MA gross income, therefore, may be lower than his or her federal gross income.

Who is a Dependent?

A "dependent" is either a **qualifying child** or a **qualifying relative**. A qualifying child is a child, stepchild, foster child or adopted child who lives with an employee for more than half a year, who is either under age 19 or is a full-time student under age 24, does not provide over half of his or her own support for the calendar year and lives more than half the year with the taxpayer. A qualifying relative is an individual who bears a relationship to the taxpayer (including any child of the taxpayer who is not a qualifying child, regardless of the child's age), who receives over one half of his or her support from the taxpayer, and whose gross income is less than the exemption amount ($3,400 in 2007).

For purposes of the exclusion for employer-provided health coverage, however, the gross income limit does not apply to a qualifying relative. It is therefore possible for an individual to be a dependent for group health plan purposes, and yet **not** a dependent for purposes of claiming a dependency exemption on the taxpayer's federal tax return. Therefore, a child who no longer meets the age requirements of qualifying child may meet the requirements of qualifying relative if the employee provides over half of the child's support for the calendar year.

Isn't my domestic partner a dependent?

Based on IRS requirements, imputed income applies only for coverage of an individual who is not your tax dependent. If your same-sex domestic partner (or your partner's child) qualifies as your tax dependent under § 106 of the Internal Revenue Code, you should have no imputed income. To do this, the domestic partner and partner's children must: receive over 50% of his or her support from you for the year;, have as his or her principal residence your home for the entire year, and be a member of your household.

How do I determine the amount of imputed income?

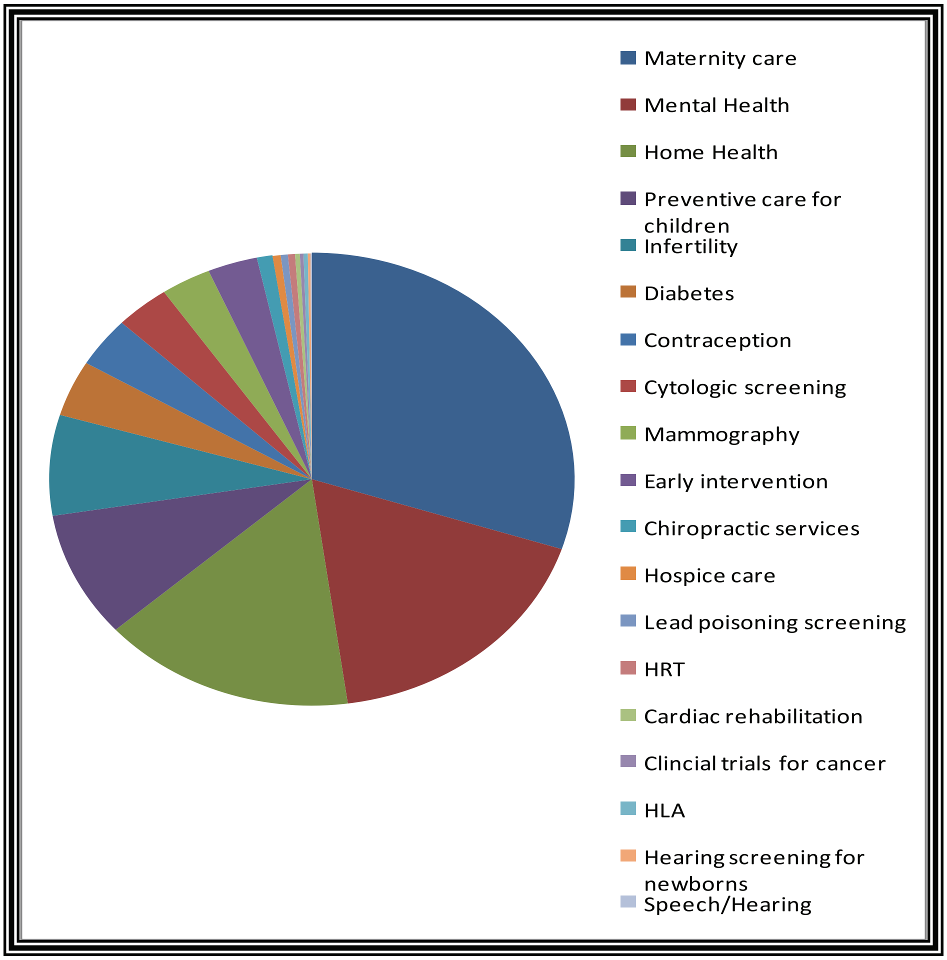
You must include the cost of any coverage paid for by the employer and by the employee pre-tax on the employee's Federal W-2. (Monies paid by the employee on a pre-tax basis for coverage of a non-qualified dependent are considered employer contributions for the purposes of the IRS). The cost of coverage is considered to be the Fair Market Value of that coverage. Unfortunately, the IRS has not specified any exact formulation of Fair Market Value (FMV) which leaves employers with several options. The most common method of determining FMV is the difference between employee only coverage and employee plus one or family coverage. While this method is not formally approved by the IRS, it has not been rejected either. Another "non-rejected" approach is to use the individual COBRA premium less any administration fees.

Are there penalties for not reporting imputed income?

Yes and they can be severe. Failure to comply with IRS rules on dependents can place the favorable tax status of your benefit plan at risk, for both employer and employees—and not just the employees who were incorrectly taxed, but ALL employees on the plan. Moreover, under IRS rule 3402, the employer can be made liable for any assessments for failure to report income; the IRS can demand that the employer pay not only additional Social Security and Medicare taxes on the increased payroll, but the additional tax owed by the employees as well.

Because the repercussions can be severe, Benefit Services <u>strongly</u> suggests that you consult your tax specialist about any possible tax implications of your health insurance coverage.

Spending on Mandated Benefits



RELIANCE STANDARD

Reliance Standard and National ID Recovery have teamed up to offer **ID Theft Recovery Services** to assist you and your staff in the event someone suffers identity theft. If you would like more information, call Maureen at BSI for more information.

National ID Recovery, LLC

Benefit Services Incorporated
36 Washington Street, Suite 80
Wellesley Hills, MA 02481

Phone: 781.237.3776

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Does Dunn and Bradstreet have YOUR correct SIC code on file?

TUFTS Health Plan
No one does more to keep you healthy.

Entering

the Rhode Island market in January of 2009

Tufts Benefit Changes for 2009

- High Tech Imaging: Upon 2009 plan renewals, there will be a $50 copayment for CT scans, MRIs, PET scans and nuclear cardiology for HMO Value and Small Group POS and PPO Value plans.
- Pediatric Dental Benefit: Effective January 1009, pediatric dental coverage will be eliminated from the HMO premium plan. It will still be available as a buy-up for groups with more than 50 employees.
- Hearing Aid Coverage for children under 19: Effective January 2009, consistent with other carriers, Tufts will eliminate coverage for hearing aids for children under the age of 19.