

# FALL RIVER EMPLOYEE BENEFITS



## Tax Treatment of Adult Dependents

The majority of employers are very familiar with the Protection and Affordable Care Act's extension of coverage for dependent children up to the age of 26. But, as you conduct end-of-year accounting and wrap up a given tax year, let's revisit the tax treatment of this provision. You may be surprised!

Final interim regulations made it clear that the premiums charged for adult children up to the age of 26 are both a tax-deduction to the employer and considered non-taxable income to the employee. But, remember this is the *federal* tax ruling on these dollars. Some states, like Colorado, follow the federal definition of gross income, so the accounting is the same on both state and federal taxes.

Some other states, however, do NOT follow this definition and this may have implications for your company if you have employees filing their income taxes in another state. You'll need to check with your payroll company or verify in your internal payroll processes that out-of-state employees with dependent children under this PPACA provision have their income calculated properly.

### **Here's a recap of the adult dependent coverage rules:**

Effective with your next renewal after September 23, 2010, employers are required to provide coverage for adult children up to the age of 26 as dependents on their group plan.

Many insurance carriers allowed students to come onto employer plans early (prior to renewal) to avoid gaps in coverage as they graduated or were in other transitional status this past summer and fall.

A dependent child is defined as a son, daughter, stepson, stepdaughter, legally adopted child or lawfully placed child (i.e. foster child) claimed on a tax return. Student status, marital status and tax-dependent requirements previously attached to this stipulation have been removed.

Children of these children (i.e. grandchildren) are NOT covered under this provision. Interestingly, if a 25 year old female was pregnant and a covered dependent, she would be covered for all pre-natal care. However, once born, the baby would have no coverage under this provision and have to go instead on another plan or child-only policy at that



time to retain coverage.

Further, if you have chosen to grandfather your plan, until 2014 you can choose NOT to allow these adult children onto your employer plan, provided that they have access to employment-based (i.e. not a parent's plan or a university's plan, but their own employer's) coverage elsewhere.