

Post Tax and Imputed Income Assistance



Post Tax Benefits and Imputed Income

- IRS regulations dictate who is eligible for pre-tax coverage. Same Sex Domestic Partners, Same Sex Spouses and Children of the Same Sex Domestic Partner/Spouse (unless adopted by the employee) are NOT eligible for pre-tax benefits.
- When these types of dependents are enrolled, there will be a pre-tax deduction for the employee and a post-tax deduction for the dependent(s), and imputed income.
- See Page 5 of the 2012-2013 Benefits Guide for more information.

also applies to Satellite agency dependents (including domestic partners and their child[ren]). Two State employees and/or retirees may not be covered twice under the coverage of two employees/retirees. It is the employee's/retiree's responsibility to make sure that they and their dependents do not have duplicate State coverage. This includes your children who may also be State employees. Duplicate benefits will not be paid.

Dependent Child to Age 26

- You can cover your eligible dependent child through the end of the month in which they turn age 26. Your dependent child does not need to be a student or disabled to be covered up to age 26. Disability certification is required to cover children beyond age 26.
 - If the child is 25 or older and not disabled, post-tax deductions and imputed income may apply to any grandchildren or legal wards that you cover under your benefit elections. Please refer to the "July 2012-June 2013 Premium Rates" document at www.dbm.maryland.gov/benefits for additional details.
- You must submit the required dependent documentation and Affidavit for Dependent Eligibility for all newly enrolled dependent children. See pages 13-14 for the required dependent documentation.
- **Disabled Eligible Dependent Child:** You are not required to provide Disability Certification until the child reaches age 26. You will then be required to provide continued certification of his/her disability status every two years in order to keep him/her on your coverage.
- Additional rules apply for covered children, see page 14.

Important Information About Covering Your Same Sex Spouse or Same Sex Domestic Partner and Your Spouse or Partner's Child(ren)

- **How Your Taxes May Be Affected** – Internal Revenue Service (IRS) regulations require different tax treatment for group insurance costs associated with health benefits for qualified same sex spouses and domestic partners and eligible same sex spouse and domestic partner's dependents for premium payments or enrollment in FSA coverage. In most cases, the IRS does not qualify same sex spouse and

domestic partners and same sex spouse or domestic partner's dependents for tax-free payroll deductions under the tax code. Therefore, health benefits premiums for same sex spouse/domestic partners and their eligible dependents who are not qualified as dependents under the IRS tax code will be taxed as outlined below:

- **Payroll Deduction** – For each group health insurance plan where there is an employee contribution and a State subsidy in which you enroll your same sex spouse/domestic partner and your spouse/partner's eligible dependents, you will pay a:
 - Post-tax (after-tax) deduction for the coverage level attributable to the same sex spouse/domestic partner (and/or spouse/domestic partner's child; and
 - Pre-tax (before-tax) deduction for the coverage level applicable to the employee coverage level minus the amount of the post-tax deduction.
- **Imputed Income** – For each group health insurance plan where there is an employee contribution and State subsidy in which you enroll your same sex spouse/domestic partner and/or your same sex spouse/domestic partner's eligible dependents, you are subject to tax withholding on the State's contribution toward the coverage for those dependents not qualified as tax dependents under the IRS code. In other words, the State's contribution toward coverage for your same sex spouse/domestic partner and your same sex spouse/domestic partner's dependents is considered wages and is included in your taxable gross income subject to tax withholdings. This is known as imputed income. For rate information refer to the Same Sex Spouse/Domestic Partner rate pages available on the "July 2012- June 2013 Premium Rates" document at www.dbm.maryland.gov/benefits.

Retirees covering a same sex spouse/domestic partner will be billed quarterly for the Medicare taxes applicable to the imputed income and will receive a W-2 each January indicating the imputed income amount for the calendar year to be filed with their tax returns.

Understanding Post-Tax Deductions and Imputed Income

Use the following assumptions: Coverage elected is Employee + Same Sex Domestic Partner. Employee only coverage rate is \$100 per pay, Employee + Spouse coverage is \$180 per pay.

Pre/Post-Tax Deduction

- The portion of the rate attributed to the same sex domestic partner is \$80.
- The employee's portion (\$100) per pay will be pre-tax and the domestic partner's portion of the rate (\$80) will be post-tax.

Imputed Income

- Federal regulations require that an employee with a covered, ineligible tax dependent pay taxes on the value of that person's benefit. This is Imputed Income.
- The value of the domestic partner's coverage is dependent upon the State's contribution toward the coverage. Employee will see an equal earning and deduction on their pay of \$X, which allows taxes to be withheld on the earnings portion with a zero net effect to the employee's wages.