

This information applies to you if:

You are currently enrolled in a State Group Health Insurance Plan and you have an adult child (age 19 or older) or a domestic partner as a dependent on your health insurance; OR

You are currently enrolled in a State Group Health Insurance Plan and you were considering adding an adult child or domestic partner to your health insurance but did not due to the imputed income tax liability. **The deadline to enroll an adult dependent child on your health insurance without restriction is Friday, January 29, 2010.**

CLARIFICATION REGARDING TAX DEPENDENCY RULES FOR ADULT CHILDREN AND DOMESTIC PARTNERS

This email is intended to clarify the rules regarding whether an adult child or a domestic partner covered on your health insurance qualifies as a tax dependent. A clarification regarding tax dependency rules was released that may increase the number of adult children and domestic partners that qualify as tax dependents for employer-provided health insurance. **It is very important** that you review the following information to determine if your adult child or domestic partner should be considered a tax dependent on your health insurance plan.

One of the four “qualifying relative” tests that determine tax dependent status is that a dependent’s gross income must be less than \$3,650 for the year. The clarification is that this requirement is **not applicable** when determining tax dependency for employer-provided health insurance. **For health insurance purposes, the domestic partner or adult child only needs to meet the remaining three tests to be a qualifying relative.** The “qualifying relative” tests are listed in the *WHO IS CONSIDERED A TAX DEPENDENT* section below.

If you are currently enrolled in a State Group Health Insurance Plan, and you have an adult child (age 19 or over) or domestic partner as a non-tax dependent on your health insurance, review the Tax Dependent Worksheet: http://www.bussvc.wisc.edu/ecbs/Tax_Dependent_Status_Worksheet.pdf to determine if your adult child or domestic partner is a tax dependent. If you need to correct the tax dependent status, you must submit a [health insurance application](#) to change the dependent’s tax status. See the CHANGING THE TAX STATUS OF YOUR ADULT CHILD OR DOMESTIC PARTNER WHO IS CURRENTLY ENROLLED ON YOUR HEALTH INSURANCE section below.

If you want to enroll your **adult child** on your health insurance without restriction, you must submit an application to your benefits office **no later than the end of the working day on Friday, January 29, 2010.** For detailed information about how to complete and submit the application, see the *ADDING AN ADULT CHILD OR DOMESTIC PARTNER TO YOUR HEALTH INSURANCE* section below.

It is important that you correctly identify the correct tax status of your dependents. If you carry a non-tax dependent on your health insurance, the fair market value of health insurance for your non-tax dependent will be included in your gross income and your monthly payroll taxes will increase accordingly. This is considered “imputed income”. See the UW Service Center Imputed Tax website:

http://www.bussvc.wisc.edu/uwpc/2010/imputed_income.html for additional information about imputed income and to access an imputed income calculator.

WHO IS CONSIDERED A TAX DEPENDENT?

A legal spouse and a dependent child under age 19 as of the end of the calendar year are automatically considered tax dependents. In order for an adult child or a domestic partner to be considered a tax dependent for health insurance purposes, they must be considered either a “qualified child” or a “qualified relative” under Section 152 of Internal Revenue Code (IRC). The criteria of a “qualified child” and a “qualified relative” are outlined in [IRS Publication 501](#).

If the adult child or domestic partner meets all the criteria of a “qualifying relative” **except** for the income requirements, the adult child or domestic partner is considered a tax dependent for employer-provided health insurance purposes and the value of health insurance provided to the dependent will not be added to the employee’s income.

The Working Families Tax Relief Act of 2004 amended the requirements as they apply to employer-provided health insurance only. These amendments are outlined in [Internal Revenue Service Notice 2004-79](#). These amendments concerning employer-provided health insurance are not specifically addressed in [IRS Publication 501](#). Employees may have believed an adult child or domestic partner was a non-tax dependent when in fact, they may qualify as tax dependents for employer-provided health insurance purposes only.

In general, the IRS requires that a “**qualifying child**” meet five tests:

1. The child must be your son, daughter or stepchild
2. The child must be
 - (a) under age 19 at the end of the year,
 - (b) under age 24 at the end of the year and a full-time student, or
 - (c) any age if permanently and totally disabled.
3. The child must have lived with you for more than half of the year
4. The child must not have provided more than half of his/her own support for the year
5. If the child meets the rules to be a qualifying child of more than one person, you must be the person entitled to claim the child as a qualifying child.

In general, the IRS requires that a “**qualifying relative**” meet four tests:

1. The person does not meet the “qualifying child” tests (see above);
2. The person either (a) must be related to you in one of the ways listed under “Relatives who do not have to live with you (see below)”, or (b) must live with you all year as a member of your household (and your relationship must not violate local law).
3. The person’s gross income must be less than \$3,650 for the year. ***(This requirement is not applicable when determining tax dependency for employer-provided health insurance. For health insurance purposes, the domestic partner or adult child only needs to meet the remaining three tests to be a qualifying relative).***
4. You must provide more than half of the person’s support for the year.

Relatives who do not have to live with you - A person related to you in any of the following ways does not have to live with you all year as a member of your household to meet this test (relates to #2 under the

“qualifying relative” test). Any of the relationships listed below that are established by marriage must not have ended by death or divorce.

- Your child, stepchild, foster child, or a descendant of any of them (for example, your grandchild). (A legally adopted child is considered your child.)
- Your brother, sister, half brother, half sister, stepbrother, or stepsister.
- Your father, mother, grandparent, or other direct ancestor, but not foster parent.
- Your stepfather or stepmother.
- A son or daughter of your brother or sister.
- A brother or sister of your father or mother.
- Your son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law.

USING THE TAX DEPENDENT WORKSHEET

The [Tax Dependent Status Worksheet](#) will help you determine if you provide 50% of your adult child’s or domestic partner’s support and outlines the requirements of a “qualifying child” or “qualifying relative.” Please note that if your adult child does not qualify as a tax dependent as a “qualifying child,” the adult child may qualify as a tax dependent as a “qualifying relative.”

CHANGING THE TAX STATUS OF YOUR ADULT CHILD OR DOMESTIC PARTNER WHO IS CURRENTLY ENROLLED ON YOUR HEALTH INSURANCE

If after reviewing the Tax Dependent Worksheet, you determine that your adult child or domestic partner that is currently on your health insurance should be a tax dependent, you must submit a [health insurance application](#) to change the dependent’s tax status. Select the box “Other” in Section 2A (Reason for Application) of the application and select “Change in Tax Status of Dependent.” Enter your dependent’s information in Section 3 of the application and select “Y” in the Tax Dependent field. It is to your advantage to submit an updated health insurance application as soon as possible so you do not continue to have the additional payroll taxes taken from your paycheck as a result of the imputed income associated with carrying a non-tax dependent on your health insurance.

ADDING AN ADULT CHILD OR DOMESTIC PARTNER TO YOUR HEALTH INSURANCE

If you want to enroll your adult child on your family health insurance plan without restriction, you must submit an [application](#) to your benefits office **no later than the end of the working day on Friday, January 29, 2010**. If the application is received after January 29th, the child is considered a late enrollee. In this situation, you will need to submit an application to add the child and to change coverage to the Standard Plan. The adult child's coverage will be effective the first of the month following receipt of the application and will be subject to the 180-day waiting period for pre-existing conditions.

If you want to add a domestic partner to your health insurance, you must first establish a Chapter 40 domestic partnership and then submit an application to enroll in coverage within 30 days of your domestic partnership effective date. Please see the UW System Administration Domestic Partner Benefits website for more information: <http://www.uwsa.edu/hr/benefits/dpbenefits.html> about how to establish a domestic partnership for health insurance purposes.