Service Request 83000

Imputed Income Changes for Non-Tax Dependent Children

Objective:
The objective of this service request is to modify PPS to discontinue imputing income (for federal purposes only) to UC employees with health coverage (medical, dental, and vision) for non-tax dependent children in accordance with IRS notice 2010-38.

Project Type:
This is an enhancement to PPS.

Requested by:
Payroll Coordination

Analyst:
Business Analyst: Carolyn Murray, Payroll Coordination

Urgency:
Urgent – Date Mandated.

Target Processing Deadline:
The change in federal tax law with respect to imputed income for non-tax dependent children is effective March 30, 2010. This release should be provided to the campuses as soon as possible.
Statement of Business Need:

IRS Notice 2010-38, “Tax Treatment of Health Care Benefits Provided with Respect to Children Under Age 27,” announces changes in the federal tax treatment of health coverage for children up to age 27 under the recently enacted Affordable Care Act. Beginning March 30, 2010, coverage under an employer-provided accident or health care plan for an employee’s child (as defined in IRC 152(f)(1) who has not attained age 27 as of the end of the employee’s taxable year is excluded from the employee’s gross income. This includes a child of the employee who is not the employee who is not the employee’s tax dependent.

In order to comply with this provision, changes must be made in PPS to discontinue imputing income for federal tax purposes to UC employees with health care coverage (medical, dental, and vision) for non-tax dependent children. Vision coverage, although included in health care coverage, should not have an imputed income impact as it has level employer-paid premium for all coverage codes.

California has not conformed to IRC section 105 as of the enactment of the federal changes outlined in IRS Notice 2010-38. Therefore, income will still be imputed for state purposes on coverage under an employer-provided health and dental insurance plan for non tax dependent children of an employee. The State Declaration of Domestic Partnership should have no bearing on whether the T or N dependent would trigger imputed income for California tax purposes.

Background:

Before passage of the Affordable Care Act, health care plan contributions by an employer were potentially taxable to the employee when the employee’s coverage included non-tax dependent children. UC uses two Dependent Codes, “T” and “N” to identify non-tax dependent children. The “T” code indicates a non-tax dependent natural or adopted child while the “N” code denotes an overage, disabled child. Under current UC health plan coverage, a code “T” child is eligible for health plan coverage up to age 23. An “N” code child is a disabled child who is over 23 years of age and may be included in UC health plans up to any age.

Current Process:

Employees with health coverage (medical, dental, vision) dependents codes “T” or “N” may have income imputed on the UC contribution to the health care provider. Income is imputed to the employee if the cost of the UC health plan contribution is greater with “T” and/or “N” dependents than without “T” and/or “N” dependents.
Proposed Process:

The PPS compute process should disregard Dependent Code “T” when calculating whether income should be imputed to the employee. This should only be disregarded for federal tax purposes.

The compute process should disregard Dependent Code “N” only if the child will not reach age 27 as of the end of the employee’s taxable year. This should only be disregarded for federal tax purposes. The taxable year of the employee is regarded as the calendar year. For 2010, the Dependent Code “N” should be disregarded if the disabled child’s birth year is 1984 or later. The State Declaration of Domestic Partnership should have no bearing on whether the T or N dependent would trigger imputed income for California tax purposes.
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UC Office of the President
Payroll Coordination
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