



LEGISLATIVE BRIEF

California Tax Law Revised for Dependent Coverage Rules

Lawmakers in California have voted to bring state tax laws into line with the health care reform requirement to provide health coverage to adult children up to age 26. This change lessens the state tax burden on employees and will eliminate the extra administrative burden the discrepancy placed on employers. The new law is **effective immediately**.

This SullivanCurtisMonroe Insurance Services, LLC Legislative Brief summarizes the issue created by the health care reform requirement and California's legislative fix.

Federal Tax Provisions

The Patient Protection and Affordable Care Act (PPACA) requires health plans and issuers that offer dependent coverage to make the coverage available until the adult child reaches the age of 26. This coverage must be extended regardless of the adult child's marital or student status or financial dependence on the employee.

When the health care reform law was passed, the federal tax code was also revised to take this new requirement into account. Therefore, for federal tax purposes, the value of employer-provided coverage for these adult children is excluded from the employee's gross income through the end of the tax year in which the child turns 26. The federal tax code also allows self-employed individuals to take a tax deduction for health insurance premiums for an adult child paid through the end of the tax year in which the child turns 26, even if the child does not qualify as a dependent.

Income tax issues arise for employees, and for their employers that administer payroll, when the state income tax laws do not match up to the federal laws.

California State Tax Law Change

Until recently, California state tax law did not conform to the federal tax rules. Under state law, employees would have had to pay income tax on coverage provided to children who were not under age 19 (or age 24 if a full-time student).

However, California Assembly Bill (AB) 36 was enacted on April 7, 2011. This bill retroactively conforms California's personal income tax law with federal law by adopting the revision to the federal tax code provided for by PPACA. As noted above, it is effective immediately and generally applies to the same taxable periods as federal tax law.

With the passage of this conforming legislation, the value of the health coverage provided to adult children is excluded from gross income for California state tax purposes. This means that California employees will no longer be subject to state income taxes on the value of coverage provided to their children through employer plans as required by health

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care reform. Also, as under federal tax law, self-employed individuals can take a tax deduction for health insurance premiums for adult children under age 27.

Changing Documentation

Many employers will have issued Forms W-2 to employees that included the amount of medical coverage for nondependent adult children in the employees' state wages. These employers may have to issue a Form W-2C, excluding these amounts from the California wages.

For further information on procedures for employers to amend their California state payroll tax returns, click on the following link:

http://www.edd.ca.gov/Payroll_Taxes/New_state_law_to_conform_income_taxes_with_Federal_Health_Care_Act.htm

Please contact your SullivanCurtisMonroe Insurance Services, LLC representative with any questions.