



MCHRMA RESOURCE

Minnesota Counties Human Resource Management Association

Tax Impact of the Change on Employee and Dependent

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Archived newsletters of the Personnel Peeks publication can be found on the MCHRMA site.

Questions have arisen regarding how to determine whether a child receiving coverage through the county sponsored medical, dental, and vision coverages results in a taxable event to the employee. If the child receiving the coverages is also a tax dependent of the employee, the coverage can be provided on a tax free basis. If the child receiving the coverage is not also a tax dependent of the employee, the value of the coverage is taxable to the employee. To be a tax dependent, the child must either be a qualifying child ("QC") or a qualifying relative ("QR") of the employee.

Note: Only children covered under the medical, dental, or vision coverage that are also tax dependents can be provided tax free coverage. Identify who is provided coverage first, then ask whether that child is a tax dependent.

Below are questions to ask when making the tax dependent determination:

1. Is the individual related to the employee? The child could be a natural child, stepchild, foster child, adopted child, brother, sister, stepbrother, stepsister, niece, nephew or grandchild.
 Y N
2. Does the individual have the same principle address as the employee and do they reside with the employee?
 Y N
3. Is the individual 18 or younger or a full-time student age 23 or younger at the end of the tax year? Is the individual permanently and totally disabled?
 Y N

4. Does the individual provide half or less of his or her own support?

Y N

If the answers to all of the above are "Yes," then the child is also a tax dependent. The coverage provided to the child is not taxable to the employee.

If the answers to all of the above are not "Yes," then it should be determined whether the child is a QR of the employee.

Is the child a QR of the employee?

1a. Is the individual related to the employee? The individual could be a natural child, stepchild, foster child, adopted child, brother, sister, stepbrother, stepsister, parent, stepparent, niece, nephew, uncle, aunt, in-law or grandchild. If yes, jump to question number two.

Y N -or-

1b. Does the individual have the same principle address as the employee and are they part of the employee's household? If the answer is no, the premium paid is taxable to the employee. If yes, proceed to question three

Y N

2. Does the employee provide more than half of the support for the individual?

Y N

3. Is the individual not a QC of the employee or any other taxpayer?

Y N

If the answers to 1 (a or b), 2, and 3 above are "Yes," then the child is also a tax dependent. The coverage provided to the child is not taxable to the employee.

If the answers above are not "Yes," then the child is not a tax dependent of the employee. The value of the coverage provided to the non-tax dependent child is taxable to the employee.

The above information was developed from a flow chart developed by Hitesman & Associates, P.A. Please e-mail at jgrotjahn@mcit.org to receive a copy.

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