



The Vita Viewpoint Important Information for Decision Makers

Imputed Income for Domestic Partner Coverage

Overview

Due to the new California law AB2208, insurance carriers are writing registered domestic partnership eligibility into their contracts during an employer's 2005 contract renewal. This will require employers to administer domestic partner eligibility for registered domestic partners in all cases. Employers need to be prepared to handle the additional payroll and accounting functions.

Under federal tax law, certain fringe benefits provided to employees are not taxable. For example, health insurance benefits provided by an employer are not taxed to an employee, as long as the benefits are for the employee, the spouse or dependents of the employee. Because a domestic partner (registered or non-registered) is not a spouse, the value of the benefit is taxable to the employee unless the domestic partner (registered or non-registered) also qualifies as a dependent under Internal Revenue Code §152(a).

After-Tax Employee Contributions

Employee contributions toward health plan coverage for a registered or non-registered domestic partner and that domestic partner's child(ren), must be made on an after-tax basis. Federal law only allows pre-tax contributions for a spouse or dependent.

Imputed Income

In addition to after-tax contributions, if you have employees who have a registered or non-registered domestic partner enrolled on your group's health plans, the Internal Revenue Service (IRS) requires that the employer contribution (or fair market value) for the domestic partner coverage be considered imputed income for the employee. This means that employers are required to calculate the additional cost of coverage for a domestic partner, minus any employee contribution, and apply federal and state income tax as well as Social Security and Medicare taxes to this cost. Taxes on imputed income should be withheld from employee paychecks and reported on the annual W-2. However, when the domestic partner is a registered domestic partner (has filed a declaration of Domestic Partnership with the Secretary of State according to AB2205) the employee is exempt from paying California state income tax on the imputed income. Federal income tax, Social Security and Medicare taxes still apply. The table below illustrates the taxation on imputed income for registered and non-registered domestic partner coverage.

	<u>Registered Domestic Partner</u>	<u>Non-Registered Domestic Partner</u>
Federal Taxation	Fair market value of benefits is considered imputed income and taxes are applied.	Fair market value of benefits is considered imputed income and taxes are applied.
State Taxation	California state income tax may not be withheld from imputed income.	Fair market value of benefits is considered imputed income and state taxes are applied.

For questions or additional information, please contact Vita Benefits Group at (650) 968-8811.