



## **MA Healthcare Reform News Blast!**

### **Dependent Coverage Imputed income update / Tax penalties for those without health insurance in 2008**

#### **Imputed Income Update**

As we shared with you in a recent communication, when a medical plan covers a dependent who is no longer considered a dependent by the Internal Revenue Service (a non-IRS dependent), the cost for the child's coverage must be paid with post-tax dollars. And when the employer contributes to the cost of such child, the employer contribution for the child's coverage must be imputed as income to the employee. For income tax purposes this income will be imputed to the employee at the **federal level**, but not at the **state level**. The purpose of this communication is to provide you with additional information about how employers might calculate this liability for their employees for whom this coverage extension applies. *Please note - this information is meant to assist you and your clients and does not represent either legal or tax advice, nor does it represent any official position of the Borislow Insurance on the issue.*

Treasury Reg § 1.61-21(b)(2) essentially defines "fair market value" as "the amount that an individual would have to pay for the particular fringe benefit in an arm's length transaction." As a result of this and subsequent IRS rulings, many experts believe the most logical way to calculate imputed income for non-IRS dependent coverage is to take the employer's individual rate (or "normalized" rate for ASO plans) such as the individual COBRA rate less the 2% add-on for administration.

In essence, the most appropriate measure of "fair market value" or the amount to be included as income must be determined not by what the employer charges the employee, but by the value of the coverage in the hand of the person obtaining the benefit. This suggests that "fair market value" of any taxable coverage is equal to what he or she could obtain from similar benefit plans from either the Connector or from the health plans. In the case of a 25 year old non-IRS dependent, similar coverage from the same health plan may be cheaper than the group health plan's individual COBRA rate less 2%.

#### **Tax Penalties for no Health Insurance in 2008**

The Massachusetts Department of Revenue issued draft guidelines on tax penalties for not having health insurance in 2008. Penalties will only apply to adults who can afford health insurance, based on separate standards established by the state Health Connector on an annual basis and subject to hardship appeals. While the 2007 penalty is the loss of the personal exemption worth \$219 on an individual's state tax return, the 2008 penalties will be based on one-half the lowest cost plans available through the Connector as of January 1, 2008. Under the draft guidelines, the penalties will range from zero to \$912 for an entire year without coverage.

The DOR has worked to ensure that these penalty guidelines are easy to understand, streamlining the schedule to establish only a handful of penalty categories. The penalties will accrue each month an individual does not have health insurance in 2008 and will be due as part of the tax filing process for the year.

Penalty categories:

- Individuals up to the age of 26 with incomes too high to qualify for subsidized health insurance will face a penalty of \$672 for an entire year without coverage. People with similar incomes age 27 and over will face a potential annual penalty of \$912. Subsidized insurance is available to individuals earning up to \$30,636 per year. For a family of four, the threshold is \$61,956.

- Individuals who meet the income guidelines for subsidized insurance through either the Commonwealth Care program offered by the Health Connector or MassHealth will be penalized based on four income ranges.
- Individuals earning up to \$15,324 will face no penalty since Commonwealth Care is free for people at this income level. This income cohort represents the largest number of newly insured.
- Those earning between \$15,325 and \$20,424 will face a penalty of \$210 per year if they were uninsured the entire year.
- For individuals earning between \$20,425 and \$25,536, the 2008 penalty would be \$420 if they were uninsured the entire year.
- Individuals earning between \$25,537 and \$30,636 face a penalty of \$630 for the year.

As always, please do not hesitate to contact your Client Consultant at Borislow Insurance with any additional questions or concerns.



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