



MA Healthcare Reform News Blast!

Imputed income update for dependent coverage

Under the MA Health Reform Law, fully-insured health plans must provide coverage for dependents for 2 years past the federally defined age of dependence, or up to age 26, whichever comes first. This mandate applies only to fully-insured plans; self-funded plans have the option not to provide the extended coverage to dependents.

An employee may not use pre-tax dollars to purchase coverage for an individual who isn't a dependent as defined under federal rules. When a medical plan covers such a child, 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. As federal rules now limit the age for a "qualifying child" to age 24, the result is that medical coverage provided to a child during the calendar year after they turn 24 and up to age 26 will result in imputed income to the employee. If the child loses federal dependent status before age 24, medical coverage provided to the child also results in imputed income to the employee.

Recently, the Commonwealth of Massachusetts passed a technical corrections bill – giving special exclusion from MA gross income tax for any income imputed to an employee that results from the provision of health coverage to another person, to the extent the coverage is mandated by MA state law.

What does this mean?

This means that for fully-insured plans, income will be imputed to the employee for coverage provided to the non-federally defined dependent child at the **federal level**, but not at the **state level**.

Please note: if your company has a self-funded plan, and your company chose to offer the extended coverage, the special exclusion above from the MA gross income does not apply – because the extended coverage provided by the self-funded plan is not "mandated by law". You will need to impute income at both the state and federal level.

Most importantly, the effective date for this special exclusion is **January 1, 2007**. Therefore, if your company offers an insured medical plan and the payroll department has been imputing income during the past year for children over age 24, they will need to reverse it – again only at the state level.

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



B o r i s l o w I n s u r a n c e

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