



Benefit Trends

JENKINS

INSURANCE GROUP

Commitment.
To you, your people, your enterprise.

California Conforms to Federal Tax Law: No State Tax on Employer-Paid Benefits for Adult Dependents

LEGISLATIVE BRIEF

March 30, 2011

The California State Legislature has approved A.B. 36, so employees will not be subject to California state income tax on amounts their employers pay toward coverage for adult children through age 26. This conforms California state tax law to the federal Internal Revenue Code, which was amended by the Health Care Reform law and regulations to eliminate federal taxation of employer-paid coverage for employees' adult children through age 26. California Governor Jerry Brown is expected to sign A.B. 36 soon.

Under existing California tax law, an employee is subject to state income taxes on the value of employer-paid coverage for the employee's child(ren) unless a five-part test is met. One of the requirements of the test is that the employee's child must be under age 19, or 24 if the child is a full-time student. Since April 1, 2010, employees have not been subject to federal taxation of employer-paid coverage for children through the end of the year in which the child attains age 26, so this has created an administrative/payroll burden for employers. This new California law makes federal and California tax treatment the same in this situation.

A number of other states also have recently enacted measures that conform their state tax law to federal tax law. Minnesota Gov. Mark Dayton signed conformity legislation on March 21 (H.F. 79), and Kentucky Gov. Steven Beshear signed conformity legislation last week (H.B. 255). Several other states have conformity bills making their way to the Governors for approval: the Vermont House approved H. 436, and the South Carolina Senate passed S. 522. States that already enacted conformity legislation earlier this year include Arizona, Maine and Oregon. Many states automatically conform to federal tax law, so conformity legislation is not needed.

Copyright © 2011 Leavitt Benefits. All Rights Reserved. Reprint with permission only. This Benefits Compliance bulletin is general in nature and is not intended or provided as legal advice or opinion in any particular case.

If you have questions, contact lisa-klinger@leavitt.com.

IRS Circular 230 disclosure: To ensure compliance with requirements imposed by the IRS, we inform you that any tax advice contained in this communication, unless expressly stated otherwise, was not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any tax-related matter(s) addressed herein.