Kilpatrick

DECEMBER 9, 2010

State Income Tax Imputation

While health plans are required to provide coverage up to age 26 for dependent children, several states have not adopted the updated Internal Revenue Code in order to make this coverage tax-free. This means that for about a dozen states income imputation for dependent child coverage will be required for state income tax purposes. However, keep in mind that the existing dependent rules of a qualifying child (under age 24 and a full time student) or a qualifying relative (any age but the parent must provide over one-half of the financial support for the child) still apply. Some employers are requesting that employees in the affected states certify that their dependents meet the state's dependent requirements. Certification can certainly apply to many dependent situations, but would not be able to apply to all situations, meaning that imputation would still be required in some states. It is also important to keep in mind that many state legislatures start to meet in January, and some of the nonconforming states could retroactively adopt the updated IRC, thereby removing the need for imputation or certification. However, retroactive adoption is not likely in those states where those efforts have already failed, such as California.