

SELECT BENEFITS

IMPORTANT TAX IMPLICATIONS FOR ENROLLING SAME-SEX PARTNERS

You and the State share the cost of covering an eligible same-sex partner and eligible dependent children—the State pays for coverage under the Economy medical plan and Preventive dental plan. You pay for additional coverage under the Standard and Premium plans. However, there are additional financial and tax implications to consider. The Internal Revenue Service (IRS) has determined that the cost of providing benefits for same-sex partners and their children who do not meet the IRC Section 152 (as modified by IRC Section 105(b)) definition of qualified dependents is considered ordinary or “imputed income” and is, therefore, subject to taxes.

If a covered same-sex partner or same-sex partner’s child is not an eligible “dependent” of the employee under federal tax law, the State must report the fair market value (FMV) of the employee’s same-sex partner/child benefits as wages or “imputed income” to the IRS, resulting in increased taxable gross income for federal income taxes as well as Medicare taxes withheld from the employee’s paycheck. In that case, the cost to the employee of obtaining benefits for a same-sex partner and/or child of a same-sex partner is actually more than just the cost of the employee’s required premium. In fact, there will be some cost to the employee of obtaining benefits for a same-sex partner even under the Economy medical plan and Preventive dental plan.

Imputed income attributable to you for your same-sex partner and/or your eligible children’s coverage will be reported on your payroll warrant for tax purposes. This amount represents the cost of providing benefits for your same-sex partner and/or their eligible children so that required taxes on the imputed income will be

deducted from your paycheck. Note that Alaska SBS employer and employee contributions do not apply to imputed income.

Because the child of a same-sex partner must be financially dependent on you to be eligible for coverage under the Select Benefits plan, in most situations a child of a same-sex partner who is eligible for coverage under the Select Benefits plan will also be a dependent of the employee under federal tax law, and no income will be imputed to you for coverage of the child for federal tax purposes. If, however, the child is eligible for coverage but does not qualify as a dependent under federal tax law, imputed income would be attributable to you for that child’s coverage.

The following table shows the amount of income that will be imputed each month based on benefit plan elections made during this special enrollment for the first half of 2007. The amounts change July 1, 2007, when new contribution rates go into effect. In most circumstances federal income tax and Medicare taxes equal to 1.5% of the imputed amounts shown will be withheld. The actual amount of income tax withheld depends on your pay and the amount of allowances you claim on Form W-4. Imputed income amounts are included for coverage of children of a same-sex partner, in the unusual event that the covered child is not a “dependent” for federal tax purposes.

Fair Market Value for Non-Tax Qualifying Dependents (These numbers do NOT represent the tax you will pay)

Medical & Rx Coverage Level

FY 2007 Monthly Imputed Income - Medical & Rx

	FY 2007 Monthly Imputed Income - Medical & Rx		
	EE+Same-sex Partner Who Is Not EE's Tax Dependent	EE+Same-sex Partner Child Who Is Not EE's Tax Dependent	Family (EE+ Same-sex Partner Child Who Are Not EE's Tax Dependents)
Prem EE / Std FAM	\$ 470	\$ 282	\$ 752
Premium Family	\$ 605	\$ 363	\$ 968
Standard	\$ 470	\$ 282	\$ 752
Economy	\$ 405	\$ 243	\$ 648

Dental Coverage Level

FY 2007 Monthly Imputed Income - Dental

	FY 2007 Monthly Imputed Income - Dental		
	EE+Same-sex Partner Who Is Not EE's Tax Dependent	EE+Same-sex Partner Child Who Is Not EE's Tax Dependent	Family (EE+ Same-sex Partner Child Who Are Not EE's Tax Dependents)
Premium	\$ 74	\$ 107	\$ 181
Standard	\$ 44	\$ 64	\$ 108
Preventative	\$ 19	\$ 28	\$ 47

**Vision
Coverage Level**

**FY 2007 Monthly Imputed
Income - Vision**

	EE+Same-sex Partner Who Is Not EE's Tax Dependent	EE+Same-sex Partner Child Who Is Not EE's Tax Dependent	Family (EE+ Same-sex Partner +Same-sex Partner Child Who Are Not EE's Tax Dependents)
No Coverage	-	-	-
Standard	\$ 17	\$ 14	\$ 31
Managed	\$ 11	\$ 9	\$ 20

An Exception to the Rule: *Dependents for Federal Income Tax Purposes*

If your same-sex partner and eligible dependent children qualify as your dependents under IRC Section 152 (as modified by IRC Section 105(b)), the cost for their benefits is not considered taxable income to you. Generally, to qualify as an IRC Section 152 dependent (as modified by IRC Section 105(b)) of an employee during a given tax year, the same-sex partner and same-sex partner's children must be a "qualifying relative" of the employee. To be a "qualifying relative," the same-sex partner and/or the children of the same-sex partner must meet the following requirements:

1. Have the same principal place of abode as the employee for the full tax year (January 1 through December 31), except for temporary absences such as vacation, military service, or education. If the partnership dissolves other than on December 31, for reasons other than the death of the same-sex partner, the tax exclusion is lost for the entire year. If the relationship terminates due to the death of the partner, the partner would continue to be treated as a dependent for the entire tax year;
2. Receive more than half of his or her support from you, the employee;
3. Be a U.S. citizen, U.S. national, or a resident of U.S., Canada, or Mexico; and,
4. Not be anyone else's "qualifying child" under Code Section 152.

Whether or not you will be claiming your same-sex partner and/or partner's dependent children as tax dependents for insurance purposes under IRC Section 152 (as modified by IRC Section 105(b)) you must

complete and sign the Declaration of Tax Status Form (PDF). It may be required that Section 152 dependent status be redeclared each tax year.

Employees are strongly encouraged to consult with a tax advisor before declaring a same-sex partner satisfies each of the above requirements to be considered a qualifying relative as defined by the IRS. The State will assume your same-sex partner DOES NOT qualify as your tax dependent for tax-free health insurance if you do not file a declaration that the same-sex partner meets the requirements to be considered a qualifying relative.

Please note:

This information is not intended as tax advice but rather to alert employees of potential tax ramifications and IRS rules.

The State recommends all employees wishing to enroll their same-sex partner under a State-sponsored plan consult with a qualified tax advisor to fully understand the tax issues involved.