

A TAX BREAK YOUR EMPLOYEES WILL LOVE

Parents won't pay extra taxes for keeping 20somethings on their health plans.

Provided by *Benedict A. Mitchell Jr.*

Do you have any employees with young adult children? You probably do. Thanks to a recent IRS ruling, these employees just got a break: they won't have to pay additional federal taxes if they keep older kids on the company health plan.

On April 27, the IRS stated that employer health care benefits provided to employees' children aged 26 or younger were "now generally tax-free to the employee" and that this was retroactively effective to March 30, 2010. (Workers can make pre-tax contributions to pay for the expanded coverage.)¹

Prior to passage of the health care reform law, the age limit on such coverage was 19 (or 24 if the son or daughter was a full-time student).² The new law upped the age limit, and the big worry was that the extended coverage would be taxed.

Additionally, this option is also available for select retiree health plans, and even self-employed individuals who qualify for the federal self-employed health insurance deduction.¹

Who qualifies? IRS Notice 2010-38 (the ruling announcing this) defines a "child" as a son, daughter, stepchild, adopted child or eligible foster child. To qualify for the extension of health coverage, a child must be a) younger than 27 at the end of the year and b) already covered under the employer's plan or added to the employer's plan before turning 27.¹

So if you sponsor a cafeteria plan, you can now let employees make pre-tax salary reduction contributions to foster this extended insurance coverage - even if the language of your plan has not yet been amended to incorporate the change. Plan sponsors have until the end of 2010 to do that.¹

IRS Notice 2010-38 describes everything in precise detail; you'll find it online at www.irs.gov/pub/irs-drop/n-10-38.pdf. The extended coverage to "kids" up to age 27 must be provided not later than plan years beginning on or after September 23, 2010. Since most companies have calendar-year health plans, the coverage requirement for many businesses and organizations will start on January 1, 2011.²

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Citations

- 1 - [irs.gov/newsroom/article/0,,id=222193,00.html](https://www.irs.gov/newsroom/article/0,,id=222193,00.html) [4/27/10]
- 2 - [workforce.com/section/00/article/27/16/34.php](https://www.workforce.com/section/00/article/27/16/34.php) [5/4/10]