

Health Care Benefits for Children Under Age 27 in Wisconsin

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Update: Wisconsin Lawmakers signed legislation on November 4, 2011 that removes this Wisconsin tax difference retroactively to January 1, 2011. ([View article](#)). The tax difference still applies for 2010.

Effective January 1, 2010, Wisconsin law required employers that offer health insurance to offer coverage for the unmarried adult children (up to age 27) of employees. Soon afterward, the federal [Affordable Care Act](#) required employers in all states to offer health insurance for employee's children up to age 27, effective March 30, 2010. The federal law specified that the value of health insurance was not to be taxable for federal purposes, but Wisconsin did not adopt that provision, creating some intriguing tax issues.



Tale of Two Tax Laws

Though **federal** law exempted the value of the increased health insurance from taxation, the exemption was effective March 30, 2010. The fair market value of health insurance for nondependent adult children is therefore *federally* taxable from 1/1/10 to 3/29/10. An employer that followed Wisconsin law and offered health insurance coverage to adult children beginning in January will have to show the value of that insurance for 3 months on the employee's W-2 as federally taxable income. However, the insurance value should only be shown as taxable income if the adult child does not meet the IRS' standard of a [dependent](#).

Since **Wisconsin** did not adopt the exemption from taxation that was included in the Affordable Care Act, the fair market value of health insurance for the *entire year* is taxable for Wisconsin purposes. An employee's W-2 should include the value of the entire year's worth of health insurance coverage for adult children under age 27 as additional taxable income for Wisconsin (included in box 20 of the W-2). Again, the value of health insurance for a child who is a [dependent](#) is not taxable.

Guidance for Employers

The federal and Wisconsin taxing authorities did not offer much guidance to employers to help them determine the fair market value of the health insurance being offered. In fact, the Wisconsin Department of Revenue directs individuals to "Contact your employer for further information." There has been no official guidance, only private letter rulings from the IRS that do not have the force of law. However, the fact that the IRS has not rejected certain approaches in private letter rulings seems to indicate that they are reasonable methods.

Methods to Determine Value of Coverage

| “Marginal Cost” | COBRA Value | Single Coverage Value | Actuarial Value |
|---|---|--|--|
| <p>The most common method for determining the fair market value of coverage is to calculate the difference between employee-only coverage and employee-plus-one coverage, after deducting the portion paid by the employee. For example, if the employer's cost (after the employee's share of cost is considered) is \$10,000 for single coverage and \$13,000 for employee-spouse coverage, the fair market value for an additional person may be considered \$3,000. An employee who had an adult child included in his or her coverage would have \$3,000 in taxable income beyond his or her salary.</p> | <p>Another method for calculating the fair market value would be using the COBRA premiums (less administrative fees) to determine the fair market value. Though this approach generally leads to a higher amount of income for an employee, the IRS has not objected to the method in private letter rulings where the method was employed. Your insurance company can provide employers with the COBRA premium for this situation, although the insurer will not generally “endorse” any method for determining the taxable value.</p> | <p>It is possible that your health insurance company may have calculated the actuarial value of insurance for a single person versus a couple or family. While this method may result in a more accurate and specific value than other methods, it is generally expensive for actuaries to determine and impractical for small employers. Nonetheless, we recommend you find out if your health insurance company may have already done the calculation.</p> | <p>Finally, an employer could show the value of single coverage as income. This would result in the highest level of taxable income for an employee, as this amount is generally much higher than the other methods because a certain amount of administrative costs are usually included in the premium. This is probably the safest method in the eyes of the government, but is also the least popular for employees paying tax on the value.</p> |

It is important to note that the **value** of insurance is not necessarily the same as the actual **cost** of insurance. If an employee already has family coverage, the addition of an adult child requires the recognition of the value of a person's coverage as income even if the premiums do not increase. For example, an employer pays \$15,000 for an employee's family coverage for her and her 4 young dependents. Including a 23 year old son in the coverage may not increase the cost of the family coverage, but the value of his coverage is still taxable income.

We, like employers, are waiting for official guidance from the IRS or Wisconsin Department of revenue before we can provide any definite answers. Regardless, we are using the above guidelines for 2010 since official guidance does not appear on the horizon. Regardless of which method you use, you should confirm with your legal counsel or accountant that it is appropriate for your situation. For more information about guidelines for Wisconsin residents, refer to <http://www.revenue.wi.gov/taxpro/news/100727.html>