



### **Health Reform Update – Imputed Income for Adult Children**

While most of the federal health reform provisions take effect over the next several years, the following change is effective immediately - and is actually a welcome change!

**The Health Care and Education Reconciliation Act that became law on March 30, 2010 includes a change that immediately eliminates the requirement for federal imputed income for adult children.**

Prior to this change, extending employer-provided health coverage to an employee's child up until age 26 (as required under Massachusetts health reform law) created imputed income for the employee when the child was not an IRS tax dependent. Massachusetts previously eliminated state imputed income for non-IRS dependents, but federal imputed income still applied. As a result, employers had the burden of determining who was no longer an IRS dependent, so they could calculate and report federal imputed income for these individuals.

Effective March 30, 2010, employers are no longer required to impute federal income for adult children covered (up to age 26) under an employer-provided health plan (including medical, dental and vision plans). In addition, we expect the IRS to confirm that a health FSA could be modified to reimburse medical expenses incurred by these adult children. If an employer were to decide to extend coverage beyond age 26, imputed income would likely apply.

This change does not apply to imputed income for domestic partners. Federal imputed income rules continue to apply, unless a domestic partner or same-sex spouse qualifies as a federal tax dependent. State imputed income rules vary by state - in Massachusetts, where same-sex marriage is legal, a same-sex spouse must be treated the same as an opposite-sex spouse with regard to state taxes.

Please do not hesitate to contact your [SBA consultant](#) with any questions.