

Health Insurance for Adult Children up to Age 27

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Effective January 1, 2010, Wisconsin law requires health insurers to provide adult coverage for an adult child of the insured. The child must be:

- Over 17 but less than 27 years of age.
- Unmarried.
- Not eligible for coverage under a group health benefit plan that is offered by the child's employer and for which the amount of the child's premium contribution is no greater than the premium amount for his or her coverage as a dependent.

The expansion of dependent coverage to age 27, in Wisconsin, may create tax questions for employers. Under federal law, the value of employee health insurance paid for by an employer, including coverage for spouses and dependents, is excluded from the employee's gross income. Therefore, the employer-provided health insurance for an adult child of an employee is only excludable if the adult child qualifies under federal law as a dependent of the employee. In order to qualify as a dependent on your federal income tax return, your child must be either your "qualifying child" or "qualifying relative."

Generally, to be a "qualifying child," your child must:

- Be (a) under age 19 at the end of the year, (b) under age 24 at the end of the year and a full-time student, or (c) any age if permanently and totally disabled.
- Have lived with you more than half of the year.
- Not have provided more than half of his or her own support for the year.

To be a "qualifying relative," an individual must be:

- A child, brother, sister, stepbrother, or stepsister; the father or mother, of an ancestor of either; a stepfather or stepmother; a son or daughter of a brother or sister of the taxpayer; a son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law; an individual (other than the spouse) who, for the taxable year of the taxpayer, has the same principal place of abode as the taxpayer and is a member of the taxpayer's household,
- An individual for whom the taxpayer provides over one-half of the individual's support for the calendar year,
- An individual who is not your qualifying child or the qualifying child of any other taxpayer, and
- An individual whose gross income is less than the exemption amount (\$3,650 for 2010).

If the adult child does not qualify as a dependent under federal law, the fair market value of the adult child's health insurance coverage is income and taxable wages to the employee. The amount included as wages is subject to federal and Wisconsin tax withholding as well as FICA taxes. The fair market value of the adult child's health coverage will be determined by the insurance provider and the employer. The Wisconsin Department of Revenue cannot and will not determine the fair market value of the coverage.

Further guidance from the Wisconsin Department of Revenue and the health insurance industry should be forthcoming shortly. If you have any questions regarding this matter, we would be happy to discuss them with you. Please contact your Hawkins, Ash, Baptie & Company, LLP representative for assistance.

