

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Federal Update: Health Benefits for Adult Children

January 18, 2011

Senate Author Added

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 79 (Davids) / S.F. 47 (Ortman)

	Fund Impact				
	<u>F.Y. 2011</u>	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
General Fund	(\$200)	\$0	(000's) \$0	\$0	\$0

Effective for tax year 2010 only.

EXPLANATION OF THE BILL

The bill would adopt the provisions of the federal Patient Protection and Affordable Care Act, Public Law 111-148, in combination with the Health Care and Education Reconciliation Act of 2010, Public Law 111-152, which extend the favorable tax treatment of health benefits to nondependent children under age 27.

Effective March 30, 2010, the federal provisions extend to a nondependent child under age 27 the tax provisions previously applicable to a dependent child. (A dependent child must be under age 19, a full-time student under age 24, or disabled, and also meet other requirements.) For employer plans, an exclusion from income is allowed for health insurance premiums and benefits. For self-employed persons, a deduction for health insurance premiums is allowed. The provisions also apply to retiree health accounts in pension plans and voluntary employees' beneficiary associations (VEBAs).

The federal mandate requiring employer plans to extend health benefits to an employee's child under age 27 is effective for plan years beginning after September 30, 2010. Therefore, the impact of the income exclusion will affect mainly tax year 2011 and after. A state mandate enacted in 2007 requires some employers to offer health benefits to children under age 25.

REVENUE ANALYSIS DETAIL

- The estimates are based on estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation. The federal estimates were apportioned to Minnesota and adjusted for the difference between federal and state tax rates.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy